

CONSOLIDATED FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION

St. Joseph's Health, Inc.
Years Ended December 31, 2020 and 2019
With Report of Independent Auditors

Ernst & Young LLP



St. Joseph's Health, Inc.
Consolidated Financial Statements and
Supplementary Information
Years Ended December 31, 2020 and 2019

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Report of Independent Auditors

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

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

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

Adoption of ASU No. 2016-02, *Leases*

As discussed in Note 1 to the consolidated financial statements, St. Joseph's Health, Inc. changed its method of accounting for leases as a result of the adoption of the amendments to the Financial Accounting Standards Board Accounting Standards Codification resulting from Accounting Standards Update No. 2016-02, *Leases*, effective January 1, 2020. Our opinion is not modified with respect to this matter.

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying consolidating balance sheet at December 31, 2020, and the consolidating statements of operations and changes in net assets for the year then ended are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Ernst + Young LLP

May 26, 2021

St. Joseph's Health, Inc.
Consolidated Balance Sheets

	December 31	
	2020	2019
	<i>(In Thousands)</i>	
Assets		
Current assets:		
Cash and cash equivalents	\$ 33,198	\$ 60,786
Investments	459,317	241,309
Current portion of assets whose use is limited	20,792	20,294
Patient accounts receivable, net	77,261	68,772
Contributions and pledges receivable	745	1,245
Prepaid expenses and other current assets	44,966	41,633
Total current assets	636,279	434,039
Assets whose use is limited – less current portion	57,119	55,521
Property and equipment – net	380,165	367,624
Operating lease right of use assets	28,938	–
Beneficial interest in perpetual trusts	6,590	6,196
Equity investments in joint ventures	28,184	28,050
Other noncurrent assets	5,506	7,459
Total assets	\$ 1,142,781	\$ 898,889
Liabilities and net assets		
Current liabilities:		
Current portion of long-term debt	\$ 4,789	\$ 5,366
Accounts payable	72,211	60,461
Accrued salaries and expenses	113,945	89,565
Accrued interest payable	6,875	7,133
Deferred revenue	61,762	556
Current portion of estimated third-party payer settlements	34,094	3,675
Current portion of operating lease liability	5,726	–
Total current liabilities	299,402	166,756
Long-term debt – net of current portion	350,931	358,409
Estimated third-party payer settlements – net of current portion	77,694	15,909
Accrued pension liability	97,992	121,812
Estimated professional liability claims payable – net of current portion	35,604	34,650
Operating lease liability – net of current portion	23,212	–
Other liabilities	7,125	7,171
Total liabilities	891,960	704,707
Commitments and contingencies		
Net assets:		
Net assets without donor restrictions	228,613	173,693
Net assets with donor restrictions	21,577	19,913
Total St. Joseph's Health, Inc. net assets	250,190	193,606
Non-controlling interest in joint venture	631	576
Total net assets, including non-controlling interest	250,821	194,182
Total liabilities and net assets	\$ 1,142,781	\$ 898,889

See accompanying notes.

St. Joseph's Health, Inc.

Consolidated Statements of Operations

	Year Ended December 31	
	2020	2019
	<i>(In Thousands)</i>	
Operating revenues		
Net patient service revenue	\$ 712,275	\$ 729,784
Other revenue	198,880	96,094
Net assets released from restrictions – operations	2,010	1,768
Total operating revenues	<u>913,165</u>	<u>827,646</u>
Operating expenses		
Salaries and wages	458,187	415,344
Employee benefits	80,537	71,340
Physician fees	22,745	18,486
Supplies and other	292,576	275,585
Interest	13,734	14,215
Depreciation and amortization	34,736	36,175
Total operating expenses	<u>902,515</u>	<u>831,145</u>
Operating gain (loss)	10,650	(3,499)
Non-operating gains and losses		
Investment return	14,722	8,150
Change in net unrealized gains and losses on equity investments	6,932	8,968
Net periodic pension benefit (cost)	3,766	(749)
Excess of revenues over expenses, before non-controlling interest in joint venture	36,070	12,870
Less: net gain attributable to non-controlling interest in joint venture	350	525
Excess of revenues over expenses	<u>35,720</u>	<u>12,345</u>
Other changes in net assets without donor restrictions		
Change in net unrealized gains and losses on fixed income investments	782	8,287
Pension-related adjustments	8,054	(26,785)
Net assets released from restrictions – capital acquisitions	260	192
Provider Relief Fund receipts for capital acquisitions	10,104	–
Change in net assets without donor restrictions	<u>\$ 54,920</u>	<u>\$ (5,961)</u>

See accompanying notes.

St. Joseph's Health, Inc.

Consolidated Statements of Changes in Net Assets

	Year Ended December 31	
	2020	2019
	<i>(In Thousands)</i>	
Net assets without donor restrictions:		
Change in net assets without donor restrictions	\$ 54,920	\$ (5,961)
Net assets with donor restrictions:		
Contributions, grants, investment income, and other support	3,540	2,852
Net assets released from restrictions – operations	(2,010)	(1,768)
Net assets released from restrictions – capital acquisitions	(260)	(192)
Change in net unrealized gains and losses on investments held in perpetual trusts	394	666
Increase in net assets with donor restrictions	<u>1,664</u>	<u>1,558</u>
Increase (decrease) in St. Joseph's Health, Inc. net assets	56,584	(4,403)
Non-controlling interest in joint venture:		
Net gain attributable to non-controlling interest in joint venture	350	525
Distributions to non-controlling interest in joint venture, net	(295)	(533)
Increase (decrease) in non-controlling interest	<u>55</u>	<u>(8)</u>
Change in net assets, including non-controlling interest	56,639	(4,411)
Net assets at beginning of year	194,182	198,593
Net assets at end of year	<u>\$ 250,821</u>	<u>\$ 194,182</u>

See accompanying notes.

St. Joseph's Health, Inc.

Consolidated Statements of Cash Flows

	Year Ended December 31	
	2020	2019
	<i>(In Thousands)</i>	
Operating activities		
Change in net assets, including non-controlling interest	\$ 56,639	\$ (4,411)
Adjustments to reconcile change in net assets, including non-controlling interest, to net cash provided by operating activities:		
Depreciation and amortization	34,736	36,175
Change in net unrealized gains and losses on investments and perpetual trusts	(8,108)	(17,921)
Net realized gains and losses on sales of investments	(2,148)	1,854
Donor restricted contributions and other support	(3,540)	(2,852)
Distributions to non-controlling interest in joint venture, net	295	533
Equity in earnings of joint ventures	(3,395)	(3,191)
Changes in operating assets and liabilities:		
Patient accounts receivable, net	(8,489)	14,414
Prepaid expenses and other assets	1,277	(1,184)
Accounts payable, accrued salaries and expenses and interest payable	35,872	20,140
Estimated third-party payer settlements	92,204	9,428
Accrued pension liability	(23,820)	21,534
Estimated professional liability claims payable and other liabilities	62,114	(1,943)
Net cash provided by operating activities	233,637	72,576
Investing activities		
Acquisition of property and equipment, net	(47,277)	(37,548)
Purchases of investments and assets whose use is limited, net	(213,198)	(1,712)
Net cash used in investing activities	(260,475)	(39,260)
Financing activities		
Repayment of long-term debt	(6,951)	(7,643)
Distributions paid to non-controlling interest in joint venture, net	(295)	(533)
Donor restricted contributions and other support	3,540	2,852
Net cash used in financing activities	(3,706)	(5,324)
Net (decrease) increase in cash and cash equivalents and restricted cash and restricted cash equivalents	(30,544)	27,992
Cash and cash equivalents and restricted cash and restricted cash equivalents, beginning of year	84,648	56,656
Cash and cash equivalents and restricted cash and restricted cash equivalents, end of year	\$ 54,104	\$ 84,648
Reconciliation of cash and cash equivalents and restricted cash and restricted cash equivalents at end of year to the consolidated balance sheets		
Cash and cash equivalents	\$ 33,198	\$ 60,786
Assets whose use is limited – cash and cash equivalents	20,906	23,862
Total cash and cash equivalents and restricted cash and restricted cash equivalents	\$ 54,104	\$ 84,648
Supplemental disclosure of non-cash investing and financing activities and cash flow information		
Cash paid for interest, net of amounts capitalized	\$ 13,992	\$ 14,292

See accompanying notes.

