UNIVERSITY HOSPITAL

(A Component Unit of the State of New Jersey)

Basic Financial Statements
and Required Supplementary Information

June 30, 2022 and 2021

(With Independent Auditors' Report Thereon)

UNIVERSITY HOSPITAL
(A Component Unit of the State of New Jersey)

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KPMG LLP
345 Park Avenue
New York, NY 10154-0102

Independent Auditors' Report

The Board of Directors
University Hospital:

Opinions

We have audited the financial statements of University Hospital (the Hospital), a component unit of the State of New Jersey, as of and for the years ended June 30, 2022 and 2021, and the related notes to the financial statements, which collectively comprise the Hospital's basic financial statements for the years then ended as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the Hospital as of June 30, 2022 and 2021, and the changes in its financial position and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

Basis for Opinions

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 Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Hospital 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.

Emphasis of Matter

As discussed in note 2(u)(i) to the financial statements, in 2022, the Hospital adopted Governmental Accounting Standards Board (GASB) Statement No. 87, *Leases*. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with U.S. generally accepted accounting principles, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from 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 Hospital's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditors' 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 from material misstatement, whether due to fraud or error, and to issue an auditors' 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 Hospital'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 Hospital'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.

Required Supplementary Information

U.S. generally accepted accounting principles require that the management's discussion and analysis, the schedules of the Hospital's contributions, the schedules of the Hospital's proportionate share of the net pension liability, and the schedules of the Hospital's proportionate share of the other postemployment benefit (OPEB) liability be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with GAAS, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

KPMG LLP

New York, New York
March 30, 2023

This section of the Hospital's annual financial report presents management's discussion and analysis of the summarized assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position as of June 30, 2022 compared to June 30, 2021 balances and June 30, 2021 compared to June 30, 2020 balances. This section also presents management's discussion and analysis of the financial performance during the years ended June 30, 2022 compared to June 30, 2021 and June 30, 2021 financial performance compared to June 30, 2020. The purpose is to provide an objective analysis of the financial activities of the Hospital based on currently known facts, decisions, and conditions. Please read it in conjunction with the financial statements, which follow this section.

New Jersey Medical and Health Sciences Education and Restructuring Act

In accordance with Public Law 2012, c. 45, the New Jersey Medical and Health Sciences Education and Restructuring Act (the Restructuring Act), effective July 1, 2013, the Hospital was separated from the University of Medicine and Dentistry of New Jersey (UMDNJ) as a new stand-alone entity was formed. The Hospital continues to be the primary teaching hospital for the Newark-based schools of the Rutgers School of Biomedical and Health Sciences.

The mission of the Hospital is to improve the quality of life for everyone who comes in contact with the Hospital through effective patient care, education, research, and community service. As the core teaching facility in Newark, the Hospital is the center of referral for many of the State's most advanced medical services and specialty care programs.

The Hospital shall maintain its public mission to provide a comprehensive healthcare program and services to the greater Newark community, including outreach and mobile health services, as well as services in collaboration with the Newark-based schools of the Rutgers School of Biomedical and Health Sciences. The Hospital is committed to act in accordance with the spirit and intent of the "Agreements Reached between Community and Government Negotiators Regarding New Jersey College of Medicine and Dentistry and Related Matters of April 30, 1968."

Overview of the Financial Statements

This annual report consists of two parts – management's discussion and analysis and the basic financial statements.

The basic financial statements include the statements of net position, statements of revenues, expenses, and changes in net position, statements of cash flows, and notes to financial statements. These statements present the financial position of the Hospital at June 30, 2022 and 2021, and the changes in net position and its financial activities for the years then ended. The statements of net position include all of the Hospital's assets, deferred outflows of resources, liabilities, and deferred inflows of resources in accordance with U.S. generally accepted accounting principles. The statements of revenues, expenses, and changes in net position, present each year's activities on the accrual basis of accounting, that is, when services are provided or obligations are incurred, not when cash is received or bills are paid. The financial statements also report the Hospital's net position and how it has changed. Net position, or the difference between assets and liabilities, deferred inflows and deferred outflows, is a way to measure the Hospital's financial health or position. The statements of cash flows provide relevant information about each year's cash receipts and cash payments and classify them as to

operating, noncapital financing, capital and related financing, and investing activities. Notes to financial statements explain information in the statements and provide more detailed data.

The Hospital implemented Governmental Accounting Standards Board (GASB) Statement No. 87, *Leases*, in fiscal year 2022 with an effective date of July 1, 2020. The statement changes the previous classification of lease arrangements from either operating or capital leases and establishes a single model for lease accounting. This model is based on the foundational principle that leases represent financing transactions associated with the right to use an underlying asset. The Hospital recognized lease liabilities and lease assets, net of accumulated amortization, for arrangements where the Hospital is the lessee. The Hospital also recognizes lease receivable and other deferred inflows of resources for arrangements where the Hospital is the lessor. As a result of this implementation, the Hospital applied the standard, retroactively as required. At July 1, 2020, the Hospital recognized lease liabilities and an equivalent lease assets of $84.5 million in the statement of net position. In addition, the Hospital recognized lease receivables which are recorded within other current assets and lease receivables, and deferred inflows of resources of $36.3 million in the statement of net position. Further information regarding lease activities during the fiscal years can be found in the note 7 to the financial statements.

A summarized condensed comparison of the Hospital's assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position at June 30, 2022, 2021, and 2020 are as follows (in thousands):

		2022	2021	2020 [1]
Assets:				
Current assets:				
Cash	$	188,532	144,123	139,845
Patient accounts receivable, net		98,429	88,840	81,894
Other current assets		104,846	74,973	75,860
Noncurrent assets:				
Other noncurrent assets		191,696	196,628	80,827
Capital assets, net		222,561	203,053	226,082
Total assets	$	806,064	707,617	604,508
Deferred outflows of resources	$	203,899	268,686	211,496
Liabilities:				
Current liabilities	$	194,269	195,247	202,777
Noncurrent liabilities:				
Long-term debt		276,864	277,075	343,997
Other long-term liabilities		97,919	97,854	17,485
Pension liability		665,514	693,822	613,047
Total liabilities	$	1,234,566	1,263,998	1,177,306
Deferred inflows of resources	$	162,241	195,683	127,336

(Continued)

		2022	2021	2020 [1]
Net position:				
Net investment in capital assets	$	63,478	49,120	8,091
Unrestricted		(450,322)	(532,498)	(496,729)
Total net position	$	(386,844)	(483,378)	(488,638)

[1] The 2020 amounts have not been restated to reflect the adoption of GASB 87, *Leases*.

Overall Financial Position and Operations

In fiscal year 2022, the effects of the COVID-19 pandemic continues to impact inpatient and outpatient activities and the Hospital continues to incur incremental expenses in connection with the preparation and response efforts. The Hospital's pandemic response continues to evolve.

The Hospital received governmental funding through the Coronavirus Aid, Relief and Economic Security (CARES) Act of approximately $96.3 million (net of returned unearned funds) in fiscal years 2020–2022 to aid in the recovery of lost revenue and health-related operating and capital expenses attributable to COVID-19.

The Hospital's total net position from the period June 30, 2021 to June 30, 2022, increased by $96.5 million. Net investment in capital assets increased by $14.4 million during 2022. The Hospital's unrestricted position increased $82.2 million from a deficit of $532.5 million at June 30, 2021 to a deficit of $450.3 million at June 30, 2022. The increase was mainly due to the gain before other changes in net position of $59.4 million and capital contributions funded by grantors of donors of $37.0 million.

The Hospital's total net position from the period June 30, 2020 to June 30, 2021, decreased by $5.2 million. Net investment in capital assets increased by $41.0 million during 2021. The Hospital's unrestricted position decreased $35.8 million from a deficit of $496.7 million at June 30, 2020 to from a deficit $532.5 million at June 30, 2021. The decrease was mainly due to the loss before other changes in net position of $26.2 million offset by capital contributions funded by grantors of donors of $19.3 million and $12.2 million increase as result of the adoption of GASB 87, *Leases*.

Significant financial ratios are as follows:

	2022	2021	2020
Current ratio	2.01	1.59	1.47
Quick ratio	1.48	1.21	1.10
Days cash on hand	87.32	66.83	67.21
Net days revenue in patient receivables	55.98	54.62	55.56

The current ratio, quick ratio, and days' cash on hand are common liquidity indicators. The net day's revenue in patient receivables is an indicator of how quickly the Hospital collects its patient receivables.

Variances in Financial Statements

In this section, the Hospital explains the reasons for certain financial statement items with variances relating to 2022 amounts compared to 2021 and, where appropriate, 2020.

Statement of Net Position

Cash – increased by $44.4 million as compared to the prior year. The increase in cash is related to increased patient volume for clinical services and the Hospital received $35.4 million from the New Jersey County Option Hospital Fee Program and $6.8 million from Quality Improvement Program (QIP). This is offset by $15.2 million paid to the New Jersey County Option Hospital Fee Program, and $23.2 million used for additional medical supplies and contracted services and wages. Cash at June 30, 2021 increased by $4.3 million as compared to the prior year which is primarily due to $12.7 million of Delivery System Reform Incentive Payments (DSRIP) Program and Quality Improvement Program (QIP) and funds received in fiscal year 2021 offset by $10 million used for additional medical supplies and contracted services.

Patient accounts receivable, net – increased $9.6 million at June 30, 2022 when compared to June 30, 2021 This is primarily due to increased patient volume. Days in-patient accounts receivable of 55.98 at fiscal year 2022 are higher by 1.36 days when compared to fiscal year 2021. Patient accounts receivable net increased $6.9 million at June 30, 2021 when compared to June 30, 2020 primarily due to improved collection experience. Days in-patient accounts receivable of 54.62 are less than fiscal year 2020.

Other current assets – increased $29.9 million from June 30, 2021 to June 30, 2022. This is due to a balance of $19.2 million from the New Jersey County Option Hospital Fee Program, $7.8 million from the State of NJ Quality Improvement Program (QIP) and $2.3 million for supplies. Other current assets decreased $0.9 million from June 30, 2020 to June 30, 2021. This is due to the receipt of $12.7 million of DSRIP/QIP funds from the State of New Jersey for prior year partially offset by partial collections of $6.7 million on the current year DSRIP / QIP receivable and an increase in restricted assets of $5.1 million due to the principal payment due on the 2015A bonds.

Other noncurrent assets – decreased $4.9 million from June 30, 2021 to June 30, 2022. This a net decrease of $1.8 million related to lease assets, $5.5 million decrease in restricted investments due to the draw of the capital fund offset by the recording a note receivable of $3.0 million. Other current assets increased $115.8 million primarily due to the adoption of GASB 87, *Leases*, which resulted in the recording of $84.5 million of lease assets and $36.3 million of lease receivable offset by current year amortization of the lease assets of $4.3 million.

