

CONSOLIDATED FINANCIAL STATEMENTS  
AND SUPPLEMENTARY INFORMATION

The Cooper Health System  
Years Ended December 31, 2021 and 2020  
With Report of Independent Auditors

Ernst & Young LLP



The Cooper Health System  
Consolidated Financial Statements  
and Supplementary Information  
Years Ended December 31, 2021 and 2020

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

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

## Report of Independent Auditors

Board of Trustees  
The Cooper Health System

### Opinion

We have audited the consolidated financial statements of The Cooper Health System (the Health System), which comprise the consolidated balance sheets as of December 31, 2021 and 2020, and the related consolidated statements of operations and changes in net assets and cash flows for the years then ended, and the related notes (collectively referred to as the “financial statements”).

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Health System at December 31, 2021 and 2020, and the results of its operations and changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### Basis for Opinion

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

### Responsibilities of Management for the Financial Statements

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

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

## **Auditor's Responsibilities for the Audit of the Financial Statements**

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

In performing an audit in accordance with GAAS, we:

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

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

## Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying consolidating balance sheet as of December 31, 2021 and consolidating statement of operations and changes in net assets for the year then ended are presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

*Ernst + Young LLP*

April 14, 2022

The Cooper Health System  
Consolidated Balance Sheets  
*(In Thousands)*

	<b>December 31</b>	
	<b>2021</b>	<b>2020</b>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 678,370	\$ 582,366
Current portion of assets limited as to use	28,532	28,570
Patient accounts receivable, net	168,065	140,505
Prepaid expenses and other current assets	52,548	51,210
Total current assets	927,515	802,651
Assets limited as to use:		
Internally designated by Board of Trustees	297,735	275,629
Externally designated for donor purposes	72,913	62,619
Externally designated under debt agreements, net of current portion	3,875	3,874
Externally designated – escrow agreement	15,006	15,010
Designated under self-insurance programs, net of current portion	20,068	30,927
Assets limited as to use, net of current portion	409,597	388,059
Property, plant, and equipment, net	651,060	622,073
Operating lease assets, net	76,310	64,655
Other assets, net	15,729	14,083
Total assets	\$ 2,080,211	\$ 1,891,521

	<b>December 31</b>	
	<b>2021</b>	<b>2020</b>
<b>Liabilities and net assets</b>		
Current liabilities:		
Accounts payable	\$ 57,692	\$ 42,259
Accrued expenses	190,294	183,647
Current portion of estimated settlements due to third-party payors	82,014	45,342
Current portion of self-insured reserves	34,629	49,114
Current portion of long-term debt	8,893	8,220
Current portion of operating lease liability	17,644	19,559
Line of credit advances	41,000	41,000
Total current liabilities	<u>432,166</u>	<u>389,141</u>
Estimated settlements due to third-party payors, net of current portion	19,847	108,985
Accrued retirement benefits	11,427	20,747
Self-insured reserves, net of current portion	85,982	70,104
Long-term debt, net of current portion	267,170	277,065
Operating lease liability, net of current portion	59,533	46,209
Deferred revenue and other liabilities	34,262	28,513
Total liabilities	<u>910,387</u>	<u>940,764</u>
Net assets:		
Without donor restrictions	1,120,685	906,385
With donor restrictions	49,139	44,372
Total net assets	<u>1,169,824</u>	<u>950,757</u>
Total liabilities and net assets	<u>\$ 2,080,211</u>	<u>\$ 1,891,521</u>

*See accompanying notes.*

## The Cooper Health System

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

	<b>Year Ended December 31</b>	
	<b>2021</b>	<b>2020</b>
<b>Net assets without donor restrictions</b>		
Revenue:		
Net patient service revenue	\$ 1,686,083	\$ 1,372,538
Other revenue	119,430	173,055
Total revenue	1,805,513	1,545,593
Expenses:		
Salaries, wages, and fringe benefits	1,005,576	882,072
Supplies and other	555,590	512,233
Malpractice	15,509	39,000
Depreciation and amortization	56,909	53,470
Interest	12,376	13,391
Total expenses	1,645,960	1,500,166
Operating income	159,553	45,427
Nonoperating gains (losses):		
Investment income	36,668	13,034
Net change in unrealized gains and losses	(7,470)	17,160
Change in value of equity method investments	2,069	648
Net periodic pension cost	(1,879)	(1,738)
Change in fair value of interest rate swap agreements	5,918	(6,999)
Other losses	–	(2,535)
Excess of revenue over expenses	194,859	64,997
Other changes in net assets without donor restrictions:		
Change in pension benefit obligation	4,700	(4,977)
Contributions received and expended for capital acquisitions	12,700	14,815
Net change in unrealized gains and losses on fixed-income other-than-trading securities	2,041	2,057
Increase in net assets without donor restrictions	214,300	76,892
<b>Net assets with donor restrictions</b>		
Contributions, gifts, and special events, net of fundraising expenses	3,988	4,657
Income from investments	454	542
Net realized and unrealized gains on investments	2,717	525
Net assets released from restrictions for operating purposes	(2,392)	(9,509)
Increase (decrease) in net assets with donor restrictions	4,767	(3,785)
Increase in net assets	219,067	73,107
Net assets, at beginning of year	950,757	877,650
Net assets, at end of year	\$ 1,169,824	\$ 950,757

*See accompanying notes.*



# The Cooper Health System

## Consolidated Statements of Cash Flows (In Thousands)

	<b>Year Ended December 31</b>	
	<b>2021</b>	<b>2020</b>
<b>Operating activities</b>		
Increase in net assets	\$ 219,067	\$ 73,107
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Change in pension benefit obligation	(4,700)	4,977
Change in fair value of interest rate swap agreements	(5,918)	6,999
Depreciation and amortization	56,909	53,470
Net realized and unrealized gains and losses on investments	(26,114)	(23,734)
Change in value of equity method investments	(2,069)	(648)
Contributions for capital acquisitions	(12,700)	(14,815)
Changes in operating assets and liabilities:		
Patient accounts receivable, net	(27,560)	6,214
Prepaid expenses and other assets	(915)	(1,821)
Accounts payable and accrued expenses	22,080	26,044
Self-insured reserves and accrued retirement benefits	(3,227)	27,290
Estimated settlements with third-party payors	(52,466)	142,840
Deferred revenue and other liabilities	11,421	452
Net cash provided by operating activities	<b>173,808</b>	<b>300,375</b>
<b>Investing activities</b>		
Purchases of assets limited as to use	4,817	(8,497)
Capital expenditures, net	(86,918)	(76,329)
Net cash used in investing activities	<b>(82,101)</b>	<b>(84,826)</b>
<b>Financing activities</b>		
Repayments of long-term debt	(8,200)	(8,116)
Contributions for capital acquisitions	12,700	14,815
Net cash provided by financing activities	<b>4,500</b>	<b>6,699</b>
Net increase in cash and cash equivalents and restricted cash and restricted cash equivalents	<b>96,207</b>	222,248
Cash and cash equivalents and restricted cash and restricted cash equivalents at beginning of year	<b>610,238</b>	387,990
Cash and cash equivalents and restricted cash and restricted cash equivalents at end of year	<b>\$ 706,445</b>	<b>\$ 610,238</b>
<b>Supplemental disclosure of cash flow information</b>		
Cash paid for interest	<b>\$ 12,484</b>	<b>\$ 13,484</b>

*See accompanying notes.*

# The Cooper Health System

## Notes to Consolidated Financial Statements *(Dollars in Thousands)*

December 31, 2021

### **1. Organization**

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

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

In July 2016, the Health System entered into a service agreement with All Care Health Alliance, LLC (ACO), a New Jersey limited liability company participating in the Medicare Shared Saving Program, coordinated care, shared savings, bundled payment, and other similar programs or initiatives with or implemented by government payors. The Health System is the sole member of ACO. There was no activity for ACO during 2021 or 2020.