St. Joseph's Health, Inc.

Notes to Consolidated Financial Statements

December 31, 2020

1. Organization and Summary of Significant Accounting Policies

Organization

The accompanying consolidated financial statements include the accounts of St. Joseph's Health, Inc. (SJH) and its affiliates (collectively, the System). SJH is a not-for-profit holding corporation with Seton Ministries, Inc., effective February 2019, as its sole member. Seton Ministries, Inc., formed in February 2019, is a subsidiary of Sisters of Charity of Saint Elizabeth. Prior to February 2019, SJH was sponsored by the Sisters of Charity of Saint Elizabeth. Affiliated members of SJH include St. Joseph's University Medical Center, Inc. (SJUMC) and subsidiaries, St. Joseph's Hospital and Medical Center Foundation, Inc. (the Foundation), 200 Hospital Plaza Corporation (200 Hospital Plaza), SJHS Insurance Limited (the Insurance Captive), VHS Management, Inc. and subsidiary (VHS; currently inactive) and St. Joseph's Home Health, LLC (Home Health). In September 2018, St. Joseph's Health Partners, LLC was formed as a single member limited liability corporation to operate a clinically integrated network with SJUMC as its sole owner. In January 2019, St. Joseph's Health Pharmacy, LLC (the Pharmacy) was formed as a single member limited liability corporation to operate a community retail pharmacy with SJUMC as its sole owner. The Pharmacy began operations on May 18, 2020.

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

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

St. Joseph's Health, Inc.

Notes to Consolidated Financial Statements (continued)

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

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

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

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

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

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

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

St. Joseph's Health, Inc.

Notes to Consolidated Financial Statements (continued)

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

COVID-19 Pandemic and CARES Act Funding

On March 11, 2020, the World Health Organization designated the Coronavirus Disease 2019 (COVID-19) outbreak as a global pandemic. Federal, state and local government policies resulted in a substantial portion of the population to remain at home and forced the closure of certain businesses, which had an impact on the System's patient volumes and revenues for most services. Starting in mid-March 2020, the System deferred all nonessential medical and surgical procedures and suspended elective procedures, which resumed at different dates across the System during fiscal year 2020. During this time, the System has also experienced significant price increases in, and utilization of, medical supplies, particularly personal protective equipment, as global supply lines were disrupted by the pandemic.

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

HHS distributions from the Provider Relief Fund include general distributions and targeted distributions, to support hospitals in high impact areas and rural providers, for service periods through December 31, 2020, and, if necessary, through June 30, 2021. Through December 31, 2020, the System received approximately \$180.6 million in funding and recognized operating revenue of \$109.7 million, which is included in other revenue for the year ended December 31, 2020 (see Note 12), and \$10.1 million as Provider Relief Fund receipts for capital acquisitions (reported as a component of other changes in net assets without donor restrictions). The unrecognized amount of the Provider Relief Fund distributions is recorded in the current portion of deferred revenue in the System's consolidated balance sheet at December 31, 2020.

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

St. Joseph's Health, Inc.

Notes to Consolidated Financial Statements (continued)

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

through the Provider Relief Fund and provided several changes to the administration of the Provider Relief Fund. Among other changes, the CAA clarified the methods available to calculate lost revenues. The recognized revenue has been determined based on applicable accounting guidance, Provider Relief Fund Post-Payment Notices of Reporting Requirements and FAQs that the System has interpreted as being applicable for the year ended December 31, 2020. Subsequent to December 31, 2020, a Post-Payment Notice of Reporting Requirements and additional FAQs have been released which have been considered in management's analysis. Management will continue to monitor communications from HHS and governmental agencies applicable to the Provider Relief Fund distributions and related reporting and data submission requirements.

To enhance liquidity, the System is a participant in the Centers for Medicare and Medicaid Services' (CMS) Accelerated and Advance Payment Program, designed to increase cash flow to Medicare providers impacted by COVID-19. This program allowed eligible 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. Under this program, in April 2020 the System received approximately \$82.5 million in expedited payments for future services, which is included as a contract liability in estimated third-party payer settlements as of December 31, 2020. The advances will be recovered through the provision of Medicare services in the future; effective October 1, 2020, the recovery provisions begin 12 months following the payment date as follows: 25% of services provided within the first 11 months, 50% during the succeeding 6 months, with any remaining balance to be paid within 29 months from the date of the initial payment.

Additional funding sources are available to pay providers for COVID-19 related treatment of uninsured patients under the CARES Act Uninsured Relief Fund and from CMS for certain Medicare patient diagnoses under which the System recognized net patient service revenue of approximately \$8.8 million in 2020.

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

St. Joseph's Health, Inc.

Notes to Consolidated Financial Statements (continued)

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

Under the CARES Act, the System is eligible to receive an employee retention credit, which is a credit against the employer portion of Social Security taxes for certain wages between March 13, 2020 and December 31, 2020. The CAA extended the employee retention credit through June 30, 2021, while also modifying the provisions of the credit. The System is currently evaluating the potential impact of the retention credit and accordingly no amounts were recorded in 2020. The System may apply for reimbursement for qualifying expenses under the Federal Emergency Management Agency Disaster Relief Fund.

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

Significant Accounting Policies

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

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

Investment in Consolidated Subsidiaries: The Medical Center is the majority member of Surgery Management and maintains a 55% and 52% interest at December 31, 2020 and 2019, respectively. The accounts of Surgery Management are consolidated with those of the Medical Center. The change in the non-controlling interest is separately reported. All intercompany transactions and account balances have been eliminated in consolidation.

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

St. Joseph's Health, Inc.

Notes to Consolidated Financial Statements (continued)

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

Use of Estimates: The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the consolidated financial statements. Estimates also affect the amounts of revenue and expenses reported during the period. Actual results could differ from those estimates. Significant estimates include collections on patient accounts receivable, estimated third-party payer settlements, accrued pension liability, estimated professional liability claims payable, and other self-insurance liabilities.

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

Investments and Investment Income: Investments in equity securities with readily determinable fair values and all investments in debt securities are reported at fair value. Fair value is based on quoted market prices of the investment or similar investments. Investment return (including realized gains and losses on investments, interest, and dividends) and the change in net unrealized gains and losses on equity investments are included in the excess of revenues over expenses in the accompanying consolidated statements of operations, unless the income or loss is restricted by donor or law. The change in net unrealized gains and losses on other-than-trading fixed income investments is reported as a separate component of the change in net assets without donor restrictions, except declines in fair value that are determined by management to be other than temporary are reported as realized losses. No such losses were recorded in 2020 or 2019 as unrealized losses on individual investment holdings were not significant. Donated investments are recorded at the fair value on the date of receipt.

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

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

St. Joseph's Health, Inc.

Notes to Consolidated Financial Statements (continued)

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

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

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

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

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

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

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

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

St. Joseph's Health, Inc.

Notes to Consolidated Financial Statements (continued)

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

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

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

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

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

Other Liabilities: Capital project obligations related to grant agreements with the State of New Jersey Department of Human Services, Division of Mental Health and Addiction Services in the amount of \$945,000 at December 31, 2020 and 2019, are included in other liabilities in the accompanying consolidated balance sheets.

Contributions and Pledges Receivable: Unconditional promises to give are recorded at net realizable value based on the present value of their estimated future cash flows when received. Present value of such amounts is computed using a risk-free discount rate at the time of the pledge, with rates ranging from 3.5% to 4.0% at December 31, 2020 and 2019. Conditional promises to give are not included as support until the conditions are substantially met.

St. Joseph's Health, Inc.

Notes to Consolidated Financial Statements (continued)

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

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

The Medical Center offers workers' compensation through a high deductible structure with commercial insurance above specific amounts. The current portion of the estimated liability for worker's compensation of approximately \$12.9 million and \$7.1 million at December 31, 2020 and 2019, respectively, is included in accrued salaries and expenses, and approximately \$5.6 million at December 31, 2020 and 2019 is included as long-term in other liabilities in the accompanying consolidated balance sheets.