Capital assets, net – increased $19.6 million from June 30, 2021 to June 30, 2022 due mainly to $39.1 million of acquisitions and adjustments that were partially offset by current year depreciation of $19.6 million. Capital assets, net, decreased $23 million from June 30, 2020 to June 30, 2021 due mainly to the derecognition of an existing capital lease for $61.3 million as a result of the adoption of GASB 87, *Leases*, which was offset by $54.3 million of acquisitions that were partially offset by current year depreciation of $16.5 million.

Current liabilities – decreased $1.0 million from June 30, 2021 to June 30, 2022 primarily due to the recognition of $9.2 million of deferred revenue of Provider Relief Funds, the repayment of $12.4 million of unearned stimulus funds to Department of Health and Human Services (HHS) of $12.4 which was offset by increases in

accounts payable and accrued expense of $11.6 million, accrued salaries and payroll taxes of $5.9 million and $4.0 million due to Rutgers University. Other current liabilities from June 30, 2020 to June 30, 2021 decreased $7.5 million primarily due to the recognition of $45.4 million of deferred revenue of provider Relief funds received ion fiscal year 2020 which was offset by an additional deferral of unearned stimulus funds of $9.2 million received in fiscal year 2021 and increases in accounts payable accrued expenses of $18.7 million and due to Rutgers University of $4.0 million, respectively.

Long-term debt – remained flat year over year from June 30, 2021 to June 30, 2022. The Hospital incurred an additional $6.1 million in borrowings from the New Jersey Housing and Mortgage Financing Agency (NJHMFA), the Infrastructure Bank, and PSE&G and was offset $5.6 million of principal being reclassified to current and $0.8 million of amortization of the bond premium.

Long-term debt, without giving consideration to capital lease prior to the adoption of GASB 87, *Leases*, increased $6.4 million from June 30, 2020 to June 30, 2021, as a result of additional borrowings from New Jersey Energy Resiliency Bank (ERB), the Infrastructure Bank and Public Service Enterprise Group (PSE&G) in the amount of $12.5 million and was offset by $5.2 million of principal being reclassified to current and $0.8 million amortization of the bond premium.

Other long-term liabilities – remained flat from June 30, 2021 to June 30, 2022. Other long-term liabilities increased $80.4 million from June 30, 2020 to June 30, 2021 primarily due to the adoption of GASB 87, *Leases*, which resulted in a liability $84.5 million offset by payments of $2.1 million in the current year.

Pension liability, deferred inflows of resources, and deferred outflows of resources – decreased $28.3 million, $33.4 million and $64.8 million respectively, from June 30, 2021 to June 30, 2022 primarily due to changes in assumptions and proportion. Pension liability, deferred inflows of resources, and deferred outflows of resources increased $80.8 million, $68 million and $57.2 million respectively, from June 30, 2020 to June 30, 2021 due to changes in assumptions and proportion and the adoption of GASB 87, *Leases*, which resulted in the recording of $35.6 million of deferred inflows.

Changes in Components of Net Position

Net investment in capital assets – increased $14.4 million from June 30, 2021 to June 30, 2022 mainly as result capital contributions funded through grants and donors. Net investment in capital assets increased $41.1 million from June 30, 2020 to June 30, 2021 mainly as result capital contributions funded through grants and donors and the effect of the adoption of GASB 87, *Leases*.

Unrestricted net position, other than those mentioned above, resulted in an increase of $82.2 million for year 2022. Unrestricted net position, other than those mentioned above, resulted in a decrease of $35.8 million for year 2021.

A summarized condensed comparison of the Hospital's revenues, expenses, and changes in net position for the years ended June 30, 2022, 2021, and 2020 are as follows (in thousands):

	2022	2021	2020 [1]
Operating revenues:			
Net patient service revenue	$ 696,387	593,675	538,027
Other operating revenue	46,555	40,189	38,643
Total operating revenues	742,942	633,864	576,670
Operating expenses:			
Personnel services, fringe benefits, pension, physician and residents fees	532,645	565,810	537,212
Other postemployment benefits	7,369	12,443	2,648
Supplies and other	303,292	280,445	255,406
Depreciation and amortization	24,843	20,840	20,500
Total operating expenses	868,149	879,538	815,766
Operating loss	(125,207)	(245,674)	(239,096)
Nonoperating income (expenses):			
Appropriations from the State of New Jersey	179,929	175,007	147,739
Other nonoperating revenue	13,336	48,208	41,324
Other postemployment benefits paid by the State of New Jersey	7,369	12,443	2,648
Interest expense	(15,978)	(16,266)	(15,614)
Income (loss) before other changes in net position	59,449	(26,282)	(62,999)
Other changes in net position:			
Capital contributions funded by grantors and donors	37,085	19,332	14,865
Increase (decrease) in net position	96,534	(6,950)	(48,134)
Net position at beginning of year	(483,378)	(488,638)	(440,504)
Effect of adoption of GASB 87	—	12,210	—
Net position at end of year	$ (386,844)	(483,378)	(488,638)

[1] The 2020 amounts have not been restated to reflect the impact of GASB 87, *Leases.*

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Statements of Revenues, Expenses, and Changes in Net Position

Net patient service revenue – Net patient service revenue relates to patient care services under contractual arrangements with governmental payors and private insurers. Net patient service revenue for the year ended June 30, 2022 exceeded 2021 by $102.7 million primarily due $54.6 million received from NJ County Option Fee Program which started fiscal year 2022 and patient volume, improving billings and collections process year over year. Inpatient discharges were 309 or 1.79% and outpatient clinic visits 18,351 or 8.21% greater in fiscal year 2022 over 2021. Net patient service revenue for the year ended June 30, 2021 exceeded 2020 by $55.6 million, primarily due to increase in patient volume year over year.

The Hospital's net patient service revenues totaled $696.4 million (including patient subsidies) in fiscal year 2022. The Hospital is a major source of primary care and serves as the safety net hospital for the inner city municipalities of Newark, East Orange, Irvington, and Orange. The Hospital's role in the community is reflected in its payor mix and commitment to the medically indigent. It has traditionally been the largest provider of charity care services in the state. Medicaid and uninsured patients account for almost 58% of its gross revenues, and as a result, the Hospital must deal with the financial impact of revenue collections and reimbursements related to these patients and their payors.

The majority of the Hospital's admissions are initially treated in the emergency/trauma department. While the hospital experienced significant patient volume increases of admissions and clinic visits, emergency room visits of 89,269 in 2022 were also higher than 2021 by 13,922 or 18.5% primarily due to the return of normalcy after COVID-19 pandemic concerns. Emergency room visits of 75,347 in 2021 were lower from 2020 by 7,775 visits primarily due to COVID-19 pandemic.

As mentioned above, inpatient discharges for 2022, which account for approximately 65.3% of the Hospital's net patient service revenues, were higher than 2021 by 309 or 1.79%. Clinic visits which generate outpatient revenues, also increased from 2021 level of 223,603 to 241,954 in 2022 or 8.21%. Inpatient discharges for 2021, which account for approximately 68.1% of the Hospital's net patient service revenues, were higher than 2020 by 1,654 or 10.61%. Clinic visits which generate outpatient revenues, also increased from 2020 level of 199,804 to 223,603 in 2021 or 11.91%.

The level of charity care services provided by the Hospital represents nearly 6.7% of its overall patient care services. Charity care funding from the State of New Jersey (the State) totaled $62.7 million and $58.7 million in 2022 and 2021, respectively. Charity care funding is based upon Medicaid reimbursement rates, which have historically been in the range of 60 to 70% of cost. The level of charity care funding is critical to the Hospital's financial results.

The Hospital received a total of $77.9 million in patient subsidies payments in fiscal year 2022 with the major components represented by payments of $62.7 million for the New Jersey Charity Care Subsidy Program and approximately $14.5 million for the QIP Program. In 2021, the State replaced the DSRIP program with QIP. Additionally, the Hospital recorded $54.6 million of revenue for the fiscal year ended June 30, 2022 and $15.2 million of expenditures relating the New Jersey County Option Program. As of June 30, 2022, the Hospital received $35.4 million and recorded a receivable of $19.2 million.

The Hospital received a total of $75.4 million in patient subsidies payments in 2021 with the major components represented by payments of $58.7 million for the New Jersey Charity Care Subsidy Program and $16.1 million for the DSRIP Program.

The Hospital's overall increase in subsidy funding from 2022 to 2021 is mainly attributable to the increase of the Charity Care subsidy of $4.0 million.

Other operating revenue – was $46.5 million for the year ended June 30, 2022 compared to $40.1 million for the year ended June 30, 2021 for an increase of $6.4 million. This was mainly due to additional revenue from new and existing grants.

Personnel services, fringe benefits, pension, physician, and resident fees – were $532.6 million for the year ended June 30, 2022 and $33.2 million lower when compared to prior year. Personnel services costs for the year ended June 30, 2022 of $300.7 million were $8.6 million higher than fiscal year 2021. This increase is primarily driven by annual salary adjustments across the hospital for both union and nonunion employees. Pension costs of $43.8 million for the year ended June 30, 2022 relating to GASB 68 were lower by $44.1 million when compared to the 2021 due to an updated actuarial analysis. Cost of $95.2 million for the year ended June 30, 2022 for medical staff and residents contracted with Rutgers University increased by $7.0 million as compared to the prior year due to contractual adjustments.

Personnel services, fringe benefits, pension, physician, and resident fees were $565.8 million for the year ended June 30, 2021 and $28.6 million higher when compared to prior year. Personnel services costs for the year ended June 30, 2021 of $292.1 million were $7.8 million higher than fiscal year 2020. This increase is primarily driven by annual salary adjustments across the hospital for both union and nonunion employees. Pension costs of $87.9 million for the year ended June 30, 2021 relating to GASB 68 were higher by $14.7 million when compared to the 2020 due to an updated actuarial analysis. Cost of $88.3 million for the year ended June 30, 2021 for medical staff and residents contracted with Rutgers University decreased by $3.1 million as compared to the prior year due to contractual increases.

Other postemployment benefits expense – decreased by $5.1 million from June 30, 2021 to June 30, 2022 and increased by $9.8 million from June 30, 2020 to June 30, 2021 due to changes in the other postemployment benefit (OPEB) plan and changes in the actuarial assumptions used by the State of New Jersey in developing the GASB 75 OPEB revenue and expense for the Hospital. This expense is equal to the OPEB paid by the State of New Jersey. See note 11 for additional information on OPEB.

Supplies and other expenses – increased by $22.8 million or 8.3% from June 30, 2021 to June 30, 2022 mainly due to $15.2 million expenses relating to the NJ County Option Fee Program and costs associated with both increase patient volume and professional contracted services. Supplies and other expense increased $21.3 million from June 30, 2020 to June 30, 2021 mainly due to costs associated with both increase patient volume and professional contracted services. Economic factor adjustments and new clinical initiatives also contribute to the increase.