In March 2021, the Health System incorporated Cooper Apex Care PC (APEX). APEX provides "concierge medicine," continual personalized services provided to members based on a monthly fee that is not reimbursable by insurance carriers (governmental and non-governmental). Members have access to a physician for questions and receive communications such as wellness bulletins and COVID-related news. There was no activity for APEX during 2021.

# The Cooper Health System

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

### **2. Summary of Significant Accounting Policies**

#### **Principles of Consolidation**

The accompanying consolidated financial statements include the accounts of the Health System and its controlled affiliates and subsidiaries as described above. All significant intercompany balances and transactions have been eliminated in consolidation. Although these entities have been consolidated for financial statement reporting purposes, there may be limitations on the use of an entity's funds by another member of the group resulting from the charitable nature of some of the entities or other factors.

The entities comprising the Health System provide various inter-entity services to their affiliated entities and the Health System parent company. The services consist of certain financial planning, general accounting, and other management services. Charges for such services are based on the approximate cost to provide the services and are allocated between the entities based on an agreed-upon method which reflects the approximate level of usage by each entity.

#### **COVID-19 Pandemic and CARES Act Funding**

On March 11, 2020, the World Health Organization designated the Coronavirus Disease 2019 (COVID-19) outbreak as a global pandemic. Federal, state and local government policies resulted in a substantial portion of the population remaining at home and forced the closure of certain businesses, which had an impact on the Health System's patient volumes and revenues for most services. Effective March 27, 2020, a New Jersey executive order was issued to suspend all non-essential elective surgeries or invasive procedures, which resumed at different dates during the year ended December 31, 2020. The Health System's volumes and operations were impacted to varying degrees throughout 2020 and 2021. During this time, the Health System has also experienced significant price increases in, and utilization of, personnel costs and medical supplies, particularly personal protective equipment, as global supply lines were disrupted by the pandemic.

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

## The Cooper Health System

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

#### **2. Summary of Significant Accounting Policies (continued)**

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.

HHS has issued several Post-Payment Notices of Reporting Requirements and published responses to frequently asked questions (FAQs), most recently in September 2021, regarding the Provider Relief Fund distributions. Additionally, on December 27, 2020, the Consolidated Appropriations Act, 2021 (CAA) was signed into law. The CAA appropriated additional funding for COVID-19 response and relief through the Provider Relief Fund and provided several changes to the administration of the Provider Relief Fund. The CAA clarified the methods available to calculate lost revenues and indicated that for any payment, including both general and targeted distributions, received by an eligible health care provider that is a subsidiary of a parent organization, the parent organization may allocate all or any portion of the distribution among any other eligible subsidiaries. Distributions from the Provider Relief Fund are available for specified service periods through December 31, 2022 with various required data submissions (data regarding activity for Provider Relief Fund receipts through June 30, 2020 and the use of such funds through June 30, 2021 was submitted to HHS on November 30, 2021; data for funds received from July 1, 2020 to December 31, 2020 and the use of such funds through December 31, 2021 was submitted to HHS on March 30, 2022).

During the years ended December 31, 2021 and 2020, the Health System received approximately \$4,453 and \$74,953, respectively, in funding and recognized revenue of \$15,176 and \$56,153, respectively, related to the Provider Relief Fund, which is included in other revenue in the accompanying 2021 and 2020 consolidated statements of operations and changes in net assets. The Health System received approximately \$14,037 in funding during 2020 under the CARES Act Coronavirus Relief Fund–Camden County Relief Fund grant (Camden County Relief Fund) and recognized applicable revenue of approximately \$3,500 and \$10,537 during the years ended December 31, 2021 and 2020, respectively, which is included in other revenue in the accompanying consolidated statements of operations and changes in net assets. The Camden County Relief Fund is to be used for necessary expenditures incurred due to the public health emergency with respect to COVID-19. The Health System also received approximately \$4,108 in funding during 2020 under the CARES Act Coronavirus Relief Fund–Camden County Tent Reimbursement grant (Camden County Tent Reimbursement) and recognized applicable revenue of approximately \$15 and \$4,093 during the years ended December 31, 2021 and 2020,

## The Cooper Health System

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

#### **2. Summary of Significant Accounting Policies (continued)**

respectively, which is included in other revenue in the accompanying consolidated statements of operations and changes in net assets. The Camden County Tent Reimbursement was for the purchase of a temperature-controlled storage tent during the COVID-19 public health emergency. The recognized revenue has been determined based on applicable accounting guidance, Provider Relief Fund Post-Payment Notices of Reporting Requirements and FAQs that the Health System has interpreted as being applicable to the accompanying consolidated financial statements. The unrecognized amount of the Health System's Provider Relief Fund receipts is reported in the long-term portion of estimated settlements due to third-party payors in the accompanying consolidated balance sheets at December 31, 2021 and 2020. Management will continue to monitor communications from HHS and governmental agencies applicable to these programs and related reporting and data submission requirements.

The Health System has applied for reimbursement for qualifying expenditures under the Federal Emergency Management Agency (FEMA) Disaster Relief Fund. For the years ended December 31, 2021 and 2020, the Health System received approximately \$6,969 and \$7,503, respectively, in FEMA reimbursement payments which are recognized as other revenue for reimbursement of operating costs.

To enhance liquidity, the Centers for Medicare & Medicaid Services (CMS) expanded and streamlined the process for its Accelerated and Advance Payment Program, pursuant to which providers could receive advance Medicare payments. This program allowed eligible health care facilities to request up to six months of advance Medicare payments for acute care hospitals or up to three months of advance Medicare payments for other health care providers. During April 2020, the Health System received approximately \$118,889 of expedited payments for future services. The advance was initially scheduled to be recovered by Medicare commencing August 2020. On October 1, 2020, the terms of the CMS accelerated payment program were revised such that the recovery of advances will commence in April 2021 (25% of submitted claims will be withheld for 11 months) and extend through October 2022 (50% of submitted claims will be withheld for 6 months), with any remaining balance due at that time and subject to interest. CMS has recouped \$43,841 through December 31, 2021. CMS advances under this program are included as a contract liability in estimated settlements due to third-party payors, current \$75,048 at December 31, 2021 and current (\$45,000) and noncurrent (\$73,889) at December 31, 2020 in the accompanying consolidated balance sheets.

# The Cooper Health System

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

### **2. Summary of Significant Accounting Policies (continued)**

Under the CARES Act, the Health System has elected to defer the payment of the employer portion of social security taxes totaling approximately \$18,637 that otherwise would have been due between March 27, 2020 and December 31, 2020. The CARES Act requires that 50% of the total deferred amount be paid by December 31, 2021, with the remaining balance due by December 31, 2022. The Health System has paid \$10,499 through December 31, 2021. The remaining balance of \$8,138 is recorded as accrued expenses on the accompanying consolidated balance sheets at December 31, 2021 and is expected to be paid in 2022.

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

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

### **Use of Estimates**

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

### **Cash and Cash Equivalents**

Cash and cash equivalents include various checking and savings accounts and all short-term funds with initial maturity dates of three months or less held on deposit with various lending institutions, excluding cash equivalents classified as assets limited as to use designated by the Board of

## The Cooper Health System

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

#### 2. Summary of Significant Accounting Policies (continued)

Trustees, donors and for self-insurance programs as such holdings are within investment portfolios. The Health System does not hold any money market funds with significant liquidity restrictions that would be required to be excluded from cash equivalents.