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

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

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

St. Joseph's Health, Inc.

Notes to Consolidated Financial Statements (continued)

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

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

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

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

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

The System recognizes governmental grants where commensurate value is not exchanged as contributions when conditions and restrictions are satisfied and reports such amounts within other revenue (see Note 12).

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

St. Joseph's Health, Inc.

Notes to Consolidated Financial Statements (continued)

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

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

Recently Adopted Accounting Pronouncements: In February 2016, the FASB issued Accounting Standards Update No. (ASU) 2016-02, *Leases*, which requires lessees to report most leases on their balance sheets, but recognize expenses on their income statements in a manner similar to the prior accounting. The guidance also eliminates certain real estate-specific provisions. Lessors in operating leases continue to recognize the underlying asset and recognize lease income on either a straight-line basis or another systematic and rational basis. The provisions of ASU 2016-02, as amended by ASU 2020-05, *Revenue from Contracts with Customers (Topic 606) and Leases (Topic 842): Effective Dates for Certain Entities*, became effective for the System for annual periods beginning after December 15, 2019. The System adopted ASU 2016-02 effective January 1, 2020, following the modified retrospective method of application. As such, the 2019 consolidated financial statement amounts and disclosures have not been adjusted to reflect the provisions of the new standard. There was no cumulative-effect impact to the 2019 consolidated net assets as a result of the adoption. The System has made the transition-specific election to apply the package of practical expedients which allows for the carryforward of historical assessments of (1) whether contracts are or contain leases, (2) lease classification and (3) initial direct costs. Additionally, for operating leases entered into prior to January 1, 2020, the System has elected to utilize the operating leases' remaining lease term as of the date of adoption to determine the discount rate used to initially measure the liability. Certain other accounting policy elections and quantitative and qualitative information pertaining to the System's adoption of ASU 2016-02 are described in Note 13.

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

St. Joseph's Health, Inc.

Notes to Consolidated Financial Statements (continued)

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

contractual right to receive cash. The amendments in ASU 2016-13 are effective for the System for fiscal years beginning after December 15, 2022. The System has not completed the process of evaluating the impact of ASU 2016-13 on its consolidated financial statements.

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

In August 2018, the FASB issued ASU 2018-15, *Intangibles – Goodwill and Other – Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement that is a Service Contract*. The standard aligns the requirement for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal use software license). The accounting for the service element of a hosting arrangement that is a service contract is not affected by this standard. The standard requires the customer in a hosting arrangement that is a service contract to follow the guidance in ASC Subtopic 350-40 to determine which implementation costs to capitalize as an asset related to the service contract and which costs to expense by determining which project stage an implementation activity relates to and the nature of the costs. The standard also requires the customer to expense the capitalized implementation costs of a hosting arrangement that is a service contract over the term of the hosting arrangement. ASU 2018-15 is effective for the System for fiscal years beginning after December 15, 2020, and interim periods within fiscal years beginning after December 15, 2021. Early adoption is permitted, including adoption in any interim period. Either retrospective or prospective adoption is permitted. The System has not completed the process of evaluating the impact of ASU 2018-15 on its consolidated financial statements.

St. Joseph's Health, Inc.

Notes to Consolidated Financial Statements (continued)

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

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

2. Uncompensated Care

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

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

The estimated cost of charity care incurred by the System based on adjudicated claims was approximately \$43.8 million and \$50.4 million for years ended December 31, 2020 and 2019, respectively. The estimated cost of these charity care services was determined using a ratio of cost to gross charges and applying that ratio to the gross charges associated with providing care to charity patients for the period. Gross charges associated with providing care to charity patients include only the related charges for those patients who are financially unable to pay and qualify under the System's charity care policy and that do not otherwise qualify for payment from a governmental program. Because the collection of amounts determined to qualify as charity care is not pursued, it is not reported as revenue.

St. Joseph's Health, Inc.

Notes to Consolidated Financial Statements (continued)

2. Uncompensated Care (continued)

For uninsured patients who did not qualify for charity care the expected uncollected amounts are classified as an implicit price concession, based on a published financial assistance policy, which reduced net patient service revenue by approximately \$81.4 million and \$84.2 million for the years ended December 31, 2020 and 2019, respectively.

3. Net Patient Service Revenue

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

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

The System's initial estimate of the transaction price for services provided to patients subject to revenue recognition is determined by reducing the total standard charges related to the patient services provided by various elements of variable consideration, including contractual adjustments, discounts, implicit price concessions, and other reductions to the System's standard charges. The System determines the transaction price associated with services provided to patients who have third-party payer coverage on the basis of contractual or formula-driven rates for the services rendered (see description of third-party payer payment programs below). The estimates for contractual allowances and discounts are based on contractual agreements, the System's discount policies and historical experience. For uninsured patients who do not qualify for charity care, the System determines the transaction price associated with services on the basis of charges reduced by implicit price concessions based on a published financial assistance policy. Implicit price concessions included in the estimate of the transaction price are based on the System's historical collection experience for applicable patient portfolios. Under the System's charity care policy, a patient who has no insurance and is ineligible for any government assistance program has his or her bill reduced to the amount which would be billed to a commercially insured patient.

St. Joseph's Health, Inc.

Notes to Consolidated Financial Statements (continued)

3. Net Patient Service Revenue (continued)

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

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

Subsequent changes to the estimate of the transaction price (determined on a portfolio basis when applicable) are generally recorded as adjustments to patient service revenue in the period of the change. For the years ended December 31, 2020 and 2019, changes in the System's estimates of implicit price concessions, discounts, contractual adjustments or other reductions to expected payments for performance obligations satisfied in prior periods were not significant. Portfolio collection estimates are updated periodically based on collection trends. Subsequent changes that are determined to be the result of an adverse change in the patient's ability to pay (determined on a portfolio basis when applicable) are recorded as bad debt expense. Bad debt expense for the years ended December 31, 2020 and 2019, was not significant.

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

St. Joseph's Health, Inc.

Notes to Consolidated Financial Statements (continued)

3. Net Patient Service Revenue (continued)

Net patient service revenue for the years ended December 31, 2020 and 2019, by major payer sources, based on primary insurance designation, is as follows (in thousands):

	<u>2020</u>	<u>2019</u>
Medicare	\$ 262,058	\$ 274,900
Medicaid	183,926	191,774
Commercial carriers and managed care organizations	259,876	257,191
Self-pay	6,415	5,919
	<u>\$ 712,275</u>	<u>\$ 729,784</u>

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

Net patient service revenue for the years ended December 31, 2020 and 2019, by line of business is as follows (in thousands):

	<u>2020</u>	<u>2019</u>
Hospital	\$ 686,956	\$ 697,732
Physician services	12,988	17,070
Skilled nursing long-term care	12,331	14,982
	<u>\$ 712,275</u>	<u>\$ 729,784</u>

At December 31, 2020 and 2019, accounts receivable is comprised of the following components (in thousands):

	<u>2020</u>	<u>2019</u>
Patient receivables	\$ 60,484	\$ 55,992
Contract assets	16,777	12,780
	<u>\$ 77,261</u>	<u>\$ 68,772</u>

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

St. Joseph's Health, Inc.

Notes to Consolidated Financial Statements (continued)

3. Net Patient Service Revenue (continued)

Third-Party Payment Programs

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

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

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

St. Joseph's Health, Inc.

Notes to Consolidated Financial Statements (continued)

3. Net Patient Service Revenue (continued)

Medicare and Medicaid regulations require annual retroactive settlements for cost-based reimbursements through cost reports filed by the System. These retroactive settlements are recorded in the consolidated financial statements in the year of the settlement or when amounts can be estimated. A portion of the accrual for estimated settlements with third-party payers has been classified as long-term because such amounts, by their nature or by virtue of regulation or legislation, are not expected to be paid within one year. The estimated settlements recorded at December 31, 2020 and 2019 could differ from actual settlements based on the results of cost report audits. At December 31, 2020, Medicare cost reports for all years through 2016 have been audited and settled. Medicaid cost reports have been audited and settled through 2017. Net patient service revenue was increased by approximately \$0.7 million and \$0.6 million during 2020 and 2019, respectively, as a result of changes in estimates of prior-year settlements.