State appropriations – The Hospital recorded $179.9 million in State Appropriations in 2022. These amounts include $129.4 million for fringe benefits of Hospital employees paid by the State, and a special Higher

Education Appropriation of $50.5 million for those expenses incurred as a result of the New Jersey Medical and Sciences Education Restructuring Act and Institutional Support and $15 thousand for malpractice costs.

The Hospital recorded $175.0 million in State Appropriations in 2021. These amounts include $124.4 million for fringe benefits of Hospital employees paid by the State, and a special Higher Education Appropriation of $50.6 million for those expenses incurred as a result of the New Jersey Medical and Sciences Education Restructuring Act and Institutional Support and $25 thousand for malpractice costs.

Other postemployment benefits paid by the State of New Jersey – decreased by $5.1 million from June 30, 2021 to June 30, 2022 and increased by $9.8 million from June 30, 2020 to June 30, 2021 due to changes in the other postemployment benefit (OPEB) plan and changes in the actuarial assumptions used by the State of New Jersey in developing the GASB 75 OPEB revenue and expense for the Hospital. This noncash nonoperating income is equal to the OPEB expenses that were recognized and paid by the State of New Jersey. See note 11 for additional information on OPEB.

Other nonoperating revenue – decreased $34.8 million primarily due to the Hospital recognized $10.6 million in federal stimulus funds to recover incremental expenses attributable to COVID-19 as compared to the $46.1 million in 2021.

Capital Assets, Net and Long-Term Debt Activity

Capital Assets, Net

At June 30, the Hospital had capital assets, net of accumulated depreciation, as shown in the table below (in thousands of dollars):

		2022	2021	2020 [(1)]
Land and land improvements	$	373	373	1,598
Buildings and leasehold improvements		381,748	358,609	371,272
Equipment		239,613	164,820	239,778
Construction in process		6,161	64,967	33,093
Total		627,895	588,769	645,741
Less accumulated depreciation		405,334	385,716	480,923
Net capital assets	$	222,561	203,053	164,818

[(1)] The 2020 amounts have been restated for comparability with the adoption GASB 87, *Leases*.

The Hospital had 2022 additions to capital assets as follows:

- $39.1 million in overall additions with $28.9 million in major movable equipment, including patient furnishings and medical equipment and investments in information technology system upgrades. Building and leasehold improvements increased by $4.5 million which includes building renovation projects,

Cogeneration energy project and a sprinkler system upgrade. The estimate to complete the Co-Gen project is approximately $5.6 million.

The Hospital had 2021 additions to capital assets as follows:

- $111.7 million in overall reduction due to write-off of fully depreciated assets, offset by $54.3 million in total additions for a net reduction of $57.0 million. Major movable equipment including patient furnishings and medical equipment and investments in information technology system upgrades decreased by $75.0 million, due to $86.6 million of write-off of fully depreciated assets offset by $11.6 million of additions. Buildings and leasehold improvements decreased by $12.6 million due to $22.8 of write-off fully depreciated assets offset by $10.2 million of additions in renovations, which include building renovation projects, Cogeneration energy project and a sprinkler system upgrade. The estimate to complete the Co-Gen and Higher Education projects is approximately $18.1 million.

Leases

The Hospital implemented Governmental Accounting Standards Board (GASB) Statement No. 87, *Leases*, in fiscal year 2022 with an effective date of July 1, 2020. The statement changes the previous classification of lease arrangements from either operating or capital leases and establishes a single model for lease accounting. This model is based on the foundational principle that leases represent financing transactions associated with the right to use an underlying asset. The Hospital recognized lease liabilities and lease assets, net of accumulated amortization, for arrangements where the Hospital is the lessee. The Hospital also recognizes lease receivable and other deferred inflows of resources for arrangements where the Hospital is the lessor. As a result of this implementation, The Hospital applied the standard, retroactively as required. At July 1, 2020, the Hospital recognized lease liabilities and an equivalent lease assets of $84.5 million in the statement of net position. In addition, the Hospital recognized lease receivables which are recorded within other current assets and lease receivables, and deferred inflows of resources of $36.3 million in the statement of net position. At June 30, 2022, Further information regarding lease activities during the fiscal years can be found in the note 7 to the financial statements.

Long-Term Debt

At June 30, 2022, the Hospital has approximately $282.5 million in long-term debt financing. On December 22, 2015, the Hospital issued $255 million of New Jersey Healthcare Facilities Financing Authority (NJHCFFA) Series 2015A Bonds. Total proceeds from the sale were $295.8 million and included a net premium of $15.8 million, as well as $25.0 million from trustee-held debt service and reserve funds. Proceeds from the sale were used to; (i) defease $150.0 million of NJHCFFA Bond Anticipation Notes (BAN) debt; (ii) fund current debt service reserve requirements of $17.3 million; (iii) fund bond insurance costs of $17.6 million; (iv) paying bond issuance costs of $2.7 million; and (v) fund various capital projects consisting of routine and emergency capital expenditures, information systems, and technology to replace the services provided by Rutgers University and capital upgrades and additions to various services and facilities, including the cancer program, diagnostic imagining services, and additional operating and procedure rooms and HVAC upgrades.

The Series 2015A Bonds were placed by the Authority with TD Bank, National Association, as Trustee. The Hospital entered into a Loan Agreement (the Loan Agreement) with the Authority relating to the Series 2015A

bonds. A security feature for this obligation is provided by a lock box arrangement with the Trustee, TD Bank, N.A. Debt service requirements are funded by unrestricted state appropriations, including state charity pools, DSRIP/QIP, GME, and individual state supplemental appropriations that flow through the lock box. Any excess funds are released to the Hospital for operations. As of August 2022, the credit rating of BB-from Fitch was reaffirmed.

Principal payments on the bonds are due annually and commenced on July 1, 2021. Interest is paid semiannually on July 1 and January 1, which started July 1, 2016. The bonds are set at fixed interest rates and are as follows: (i) $65.3 million in serial bonds at 5.000%, (ii) $78.2 million in term bonds at 4.125%, and (iii) $111.5 million in term bonds at 5.000%.

More detailed information about the Hospital's long-term debt is presented in note 9 to the financial statements.

On December 4, 2019, the Hospital entered into a Sub-recipient New Jersey Energy Resiliency Bank (ERB) Funding Agreement with the New Jersey Economic Development Authority (the Authority). The Authority has agreed to provide funding for the development of a new combined heat and power system on the campus of the Hospital. The maximum project cost is estimated to be $48.0 million and will consist of a grant portion of $27.3 million and loan proceeds of $11.8 million. Other funding will consist of loans of $7.4 million from the Infrastructure Bank of New Jersey (Infrastructure Bank) and $1.5 million from PSE&G Energy Efficiency Program.

Principal and interest on the ERB will be payable monthly at the rate of two percent (2%) per annum to fully amortize over twenty years, commencing on the first day of the seventh month following the project completion date. Principal on the PSE&G loan will be payable monthly to fully amortize the over ten years, commencing on the first month following the project completion date. This is an interest free loan. Principal on the Infrastructure Bank loan is due on June 30, 2025, subject to certain criteria related to the project being met, and interest is paid over the life of the loan. The estimated completion of the project is expected to occur during fiscal year 2023.

As of June 30, 2022, the Hospital has drawn $10.2 million from the ERB, $7.1 million from the Infrastructure Bank $1.5 million from PSE&G.

In March 2022, the Hospital entered into a loan agreement with New Jersey Housing and Mortgage Finance Agency (NJHMFA) for $3.0 million. The Hospital submitted an application to the Hospital Partnership Subsidy Pilot Program which provides contributions to the housing and healthcare field. The funds the Hospital received were loaned to the West Market Owners LLC to finance the construction of George King Village Project. The loan is set to mature on July 1, 2059. Principal and interest is paid monthly over the life of the loan monthly at the rate of 1 percent (1%) per annum commencing 24 months after the issuance of the certificate of occupancy for the clinical component of the project which is expected to occur in July 2024. The loan agreement contains provisions that in an event of default, the NJHFMA may require the immediate repayment of the funds disbursed.

Hospital Issues and Challenges

The Hospital continues to adapt to the ever-increasing fiscal challenges placed on healthcare institutions in the New Jersey metropolitan area. Specifically, these challenges include the following:

- Potential reductions in Medicaid and Medicare reimbursements due to state and federal budget reductions
- Federal Disproportionate Share Hospital (DSH) funding cuts
- Reductions in Newark EMS services reimbursement
- Penetration of managed care and tiered health plans in the marketplace
- Uncertainty of Delivery System Reform Incentive Payments / Quality Incentive Payment

The healthcare industry, in general, and the acute care hospital business in particular, are experiencing considerable regulatory uncertainty based, in large part, on legislative efforts to significantly modify or repeal and potentially replace the Patient Protection and Affordable Care Act, as amended by the Health Care and Education Reconciliation Act of 2010 (ACA). It is difficult to predict the full impact of these actions on the Hospital's future revenues and operations. Changes to the ACA are likely to significantly impact the Hospital.

The COVID-19 pandemic continues to evolve and the future impact on the Hospital's operations and financial position will be driven by many factors, most which are beyond the Hospital's control and difficult to predict. Such factors, include, but are not limited to, the scope and duration of stay-at-home practices and business closures, government-imposed or recommended suspensions of non-emergent and elective procedures, continued declines in patient volumes for an indeterminable length of time, increases in the number of uninsured and underinsured patients as a result of higher sustained rates of unemployment, and incremental expenses required for supplies and personal protective equipment. While the future impact of COVID-19 is unknown, the pandemic may impact the Hospital's patient population, cause volatility in future volumes and require additional changes in the delivery of patient care. Because of these factors and other uncertainties, including potential surges, management cannot estimate the length or severity of the impact of the pandemic on the Hospital's business. The Hospital continues to focus on reducing expenses and recovering lost revenues through all available sources.

The Hospital has responded to these significant challenges by managing labor and staffing more efficiently, as well as eliminating waste and duplication in order to offset unanticipated operating expenses. In addition, Hospital administration has developed monthly monitoring reporting tools to help management target and use benchmark data as a means of controlling costs and enhance productivity. Hospital administration has also identified performance initiatives intended to develop new services and revenue streams, increase patient volume, as well as restructure and streamline throughput processes.

Contacting the Hospital's Financial Management

This financial report provides the citizens of Newark, the Hospital's patients, bondholders, and creditors with a general overview of the Hospital's finances and operations. If you have questions about this report or need additional financial information, please contact the Chief Financial Officer, University Hospital, 150 Bergen Street, Newark, New Jersey 07103.