The following is a reconciliation of amounts reported on the consolidated balance sheets to the statements of cash flows as of and for the years ended December 31, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Cash and cash equivalents	\$ 678,370	\$ 582,366
Assets limited as to use: cash and cash equivalents	<u>28,075</u>	<u>27,872</u>
Total cash and cash equivalents and restricted cash and restricted cash equivalents	<u>\$ 706,445</u>	<u>\$ 610,238</u>

#### Patient Accounts Receivable

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

#### Supplies

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

# The Cooper Health System

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

### 2. Summary of Significant Accounting Policies (continued)

#### Derivative Financial Instruments

The Health System has entered into interest rate swap agreements with the intent of mitigating cash flow risk relating to changes in the variable interest rates for certain outstanding debt and prospective transactions. The swap agreements are recorded at fair value on the accompanying consolidated balance sheets within deferred revenue and other liabilities. The net changes in the fair value of these swap agreements are recorded in non-operating gains and (losses) on the accompanying consolidated statements of operations and changes in net assets, and the net monthly cash exchange under the contract is reflected within interest expense.

#### Assets Limited as to Use and Investment Income

Assets limited as to use include internally designated assets set aside by the Board of Trustees (the Board), externally designated assets held in escrow (see Note 11) or held by trustees under debt agreements (including debt service interest, principal, and reserve funds and funds for future capital expenditures), assets for self-insurance programs (workers' compensation and for medical professional and general liability), and funds related to donor restrictions. Amounts set aside by the Board are designated for operations, future capital improvements, and other contingencies, as needed. The Board retains control over the internally designated assets and may, at its discretion, subsequently use such assets for other purposes.

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

Assets limited as to use consist of marketable securities and alternative investments. Marketable securities are carried at fair value based on quoted market prices. Alternative investments consist of interests in funds of funds, structured as limited partnerships. Investment return, net of amounts capitalized, from assets limited as to use, consisting of interest and dividend income, realized gains and losses, and the change in unrealized gains and losses on equities and trading securities, including equity in income on alternative investments, are presented as non-operating gains and (losses). Investment return is reported net of external and direct internal investment expenses, such as trustee fees and investment fund manager fees. The net change in unrealized gains and losses on investments which are classified as other-than-trading fixed income securities is reported as a separate component of the change in net assets without donor restrictions.



# The Cooper Health System

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

### **2. Summary of Significant Accounting Policies (continued)**

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

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

Financial information used to evaluate the alternative investments is provided by the investment manager or general partner and includes fair value valuations (quoted market prices and values determined through other means) of underlying securities and other financial instruments held by the investee and estimates that require varying degrees of judgment. The financial statements of the investees are audited annually by independent auditors. The Health System also retains the services of an independent investment consultant to provide specialized investment oversight. There is uncertainty in the accounting for alternative investments arising from factors such as lack of active markets (primary and secondary), lack of transparency into underlying holdings, and time lags associated with reporting by the investee companies. As a result, there is at least a reasonable possibility that estimates will change by material amounts in the near term.

### **Property, Plant, and Equipment**

Property, plant, and equipment that were purchased are recorded at cost. Contributed assets are recorded at fair value at the date of donation. Depreciation is provided over the estimated useful lives of the assets of each class of depreciable asset and is computed using the straight-line method. Equipment under finance lease obligations is amortized using the straight-line method over the lesser of the lease term or the estimated useful life of the equipment. Such amortization is included

## The Cooper Health System

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

#### **2. Summary of Significant Accounting Policies (continued)**

in depreciation and amortization in the consolidated financial statements. Interest costs incurred on borrowed funds, net of related interest income during the period of construction of capital assets, is capitalized as a component of acquiring the assets.

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

The Health System continually evaluates whether later events and circumstances have occurred that indicate the remaining estimated useful life of long-lived assets may warrant revision or that the remaining balance may not be recoverable. When factors indicate that long-lived assets should be evaluated for possible impairment, the Health System uses an estimate of the related undiscounted operating income over the remaining life of the long-lived asset, or determines the fair value of the long-lived asset in measuring whether the long-lived asset is recoverable. Management believes that no revision to the remaining useful lives or write-down of long-lived assets was required as of December 31, 2021 or 2020.

#### **Self-Insured Reserves**

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

#### **Charity Care**

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

# The Cooper Health System

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

### **2. Summary of Significant Accounting Policies (continued)**

#### **Advertising Costs**

The Health System expenses advertising cost as incurred. In 2021 and 2020, the Health System incurred advertising expenses of \$9,910 and \$8,293, respectively, which are included in supplies and other expense on the consolidated statements of operations and changes in net assets.

#### **Excess of Revenue Over Expenses**

The accompanying consolidated statements of operations and changes in net assets include the excess of revenue over expenses as the performance indicator. Changes in net assets without donor restrictions which are excluded from the excess of revenue over expenses include net change in unrealized gains and losses on fixed income other-than-trading securities to the extent such losses are considered temporary, changes in the pension benefit obligation, and contributions received and expended for capital acquisitions (including assets acquired using donor-restricted contributions or grant funds that were to be used for the purposes of acquiring such assets). Transactions deemed by management to be ongoing, major, or central to the provision of health care services are reported as revenue and expenses and included within operating income.

#### **Classification of Net Assets**

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

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

# The Cooper Health System

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

### 2. Summary of Significant Accounting Policies (continued)

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

#### Income Taxes

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

#### Recent Accounting Pronouncements

##### *Adopted Changes*

The Financial Accounting Standards Board (FASB) has amended certain guidance related to various disclosures in Accounting Standards Update (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 is effective for fiscal years ending after December 15, 2021. The Health System adopted the standard as of December 31, 2021 and the adoption did not have a material impact on its consolidated financial statements.

## The Cooper Health System

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

#### **2. Summary of Significant Accounting Policies (continued)**

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 Health System for fiscal years beginning after December 15, 2020, and interim periods within fiscal years beginning after December 15, 2021. Either retrospective or prospective adoption is permitted. The Health System adopted the standard in 2021 and the adoption did not have a material impact on its consolidated financial statements.

#### *Pending Changes*

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

# The Cooper Health System

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

### 3. Net Patient Service Revenue

#### Accounts Receivable and Net Patient Service Revenue

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

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

The Health System's initial estimate of the transaction price for services provided to patients is determined by reducing the total standard charges related to the patient services provided by various elements of variable consideration, including contractual adjustments, discounts, implicit price concessions, and other reductions to the Health System's standard charges. The Health System determines the transaction price associated with services provided to patients who have third-party payor coverage on the basis of contractual or formula-driven rates for the services rendered (see description of third-party payor payment programs below). The estimates for contractual allowances and discounts are based on contractual agreements, the Health System's discount policies and historical experience. For uninsured and underinsured patients who do not qualify for charity care, the Health System determines the transaction price associated with services on the basis of charges reduced by implicit price concessions. Implicit price concessions included in the estimate of the transaction price are based on the Health System's historical collection experience for applicable patient portfolios. Under the Health System's charity care policy, a patient who has no insurance or is underinsured and is ineligible for any government assistance program has his or her bill reduced to (1) the lesser of charges or the Medicaid diagnostic-related group for inpatient and (2) a discount from Medicaid fee-for-service rates for outpatient. Patients who meet the Health System's criteria for charity care are provided care without charge; such amounts are not reported as revenue.

## The Cooper Health System

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

#### 3. Net Patient Service Revenue (continued)

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

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

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, 2021 and 2020, changes in the Health System's estimates of implicit price concessions, discounts, contractual adjustments, or other reductions to expected payments for performance obligations satisfied in prior periods were not significant. Portfolio collection estimates are updated quarterly based on collection trends. Subsequent changes that are determined to be the result of an adverse change in the patient's ability to pay (determined on a portfolio basis when applicable) are recorded as bad debt expense. Bad debt expense for the years ended December 31, 2021 and 2020 was not significant.