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

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

St. Joseph's Health, Inc.

Notes to Consolidated Financial Statements (continued)

3. Net Patient Service Revenue (continued)

State Subsidy Funds

The New Jersey Health Care Subsidy Fund was established for various purposes, including the distribution of charity care payments to hospitals statewide. The amount of the fund allocation is based on a formula using prior-year claim data for each hospital. Additionally, the State of New Jersey Delivery System Reform Incentive Payment Pool (the Pool) is available to certain hospitals that are able to establish performance improvement activities in one of eight specified clinical improvement areas. Amounts received from the Pool are subject to the satisfaction of certain performance criteria, with adjustments to the Pool allocations processed prospectively. The Pool concluded on June 30, 2020. The State implemented a transitional program effective July 1, 2020 through June 30, 2021; however, no amounts were received or recorded in 2020. The amounts of state subsidy and Pool funds included in net patient service revenue for the years ended December 31, 2020 and 2019 are as follows (in thousands):

	<u>2020</u>	<u>2019</u>
Charity care payments	\$ 45,349	\$ 40,139
Delivery system reform incentive payments	10,648	13,138
	<u>\$ 55,997</u>	<u>\$ 53,277</u>

The System expects to receive approximately \$22.8 million in State of New Jersey Charity Care subsidies for distributions scheduled through June 30, 2021. The System received approximately \$6.1 million in 2021 for the first of two payments under the transitional program succeeding the Pool based on utilization data for the period from July 1, 2020 to September 30, 2020; the second payment will be determined by the State based on utilization data for the period from October 1, 2020 to March 31, 2021.

St. Joseph's Health, Inc.

Notes to Consolidated Financial Statements (continued)

4. Investments, Assets Whose Use is Limited and Liquidity

Investments and assets whose use is limited, stated at fair value, as of December 31, 2020 and 2019, consist of the following (in thousands):

	<u>2020</u>	<u>2019</u>
Investments	\$ 459,317	\$ 241,309
Assets whose use is limited:		
By bond indenture agreements	16,101	15,808
Assets held for captive insurance program	44,365	41,632
Donor restricted assets	17,445	18,375
Total assets whose use is limited	<u>77,911</u>	<u>75,815</u>
Less current assets whose use is limited	<u>20,792</u>	20,294
Noncurrent assets whose use is limited	<u>57,119</u>	55,521
Total investments and assets whose use is limited	<u>\$ 537,228</u>	<u>\$ 317,124</u>

The composition of investments and assets whose use is limited as of December 31, 2020 and 2019, is as follows (in thousands):

	<u>2020</u>	<u>2019</u>
Cash and cash equivalents	\$ 20,906	\$ 23,862
U.S. government securities and agency obligations	33,565	64,530
Corporate and foreign debt securities	369,445	143,411
Asset-backed and mortgage-backed securities	9,484	9,098
Marketable equity securities	99,632	71,173
Investments held by trustee	1,578	1,578
Municipal bonds	2,615	3,460
Mutual funds – fixed income	3	12
Total	<u>\$ 537,228</u>	<u>\$ 317,124</u>

St. Joseph's Health, Inc.

Notes to Consolidated Financial Statements (continued)

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

Return on investments for the years ended December 31, 2020 and 2019 is as follows (in thousands):

	<u>2020</u>	<u>2019</u>
Return on investments:		
Net assets without donor restrictions:		
Investment return:		
Interest and dividend income	\$ 12,574	\$ 10,004
Net realized gains and losses on sales of investments	2,148	(1,854)
Net change in unrealized gains and losses on equity investments	6,932	8,968
	<u>21,654</u>	17,118
Change in net unrealized gains and losses on fixed income investments	782	8,287
	<u>22,436</u>	25,405
Net assets with donor restrictions:		
Investment income	13	10
Net realized gains and losses on sales of investments	1,886	(226)
	<u>1,899</u>	(216)
Change in net unrealized gains and losses on investments held in perpetual trusts	394	666
	<u>2,293</u>	450
Total return on investments	<u>\$ 24,729</u>	<u>\$ 25,855</u>

Liquidity and Availability

As of December 31, 2020 and 2019, the System had a working capital surplus of \$336.9 million and \$267.3 million, respectively. The System's days cash on hand as of December 31, 2020 and 2019, were 207 and 139, respectively (based on normal expenditures).

St. Joseph's Health, Inc.

Notes to Consolidated Financial Statements (continued)

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

Financial assets available for general expenditure within one year of December 31, 2020 and 2019 consist of the following:

	<u>2020</u>	<u>2019</u>
Cash and cash equivalents	\$ 33,198	\$ 60,786
Investments	459,317	241,309
Patient accounts receivable, net	77,261	68,772
Physician services receivable, net	4,419	12,710
	<u>\$ 574,195</u>	<u>\$ 383,577</u>

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

Additionally, the System maintains a \$1.0 million line of credit, as described in Note 8. As of December 31, 2020 and 2019, there was no balance outstanding on the line of credit. As of December 31, 2020 and 2019, the System was in compliance with all financial debt covenants.

5. Fair Value of Financial Instruments

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

- Level 1 – Inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.
- Level 2 – Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.
- Level 3 – Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

St. Joseph's Health, Inc.

Notes to Consolidated Financial Statements (continued)

5. Fair Value of Financial Instruments (continued)

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

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

	December 31, 2020			
	Level 1	Level 2	Level 3	Total
Investments, assets whose use is limited and beneficial interest in perpetual trusts:				
Cash and cash equivalents	\$ 20,906	\$ -	\$ -	\$ 20,906
Marketable equity securities	99,632	-	-	99,632
U.S. government securities and agency obligations	-	33,565	-	33,565
Corporate and foreign debt securities	-	369,445	-	369,445
Asset-backed and mortgage-backed securities	-	9,484	-	9,484
Municipal bonds	-	2,615	-	2,615
Mutual funds – fixed income	-	3	-	3
Investments held by trustee	-	1,578	-	1,578
Beneficial interest in perpetual trusts	-	-	6,590	6,590
Total	<u>\$ 120,538</u>	<u>\$ 416,690</u>	<u>\$ 6,590</u>	<u>\$ 543,818</u>
Assets held in pension plan:				
Cash and cash equivalents	\$ 2,835	\$ -	\$ -	\$ 2,835
Marketable equity securities	289,047	-	-	289,047
U.S. government securities	-	53,842	-	53,842
Corporate bonds	-	90,682	-	90,682
Foreign obligations	-	8,677	-	8,677
Other debt securities	-	16,231	-	16,231
	<u>\$ 291,882</u>	<u>\$ 169,432</u>	<u>\$ -</u>	<u>\$ 461,314</u>
Investments measured at net asset value:				
Fund of funds				1,181
				<u>\$ 462,495</u>

St. Joseph's Health, Inc.

Notes to Consolidated Financial Statements (continued)

5. Fair Value of Financial Instruments (continued)

	December 31, 2019			
	Level 1	Level 2	Level 3	Total
Investments, assets whose use is limited and beneficial interest in perpetual trusts:				
Cash and cash equivalents	\$ 23,862	\$ –	\$ –	\$ 23,862
Marketable equity securities	71,173	–	–	71,173
U.S. government securities and agency obligations	–	64,530	–	64,530
Corporate and foreign debt securities	–	143,411	–	143,411
Asset-backed and mortgage-backed securities	–	9,098	–	9,098
Municipal bonds	–	3,460	–	3,460
Mutual funds – fixed income	–	12	–	12
Investments held by trustee	–	1,578	–	1,578
Beneficial interest in perpetual trusts	–	–	6,196	6,196
Total	\$ 95,035	\$ 222,089	\$ 6,196	\$ 323,320
Assets held in pension plan:				
Cash and cash equivalents	\$ 3,447	\$ –	\$ –	\$ 3,447
Marketable equity securities	238,889	–	–	238,889
U.S. government securities	–	54,932	–	54,932
Corporate bonds	–	69,968	–	69,968
Foreign obligations	–	6,253	–	6,253
Other debt securities	–	21,718	–	21,718
	\$ 242,336	\$ 152,871	\$ –	\$ 395,207
Investments measured at net asset value:				
Fund of funds				1,576
				\$ 396,783

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

St. Joseph's Health, Inc.