UNIVERSITY HOSPITAL
(A Component Unit of the State of New Jersey)

Statements of Net Position

June 30, 2022 and 2021

(In thousands)

Assets	2022	2021
Current assets:		
Cash (note 3)	$ 188,532	144,123
Restricted investments (note 8)	11,443	11,294
Patient accounts receivable, net (note 5)	98,429	88,840
Due from State of New Jersey	39,612	12,831
Supplies	23,104	20,788
Grants receivable	6,914	7,403
Other current assets (note 10)	23,773	22,657
Total current assets	391,807	307,936
Noncurrent assets:		
Restricted investments (notes 8 and 9)	60,408	65,934
Prepaid bond insurance	13,795	14,382
Lease receivable	36,062	36,130
Capital assets, net (note 6)	222,561	203,053
Lease asset, net of accumulated amortization (note 7)	78,431	80,182
Other long-term asset	3,000	—
Total noncurrent assets	414,257	399,681
Total assets	806,064	707,617
Deferred Outflows of Resources		
Pension related (note 11)	203,899	268,686
Total assets and deferred outflows of resources	$ 1,009,963	976,303
Liabilities		
Current liabilities:		
Accounts payable and accrued expenses	$ 79,539	67,862
Accrued salaries and related payroll taxes	24,583	18,663
Accrued vacation and sick pay	14,766	14,336
Due to Rutgers University (note 10)	60,993	57,043
Current portion of accrued claims liability (note 12)	5,263	5,225
Estimated third-party payor settlements, net (note 12)	430	1,780
Current portion of lease liabilities (note 7)	2,563	2,214
Current portion of long-term debt obligations (note 9)	5,595	5,190
Other current liabilities	537	22,934
Total current liabilities	194,269	195,247
Noncurrent liabilities:		
Accrued claims liability, net of current portion (note 12)	17,594	17,636
Long-term lease liabilities, net of current portion (note 7)	80,325	80,218
Long-term debt, net of current portion (note 9)	276,864	277,075
Pension liability (note 11)	665,514	693,822
Total noncurrent liabilities	1,040,297	1,068,751
Total liabilities	1,234,566	1,263,998
Deferred Inflows of Resources		
Pension related (note 11)	127,038	159,954
Lease related (note 7)	35,203	35,729
Total deferred inflows of resources	162,241	195,683
Total liabilities and deferred inflows of resources	1,396,807	1,459,681
Net Position		
Net investment in capital assets	63,478	49,120
Unrestricted	(450,322)	(532,498)
Total net position	(386,844)	(483,378)
Total liabilities and net position	$ 1,009,963	976,303

See accompanying notes to financial statements.

UNIVERSITY HOSPITAL

(A Component Unit of the State of New Jersey)

Statements of Revenues, Expenses, and Changes in Net Position

Years ended June 30, 2022 and 2021

(In thousands)

	2022	2021
Operating revenues:		
Net patient service revenue (notes 4, 5, and 12)	$ 696,387	593,675
Grants revenue	12,692	10,404
Other revenue	33,863	29,785
Total operating revenues	742,942	633,864
Operating expenses:		
Personnel services	300,676	292,101
Contracted physician and resident fees (note 10)	95,236	88,268
Fringe benefits (note 11)	92,980	97,574
Other postemployment benefits (note 11)	7,369	12,443
Pension (note 11)	43,753	87,867
Supplies and other (note 10)	303,292	280,445
Depreciation and amortization (notes 6 and 7)	24,843	20,840
Total operating expenses	868,149	879,538
Operating loss	(125,207)	(245,674)
Nonoperating income (expenses):		
Appropriations from the State of New Jersey (notes 11 and 12)	179,929	175,007
Other postemployment benefits paid by the State of New Jersey (note 11)	7,369	12,443
Federal stimulus funds	10,615	46,098
Contributions, special events, and other	744	13
Fundraising expenses	(56)	(34)
Interest income	2,033	2,131
Interest expense	(15,978)	(16,266)
Gain (loss) before other changes in net position	59,449	(26,282)
Other changes in net position:		
Capital contributions funded by grantors and donors	37,085	19,332
Total other changes in net position	37,085	19,332
Increase (decrease) in net position	96,534	(6,950)
Net position at beginning of year	(483,378)	(488,638)
Effect of GASB 87 adoption	—	12,210
Net position at end of year	$ (386,844)	(483,378)

See accompanying notes to financial statements.

UNIVERSITY HOSPITAL

(A Component Unit of the State of New Jersey)

Statements of Cash Flows

Years ended June 30, 2022 and 2021

(In thousands)

		2022	2021
Cash flows from operating activities:			
Cash received from patients and third-party payors	$	658,484	594,312
Receipts from grants		12,630	9,213
Other receipts		32,739	26,741
Cash paid for personnel services and fringe		(301,486)	(296,885)
Cash paid for contracted physician and resident fees		(95,650)	(80,775)
Cash paid for supplies and other expenses		(294,059)	(279,650)
Net cash provided by (used in) operating activities		12,658	(27,044)
Cash flows from noncapital financing activities:			
Cash appropriations received from State of New Jersey and other		50,482	50,634
Cash received from Federal stimulus funding		1,504	10,693
Net cash provided by noncapital financing activities		51,986	61,327
Cash flows from capital and related financing activities:			
Purchase of capital assets and lease assets		(46,421)	(41,286)
Capital contributions by grantors		37,638	21,533
Proceeds from issuance of long term debt		6,138	12,513
Payments of long-term debt and lease liabilities		(8,222)	(2,266)
Interest paid		(16,778)	(17,445)
Net cash used in capital and related financing activities		(27,645)	(26,951)
Cash flows from investing activities:			
Purchases of investments		(17,465)	(17,763)
Sales of investments		22,812	12,540
Interest received		2,063	2,169
Net cash provided by (used in) investing activities		7,410	(3,054)
Net increase in cash		44,409	4,278
Cash at beginning of year		144,123	139,845
Cash at end of year	$	188,532	144,123
Supplemental disclosures:			
Appropriations paid by the State of New Jersey	$	129,408	124,352
Other postemployment benefits paid by the State of New Jersey		7,369	12,443
Capital assets included within accounts payable and accrued expenses		10,896	18,194
Noncash operating revenue from forgiveness of PPP loan		713	—

(Continued)

UNIVERSITY HOSPITAL
(A Component Unit of the State of New Jersey)

Statements of Cash Flows

Years ended June 30, 2022 and 2021

(In thousands)

	2022	2021
Reconciliation of operating loss to net cash provided by (used in) operating activities:		
Operating loss	$ (125,207)	(245,674)
Adjustments to reconcile operating loss to net cash provided by (used in) operating activities:		
Amortization of prepaid bond insurance	587	587
Depreciation and amortization	24,843	20,840
Provision for bad debts	165,429	160,702
Other postemployment benefits paid by the State of New Jersey	7,369	12,443
Appropriations paid by the State of New Jersey	129,421	124,352
Changes in assets and liabilities:		
Patient accounts receivable, net	(175,018)	(167,648)
Due from State of New Jersey	(26,781)	9,230
Grants receivable	(63)	(1,191)
Supplies, other assets, lease receivable and deferred inflows	(6,890)	(4,107)
Accounts payable and accrued expenses	18,977	5,346
Accrued salaries and related payroll taxes	5,920	(2,392)
Accrued vacation and sick	430	356
Due to Rutgers University	3,950	4,034
Accrued claims liability	(4)	189
Estimated third-party payor settlements, net	(1,350)	324
Pension liability, deferred outflows and deferred inflows	3,563	56,204
Other current liabilities	(12,518)	(639)
Net cash provided by (used in) operating activities	$ 12,658	(27,044)

See accompanying notes to financial statements.

(1) Organization and Operations

In accordance with Public Law 2012, c. 45, the New Jersey Medical and Health Sciences Education and Restructuring Act (the Restructuring Act), effective July 1, 2013, University Hospital (UH), a public institution of healthcare and a body politic of the State of New Jersey (the State) was separated from University of Medicine and Dentistry of New Jersey (UMDNJ) as a new stand-alone entity and will continue to be the primary teaching hospital for the Newark-based schools of the Rutgers School of Biomedical and Health Sciences. UH shall maintain its public mission to provide a comprehensive healthcare program and services to the greater Newark community, including outreach and mobile health services, as well as services in collaboration with the Newark-based schools of the Rutgers School of Biomedical and Health Sciences. UH is committed to act in accordance with the spirit and intent of the “Agreements Reached between Community and Government Negotiators Regarding New Jersey College of Medicine and Dentistry and Related Matters of April 30, 1968.”

UH is a component unit of the State of New Jersey, and accordingly, its financial statements are included in the State of New Jersey’s Annual Comprehensive Financial Report.

Newark AIDS Consortium, Inc. (d/b/a Broadway House for Continuing Care or BHCC) was incorporated in April 1992. BHCC is exempt from federal, state, and local income taxes as 501(c) (3) organizations under the Internal Revenue Code. BHCC is a blended component unit of the Hospital as a result of UH being the sole corporate member.

BHCC issues separate annual financial statement as of December 31, which are available through the Director of Finance, Broadway House, 298 Broadway, Newark, New Jersey 07104-4003.

The reporting entity, which results from blending UH and BHCC, is collectively referred to as the ”Hospital”.

COVID-19

In response to financial pressures brought on by the COVID-19 pandemic, the federal government passed the Coronavirus Aid, Relief and Economic Security (CARES Act) Provider Relief Fund in March 2020. The Provider Relief Fund (PRF) has distributed $175 billion to hospitals and healthcare providers to assist with the COVID-19 response. The PRF payments are to assist with lost revenues associated with lower volumes, canceled procedures and services and additional expenses due to COVID-19. The Hospital received and recognized approximately $96.3 million (net of amounts returned to HHS) from the PRF program during fiscal years 2020 through 2022. The Hospital received distributions of $1.4 million and $9.2 million during 2022 and 2021, respectively. For the years ended June 30, 2022 and 2021, the Hospital recognized PRFs of approximately $10.6 million and $46.1 million, respectively, which is recorded within federal stimulus funding in the nonoperating income (expenses) in the statement of revenues, expenses and changes in net position. During fiscal year 2022, the Hospital returned to HHS $12.4 million which related to unearned stimulus funds received in prior fiscal years. At June 30, 2021, the Hospital had $21.6 million recorded in other current liabilities in the statement of net position which related to deferred stimulus of $9.2 million and $12.4 million of unearned stimulus to be returned.

(2) Summary of Significant Accounting Policies

The Hospital's significant accounting policies are as follows:

(a) Basis of Presentation

The accompanying basic financial statements of the Hospital are presented in conformity with Generally Accepted Accounting Principles for state and local governments in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB).

The financial statements have been prepared on the accrual basis of accounting using the economic resources measurement focus. Under this method of accounting, revenues are recognized when earned and expenses are recorded when liabilities are incurred without regard to receipt or disbursement of cash.