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

## The Cooper Health System

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

#### 3. Net Patient Service Revenue (continued)

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

	<b>Year Ended December 31</b>	
	<b>2021</b>	<b>2020</b>
Medicare	\$ 471,481	\$ 398,940
Medicaid	383,825	323,608
Commercial carriers and health maintenance organizations	699,113	586,809
State subsidies (Note 4)	37,020	19,318
Self-pay	54,695	43,863
Medicaid supplement: County Option Program	39,949	—
	<b>\$ 1,686,083</b>	<b>\$ 1,372,538</b>

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

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

	<b>Year Ended December 31</b>	
	<b>2021</b>	<b>2020</b>
Hospital	\$ 1,304,935	\$ 1,064,990
Physician services	372,435	307,044
Cooper Care Alliance	8,713	504
	<b>\$ 1,686,083</b>	<b>\$ 1,372,538</b>



## The Cooper Health System

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

#### 3. Net Patient Service Revenue (continued)

Accounts receivable is comprised of the following components:

	<b>December 31</b>	
	<b>2021</b>	<b>2020</b>
Patient receivables	\$ 150,605	\$ 124,271
Contract assets	17,460	16,234
	<u>\$ 168,065</u>	<u>\$ 140,505</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 Health System may not have the right to bill.

#### Third-Party Payment Programs

The Health System has agreements with third-party payors that provide for payments at amounts different from established charges. The CUH's inpatient acute care services and the UP's professional services for Medicare and Medicaid program beneficiaries and the CUH's outpatient services for Medicare program beneficiaries are primarily paid at prospectively determined rates per discharge or visit or based upon fee schedules. These rates vary according to patient classification systems that are based on clinical, diagnostic, and other factors. The Health System is reimbursed for CUH cost reimbursable and other pass-through items, such as bad debts and paramedical education, from Medicare and CUH outpatient services for Medicaid at tentative rates with final settlements determined after submission of annual cost reports by the Health System and audits thereof by the programs' fiscal intermediaries. Provisions for estimated adjustments resulting from audit and final settlements have been recorded. The Health System's cost reports through fiscal year 2018 have been settled by Medicare and the cost report for fiscal year 2020 has been submitted. In the opinion of management, adequate provision has been made for any adjustment which may result from the final settlement of these reports, appeal items, or other retroactive changes.

Settlements with third-party payors for cost report filings and retroactive adjustments due to ongoing and future audits, reviews, or investigations are considered variable consideration and are included in the determination of the estimated transaction price for providing patient care. These

## The Cooper Health System

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

#### **3. Net Patient Service Revenue (continued)**

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

During 2021 and 2020, the Health System revised estimates made in prior years to reflect the passage of time and the availability of more recent information, such as accounts receivable payor collection trends and cost report settlement activity, associated with the related revenue estimates. The net effect of the Health System's revisions to prior year estimates resulted in net patient service revenue (decreasing) increasing by approximately \$(543) and \$3,519 for the years ended December 31, 2021 and 2020, respectively.

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

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

## The Cooper Health System

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

#### 3. Net Patient Service Revenue (continued)

could have an adverse impact on the Health System. Additionally, certain payors' payment rates for various years have been appealed by the Health System. If the appeals are successful, additional income applicable to those years might be realized.

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

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

	<b>December 31</b>	
	<b>2021</b>	<b>2020</b>
Commercial	<b>19%</b>	21%
Health maintenance organizations	<b>46</b>	48
Medicare	<b>11</b>	10
Blue Cross	<b>19</b>	15
Self-pay (including accounts which may ultimately be charity care)	<b>2</b>	3
Medicaid	<b>3</b>	3
	<b>100%</b>	100%

#### 4. Charity Care and State Subsidies

The Health System provides care to those who meet the State of New Jersey Public Law 1992 (Chapter 160) charity care criteria. Charity care is provided without charge or at amounts less than its established charges. The Health System maintains records to identify and monitor the level of charity care it provides. The cost of services provided and supplies furnished under its charity care policy is estimated using internal cost data and is calculated based on the Health System's cost

## The Cooper Health System

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

#### 4. Charity Care and State Subsidies (continued)

accounting system. The total direct and indirect amount of charity care provided, determined on the basis of cost, was \$26,130 and \$26,115 for the years ended December 31, 2021 and 2020, respectively.

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

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

Effective July 1, 2014, the State implemented the Delivery System Reform Incentive Payment Pool (DSRIP). DSRIP was available to certain hospitals that were able to establish performance improvement activities in one of eight specified clinical improvement areas. Following the initial project period, the subsidy can be adjusted positively or negatively depending on the performance during a fiscal period. Such adjustments are processed prospectively. DSRIP concluded June 30, 2020. On July 1, 2020, the State implemented a transitional program in response to the COVID-19 pandemic in lieu of starting the Quality Improvement Program-New Jersey (QIP-NJ).

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

	Year Ended December 31	
	2021	2020
Charity Care Subsidy Fund	\$ 17,143	\$ 17,115
Delivery System Reform Incentive Payment Pool	5,875	2,203
Quality Improvement Program transitional payment	14,002	—
	<u>\$ 37,020</u>	<u>\$ 19,318</u>

## The Cooper Health System

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

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

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

	<b>December 31</b>	
	<b>2021</b>	<b>2020</b>
Internally designated by Board of Trustees:		
Cash and cash equivalents	\$ 9,652	\$ 6,546
U.S. equity securities	103,610	81,649
U.S. Treasury securities	75,067	68,315
Mutual funds	7,930	7,247
Alternative investments, at equity method value	24,014	22,714
Corporate bonds	77,462	89,158
	<b>\$ 297,735</b>	<b>\$ 275,629</b>
Externally designated for donor purposes:		
Cash and cash equivalents	\$ 1,797	\$ 1,177
U.S. equity securities	45,646	38,337
U.S. Treasury securities	9,595	6,466
Governmental asset-backed securities	2,240	216
Corporate bonds	13,635	16,423
	<b>\$ 72,913</b>	<b>\$ 62,619</b>
Externally designated – under debt agreements:		
Cash and cash equivalents	\$ 13,069	\$ 12,862
Less current portion	9,194	8,988
	<b>\$ 3,875</b>	<b>\$ 3,874</b>
Assets held under debt agreements are maintained for the following purposes:		
Debt service interest funds	\$ 3,607	\$ 3,728
Debt service principal funds	5,587	5,260
Debt service reserve funds	265	265
Capital addition funds	3,610	3,609
	<b>\$ 13,069</b>	<b>\$ 12,862</b>

## The Cooper Health System

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

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

	December 31	
	2021	2020
Externally designated – escrow agreement ( <i>Note 11</i> ):		
Cash equivalents	\$ 15,006	\$ 15,010
Designated under self-insurance programs:		
Cash and cash equivalents	\$ 837	\$ 1,009
U.S. Treasury securities	4,710	6,695
Governmental asset-backed securities	5,426	26
Mutual funds	11,241	11,048
Corporate bonds	17,192	31,731
	39,406	50,509
Less current portion	19,338	19,582
	\$ 20,068	\$ 30,927

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

	Year Ended December 31	
	2021	2020
Nonoperating gains and (losses):		
Interest and dividend income	\$ 7,842	\$ 9,042
Net realized gains on sales of securities	28,826	3,992
Investment income	36,668	13,034
Net change in unrealized gains and losses on equities and trading securities	(7,470)	17,160
Investment return included in non-operating gains and (losses)	29,198	30,194
Net change in unrealized gains and losses on other-than-trading fixed income securities	2,041	2,057
Total investment return	\$ 31,239	\$ 32,251

## The Cooper Health System

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

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

##### Liquidity Resources

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

	<b>December 31</b>	
	<b>2021</b>	<b>2020</b>
Financial assets available as reported on the accompanying balance sheets:		
Cash and cash equivalents	\$ 678,370	\$ 582,366
Net patient accounts receivable	168,065	140,505
Current portion of assets limited to use	28,532	28,570
Assets limited as to use, net of current portion	409,597	388,059
Total financial assets available	1,284,564	1,139,500
Less amounts not available to be used within one year for general expenditures:		
Assets limited as to use:		
Externally designated for donor purposes	72,913	62,619
Externally designated under debt agreements	13,069	12,862
Externally designated – escrow agreement	15,006	15,010
Designated under self-insurance programs	39,406	50,509
Financial assets available and liquid to meet general expenditures within one year	\$ 1,144,170	\$ 998,500

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

## The Cooper Health System

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

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

Additionally, the Health System maintains lines of credit totaling \$130,000, as described in Note 8. As of December 31, 2021 and 2020, there was \$41,000 outstanding on the line of credit.