Notes to Consolidated Financial Statements (continued)

5. Fair Value of Financial Instruments (continued)

Attributes relating to the nature and risk of the fund of funds limited partnership investment held by the pension plan as of December 31, 2020 and 2019 are as follows (in thousands):

	<u>2020</u> Fair Value	<u>2019</u> Fair Value	<u>Unfunded</u> <u>Commitment</u>	<u>Redemption</u> <u>Frequency</u>	<u>Other</u> <u>Redemption</u> <u>Restrictions</u>	<u>Redemption</u> <u>Notice Period</u>
Assets held in pension plan:						
PMF TEI Fund	<u>\$ 1,181</u>	<u>\$ 1,576</u>	None	Illiquid	Discretion of Fund	Discretion of Fund

The PMF TEI Fund operates as a feeder fund. The PMF TEI Fund's investment objective is to manage a portfolio of investment funds, including limited partnerships, limited liability companies, offshore corporations, other foreign investment vehicles and cash to preserve value while prioritizing liquidity to investors over active management, until such time as a related portfolio has been liquidated.

There were no transfers between levels of the System's or the Plan's investments for the years ended December 31, 2020 and 2019.

The change in fair value measurements for the beneficial interest in perpetual trusts with unobservable inputs for the years ended December 31, 2020 and 2019, are presented as follows (in thousands):

	<u>2020</u>	<u>2019</u>
Balance – January 1	\$ 6,196	\$ 5,530
Change in net unrealized gains and losses	394	666
Balance – December 31	<u>\$ 6,590</u>	<u>\$ 6,196</u>

St. Joseph's Health, Inc.

Notes to Consolidated Financial Statements (continued)

6. Property and Equipment

Property and equipment as of December 31, 2020 and 2019, consist of the following (in thousands):

	2020	2019
Land	\$ 12,511	\$ 12,008
Land improvements	8,728	8,710
Buildings and improvements	498,566	482,684
Fixed and major movable equipment	362,292	350,467
Total property and equipment	882,097	853,869
Less accumulated depreciation and amortization	(553,134)	(519,829)
	328,963	334,040
Construction in progress	51,202	33,584
Property and equipment – net	\$ 380,165	\$ 367,624

The System recorded capitalized interest of approximately \$2.2 million and \$1.4 million as of December 31, 2020 and 2019, respectively.

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

7. Equity Investments in Joint Ventures

The System's investments in unconsolidated entities accounted for under the equity method of accounting as of December 31, 2020 and 2019 consist of the following (in thousands):

Name of Joint Venture	2020						
	Ownership Percentage	Total Assets	Total Liabilities	Total Revenue	Net Income	Equity Investment	Share of Earnings
Simeon Dialysis, LLC	35%	\$ 69,858	\$ 6,780	\$ 23,808	\$ 5,387	\$ 22,078	\$ 1,886
Wayne Valley Imaging, LLC	50%	1,106	43	1,617	339	644	169
VHSNJ at Home, LLC	50%	17,919	9,111	19,689	946	4,404	473
Eufaula Dialysis, LLC	20%	6,677	1,388	12,405	4,335	1,058	867
		\$ 95,560	\$ 17,322	\$ 57,519	\$ 11,007	\$ 28,184	\$ 3,395

St. Joseph's Health, Inc.

Notes to Consolidated Financial Statements (continued)

7. Equity Investments in Joint Ventures (continued)

Name of Joint Venture	Ownership Percentage	2019					
		Total Assets	Total Liabilities	Total Revenue	Net Income	Equity Investment	Share of Earnings
Simeon Dialysis, LLC	35%	\$ 67,819	\$ 2,862	\$ 27,111	\$ 7,606	\$ 22,737	\$ 2,662
Wayne Valley Imaging, LLC	50%	1,223	521	2,379	518	549	259
VHSNJ at Home, LLC	50%	10,544	2,683	16,029	(161)	3,931	(80)
Eufaula Dialysis, LLC	20%	5,731	1,565	9,275	1,751	833	350
		<u>\$ 85,317</u>	<u>\$ 7,631</u>	<u>\$ 54,794</u>	<u>\$ 9,714</u>	<u>\$ 28,050</u>	<u>\$ 3,191</u>

8. Long-Term Debt

Long-term debt as of December 31, 2020 and 2019, consists of the following (in thousands):

	2020	2019
New Jersey Healthcare Facilities Financing Authority – \$246,845 St. Joseph's Healthcare System Obligated Group Issue, Series 2016 Revenue Bonds ^(a)	\$ 230,265	\$ 234,230
St. Joseph's Hospital and Medical Center – \$81,200 St. Joseph's Healthcare System Obligated Group, Series 2017 Taxable Bonds ^(b)	81,200	81,200
Passaic Authority – \$29,620 200 Hospital Plaza Corporation Project, Series 2010 County Guaranteed Parking Revenue Bonds ^(c)	–	690
Passaic Authority – \$24,650 200 Hospital Plaza Corporation Project, Series 2017 County Guaranteed Parking Revenue Bonds ^(d)	24,505	24,505
Promissory note with Urban Enterprise Zone, bearing interest at 2.25%, maturing in 2021	28	138
Promissory note with interest at 6.04%, matured in 2020	–	601
Finance lease, final payment made in 2020	–	1,585
Total long-term debt	<u>335,998</u>	<u>342,949</u>
Original issue premium	23,239	24,660
Original issue discount	(1,727)	(1,858)
Net deferred financing costs	(1,790)	(1,976)
Current portion of long-term debt	(4,789)	(5,366)
Long-term debt – net of current portion of long-term debt	<u>\$ 350,931</u>	<u>\$ 358,409</u>

St. Joseph's Health, Inc.

Notes to Consolidated Financial Statements (continued)

8. Long-Term Debt (continued)

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

- (a) The New Jersey Health Care Facilities Financing Authority (NJHCFFA) Series 2016 Revenue Bonds (the Series 2016 Bonds) bear interest at rates ranging from 3.0% to 5.0%. The Series 2016 Bonds mature annually, commencing July 1, 2017, through July 1, 2048. The proceeds of the Series 2016 Bonds were used by the System to advance refund the outstanding principal balance of NJHCFFA Series 2008 Bonds and the (a) renovation of inpatient nursing care units; (b) renovation and equipment upgrades within ambulatory surgery and neuro-interventional suites; (c) build out of clinic facilities; and (d) upgrade and installation of information technology systems for clinical information systems, pharmaceutical dispensing technology, imaging and other minor equipment.
- (b) The St. Joseph's Hospital and Medical Center Series 2017 Taxable Bonds (the Series 2017 Bonds) were issued in September 2017 and consist of two term bonds of \$40.6 million, which bear interest at 3.926% and 4.584% and are due at July 1, 2022 and July 1, 2027, respectively. The proceeds of the Series 2017 Bonds were used to provide funding for additional contributions to the defined benefit pension plan (see Note 9). The Series 2017 Bonds are secured by a Series 2017 Note which was issued on a parity with other obligations under the Master Indenture for the Series 2016 Bonds.
- (c) The Passaic Authority Series 2010 County Guaranteed Parking Revenue Bonds (the Series 2010 Bonds) bore interest at rates ranging from 2.0% to 5.0%. The Series 2010 Bonds were scheduled to mature between 2014 and 2042; a portion of the Series 2010 Bonds was advance refunded in 2017 (see (d) below). Funds were paid into escrow to repay the debt through the final redemption date in May 2020. The remainder of the Series 2010 Bonds were fully repaid in 2020.
- (d) The Passaic Authority Series 2017 County Guaranteed Parking Revenue Bonds (the PA Series 2017 Bonds) bear interest at rates ranging from 2.0% to 5.0%. The PA Series 2017 Bonds mature between 2018 and 2042. The proceeds of the PA Series 2017 Bonds were used by 200 Hospital Plaza to advance refund the Series 2010 Bonds and pay certain costs of issuance relating to the PA Series 2017 Bonds.