(b) Restricted Investments

Restricted investment primarily includes assets, such as debt service reserves and capital fund, and are held by a trustee, TD Bank, National Association under bond resolution. Amounts required to meet current liabilities of the Hospital have been classified as current assets in the statement of net position. Interest income earned on restricted investments is included in nonoperating income (expenses).

Restricted investments are invested in money market funds and are recorded at fair value based on quoted market prices, which are Level 1 investments in the fair value hierarchy.

(c) Charity Care

The Hospital provides care to patients who meet certain criteria under its charity care policy at amounts less than its charges or established rates. The Hospital does not pursue collection of amounts determined to qualify as charity care, and they are not reported as revenue (note 4).

(d) Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates. The change in estimate related to third-party payors and accrued claims liability are disclosed in notes 12(a) and 12(c), respectively.

(e) Classifications of Revenues and Expenses

All exchange transactions deemed by management to be ongoing, major, or central to the provision of healthcare services are considered to be operating activities and are reported as operating revenues and operating expenses. Appropriations from the State of New Jersey, other postemployment benefits paid by the State of New Jersey, contributions and special events, fundraising expenses, interest income, interest expense and Federal stimulus funds are reported as nonoperating income and expenses. Other changes in net position, which are excluded from income (loss) before other changes in net position, consist of capital contributions funded by grantors or donors.

(Continued)

(f) Patient Accounts Receivable, Net and Net Patient Service Revenue

The Hospital has agreements with certain third-party payors that provide for payments at amounts different from its charges or established rates. Payment arrangements include prospectively determined rates, discounted charges, and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated third-party payors settlements resulting from audits, reviews, and investigations. These estimated third-party payors settlements are accrued in the period the related services are rendered and adjusted in future periods as revised information becomes known or as years are no longer subject to such audits, reviews, and investigations. Net patient service revenue is reported net of the provision for bad debts of $165.4 million in 2022 and $160.7 million in 2021.

The allowance for doubtful patient accounts is the Hospital's estimate of the amount of probable credit losses in its patient accounts receivable. The Hospital determines the allowance based on collection studies and historical write-off experience. Past-due balances are reviewed individually for collectability. Account balances are charged off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote. The allowance for estimated doubtful accounts at June 30, 2022 is $300.2 million and at June 30, 2021 is $258.2 million.

(g) Appropriations from the State of New Jersey

State appropriations are recognized in the fiscal year during which the State appropriates the funds for the Hospital. The Hospital is fiscally dependent upon these appropriations. The Hospital classifies them as nonoperating income.

The State pays on behalf of the Hospital for certain fringe benefits of employees, medical malpractice settlements, negligence, and other torts. The Hospital is indemnified by the State for the Hospital's malpractice settlements (see note 12b). The Hospital records both revenues and expenses in an amount equal to expenditures made on its behalf by the State, that is, certain fringe benefits of the Hospital's employees, settlements of claims for medical malpractice, negligence, other torts, and alleged breach of contracts (see notes 11 and 12).

In 2022 and 2021, the fringe benefits of employees paid by the State were $129.4 million and $124.4 million, respectively. The medical malpractice and general liability settlements paid by the State were $15 thousand and $25 thousand in 2022 and 2021, respectively. The State also paid the Hospital $50.5 million in 2022 and $50.7 million in 2021 to support the Hospital operations through a special Higher Education Services – Institutional Support appropriation as a result of the New Jersey Medical and Sciences Education Restructuring Act. Additionally in 2022, the Hospital received a special appropriation for capital projects of $28.5 million which is recorded in capital contributions funded by grantors and donors in the statement of revenues, expenses, and changes in net position.

All State aid to the Hospital is subject to and dependent upon appropriations being made for such purpose by the New Jersey State Legislature (the State Legislature). The State Legislature has no legal obligation to make such appropriations.

(h) Government Grants

Grants revenue comprise mainly funds received from grants from federal, state, and other governments and are recognized when all eligibility requirements for revenue recognition are met, which is generally the period in which the related expenses are incurred.

(i) Prepaid Bond Insurance

Prepaid bond insurance costs of $17.6 million represent costs incurred in connection with the issuance of Series 2015A bonds and are amortized over the life of the bonds. Accumulated amortization of prepaid bond insurance costs amounted to $3.8 million at June 30, 2022 and $3.2 million at June 30, 2021.

(j) Capital Assets and Depreciation

Capital assets are recorded at cost or in the case of donated assets at fair value at the date of acquisition. Major renewals and improvements are capitalized while maintaining repairs are expensed when incurred.

The State retains legal title to the land, buildings, and improvements as of July 1, 2013 and thereafter and subleases them to the Hospital for $1 until June 30, 2089. The Hospital is the sole beneficiary as to the use of the capital assets and is responsible for their control and maintenance. Accordingly, the capital assets have been capitalized in the accompanying statements of net position.

Depreciation is computed on a straight-line basis using estimated useful lives in accordance with American Hospital Association guidelines:

Land improvements	2 to 25 years
Buildings and leasehold improvements	5 to 40 years
Equipment	3 to 25 years

Capital assets under leasehold improvements are depreciated over the shorter of either the lease term or the estimated useful life.

(k) Leases

(i) Leases

The Hospital enters into noncancellable leases primarily for buildings and equipment. For leases with a maximum possible term of 12 months, or less, at commencement, the Hospital recognizes expenses based on the terms of the lease contract. For all other leases, the Hospital recognizes a lease liability, which is recorded within current portion of lease liabilities and long-term lease liabilities in the noncurrent assets in the statements of net position and a lease asset, net of accumulated amortization at the present value of payments expected to be made throughout the lease term. The Hospital uses it’s incremental borrowing rate in determining the present value of lease payments.

The lease liability is subsequently reduced by the by principal portion of the lease payments. Interest expense is recognized ratable over the contract term. The lease asset is initially measured as the initial amount of the lease liability, plus lease payment made at or before the lease commencement date, plus initial direct costs necessary for placing the underlying asset into service, less any lease incentives at or before the lease commencement date. Subsequently, the lease asset is amortized on a straight-line basis over the shorter of the lease term or the useful life of the underlying asset which is recorded in within the depreciation and amortization in the statement of revenues and expenses, and changes in net position.

Some leases include one or more renewal options which are at the Hospital's discretion and if it is, reasonably certain that the renewal options will be exercised by the Hospital, the renewal options payments and terms are included in the Hospital's measurement of the lease liability and lease asset.

(ii) Lessor

The Hospital leases building space on its campus to Rutgers University for a remaining term of 68 years. The Hospital recognizes a lease receivable and deferred inflows of resources at the present value of payments expected to be received during the lease term, using the Hospital's incremental borrowing rate. The current portion of the lease receivable is recorded within other current assets and the long term-term lease receivable is recorded in noncurrent assets in the statement of net position.

Subsequently, the lease receivable is reduced by the lease payments received and the discount on the lease receivable is amortized through the recognition of interest income which is recorded in the nonoperating income section in the statements of revenues, expenses, and changes in net position. The deferred inflow of resources is recognized as lease revenue over the lease term in subsequent periods, which is recorded in other revenue in the statements or revenue, expenses, and changes in net position.

(l) Supplies

Supplies are stated at the lower of cost (first-in, first-out method) or net realizable value.

(m) Income Taxes

The Hospital qualifies as a governmental entity not subject to federal income tax, by reason of the organization being a state or political subdivision thereof, or an integral part of a state or political subdivision thereof; or an entity all of whose income is excluded from gross income for federal income tax purposes under Section 115 of the Internal Revenue Code of 1986. Accordingly, no provision for income taxes has been made in the accompanying financial statements.

(n) Due from State of New Jersey

Due from State of New Jersey represents reimbursements due for fringe benefits paid by the Hospital for employees covered by the State of New Jersey benefit plans and receivables related to the New Jersey Department of Health subsidy program.

(o) Grants Receivable

Grants receivable relate to various healthcare provision programs under contract with the State and other grantors. Grants receivable, which are reimbursed to the Hospital for providing such services, relate to the Urban Security Initiative, North Star, and School Based Youth Service grants.

(p) Net Position

Net position of the Hospital is classified in various components. *Net investment in capital assets* consist of capital assets, net of accumulated depreciation and lease assets, net of accumulated amortization and reduced by outstanding borrowings used to finance the purchase, lease, or construction of those assets. *Unrestricted net position* is remaining net position that does not meet the definition of *Net investment in capital assets*. The Hospital first applies restricted resources when unrestricted resources are available for the same purpose.

(q) Compensated Absences

The Hospital's employees earn vacation and holiday days at varying rates depending on years of service and title. Generally, vacation and holiday time may accumulate up to specified maximums, depending on title. Upon resignation or retirement, employees are paid for unused vacation and holiday days, most at the current rate. Employees accrue sick leave at a fixed rate and there is no accumulation limit on sick leave. Upon retirement, employees can opt for partial payment of accumulated sick leave.

(r) Retirement Plans

Under GASB 68, *Accounting and Financial Reporting for Pensions*, the Hospital records pension expense, pension liability, deferred outflows of resources, and deferred inflows of resources related to cost sharing multiemployer pension plan for its proportionate share of collective pension expense, collective pension liability, and collective deferred outflows of resources and deferred inflows of resources.

(s) Postemployment Benefits Other than Pensions

Under GASB 75, *Accounting and Financial Reporting for Postemployment benefits Other than Pension (OPEB)*, the Hospital records other postemployment benefit expenses and other postemployment benefits paid by the State of New Jersey related to the single-employer defined-benefit other postemployment benefit plan. The State is legally obligated for the benefit payments on behalf of the retirees of the Hospital under the State Health Benefit State Retired Employees Plan (the Plan); therefore, the Plan meets of the definition of a special funding situation as defined in GASB 75. The Hospital does not record its proportionate share of the collective total OPEB liability.

(t) Accrued Claims Liability

Accrued claims liability represents estimated amounts payable related to workers' compensation claims (note 12(c)).

(u) Accounting Standards

(i) Adopted Accounting Pronouncements

In June 2017, the GASB issued Statement No. 87, *Leases* (GASB 87). This statement improves accounting and financial reporting for leases by governments. GASB 87 increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. Under this Statement, a lessee is required to recognize a lease liability and an intangible lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The implementation of GASB 87 resulted in an initial lease receivable of $36.3 million with an equivalent deferred inflow of resources and a lease asset of $84.5 million with an equivalent lease liability at July 1, 2020. Certain leases transitioned from capital leases to financing leases under GASB 87 requires remeasurement resulting in a net capital asset reduction of $61.3 million and a liability reduction of $73.5 million a restatement to increase the net position at July 1, 2020 by $12.2 million and subsequent increase of $13 thousand in the statement of revenues, expenses, and changes in net position in fiscal 2021.