As of December 31, 2021, the Health System was in compliance with its financial ratio debt covenants.

#### **Fair Value**

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

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

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



## The Cooper Health System

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

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

The following table presents the fair value hierarchy for the Health System's financial assets measured at fair value on a recurring basis which include cash and cash equivalents, assets limited as to use (excluding alternative investments of \$24,014 and \$22,714 at December 31, 2021 and 2020, respectively), and the mark-to-market position of interest rate swap arrangements:

	<b>Total</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
<b>December 31, 2021</b>				
<b><u>Assets</u></b>				
Cash and cash equivalents	\$ 718,731	\$ 718,731	\$ —	\$ —
U.S. equity securities	149,256	149,256	—	—
Mutual funds	19,171	19,171	—	—
U.S. Treasury securities	89,372	89,372	—	—
Governmental asset-backed securities	7,666	—	7,666	—
Corporate bonds	108,289	—	108,289	—
Total assets measured at fair value	<u>\$ 1,092,485</u>	<u>\$ 976,530</u>	<u>\$ 115,955</u>	<u>\$ —</u>
<b><u>Liabilities</u></b>				
Interest rate swaps	\$ 5,354	\$ —	\$ 5,354	\$ —
Total liabilities measured at fair value	<u>\$ 5,354</u>	<u>\$ —</u>	<u>\$ 5,354</u>	<u>\$ —</u>

## The Cooper Health System

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

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

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

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

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

## The Cooper Health System

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

#### 6. Property, Plant, and Equipment

	December 31		Depreciable
	2021	2020	Life
Land	\$ 7,860	\$ 8,124	
Land improvements	1,327	1,345	5–25 years
Buildings and building improvements	712,221	679,961	10–40 years
Fixed equipment	82,310	77,032	10–20 years
Major movable equipment	522,380	488,311	5–20 years
	1,326,098	1,254,773	
Less accumulated depreciation	(765,498)	(716,355)	
	560,600	538,418	
Construction-in-progress	90,460	83,655	
	\$ 651,060	\$ 622,073	

Depreciation expense for the years ended December 31, 2021 and 2020 amounted to \$57,931 and \$54,485, respectively. Property, plant, and equipment, net included \$2,581 and \$3,540 of assets held under finance leases at December 31, 2021 and 2020, respectively. During 2021, the Health System wrote off approximately \$8,788 of fully depreciated assets.

The Health System did not capitalize interest expense for the years ended December 31, 2021 and 2020.

## The Cooper Health System

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

#### **7. Leases**

The Health System leases certain property and equipment under finance and operating leases. Leases are classified as either finance or operating leases based on the underlying terms of the agreement and certain criteria, such as the term of the lease relative to the useful life of the asset and the total lease payments to be made as compared to the fair value of the asset, amongst other criteria. Finance leases result in an accounting treatment similar to an acquisition of the asset.

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

## The Cooper Health System

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

#### 7. Leases (continued)

The following schedules summarize information related to the lease assets and liabilities as of and for the year ended December 31, 2021 and 2020:

	2021	2020
Lease cost:		
Finance lease cost:		
Amortization of right-of-use asset	\$ 959	\$ 958
Interest on lease liabilities	1,470	1,594
Operating lease cost	18,552	17,946
Short-term lease cost	14,591	15,475
Total lease cost	\$ 35,572	\$ 35,973
Right-of-use assets and liabilities:		
Right-of-use assets – finance leases	\$ 2,581	\$ 3,540
Lease liability – finance leases	6,329	6,960
Right-of-use assets – operating leases	76,310	64,655
Lease liability – operating leases	77,177	65,768
Other information:		
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from finance leases	\$ 1,470	\$ 1,594
Operating cash flows from operating leases	18,324	17,895
Financing cash flows from finance leases	631	507
Right-of-use assets obtained in exchange for new finance lease liabilities	\$ –	\$ –
Right-of-use assets obtained in exchange for new operating lease liabilities	43,443	25,050
Weighted average remaining lease term – finance leases	8.00	9.00
Weighted average remaining lease term – operating leases	14.59	4.38
Weighted average discount rate – finance leases	1.53%	1.65%
Weighted average discount rate – operating leases	1.91%	1.16%

## The Cooper Health System

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

#### 7. Leases (continued)

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

The following table reconciles the undiscounted lease payments to the lease liabilities recorded on the accompanying consolidated balance sheet at December 31, 2021:

	<b>Finance Leases</b>	<b>Operating Leases</b>
2022	\$ 2,101	\$ 18,377
2023	2,101	13,369
2024	2,101	7,544
2025	1,112	5,440
2026	1,112	4,429
Thereafter	3,337	39,895
Total lease payments	11,864	89,054
Less imputed interest	(5,535)	(11,877)
Total lease obligation	6,329	77,177
Less current portion	(631)	(17,644)
Long-term portion	\$ 5,698	\$ 59,533

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

## The Cooper Health System

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

#### 8. Long-Term Debt and Lines of Credit

	December 31	
	2021	2020
2008A New Jersey Economic Development Authority (NJEDA) Variable Rate Demand Revenue Bonds, with principal payments ranging from \$1,800 to \$13,500 due annually beginning on November 1, 2033 through 2038, with monthly interest payments adjusted to a weekly rate determined by the remarketing agent, not to exceed 12% (0.1% and 0.1% at December 31, 2021 and 2020, respectively)	\$ 50,000	\$ 50,000
2009A CCIA Variable Rate Revenue Bonds, fully repaid in 2021.	–	186
2013A CCIA Revenue Bonds, including unamortized original issue discount of \$1,318 and \$1,383 at December 31, 2021 and 2020, respectively, with principal payments ranging from \$595 to \$15,200 due annually beginning on November 1, 2035 through 2042, with interest rates ranging from 5.00% to 5.25%, due February 15 and August 15 of each year	53,597	53,532
2014A CCIA Revenue Bonds, including unamortized original issue premium of \$8,867 and \$10,197 at December 31, 2021 and 2020, respectively, with principal payments ranging from \$4,100 to \$10,690 due annually through 2035, with an interest rate of 5.00%, due February 15 and August 15 of each year	118,867	125,932
Note payable due in monthly installments, including interest adjusted every five years per the agreement (5.75% at December 31, 2021 and 2020), maturity date of July 1, 2023, secured by the building and substantially all assets of CHCP	108	165
\$8,849 finance lease, with principal and interest payments due monthly through 2028. Remaining principal payments ranging from \$507 to \$990	6,329	6,960
NJEDA 20-year loan, with 2% interest.	8,714	8,696

## The Cooper Health System

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

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

	<b>December 31</b>	
	<b>2021</b>	<b>2020</b>
Equipment loan, ten years with 0% interest	\$ 1,717	\$ 1,917
Mortgage loan due in monthly installments of \$220, including interest at 3.04%, through October 1, 2041	<b>39,158</b>	40,570
	<b>278,490</b>	287,958
Less current portion	<b>8,893</b>	8,220
Less deferred financing costs	<b>2,427</b>	2,673
Long-term debt, net of current portion	<b>\$ 267,170</b>	\$ 277,065

#### Revenue Bonds

The Health System pays monthly debt service to the Bond Trustee to secure the 2013A and 2014A CCIA Revenue Bonds. The 2008A Revenue Bonds are credit-enhanced by a letter of credit agreement from a bank, which expires on January 29, 2023, with renewal options as defined. Under a master trust indenture (MTI), the Health System granted to the Master Trustee a security interest in its gross receipts and a mortgage on the property of the Health System's main facility, as defined.