St. Joseph's Health, Inc.

Notes to Consolidated Financial Statements (continued)

8. Long-Term Debt (continued)

The Series 2016 Bonds and Series 2017 Bonds are secured by (i) amounts held in the revenue fund created under the Master Indenture Agreement, (ii) the gross receipts of the Obligated Group, and (iii) a first mortgage lien on various properties of SJUMC and Wayne Medical Center as defined in the Master Indenture Agreement. The Obligated Group is subject to various operating covenants under the Master Indenture Agreement and maintenance of certain financial ratios. At December 31, 2020 and 2019, the Obligated Group was in compliance with such financial covenants.

Required principal payments on long-term debt for the next five years and thereafter as of December 31, 2020, are as follows (in thousands):

Years ending December 31:	
2021	\$ 4,789
2022	45,645
2023	5,295
2024	5,560
2025	5,850
Thereafter	<u>268,859</u>
	<u>\$ 335,998</u>

At December 31, 2020, the System has unused letters of credit of: \$0.7 million, expiring in March 2022; \$1.3 million, expiring in January 2022; \$2.4 million, expiring in January 2022; \$1.7 million, expiring in January 2022; and \$1.1 million, expiring in January 2022.

The System maintains a line of credit (currently with an available amount of \$1.0 million) which expires in February 2022, with interest at LIBOR plus 0.75%. There are no amounts outstanding as of December 31, 2020 and 2019.

St. Joseph's Health, Inc.

Notes to Consolidated Financial Statements (continued)

9. Retirement Plans

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

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

The Medical Center contributed approximately \$12.0 million to the Plan in 2020 and expects to contribute approximately \$10.0 million to the Plan in 2021.

The defined contribution plan established January 1, 2018, provides for annual contributions for eligible employees of between 2% and 5% of pay based on the employee's years of service with a matching contribution of 1% to 1.5%. Eligible employees begin to accrue benefits from their hire or rehire date. The System funds the defined contribution expense on a current basis. The Medical Center contributed \$11.9 million and \$11.3 million to the defined contribution plan for the years ended December 31, 2020 and 2019, respectively.

St. Joseph's Health, Inc.

Notes to Consolidated Financial Statements (continued)

9. Retirement Plans (continued)

The funded status of the Plan as of December 31, 2020 and 2019, is set forth as follows (in thousands):

	<u>2020</u>	<u>2019</u>
Change in benefit obligation:		
Projected benefit obligation – beginning of year	\$ 518,595	\$ 433,614
Interest cost	17,152	19,818
Actuarial loss	42,495	81,412
Benefit payments and expected expenses	(17,755)	(16,249)
Projected benefit obligation – end of year	<u>560,487</u>	518,595
Change in Plan assets:		
Fair value of Plan assets – beginning of year	396,783	333,336
Actual return on Plan assets	71,467	73,696
Employer contributions	12,000	6,000
Benefit payments and actual expenses	(17,755)	(16,249)
Fair value of Plan assets – end of year	<u>462,495</u>	396,783
Accrued pension liability	<u>\$ 97,992</u>	<u>\$ 121,812</u>
Accumulated benefit obligation	<u>\$ 560,487</u>	<u>\$ 518,595</u>

At December 31, 2020 and 2019, net assets without donor restrictions include unrecognized losses of \$125.6 million and \$133.6 million, respectively. Approximately \$2.4 million of unrecognized losses are expected to be recognized in net periodic benefit costs in 2021.

The actuarial loss amounts primarily resulted from decreases in the discount rate assumption in 2020 and 2019. Additionally, the mortality table was changed from the PRI-2012 Amount-Weighted Mortality Tables with blue collar adjustments projected from 2012 with improvement scale MP-2019 at December 31, 2019, to the PRI-2012 Amount-Weighted Mortality Tables with blue collar adjustments projected from 2012 with improvement scale MP-2019 at December 31, 2020.

St. Joseph's Health, Inc.

Notes to Consolidated Financial Statements (continued)

9. Retirement Plans (continued)

Weighted-average assumptions used in determining the benefit obligation as of December 31, 2020 and 2019, were as follows:

	<u>2020</u>	<u>2019</u>
Discount rate	2.79%	3.38%
Rate of compensation increase	N/A	N/A

The components of net periodic pension (benefit) cost for the years ended December 31, 2020 and 2019, are as follows (in thousands):

	<u>2020</u>	<u>2019</u>
Interest cost	\$ 17,152	\$ 19,818
Expected return on Plan assets	(23,612)	(21,181)
Amortization of net loss	2,694	2,112
Net periodic pension (benefit) cost	<u>\$ (3,766)</u>	<u>\$ 749</u>

Weighted-average assumptions used in determining the net periodic pension (benefit) cost for the years ended December 31, 2020 and 2019, were as follows:

	<u>2020</u>	<u>2019</u>
Discount rate	3.38%	4.64%
Expected long-term return on Plan assets	6.25	6.75
Rate of compensation increase	N/A	N/A

The discount rate was determined using the hypothetical portfolio method at December 31, 2020 and 2019.

To develop the expected long-term rate of return on Plan assets, the System considered the historical returns and the future expectations for returns for each asset class, as well as the target asset allocation of the pension portfolio. This approach resulted in the selection of the 6.25% and 6.75% long-term rate of return on Plan assets' assumption for 2020 and 2019, respectively.

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

St. Joseph's Health, Inc.

Notes to Consolidated Financial Statements (continued)

9. Retirement Plans (continued)

The Plan's weighted-average asset allocation as of December 31, 2020 and 2019, by asset category, is as follows:

Asset Category	2020	2019
Equity securities	62.5%	60.2%
Debt securities	37.2	39.4
Alternative investments	0.3	0.4
	100.0%	100.0%

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

Asset Category	Target	Range
Domestic equity	35.0%	6-36%
International equity	23.0	4-24
Fixed income	40.0	40-90
Alternative investments	2.0	0-5

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

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

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

St. Joseph's Health, Inc.

Notes to Consolidated Financial Statements (continued)

9. Retirement Plans (continued)

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

Years ending December 31:	
2021	\$ 19,379
2022	20,626
2023	21,889
2024	22,764
2025	23,990
2026–2030	131,208

10. Professional Liability Insurance

Effective February 1, 2007, the Insurance Captive began providing SJUMC with claims-made professional and general liability insurance. The Insurance Captive policy provides coverage of \$1 million per occurrence and \$3 million annual aggregate. The Insurance Captive has a self-insurance program for a first excess layer above the primary layer. The first excess layer is on a claims-made basis with retentions of \$4 million for individual claims and \$17 million in the aggregate. The Insurance Captive maintains a self-insurance reserve trust as the funding vehicle for the self-insurance program (see Note 4). The Insurance Captive has a second excess layer of insurance of \$10 million annual aggregate, a third excess layer of insurance of \$20 million annual aggregate, and a fourth layer of \$15 million annual aggregate each maintained with separate commercial carriers.

The Insurance Captive is registered under the Bermuda Insurance Act of 1978 and the Related Regulations (the Insurance Act) and is obliged to comply with various provisions of the Insurance Act regarding solvency and liquidity. The minimum statutory capital and surplus at December 31, 2020 and 2019, was \$3.3 million and \$3.5 million, respectively, and the actual statutory capital and surplus was \$10.1 million and \$6.2 million, respectively. In addition, a minimum liquidity ratio must be maintained whereby relevant assets, as defined by the Insurance Act, must exceed 75% of relevant liabilities. As of December 31, 2020 and 2019, the liquidity ratio was met.

St. Joseph's Health, Inc.

Notes to Consolidated Financial Statements (continued)

10. Professional Liability Insurance (continued)

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

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

The estimated undiscounted professional liabilities for asserted claims and for incidents that have been incurred but not reported included in the accompanying consolidated balance sheets as of December 31, 2020 and 2019 are as follows (in thousands):

	<u>2020</u>	<u>2019</u>
Current portion of estimated professional liability claims payable, included in accrued salaries and expenses	\$ 9,760	\$ 9,396
Noncurrent estimated professional liability claims payable	35,604	34,650
Total estimated professional liability claims payable	<u>\$ 45,364</u>	<u>\$ 44,046</u>

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

St. Joseph's Health, Inc.