(ii) Upcoming Accounting Pronouncements

In March 2020, the GASB issued Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*. The statement improves the information needs of financial statement users by improving the comparability of financial statements among governments that enter into public-private or public-public partnerships and availability payment arrangements by enhancing the understandability, reliability, relevance, and consistency of information. The requirements of this standard are effective for fiscal years beginning after June 15, 2022 (fiscal year 2023). The Hospital is evaluating the impact of this new standard.

In May 2020, the GASB issued Statement No. 96, *Subscription-Based Information Technology Arrangements*. This statement improves the financial reporting by establishing a definition for subscription-based information technology arrangements (SBITAs) and providing uniform guidance for accounting and financial reporting for transactions meeting that definition. It defines SBITAs as a contract that conveys control of the right to use another party's IT software, alone or in combination with tangible capital assets, as specified in the contract for a period of time in an exchange or exchange-like transaction. Under this statement a government entity is required to establish a right-of-use subscription asset and a corresponding subscription liability. The requirements of this standard are effective for fiscal years beginning after June 15, 2022 (fiscal year 2023). The Hospital is evaluating the impact of this new standard.

(v) Fair Value

Management determines fair value of financial instruments as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Management utilizes valuation techniques that maximize the use of observable inputs (Levels 1 and 2) and minimize the use of unobservable inputs (Level 3) within the fair value

hierarchy established by GASB. Financial assets and liabilities carried at fair value are classified and disclosed in one of the following categories:

Level 1: Fair value measurements using unadjusted quoted market prices in active markets for identical, unrestricted assets or liabilities

Level 2: Fair value measurements using observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially that full term of the assets or liabilities. Level 2 assets and liabilities include debt securities with quoted market prices that trade less frequently than exchange-traded instruments.

Level 3: Fair value measurements using significant inputs that are not readily observable in the market and are based on internally developed models or methodologies utilizing significant inputs that are generally less readily observable.

Money market mutual funds are valued at the NAV of the shares held at year-end, based on published market quotations in active markets. The NAV is classified within Level 1 of the fair value hierarchy as the unit price is quoted in an active market.

Corporate bonds are valued using an evaluation price that is based on a compilation of primarily observable market quotations, when available. These are included as Level 2 investments in the fair value hierarchy.

The Hospital does not have any assets or liabilities based upon Level 3 inputs.

(3) Cash

Custodial credit risk is the risk that, in the event of a bank failure, the Hospital's deposits may not be returned to it. At June 30, 2022 and 2021, the actual amount of cash in the Hospital's bank accounts was $197.1 million and $152.2 million (with $8.6 million and $8.1 million in outstanding checks), respectively. As of May 29, 2015, a Tri-Party collateral agreement was established between the Hospital, the Bank of America, N.A., and the Bank of New York Mellon to collateralize the Hospital's cash.

(4) Charity Care

The Hospital maintains records to identify and monitor the level of charity care it provides. These records include the amount of charges forgone for services furnished under its charity care policy and the estimated cost of those services. The Hospital utilizes a cost to charge ratio methodology to convert charity care to estimated cost. The amount of uncompensated care provided to indigent and the broader community for the years ended June 30 (in thousands):

		2022	2021
Charity care:			
Charges foregone, based on established rates	$	244,131	244,927
Estimated cost incurred to provide charity care		69,343	71,510

(Continued)

		2022	2021
Provision for bad debt:			
Charges foregone, based on established rates	$	165,429	160,252
Estimated cost incurred to provide bad debt		46,904	46,788

The Hospital only includes charges for patient services in charity care for individuals who complied with the New Jersey Department of Health's criteria for qualification into the Charity Care Subsidy formula. These criteria require a patient's cooperation and documentation to participate. The Hospital believes that a large number of its patient accounts that default to bad debts are in fact charity care cases, but due to a patients' unwillingness or inability to provide the documentation such cases do not qualify.

The Hospital recorded $62.7 million and $58.7 million from the State's Charity Care Subsidy Fund in 2022 and 2021, respectively, of reimbursement associated with cost of bad debt and charity care and is recorded in net patient service revenue in the statements of revenues, expenses, and changes in net position.

(5) Patient Accounts Receivable, Net and Net Patient Service Revenue

Most of the Hospital's net patient service revenue is from funds received on behalf of patients under governmental health insurance plans. Revenue from these governmental plans is based upon relevant reimbursement principles and is subject to audit by the applicable payors. Certain payors have performed audits and have proposed various disallowances, which other payors may similarly assert.

Included in net patient service revenue are adjustments to prior year estimated third-party payors settlements that were originally recorded in the period the related services were rendered. The adjustments to prior year estimates and other third-party reimbursement receipts or recoveries that relate to prior years resulted in an increase to net patient service revenues in both fiscal year 2022 and 2021. (note 12(a)).

The components of net patient service revenue for the years ended June 30 are as follows (in thousands):

		2022	2021
Gross charges	$	3,011,810	2,924,251
Additions (deductions) from gross charges:			
Charity care subsidy, DSRIP/QIP and County Option revenue		132,511	75,447
Contractual and other allowances		(2,282,505)	(2,245,321)
Provision for bad debts		(165,429)	(160,702)
Subtotal		(2,315,423)	(2,330,576)
Net patient service revenues	$	696,387	593,675

(Continued)

Net patient service revenue by primary payor for the years ended June 30 are as follows (in thousands):

		2022	2021
Medicaid and Medicaid HMO	$	252,527	225,409
Medicare		177,229	161,355
Other third-party payors		126,516	115,968
Self-pay		7,604	15,496
Net patient service revenue by payor		563,876	518,228
Charity care subsidy fund and DSRIP/QIP revenue		132,511	75,447
Net patient service revenue	$	696,387	593,675

The Hospital provides services to its patients, most of whom are insured under third-party payors agreements. Patient accounts receivable net, were as follows as of June 30 (in thousands):

	2022		2021	
Medicaid and Medicaid HMO	$ 28,682	29.1 %	$ 25,508	28.7 %
Medicare	9,876	10.0	9,634	10.8
Other third-party payors	53,014	53.9	47,666	53.7
Self-pay	6,857	7.0	6,032	6.8
	$ 98,429	100.0 %	$ 88,840	100.0 %

Allowance for doubtful accounts activity for the years ended June 30 was as follows (in thousands):

		2022	2021
Beginning balance	$	258,222	260,610
Provision for bad debts		165,429	160,702
Write-off, net of recoveries		(123,448)	(163,090)
Ending balance	$	300,203	258,222

(Continued)

(6) Capital Assets

Capital assets activity for the years ended June 30 was as follows (in thousands):

	June 30, 2021	Additions	Sales, retirements, and adjustments	June 30, 2022
Nondepreciable assets:				
Land	$ 373	—	—	373
Construction in progress	64,967	2,463	(61,269)	6,161
Total nondepreciable assets	65,340	2,463	(61,269)	6,534
Depreciable assets:				
Buildings and leasehold improvements	358,609	7,720	15,419	381,748
Equipment	164,820	28,943	45,850	239,613
Total depreciable assets	523,429	36,663	61,269	621,361
Less accumulated depreciation:				
Buildings and leasehold improvements	251,982	9,898	—	261,880
Equipment	133,734	9,720	—	143,454
Total accumulated depreciation	385,716	19,618	—	405,334
Total capital assets, net	$ 203,053	19,508	—	222,561

(Continued)

	July 1, 2020	Additions	Sales, retirements, and adjustments	June 30, 2021
Nondepreciable assets:				
Land	$ 373	—	—	373
Construction in progress	33,093	32,897	(1,023)	64,967
Total nondepreciable assets	33,466	32,897	(1,023)	65,340
Depreciable assets:				
Land improvements	1,225	—	(1,225)	—
Buildings and leasehold improvements	371,272	9,787	(22,450)	358,609
Equipment	239,778	11,651	(86,609)	164,820
Total depreciable assets	612,275	21,438	(110,284)	523,429
Less accumulated depreciation:				
Land improvements	1,225	—	(1,225)	—
Buildings and leasehold improvements	270,976	4,862	(23,856)	251,982
Equipment	208,722	11,621	(86,609)	133,734
Total accumulated depreciation	480,923	16,483	(111,690)	385,716
Total capital assets, net	$ 164,818	37,852	383	203,053

(Continued)

(7) Leases

The Hospital lease various equipment and facilities under noncancelable lease agreements. Existing leases have lease terms through 2089.

(a) Lease Assets

The activity in the Hospital's lease assets and related accumulated amortization accounts for the fiscal years ended June 30, 2022 and 2021 is set forth.

	June 30, 2021	Additions	Modifications and renewals	Deductions	June 30, 2022
Lease assets:					
Buildings	$ 79,358	—	—	—	79,358
Equipment	5,181	3,474	—	—	8,655
Total lease assets	84,539	3,474	—	—	88,013
Lease accumulated amortization:					
Buildings	2,531	2,530	—	—	5,061
Equipment	1,826	2,695	—	—	4,521
Total lease accumulated amortization	4,357	5,225	—	—	9,582
Total lease asset, net	$ 80,182	(1,751)	—	—	78,431

	July 1, 2020	Additions	Modifications and renewals	Deductions	June 30, 2021
Lease assets:					
Buildings	$ 79,358	—	—	—	79,358
Equipment	5,181	—	—	—	5,181
Total lease assets	84,539	—	—	—	84,539
Lease accumulated amortization:					
Buildings	—	2,531	—	—	2,531
Equipment	—	1,826	—	—	1,826
Total lease accumulated amortization	—	4,357	—	—	4,357
Total lease asset, net	$ 84,539	(4,357)	—	—	80,182

(Continued)

(b) Lease Liabilities

Lease liability activity for the years ended June 30 was as follows (in thousands):

	Beginning balance	Additions/adj	Reductions	Ending balance	Amounts due within one year
Fiscal year ended:					
June 30, 2022	$ 82,432	3,474	(3,018)	82,888	2,563
June 30, 2021	84,539	—	(2,106)	82,433	2,214

(c) Lease Maturities

The following schedule shows future lease payments, for the next five years and in five-year increments thereafter, as of June 30, 2022, for both principal and interest:

	Principal	Interest	Total payment
Year:			
2023	$ 2,563	4,085	6,648
2024	1,600	3,974	5,574
2025	1,378	3,905	5,283
2026	466	3,857	4,323
2027	490	3,833	4,323
2028–2032	2,852	18,762	21,614
2032–2037	2,314	18,039	20,353
2038–2042	1,636	17,614	19,250
2043–2047	2,100	17,150	19,250
2048–2052	2,695	16,555	19,250
2053–2057	3,458	15,792	19,250
2058–2062	4,438	14,812	19,250
2063–2067	5,696	13,554	19,250
2068–2072	7,310	11,940	19,250
2073–2077	9,381	9,869	19,250
2078–2082	12,038	7,212	19,250
2083–2087	15,450	3,800	19,250
2088–2089	7,023	356	7,379
	$ 82,888	185,109	267,997

(Continued)

(d) Lessor

As discussed in note 2(k)(ii); the Hospital is a lessor for various noncancellable leases of buildings.