The Health System must comply with MTI covenants, including requirements as to the permitted level of indebtedness, restrictions on the sale of certain assets, mergers, and other significant transactions, including a requirement that the Health System generate funds available for debt service equivalent to at least 125% of maximum annual debt service (all terms as defined in the MTI). In addition, the 2008A Revenue Bonds Letter of Credit Agreement requires the Health System to maintain minimum days cash on-hand, as defined. As of December 31, 2021 and 2020, the Health System has complied with these financial covenants.



## The Cooper Health System

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

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

##### Interest Rate Swap Agreements

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

Notional amount at December 31, 2021	\$ 25,000	\$ 25,000	\$ 55,755
Effective date	March 23, 2009	March 9, 2009	November 27, 2019
Termination date	November 1, 2029	November 1, 2029	February 15, 2042
Fixed rate	2.577%	2.428%	1.627%
Variable rate basis	3-month USD-LIBOR- BBA	3-month USD-LIBOR- BBA	3-month USD-LIBOR- BBA
Fair value at December 31, 2021	\$ (2,755)	\$ (2,494)	\$ (105)
Fair value at December 31, 2020	\$ (4,060)	\$ (3,764)	\$ (3,448)
Change in fair value for the year ended December 31, 2021	\$ 1,305	\$ 1,270	\$ 3,343

During 2021 and 2020, the fair value of the interest rate swaps exceeded the mark-to-market value set forth in the agreement requiring collateral to be posted. Collateral posted totaled \$2,755 and \$4,060 at December 31, 2021 and 2020, respectively. The collateral balance is included within prepaid expenses and other current assets on the consolidated balance sheets.

## The Cooper Health System

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

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

##### Future Payments

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

	<b>Revenue Bonds and Mortgage Loan</b>	<b>Capital Leases and Other</b>	<b>Note Payable</b>	<b>Total</b>
2022	\$ 7,550	\$ 1,281	\$ 62	\$ 8,893
2023	7,956	1,541	46	9,543
2024	8,375	1,787	—	10,162
2025	8,866	995	—	9,861
2026	9,361	1,103	—	10,464
Thereafter	211,965	10,053	—	222,018
	254,073	16,760	108	270,941
Net unamortized original issue premium	7,549	—	—	7,549
	\$ 261,622	\$ 16,760	\$ 108	\$ 278,490

##### Lines of Credit

The Health System has a revolving line of credit for \$5,000 with a bank at December 31, 2021 and 2020. The agreement provides for interest at 0.5% above the prime rate of interest per annum, but shall never be less than 5.5%. The current line of credit is available through December 31, 2022, and may be renewed for one-year extensions with the bank's consent. The line of credit contains a negative pledge of accounts receivable of the Health System, and requires the Health System to maintain a minimum debt service coverage ratio of 1.25, as defined in the agreement. At December 31, 2021 and 2020, there were no amounts outstanding under this line of credit.

## The Cooper Health System

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

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

The Health System has a revolving line of credit for \$125,000 with a bank at December 31, 2021 and 2020. The agreement provides for interest at 1-Month LIBOR +70 basis points. The current line of credit has a three-year term ending in November 2022. The line of credit includes financial covenants requiring a debt service coverage ratio of at least 1.25, a current ratio of at least 1.50, and at least 60 days cash on hand. To secure the line of credit, the Health System is granting to the bank a parity pledge under the MTI secured by the parity gross receipts of the Health System, and a parity mortgage pledge on certain real property. At December 31, 2021 and 2020, there was \$41,000 drawn and outstanding on the line of credit.

#### **9. Retirement Plans**

##### **Defined Contribution Plan**

The Health System sponsors a noncontributory defined contribution retirement plan covering all collective bargaining and non-bargaining employees. Employer contributions to the defined contribution plan are based on a formula as defined in the plan document. Costs of the defined contribution plan charged to expense were \$18,584 and \$16,342 for the years ended December 31, 2021 and 2020, respectively.

##### **Defined Benefit Plan**

The Health System has a frozen noncontributory defined benefit pension plan (the Plan), which covered all employees who met certain criteria.

## The Cooper Health System

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

#### 9. Retirement Plans (continued)

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

	<b>December 31</b>	
	<b>2021</b>	<b>2020</b>
<b>Change in benefit obligation</b>		
Projected benefit obligation at beginning of year	\$ 137,936	\$ 123,514
Interest cost	3,300	4,055
Actuarial (gain) loss	(5,267)	14,944
Benefits paid	(4,335)	(4,577)
Projected benefit obligation, end of year	\$ 131,634	\$ 137,936
<b>Accumulated benefit obligation</b>	<b>\$ 131,634</b>	<b>\$ 137,936</b>
<b>Change in plan assets</b>		
Fair value of plan assets at beginning of year	\$ 117,189	\$ 104,482
Actual return on plan assets, net of expenses	853	12,284
Employer contribution to plan	6,500	5,000
Benefits paid	(4,335)	(4,577)
Fair value of plan assets at end of year	\$ 120,207	\$ 117,189
Funded status at year-end – recognized on the consolidated balance sheets as accrued retirement benefits	<b>\$ (11,427)</b>	<b>\$ (20,747)</b>

The accumulated amounts recorded in net assets without donor restrictions consist of net unrecognized losses totaling approximately \$26,800 and \$31,500 at December 31, 2021 and 2020, respectively.

## The Cooper Health System

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

#### 9. Retirement Plans (continued)

	2021	2020
<b>Components of net periodic benefit cost</b>		
Net periodic benefit cost:		
Interest cost	\$ 3,300	\$ 4,055
Expected return on plan assets	(4,335)	(4,726)
Recognized actuarial loss	2,914	2,409
	\$ 1,879	\$ 1,738

#### Assumptions

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

Discount rate	2.81%	2.43%
Rate of compensation increase	N/A	N/A

Weighted average assumptions used to determine net periodic benefit cost for the years ended December 31:

Discount rate	2.43%	3.31%
Expected long-term return on plan assets	4.60%	5.60%
Rate of compensation increase	N/A	N/A

To develop the expected long-term rate of return on assets assumption, the Health System considered the historical returns and the future expectations for returns for each asset class, as well as the target allocation of the pension portfolio. This resulted in the selection of the 4.60% and 5.60% long-term rate of return on assets assumption used in 2021 and 2020, respectively.

	Asset Allocation			December 31	
	Minimum	Target	Maximum	2021	2020
<b>Plan assets</b>					
Weighted average asset allocations, by asset category:					
Equity securities	30%	20%	10%	24%	20%
Debt securities	90	80	70	76	80
				100%	100%

## The Cooper Health System

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

#### 9. Retirement Plans (continued)

The Health System has designed an investment strategy for plan assets such that asset returns are anticipated to track changes in plan liabilities. The objectives of the strategy are to provide an absolute total return on plan assets equal to or greater than 4.6% annually over long-term periods.

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

	Total	Level 1	Level 2	Level 3
<b>December 31, 2021</b>				
Money market funds	\$ 171	\$ 171	\$ —	\$ —
U.S. Treasury securities	16,583	16,583	—	—
Mutual funds	103,453	103,453	—	—
	\$ 120,207	\$ 120,207	\$ —	\$ —
 <b>December 31, 2020</b>				
Money market funds	\$ 184	\$ 184	\$ —	\$ —
U.S. Treasury securities	16,178	16,178	—	—
Mutual funds	100,827	100,827	—	—
	\$ 117,189	\$ 117,189	\$ —	\$ —

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

## The Cooper Health System

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

#### 9. Retirement Plans (continued)

##### Cash Flows

##### *Contributions*

Contributions expected to be made to the Plan during 2022 total \$6,500.