Notes to Consolidated Financial Statements (continued)

11. Concentrations of Credit Risk

The System grants credit without collateral to its patients, most of whom are insured under third-party payer agreements. Major concentrations of net accounts receivable from patients and third-party payers as of December 31, 2020 and 2019, are as follows:

	2020	2019
Medicare	17%	20%
Medicaid	9	10
Horizon Blue Cross Blue Shield of New Jersey	12	10
Amerigroup	5	4
Aetna	5	4
Managed care organizations and other third-party payers	50	49
Self-pay patients	2	3
	100%	100%

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

12. Other Revenue

Other revenue at December 31, 2020 and 2019 consists of the following (in thousands):

	2020	2019
Physician billing revenue	\$ 44,985	\$ 57,748
Grant income	14,290	14,098
CARES Provider Relief Fund revenue	109,734	—
Equity in earnings of joint ventures	3,395	3,191
Rental income	4,675	4,007
ACO gainsharing	3,078	532
Parking revenue	2,537	3,937
Contributions	4,290	4,294
Fundraising	1,489	2,031
Pharmacy 340b revenue	2,609	1,613
Other	7,798	4,643
Total	\$ 198,880	\$ 96,094

St. Joseph's Health, Inc.

Notes to Consolidated Financial Statements (continued)

13. Leases

As described in Note 1, the System adopted ASU 2016-02 effective January 1, 2020. The System leases certain property and equipment under finance and operating leases. Leases are classified as either finance or operating leases based on the underlying terms of the agreement and certain criteria, such as the term of the lease relative to the useful life of the asset and the total lease payments to be made as compared to the fair value of the asset, amongst other criteria. Finance leases would result in an accounting treatment similar to an acquisition of the asset, however, the System did not have any finance leases as of December 31, 2020.

For leases with initial terms greater than a year (or initially greater than one year remaining under the lease at the date of adoption of ASU 2016-02), the System records the related right-of-use assets and liabilities at the present value of the lease payments to be paid over the life of the related lease. The System's leases may include variable lease payments and renewal options. Variable lease payments are excluded from the amounts used to determine the right-of-use assets and liabilities unless the variable lease payments depend on an index or rate or are in substance fixed payments. Lease payments related to periods subject to renewal options are also excluded from the amounts used to determine the right-of-use assets and liabilities unless the System is reasonably certain to exercise the option to extend the lease. The present value of lease payments is calculated by utilizing the discount rate stated in the lease, when readily determinable. For leases for which this rate is not readily available, the System has elected to use a risk-free discount rate determined using a period comparable with that of the lease term. The System has made an accounting policy election to separate lease components from nonlease components in contracts when determining its lease payments for its asset classes except for medical equipment, as permitted by ASU 2016-02. As such, the System does not account for the applicable nonlease components together with the related lease components when determining the right-of-use assets and liabilities, except for medical equipment.

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

Operating leases with a present value of approximately \$35.0 million were recorded as right-of-use liabilities and assets as of January 1, 2020, upon the adoption of ASU 2016-02.

St. Joseph's Health, Inc.

Notes to Consolidated Financial Statements (continued)

13. Leases (continued)

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

Lease cost for the year ended December 31, 2020:	
Operating lease cost	\$ 6,146
Short-term lease cost	5,726
Total lease cost	<u>\$ 11,872</u>
Right-of-use assets and liabilities as of December 31, 2020:	
Right-of-use assets – operating leases	\$ 28,938
Lease liability – operating leases	28,938
Other information:	
Cash paid for amounts included in the measurement of lease liabilities (year ended December 31, 2020):	
Operating cash flows from operating leases	\$ 6,146
Financing cash flows from finance leases	1,531
Right-of-use assets obtained in exchange for new finance lease liabilities (year ended December 31, 2020)	\$ –
Right-of-use assets obtained in exchange for new operating lease liabilities (year ended December 31, 2020)	–
Weighted average remaining lease term – operating leases	6.5 years
Weighted average discount rate – operating leases	1.79%

St. Joseph's Health, Inc.

Notes to Consolidated Financial Statements (continued)

13. Leases (continued)

For finance leases, right-of-use assets are recorded in property and equipment and lease liabilities are recorded in long-term debt in the accompanying consolidated balance sheets (none at December 31, 2020). For operating leases, right-of-use assets are recorded in operating lease right of use assets and lease liabilities are recorded in operating lease liability, current and noncurrent in the accompanying consolidated balance sheets.

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

	Operating Leases
2021	\$ 5,952
2022	5,219
2023	5,109
2024	3,860
2025	3,567
Thereafter	<u>7,911</u>
Total lease payments	31,618
Less imputed interest	<u>2,680</u>
Total lease obligation	28,938
Less current portion	<u>5,726</u>
Long-term portion	<u><u>\$ 23,212</u></u>

14. Net Assets With Donor Restrictions

Net assets with donor restrictions which are available for future periods or for specific purposes as of December 31, 2020 and 2019 are available for the following purposes (in thousands):

	2020	2019
Capital acquisitions and improvements	\$ 980	\$ 1,032
Research	1,043	907
Other health care programs	11,054	9,874
	<u>\$ 13,077</u>	<u>\$ 11,813</u>

St. Joseph's Health, Inc.

Notes to Consolidated Financial Statements (continued)

14. Net Assets With Donor Restrictions (continued)

At December 31, 2020 and 2019, net assets with donor restrictions for permanent endowment in the amount of approximately \$8.5 million and \$8.1 million, respectively, consist of endowment funds to be held in perpetuity, and the beneficial interest in perpetual trusts. The assets in the perpetual trusts are held and managed by an independent trustee. The income earned on the beneficial interest in the perpetual trusts does not have donor restrictions. The income from the endowment funds is expendable to support health care services.

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

15. Functional Expenses

The System's functional expenses for the years ended December 31, 2020 and 2019 are as follows (in thousands):

	2020		
	Health Care Program Expenses	General and Administrative Expenses	Total Expenses
Salaries and wages	\$ 392,850	\$ 65,337	\$ 458,187
Employee benefits	69,003	11,534	80,537
Physician fees	19,538	3,207	22,745
Supplies and other	292,576	—	292,576
Interest	11,953	1,781	13,734
Depreciation and amortization	30,057	4,679	34,736
	\$ 815,977	\$ 86,538	\$ 902,515

St. Joseph's Health, Inc.

Notes to Consolidated Financial Statements (continued)

15. Functional Expenses (continued)

	2019		
	Health Care Program Expenses	General and Administrative Expenses	Total Expenses
Salaries and wages	\$ 352,396	\$ 62,948	\$ 415,344
Employee benefits	60,429	10,911	71,340
Physician fees	15,700	2,786	18,486
Supplies and other	275,585	–	275,585
Interest	12,287	1,928	14,215
Depreciation and amortization	30,972	5,203	36,175
	<u>\$ 747,369</u>	<u>\$ 83,776</u>	<u>\$ 831,145</u>

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

16. Commitments and Contingencies

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

17. Subsequent Events

The System has evaluated subsequent events through May 26, 2021, the date the accompanying consolidated financial statements were issued. Except as disclosed in Notes 1 and 3, no subsequent events have occurred that require disclosure in or adjustment to the consolidated financial statements.

Supplementary Information

St. Joseph's Health, Inc.