	Future inflows	Interest	Total payment
Year:			
2023	$ 526	1,805	2,331
2024	526	1,801	2,327
2025	526	1,798	2,324
2026	526	1,794	2,320
2027	526	1,790	2,316
2028–2032	2,630	8,881	11,511
2033–2037	2,630	8,744	11,374
2038–2042	2,630	8,568	11,198
2043–2047	2,630	8,343	10,973
2048–2052	2,630	8,054	10,684
2053-2057	2,630	7,682	10,312
2058–2062	2,630	7,206	9,836
2063–2067	2,630	6,594	9,224
2068–2072	2,630	5,809	8,439
2073–2077	2,630	4,801	7,431
2078–2082	2,630	3,508	6,138
2083–2087	2,630	1,848	4,478
2088–2089	1,013	173	1,186
	$ 35,203	89,199	124,402

(8) Restricted Investments

Restricted investments consist of the following as of June 30 (in thousands):

	2022	2021
Under bond resolutions:		
Capital reserve funds (a)	$ 41,639	47,146
Debt service reserve funds (a)	17,267	17,259
Debt service funds (a)	12,106	11,970
	71,012	76,375
Other investments (b)	839	853
Less current portion of restricted investments	(11,443)	(11,294)
	$ 60,408	65,934

(Continued)

(a) Restricted investments under the terms of the bond resolutions (note 9) are to provide for debt service requirements and the acquisition of capital assets. Terms of the bond resolutions provide that assets be maintained in separate funds held by the trustee, TD Bank, National Association. The restricted investments are held in money market funds and are classified as Level 1 in the fair value hierarchy.

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. At June 30, 2022 and 2021, the Hospital's money market funds were rated Aaa by Moody's.

Custodial credit risk for investments is the risk that, in the event of failure of the counterparty, the Hospital will not be able to recover the value of the investments that are in possession of an outside party. Custodial credit risk should not be confused with market risk, which is the risk that the market value of a security may decline. Money market funds are not subject to custodial credit risk because their existence is not evidenced by securities that exist in physical or book entry form.

(b) Other investments are held by BHCC within a portfolio with TD Bank, National Association and are reported at fair value. The portfolio consists of corporate bonds and money market mutual funds. The investments are classified as both current and noncurrent based upon years to maturity for corporate bonds. Money market funds are classified as current. Corporate bonds of $0.8 million are classified as Level 2 in the fair value hierarchy and money market funds are classified as Level 1 in the fair value hierarchy.

(9) Long-Term Debt Obligations

Long-term debt consists of the following as of June 30 (in thousands):

		2022	2021
Bonds payable:			
New Jersey Health Care Facilities Financing Authority (NJHCFFA) Revenue and Refunding Bonds, Series 2015A, bearing interest at fixed rates to be paid semi-annually; with principal payments to be paid annually and set to commence on July 1, 2021 (a)	$	249,785	254,975
NJHCFFA Series 2015A net premium and amortized over the 30 year life of the bond (a)		10,835	11,589
New Jersey Energy Resiliency Bank loan (b)		10,235	9,410
PSE&G loan (b)		1,500	1,032
New Jersey Infrastructure Bank loan (b)		7,104	5,259
New Jersey Housing and Mortgage Financing Agency (c)		3,000	—
		282,459	282,265
Less current installments		5,595	5,190
Long-term portion of debt	$	276,864	277,075

(Continued)

Long-term debt activity for the years ended June 30 was as follows (in thousands):

	June 30, 2021 balance	Additions	Reductions	June 30, 2022 balance	Amounts due within one year
Long-term debt:					
Bonds payable 2015A	$ 266,564	—	(5,944)	260,620	5,445
Energy Resiliency Bank	9,410	825	—	10,235	—
PSE&G	1,032	468	—	1,500	150
Infrastructure Bank	5,259	1,845	—	7,104	—
NJ Housing and Mortgage Financing Agency	—	3,000	—	3,000	—
Net long term debt	$ 282,265	6,138	(5,944)	282,459	5,595

	June 30, 2020 balance	Additions	Reductions	June 30, 2021 balance	Amounts due within one year
Long-term debt:					
Bonds payable 2015A	$ 267,335	—	(771)	266,564	5,190
Bonds payable NJEFA	101	—	(101)	—	—
Energy Resiliency Bank	2,156	7,254	—	9,410	—
PSE&G	1,032	—	—	1,032	—
Infrastructure Bank	—	5,259	—	5,259	—
Net long term debt	$ 270,624	12,513	(872)	282,265	5,190

(a) On December 22, 2015, the Hospital issued $255 million of New Jersey Healthcare Facilities Financing Authority Series (NJHCFFA or the Authority) 2015A Bonds (2015A Bonds). Total proceeds from the sale were $295.8 million and included a net premium of $15.8 million, as well as $25.0 million from trustee-held debt service and reserve funds. Proceeds from the sale were used for the purpose of: (i) the defeasance of $150 million of NJHCFFA Bond Anticipation Notes debt; (ii) funding current debt service reserve requirements of $17.3 million; (iii) funding capital projects of $102.8 million, including information services and technology capital, heating, ventilation, and air conditioning improvements, operating room renovations, Cancer Center expansion, and routine and emergency capital needs; (iv) funding bond insurance costs of $17.6 million; (v) and paying bond issuance costs of $2.7 million. The 2015A Bonds were placed by and between the Authority and TD Bank, National Association, as Trustee. The Hospital entered into a Loan Agreement (the Loan Agreement) with the Authority relating to the Series 2015A bond. A security feature for this obligation is provided by a lock box arrangement with the Trustee, TD Bank, N.A. Debt service requirements are funded by unrestricted state appropriations, including state charity pools, Delivery System Reform Incentive Payments, Graduate Medical Education (GME), and individual state supplemental appropriations that flow through the lock box. Any excess funds are released to the Hospital for operations. Under the Loan Agreement, the Hospital is required to maintain certain covenants.

(Continued)

Principal payments on the bonds are due annually and commenced on July 1, 2021. Interest is paid semiannually on July 1 and January 1 and started July 1, 2016. The bonds are set at fixed interest rates and are as follows: (i) $65.3 million in serial bonds at 5.000%; (ii) $78.2 million in term bonds at 4.125%; and (iii) $111.5 million in term bonds at 5.000%.

To secure its payment obligation, the Hospital has granted the Trustee a security interest in the gross revenues of the Hospital.

The Loan Agreement contains provisions that in an event of default, the Trustee or the Authority may, and upon the written notice to the Hospital, declare the principal, together with the interest accrued thereon, of all of the outstanding Series 2015A Bonds to be due and payable immediately.

The following table summarizes debt service requirements for 2015A Bonds as of June 30, (in thousands):

	Principal	Interest	Total payment
2023	$ 5,445	11,669	17,114
2024	5,720	11,390	17,110
2025	6,005	11,097	17,102
2026	6,305	10,789	17,094
2027	6,620	10,466	17,086
2028–2032	38,420	46,924	85,344
2033–2037	47,780	37,498	85,278
2038–2042	58,795	26,093	84,888
2043–2047	74,695	9,701	84,396
	$ 249,785	175,627	425,412

(b) During November 2019, the Hospital entered into loan agreements with New Jersey Energy Resiliency Bank (ERB), the Infrastructure Bank of New Jersey (Infrastructure Bank) and Public Service Group Enterprise (PSE&G). The Hospital in partnership with Rutgers University have undertaken to renovate and replace the Hospital's energy plant with one that will supply both electric and steam to the Hospital and the Rutgers Campuses. The cost to the project is estimated at $48.0 million and will be funded through grants and loans from the ERB, The Infrastructure Bank and PSE&G. Specifically, the Hospital has obtained financing of $20.7 million from the above lenders. In addition, $27.3 million is available as a grant from the ERB. As of June 30, 2022 and 2021, the Hospital recognized $1.9 million and $16.7 million, respectively, of the grant in capital contributions funded by grantors and donors in the statement of revenues, expenses, and changes in net position.

As of June 30, 2022, the Hospital drew down $3.1 million, of which $0.8 million was drawn from the ERB, $1.8 million from the Infrastructure Bank and $0.5 million from PSE&G.

Principal and interest on the ERB loan will be payable monthly at the rate of 2 percent (2%) per annum to fully amortize over twenty years commencing on the first day of the seventh month following the

project completion date. Principal on the PSE&G loan will be payable monthly to fully amortize over ten years commencing on the first day of the seventh month following the project completion date. This is an interest free loan. Principal on the Infrastructure Bank loan is due on June 30, 2025, subject to certain criteria related to the project being met, and interest is paid over the life of the loan. The estimated completion of the project is expected to occur during fiscal year 2023.

The loan agreement with ERB and with the Infrastructure Bank contain provisions that in the event of default, the ERB and Infrastructure Bank may terminate or suspend the agreement with the Hospital and require the immediate repayment of funds disbursed. The loan agreement with PSE&G contains provisions that in the event of default, the Hospital has a 30-day period to cure such event or events of default. If the event of the default is not cured after the 30-day period, PSE&G may declare all funds and costs incurred payable immediately.

(c) In March 2022, the Hospital entered into a loan agreement with the New Jersey Housing and Mortgage Finance Agency (NJHMFA) for $3.0 million. The Hospital submitted an application to the Hospital Partnership Subsidy Pilot Program which provides contributions to the housing and healthcare field. The funds the Hospital received were loaned to the West Market Owners LLC to finance the construction of George King Village Project. The Hospital has a separate loan agreement with the West Market Owners LLC to repay the Hospital. The Hospital has the loan receivable from West Market Owners LLC recorded in other long-term assets in the statement of financial position.

The loan is set to mature on July 1, 2059. Principal and interest is paid monthly over the life of the loan monthly at the rate of 1 percent (1%) per annum commencing 24 months after the issuance of the certificate of occupancy for the clinical component of the project which is expected to occur in July 2024. The loan agreement contains provisions that in an event of default, the NJHFMA may require the immediate repayment of the funds disbursed.