##### *Estimated Future Benefit Payments*

2022	\$	6,437
2023		6,801
2024		7,135
2025		7,390
2026		7,563
2027–2031		38,469

#### 10. Self-Insured Reserves

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

	<b>December 31</b>	
	<b>2021</b>	<b>2020</b>
Employee health benefits	\$ 5,886	\$ 5,183
Workers' compensation	8,184	6,934
Professional and general liability	<b>106,541</b>	107,101
	<b>120,611</b>	119,218
Less current portion of self-insured reserves	<b>34,629</b>	49,114
	<b>\$ 85,982</b>	\$ 70,104

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

## The Cooper Health System

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

#### 10. Self-Insured Reserves (continued)

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

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

Claims prior to January 1, 2005 were covered by various programs combining self-insured captive insurance company and commercial claims-made insurance policies. The estimated liability for all unreported claims as of December 31, 2021, and retained uninsured risk for all prior years is included in the self-insured reserves and funded through the self-insured trust (see Note 5).

The estimated losses on self-insured malpractice claims are discounted at a rate of 1.5% and 3.5% at December 31, 2021 and 2020, respectively. Professional liabilities are discounted based on the expected timing of the actuarially estimated future payments under the program using an interest rate expected to be earned on related invested assets during such future periods. Such estimates are reviewed and updated on an annual basis.

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

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



# The Cooper Health System

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

### **11. Commitments and Contingencies**

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

#### **Litigation Claims and Settlements**

The Health System is involved in litigation and claims which are not considered unusual to the Health System's business. The final outcome of any current or future litigation or governmental or internal investigations cannot be accurately predicted at this time, nor can the Health System predict any resulting penalties, fines, or other sanctions that may be imposed at the discretion of federal or state regulatory authorities. The Health System records accruals for such contingencies to the extent that it concludes it is probable that a liability has been incurred and the amount of the loss can be reasonably estimated. While management is not currently aware of any issues which have not been accrued at December 31, 2021, it is possible that the outcome of such matters could potentially have a material adverse impact on the Health System's future results of operations, financial position, and cash flows.

Additionally, during the third quarter of 2017, the Health System signed a letter of intent with an unrelated health care provider (the Seller) to acquire a controlling interest in three health care facilities. The Health System paid into escrow an initial deposit of \$15,000 in connection with the planned transaction. After a period of due diligence, the Health System determined not to proceed with the transaction. The Health System records the escrow deposit within assets limited as to use as of December 31, 2021 and 2020. The Health System and the Seller are involved in pending litigation regarding the termination of the letter of intent and escrow funds. The outcome of the litigation is presently unknown.

## The Cooper Health System

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

#### 12. Net Assets With Donor Restrictions

Net assets with donor restrictions are as follows:

	<b>December 31</b>	
	<b>2021</b>	<b>2020</b>
Purpose – various funds for the benefit of the departments, programs, or educational programs of the Health System	\$ 46,004	\$ 41,256
Time restricted – pledges	441	441
Permanent endowments – to be maintained in perpetuity	2,694	2,675
Total net assets with donor restrictions	<u>\$ 49,139</u>	<u>\$ 44,372</u>

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

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

## The Cooper Health System

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

#### 12. Net Assets With Donor Restrictions (continued)

Endowments to be maintained in perpetuity consist of the following:

	December 31	
	2021	2020
Women's Board	\$ 1,034	\$ 1,032
Radiology	501	501
Lummis Trust	267	251
Nursing education	171	171
Cleft Palate program	107	107
Lippincott	61	61
Nispel Estate	16	16
Physical teaching and excellence award	13	13
Other	524	523
Total endowments	\$ 2,694	\$ 2,675

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

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

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

	Year Ended December 31	
	2021	2020
Purpose:		
Various funds for the benefit of the departments, programs, or educational programs of the Health System	\$ 2,392	\$ 9,509
	\$ 2,392	\$ 9,509

## The Cooper Health System

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

#### 13. Other Revenue

Other revenue consists of the following:

	<b>Year Ended December 31</b>	
	<b>2021</b>	<b>2020</b>
Provider Relief Fund grant	\$ 15,176	\$ 56,153
Camden County Relief Fund grant	3,500	10,537
FEMA Disaster Relief Fund grant	6,969	7,503
Camden County Tent Reimbursement grant	15	4,093
Other grant revenue	23,606	24,176
Medical school support	9,309	1,914
Food services	4,976	4,966
Centers for population health	5,200	2,776
Retail pharmacy cost sharing	11,824	10,952
Physician services	15,470	22,019
Emergency/air transport	8,625	6,482
Net assets released from restrictions for operating purposes	2,392	9,509
Other	12,368	11,975
	<b>\$ 119,430</b>	<b>\$ 173,055</b>

In addition to COVID-19 grants, the Health System received approximately \$9,215 and \$11,223 in government grants which include conditions and restrictions which were not satisfied as of December 31, 2021 and 2020, respectively, and such amounts are reported within accrued expenses on the accompanying consolidated balance sheets.

## The Cooper Health System

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

#### 14. Functional Expenses

The Health System provides general health care services to residents within its service area. The accompanying consolidated financial statements report certain expense categories that are attributable to more than one health care service or support function. Costs not directly attributable to a function are allocated on a functional basis using the Health System's internal records and estimates. Expenses by function and natural classification are as follows:

	Health Care Services	Physician Services	General and Administrative	Total
<b>Year ended December 31, 2021</b>				
Salaries, wage, and fringe benefits	\$ 364,782	\$ 454,853	\$ 185,941	\$ 1,005,576
Supplies and other	366,009	57,831	131,750	555,590
Malpractice	–	12,905	2,604	15,509
Depreciation and amortization	–	1,386	55,523	56,909
Interest	–	–	12,376	12,376
	<u>\$ 730,791</u>	<u>\$ 526,975</u>	<u>\$ 388,194</u>	<u>\$ 1,645,960</u>
<b>Year ended December 31, 2020</b>				
Salaries, wage, and fringe benefits	\$ 307,634	\$ 402,097	\$ 172,341	\$ 882,072
Supplies and other	331,118	49,956	131,159	512,233
Malpractice	–	17,550	21,450	39,000
Depreciation and amortization	–	1,386	52,084	53,470
Interest	–	–	13,391	13,391
	<u>\$ 638,752</u>	<u>\$ 470,989</u>	<u>\$ 390,425</u>	<u>\$ 1,500,166</u>

#### 15. Subsequent Events

The Health System has evaluated subsequent events through April 14, 2022, the date when the accompanying consolidated financial statements were issued. Except as disclosed in Note 2, no subsequent events have occurred that require disclosure in or adjustment to the accompanying consolidated financial statements.