Consolidating Balance Sheet
(In Thousands)

December 31, 2020

	St. Joseph's University Medical Center and Subsidiaries	St. Joseph's Hospital and Medical Center Foundation, Inc.	200 Hospital Plaza Corp.	St. Joseph's Health, Inc.	SJHS Insurance Limited	Eliminations	Total
Assets							
Current assets:							
Cash and cash equivalents	\$ 31,343	\$ 1,588	\$ 267	\$ –	\$ –	\$ –	\$ 33,198
Investments	453,851	5,466	–	–	–	–	459,317
Current portion of assets whose use is limited	9,265	–	1,767	–	9,760	–	20,792
Patient accounts receivable, net	77,261	–	–	–	–	–	77,261
Contributions and pledges receivable	–	745	–	–	–	–	745
Prepaid expenses and other current assets	41,030	84	86	–	6,084	(2,318)	44,966
Due from affiliates	2,607	–	404	–	–	(3,011)	–
Total current assets	615,357	7,883	2,524	–	15,844	(5,329)	636,279
Assets whose use is limited – less current portion	11,854	7,235	3,425	–	34,605	–	57,119
Property and equipment – net	360,854	–	19,311	–	–	–	380,165
Operating lease right of use assets	28,938	–	–	–	–	–	28,938
Beneficial interest in perpetual trusts	–	6,590	–	–	–	–	6,590
Equity investments in joint ventures	28,184	–	–	–	–	–	28,184
Other noncurrent assets	36,085	491	–	3,178	–	(34,248)	5,506
Total assets	\$ 1,081,272	\$ 22,199	\$ 25,260	\$ 3,178	\$ 50,449	\$ (39,577)	\$ 1,142,781

St. Joseph's Health, Inc.

Consolidating Balance Sheet (continued)
(In Thousands)

December 31, 2020

	St. Joseph's University Medical Center and Subsidiaries	St. Joseph's Hospital and Medical Center Foundation, Inc.	200 Hospital Plaza Corp.	St. Joseph's Health, Inc.	SJHS Insurance Limited	Eliminations	Total
Liabilities and net assets							
Current liabilities:							
Current portion of long-term debt	\$ 4,099	\$ -	\$ 690	\$ -	\$ -	\$ -	4,789
Accounts payable	70,731	308	178	-	3,716	(2,722)	72,211
Accrued salaries and expenses	104,179	-	6	-	9,760	-	113,945
Accrued interest payable	6,875	-	-	-	-	-	6,875
Due to affiliates	930	1,243	433	-	-	(2,606)	-
Deferred revenue	61,558	204	-	-	-	-	61,762
Current portion of estimated third-party payer settlements	34,094	-	-	-	-	-	34,094
Current portion of operating lease liability	5,726	-	-	-	-	-	5,726
Total current liabilities	288,192	1,755	1,307	-	13,476	(5,328)	299,402
Long-term debt – net of current portion	325,639	-	25,292	-	-	-	350,931
Estimated third-party payer settlements – net of current portion	77,694	-	-	-	-	-	77,694
Accrued pension liability	97,992	-	-	-	-	-	97,992
Estimated professional liability claims payable – net of current portion	19,589	-	-	-	26,782	(10,767)	35,604
Operating lease liability – net of current portion	23,212	-	-	-	-	-	23,212
Other liabilities	6,993	56	76	-	-	-	7,125
Total liabilities	839,311	1,811	26,675	-	40,258	(16,095)	891,960
Commitments and contingencies							
Net assets:							
Net assets without donor restrictions	219,841	6,439	(1,415)	3,178	10,191	(9,621)	228,613
Net assets with donor restrictions	21,489	13,949	-	-	-	(13,861)	21,577
Total St. Joseph's Health, Inc. net assets	241,330	20,388	(1,415)	3,178	10,191	(23,482)	250,190
Non-controlling interest in joint venture	631	-	-	-	-	-	631
Total net assets including non- controlling interest	241,961	20,388	(1,415)	3,178	10,191	(23,482)	250,821
Total liabilities and net assets	\$ 1,081,272	\$ 22,199	\$ 25,260	\$ 3,178	\$ 50,449	\$ (39,577)	\$ 1,142,781

St. Joseph's Health, Inc.

Consolidating Statement of Operations (In Thousands)

Year Ended December 31, 2020

	St. Joseph's University Medical Center and Subsidiaries	St. Joseph's Hospital and Medical Center Foundation, Inc.	200 Hospital Plaza Corp.	St. Joseph's Health, Inc.	SJHS Insurance Limited	Eliminations	Total
Operating revenues							
Net patient service revenue	\$ 712,275	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 712,275
Other revenue	191,368	5,592	3,001	—	8,598	(9,679)	198,880
Net assets released from restrictions – operations	—	2,010	—	—	—	—	2,010
Total operating revenues	903,643	7,602	3,001	—	8,598	(9,679)	913,165
Operating expenses							
Salaries and wages	458,074	843	113	—	—	(843)	458,187
Employee benefits	80,537	204	—	—	—	(204)	80,537
Physician fees	22,745	—	—	—	—	—	22,745
Supplies and other	284,252	7,065	1,063	—	8,828	(8,632)	292,576
Interest	12,657	—	1,077	—	—	—	13,734
Depreciation and amortization	33,100	—	1,636	—	—	—	34,736
Total operating expenses	891,365	8,112	3,889	—	8,828	(9,679)	902,515
Operating gain (loss)	12,278	(510)	(888)	—	(230)	—	10,650
Non-operating gains and losses							
Investment return	13,235	477	—	—	1,010	—	14,722
Net change in unrealized gains and losses on equity investments	4,858	—	—	—	2,074	—	6,932
Net periodic pension benefit	3,766	—	—	—	—	—	3,766
Excess of revenues over expenses before non-controlling interest in joint venture	34,137	(33)	(888)	—	2,854	—	36,070
Less: net gain attributable to non-controlling interest in joint venture	350	—	—	—	—	—	350
Excess of revenues over expenses	33,787	(33)	(888)	—	2,854	—	35,720
Other changes in net assets without donor restrictions							
Change in net unrealized gains and losses on fixed income investments	(255)	(11)	—	—	1,050	(2)	782
Pension-related adjustments	8,054	—	—	—	—	—	8,054
Net assets released from restrictions – capital acquisitions	260	—	—	—	—	—	260
Provider Relief Fund receipts for capital acquisitions	10,104	—	—	—	—	—	10,104
Change in interest in net assets without donor restrictions of St. Joseph's Hospital and Medical Center Foundation, Inc.	(44)	—	—	—	—	44	—
Change in net assets without donor restrictions	\$ 51,906	\$ (44)	\$ (888)	\$ —	\$ 3,904	\$ 42	\$ 54,920

St. Joseph's Health, Inc.

Consolidating Statement of Changes in Net Assets
(In Thousands)

Year Ended December 31, 2020

	St. Joseph's University Medical Center and Subsidiaries	St. Joseph's Hospital and Medical Center Foundation, Inc.	200 Hospital Plaza Corp.	St. Joseph's Health, Inc.	SJHS Insurance Limited	Eliminations	Total
Net assets without donor restrictions:							
Change in net assets without donor restrictions	\$ 51,906	\$ (44)	\$ (888)	\$ –	\$ 3,904	\$ 42	\$ 54,920
Net assets with donor restrictions:							
Contributions, grants, investment income, and other support	1,234	2,307	–	–	–	(1)	3,540
Changes in interest in restricted net assets of St. Joseph's Hospital and Medical Foundation, Inc.	298	–	–	–	–	(298)	–
Net assets released from restrictions – operations	–	(2,010)	–	–	–	–	(2,010)
Net assets released from restrictions – capital acquisitions	(260)	–	–	–	–	–	(260)
Change in net unrealized gains and losses on investments held in perpetual trusts	394	394	–	–	–	(394)	394
Increase in net assets with donor restrictions	1,666	691	–	–	–	(693)	1,664
Increase (decrease) in St. Joseph's Health, Inc. net assets	53,572	647	(888)	–	3,904	(651)	56,584
Non-controlling interest in joint venture							
Net gain attributable to non-controlling interest in joint venture	350	–	–	–	–	–	350
Distributions to non-controlling interest in joint venture, net	(295)	–	–	–	–	–	(295)
Increase in non-controlling interest	55	–	–	–	–	–	55
Change in net assets, including non-controlling interest	53,627	647	(888)	–	3,904	(651)	56,639
Net assets at beginning of year	188,334	19,741	(527)	3,178	6,287	(22,831)	194,182
Net assets at end of year	\$ 241,961	\$ 20,388	\$ (1,415)	\$ 3,178	\$ 10,191	\$ (23,482)	\$ 250,821

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