## Supplementary Information

The Cooper Health System

Consolidating Balance Sheet  
(In Thousands)

December 31, 2021

	The Cooper Health System Obligated Group									
	The Cooper Health System	The Cooper Cancer Center	Eliminating Entries	The Cooper Health System Obligated Group	The Cooper Foundation	C&H Collection Services	Cooper HealthCare Properties, Inc.	Cooper Medical Services, Inc.	Eliminating Entries	The Cooper Health System Consolidated
<b>Assets</b>										
Current assets:										
Cash and cash equivalents	\$ 647,186	\$ –	\$ –	\$ 647,186	\$ 10,552	\$ –	\$ –	\$ 20,632	\$ –	\$ 678,370
Current portion of assets limited as to use	28,532	–	–	28,532	–	–	–	–	–	28,532
Patient accounts receivable, net	168,065	–	–	168,065	–	–	–	–	–	168,065
Prepaid expenses and other current assets	51,710	–	–	51,710	20	48	–	770	–	52,548
Due from affiliates	26,796	32,356	(32,356)	26,796	–	345	–	–	(27,141)	–
Total current assets	922,289	32,356	(32,356)	922,289	10,572	393	–	21,402	(27,141)	927,515
Assets limited as to use:										
Internally designated by Board of Trustees	297,735	–	–	297,735	–	–	–	–	–	297,735
Externally designated for donor purposes	–	–	–	–	72,913	–	–	–	–	72,913
Externally designated under debt agreements, net of current portion	3,875	–	–	3,875	–	–	–	–	–	3,875
Externally designated – escrow agreement	15,006	–	–	15,006	–	–	–	–	–	15,006
Designated under self-insurance programs, net of current portion	20,068	–	–	20,068	–	–	–	–	–	20,068
Assets limited as to use, net of current portion	336,684	–	–	336,684	72,913	–	–	–	–	409,597
Property, plant, and equipment, net	636,741	–	–	636,741	–	–	932	13,387	–	651,060
Operating lease assets, net	76,310	–	–	76,310	–	–	–	–	–	76,310
Other assets, net	976	–	–	976	516	–	14,237	–	–	15,729
Due from affiliates	–	–	–	–	–	–	–	31,422	(31,422)	–
Total assets	\$ 1,973,000	\$ 32,356	\$ (32,356)	\$ 1,973,000	\$ 84,001	\$ 393	\$ 15,169	\$ 66,211	\$ (58,563)	\$ 2,080,211
<b>Liabilities and net assets</b>										
Current liabilities:										
Accounts payable	\$ 57,692	\$ –	\$ –	\$ 57,692	\$ –	\$ –	\$ –	\$ –	\$ –	\$ 57,692
Accrued expenses	189,937	–	–	189,937	–	(21)	–	378	–	190,294
Current portion of estimated settlements due to third-party payers	82,014	–	–	82,014	–	–	–	–	–	82,014
Current portion of self-insured reserves	34,629	–	–	34,629	–	–	–	–	–	34,629
Current portion of long-term debt	7,409	–	–	7,409	–	–	58	1,426	–	8,893
Current portion of operating lease liability	17,644	–	–	17,644	–	–	–	–	–	17,644
Line of credit advances	41,000	–	–	41,000	–	–	–	–	–	41,000
Due to affiliates	32,356	–	(32,356)	–	8,653	–	11,873	6,615	(27,141)	–
Total current liabilities	462,681	–	(32,356)	430,325	8,653	(21)	11,931	8,419	(27,141)	432,166
Estimated settlements due to third-party payers, net of current portion	19,847	–	–	19,847	–	–	–	–	–	19,847
Accrued retirement benefits	11,427	–	–	11,427	–	–	–	–	–	11,427
Self-insured reserves, net of current portion	85,982	–	–	85,982	–	–	–	–	–	85,982
Long-term debt, net of current portion	229,463	–	–	229,463	–	–	43	37,664	–	267,170
Operating lease liability, net of current portion	59,533	–	–	59,533	–	–	–	–	–	59,533
Deferred revenue and other liabilities	34,062	–	–	34,062	–	–	–	200	–	34,262
Due to affiliates	31,422	–	–	31,422	–	–	–	–	(31,422)	–
Total liabilities	934,417	–	(32,356)	902,061	8,653	(21)	11,974	46,283	(58,563)	910,387
Net assets:										
Without donor restrictions	1,038,144	32,356	–	1,070,500	26,648	414	3,195	19,928	–	1,120,685
With donor restrictions	439	–	–	439	48,700	–	–	–	–	49,139
Total net assets	1,038,583	32,356	–	1,070,939	75,348	414	3,195	19,928	–	1,169,824
Total liabilities and net assets	\$ 1,973,000	\$ 32,356	\$ (32,356)	\$ 1,973,000	\$ 84,001	\$ 393	\$ 15,169	\$ 66,211	\$ (58,563)	\$ 2,080,211

The Cooper Health System

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

Year Ended December 31, 2021

	The Cooper Health System Obligated Group									
	The Cooper Health System	The Cooper Cancer Center	Eliminating Entries	The Cooper Health System Obligated Group	The Cooper Foundation	C&H Collection Services	Cooper HealthCare Properties, Inc.	Cooper Medical Services, Inc.	Eliminating Entries	The Cooper Health System Consolidated
<b>Net assets without donor restrictions</b>										
Revenue:										
Net patient service revenue	\$ 1,686,083	\$ –	\$ –	\$ 1,686,083	\$ –	\$ –	\$ –	\$ –	\$ –	\$ 1,686,083
Other revenue	119,314	–	–	119,314	3,159	–	740	7,269	(11,052)	119,430
Total revenue	1,805,397	–	–	1,805,397	3,159	–	740	7,269	(11,052)	1,805,513
Expenses:										
Salaries, wages, and fringe benefits	1,005,512	–	–	1,005,512	–	64	–	–	–	1,005,576
Supplies and other	556,699	–	–	556,699	5,401	–	359	4,183	(11,052)	555,590
Malpractice	15,509	–	–	15,509	–	–	–	–	–	15,509
Depreciation and amortization	56,104	–	–	56,104	–	–	41	764	–	56,909
Interest	11,137	–	–	11,137	–	–	8	1,231	–	12,376
Total expenses	1,644,961	–	–	1,644,961	5,401	64	408	6,178	(11,052)	1,645,960
Operating income (loss)	160,436	–	–	160,436	(2,242)	(64)	332	1,091	–	159,553
Nonoperating gains and (losses):										
Investment income	32,167	–	–	32,167	4,501	–	–	–	–	36,668
Net change in unrealized gains and losses	(10,227)	–	–	(10,227)	2,757	–	–	–	–	(7,470)
Change in value of equity method investments	–	–	–	–	–	–	–	2,069	–	2,069
Net periodic pension cost	(1,879)	–	–	(1,879)	–	–	–	–	–	(1,879)
Change in fair value of interest rate swap agreements	5,918	–	–	5,918	–	–	–	–	–	5,918
Excess (deficiency) of revenue over expenses	186,415	–	–	186,415	5,016	(64)	332	3,160	–	194,859
Other changes in net assets without donor restrictions:										
Change in pension benefit obligation	4,700	–	–	4,700	–	–	–	–	–	4,700
Contributions received and expended for capital acquisitions	12,700	–	–	12,700	–	–	–	–	–	12,700
Net change in unrealized gains and losses on fixed-income other-than-trading securities	2,041	–	–	2,041	–	–	–	–	–	2,041
Increase (decrease) in net assets without donor restrictions	205,856	–	–	205,856	5,016	(64)	332	3,160	–	214,300
<b>Net assets with donor restrictions</b>										
Contributions, gifts, and special events, net of fundraising expenses	–	–	–	–	3,988	–	–	–	–	3,988
Income from investments	–	–	–	–	454	–	–	–	–	454
Net realized and unrealized gains on investments	–	–	–	–	2,717	–	–	–	–	2,717
Net assets released from restrictions for operating purposes	–	–	–	–	(2,392)	–	–	–	–	(2,392)
Increase in net assets with donor restrictions	–	–	–	–	4,767	–	–	–	–	4,767
Increase (decrease) in net assets	205,856	–	–	205,856	9,783	(64)	332	3,160	–	219,067
Net assets, beginning of year	832,727	32,356	–	865,083	65,565	478	2,863	16,768	–	950,757
Net assets, end of year	\$ 1,038,583	\$ 32,356	\$ –	\$ 1,070,939	\$ 75,348	\$ 414	\$ 3,195	\$ 19,928	\$ –	\$ 1,169,824



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