(10) Due to Rutgers University

Amounts due to Rutgers University (Rutgers) consist of the following at June 30 (in thousands):

	2021 Balance due to Rutgers	Charges	Hospital payments	2022 Balance due to Rutgers
Information technology services (a)	$ 1,113	565	1,254	424
Contracted physicians (b)	18,183	70,580	67,633	21,130
Contracted residents (c)	14,631	22,822	26,183	11,270
Facilities service agreements (d)	7,762	11,096	12,107	6,751
Other services (e)	15,354	16,948	10,884	21,418
	$ 57,043	122,011	118,061	60,993

(Continued)

	2020 Balance due to Rutgers	Charges	Hospital payments	2021 Balance due to Rutgers
Information technology services (a)	$ 1,360	1,485	1,732	1,113
Contracted physicians (b)	17,591	64,872	64,280	18,183
Contracted residents (c)	7,730	22,504	15,603	14,631
Facilities service agreements (d)	10,499	10,358	13,095	7,762
Other services (e)	15,829	16,942	17,417	15,354
	$ 53,009	116,161	112,127	57,043

The Hospital and Rutgers executed a Master Affiliation Agreement on July 1, 2013 (the effective date) in support of and connection with the New Jersey Medical and Health Sciences Education Restructuring Act, N.J.S.A. 18A:64M-1 (the Act). The Agreement acknowledged that the parties were entering into multiple agreements simultaneously all of which arose out of the Act. The Master Agreement is for a term of three years with provisions for successive three-year renewals. The agreements provide for services delivered by and between the parties and outline the compensation to be remunerated. Among these agreements are the following:

(a) Information technology services are in support of the Hospital's clinical and business systems. The agreement includes licensing of some software, as well as system support.

(b) The parties executed a clinical services agreement wherein Rutgers physicians were contracted to provide clinical and administrative services to the Hospital. The agreement is for three years and will expire in July 2023. The agreement calls for the parties to annually have a fair market value analysis prepared by an independent organization.

(c) A Graduate Medical Education affiliation agreement was executed to govern the medical and dental activities of residents and non-Rutgers residents rendering medical and dental services at the Hospital and the compensation of such residents.

(d) A continuing services agreement was executed that provided for a number of campus infrastructure needs, including energy and utilities, police and security, landscaping and grounds maintenance, as well as parking and snow removal. Rates are determined by an annual review by both parties for utilities and maintenance. Police and security are based upon usage with predetermined hourly rates.

(e) A transition services agreement that provided for the temporary provision of "Other Services," between the parties. Among these services are included hazardous waste storage, medical license and radiation safety, engineering controls, financial administrative technical support, as well as a support in helping the Hospital achieve independence in these functions. The arrangements were for a period of 3 to 24 months and various extensions have been made on these arrangements. Amounts payable are for the most part based upon fixed predetermined rates.

(Continued)

The Hospital also has receivables due from Rutgers of $12.1 million and $9.5 million as of June 30, 2022 and 2021, respectively. These amounts primarily related to rent due from Rutgers and reimbursement for clinical staff salaries. The amounts are recorded in other current assets in the statements of net position.

(11) Employee Benefits

Retirement Plans

The Hospital has primarily two retirement plans available to its employees, the State of New Jersey Public Employees Retirement System, a defined-benefit plan, and the Alternate Benefit Program, a defined-contribution plan. Under these plans, participants make annual contributions, and the State of New Jersey (the State), in accordance with State statutes, makes employer contributions on behalf of the Hospital for these plans. The Hospital is charged for contributions on behalf of employees through a fringe benefits charge assessed by the State, which is included within fringe benefits expense in the accompanying statements of revenues, expenses, and changes in net position. Pension expense paid directly by the State of New Jersey for 2022 and 2021 aggregated $58.5 million and $40.2 million, respectively. Summary information regarding these plans is provided below.

Public Employees Retirement System (PERS)

Plan Description – PERS is a cost-sharing multiple-employer defined-benefit pension plan administered by the State of New Jersey, Division of Pensions and Benefits. The payroll for the Hospital employees covered by PERS for the years ended June 30, 2022 and 2021 was $153.2 million and $139.6 million, respectively.

The vesting and benefit provisions are set by N.J.S.A. 43:15A. PERS provides retirement, death, and disability benefits. All benefits vest after ten years of service.

The following represents the membership tiers for PERS:

Tier	Definition
1	Members who were enrolled prior to July 1, 2007
2	Members who were eligible to enroll on or after July 1, 2007 and prior to November 2, 2008
3	Members who were eligible to enroll on or after November 2, 2008 and prior to May 22, 2010
4	Members who were eligible to enroll on or after May 22, 2010 and prior to June 28, 2011
5	Members who were eligible to enroll on or after June 28, 2011

Service retirement benefits of 1/55th of final average salary for each year of service credit is available to tiers 1 and 2 members upon reaching age 60 and to tier 3 members upon reaching age 62. Service retirement benefits of 1/60th of final average salary for each year of service credit is available to tier 4 members upon reaching age 62 and tier 5 members upon reaching age 65. Early retirement benefits are available to tiers 1 and 2 members before reaching age 60, tiers 3 and 4 with 25 years or more of service credit before age 62, and tier 5 with 30 years or more of service credit before age 65. Benefits are reduced by a fraction of a percent for each month that a member retires prior to the age at which a member can receive full early retirement benefits in accordance with their respective tier. Tier 1 members can receive an unreduced benefit from age 55 to age 60 if they have at least 25 years of service. Deferred retirement is

available to members who have at least 10 years of service credit and have not reached the service retirement age for the respective tier.

Contributions – Covered Hospital employees were required by PERS to contribute 7.5% of their annual compensation during both fiscal years 2022 and 2021. The State's pension contribution is based on a statutory determined amount that includes the employer portion of the normal cost and an amortization of the unfunded accrued liability. The State made contributions in 2022 and 2021. The contribution requirements of the plan members and the Hospital are established and may be amended by the State.

Employees can also make voluntary contributions to two optional State of New Jersey tax-deferred investment plans, the Supplemental Annuity Collective Trust (SACT) and the Additional Contributions Tax Sheltered (ACTS) programs. Both plans are subject to limits within the Internal Revenue Code.

A publicly available Annual Comprehensive Financial Report of the State of New Jersey Division of Pensions and Benefits, which includes financial statements, required supplementary information, and detailed information about the PERS plan's fiduciary net position, can be obtained at www.state.nj.us/treasury/pensions/annrprts.shtml or by writing to the State of New Jersey, Department of the Treasury, Division of Pensions and Benefits, P.O. Box 295, Trenton, New Jersey 08625-0295.

The Hospital applies GASB 68 and GASB 71 and records their net pension liability, deferred inflows and outflows of resources, and pension expense associated with the PERS plan. The PERS' net pension liability, deferred inflows and outflows of resources, and pension expense is calculated by an external actuary.

At June 30, 2022, the Hospital reported a liability of $665.5 million, for its proportionate share of the PERS net pension liability. The total pension liability is based on measurement date as of June 30, 2021. The Hospital's proportion for the net pension liability was based on the Hospital's share of the actual contributions paid by the State to PERS relative to the total contributions of all participating state group employers for 2021, which was 3.076%.

At June 30, 2021, the Hospital reported a liability of $693.8 million, for its proportionate share of the PERS net pension liability. The total pension liability is based on measurement date as of June 30, 2020. The Hospital's proportion for the net pension liability was based on the Hospital's share of the actual contributions paid by the State to PERS relative to the total contributions of all participating state group employers for 2020, which was 3.121%.

(a) Actuarial Assumptions

The total pension liability for the June 30, 2021 measurement date was determined by an actuarial valuation as of July 1, 2020, which was rolled forward to June 30, 2021, and was determined using the following actuarial assumptions:

Inflation rate:		
Price	2.75 %	
Wage	3.25	
Salary increases:		
Through 2026	2.0–6.0%	based on years of service
Thereafter	3.0–7.0	based on years of service
Investment rate of return	7.00 %	

The actuarial assumptions used in the July 1, 2020 valuation were based on the results of an actuarial experience study for the period July 1, 2014 to June 30, 2018.

The total pension liability for the June 30, 2020 measurement date was determined by an actuarial valuation as of July 1, 2019, which was rolled forward to June 30, 2020, and was determined using the following actuarial assumptions:

Inflation rate:		
Price	2.75 %	
Wage	3.25	
Salary increases:		
Through 2026	2.00–6.00%	based on years of service
Thereafter	3.00–7.00	based on years of service
Investment rate of return	7.00 %	

The actuarial assumptions used in the July 1, 2019 valuation were based on the results of an actuarial experience study for the period July 1, 2014 to June 30, 2018.

(i) Mortality Tables

The July 1, 2020 valuation used preretirement mortality rates for PERS that were based on the Pub-2010 General Below-Median Income Employee mortality table with an 82.2% adjustment for males and 101.4% adjustment for females, and with future improvement from the base year of 2010 on a generational basis. Post-retirement mortality rates were based on the Pub-2010 General Below-Median Income Healthy Retiree mortality table with a 91.4% adjustment for males and 99.7% adjustment for females, and with future improvement from the base year of 2010 on a generational basis. Disability retirement rates used to value disabled retirees were based on the Pub-2010 Non-Safety Disabled Retiree mortality table with a 127.7% adjustment for males and

117.2% adjustment for females, with future improvement from the base year of 2010 on a generational basis. Mortality improvement is based on Scale MP-2021.

The July 1, 2019 valuation used preretirement mortality rates for PERS that were based on the Pub-2010 General Below-Median Income Employee mortality table with an 82.2% adjustment for males and 101.4% adjustment for females, and with future improvement from the base year of 2010 on a generational basis. Post-retirement mortality rates were based on the Pub-2010 General Below-Median Income Healthy Retiree mortality table with a 91.4% adjustment for males and 99.7% adjustment for females, and with future improvement from the base year of 2010 on a generational basis. Disability retirement rates used to value disabled retirees were based on the Pub-2010 Non-Safety Disabled Retiree mortality table with a 127.7% adjustment for males and 117.2% adjustment for females, with future improvement from the base year of 2010 on a generational basis. Mortality improvement is based on Scale MP-2020.

(b) Expected Rate of Return on Investments

In accordance with State statute, the long-term expected rate of return on plan investments (7.00% at June 30, 2021 and 2020) is determined by the State Treasurer, after consultation with the Directors of the Division of Investments and Division of Pensions and Benefits, the board of trustees, and the actuaries. The long-term expected rate of return was determined using a building block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in PERS's target asset allocation as of June 30, 2021 and 2020 are summarized in the following table:

Asset class	2021 Target allocation	2021 Long-term expected real rate of return	2020 Target allocation	2020 Long-term expected real rate of return
Risk mitigation strategies	3.00 %	3.35 %	3.00 %	3.40 %
Cash equivalents	4.00	0.50	4.00	0.50
U.S. Treasuries	5.00	0.95	5.00	1.94
Investment grade credit	8.00	1.68	8.00	2.67
High yield	2.00	3.75	2.00	5.95
Private credit	8.00	7.60	8.00	7.59
Real assets	3.00	7.40	3.00	9.73
Real estate	8.00	9.15	8.00	9.56
U.S. equity	27.00	8.09	27.00	7.71
Non-U.S. developed market equity	13.50	8.71	13.50	8.57
Emerging market equity	5.50	10.96	5.50	10.23
Private equity	13.00	11.30	13.00	11.42

(Continued)

(c) Discount Rate

The discount rate used to measure the total pension liability was 7.00% as of June 30, 2021 and 2020.

For the June 30, 2021 measurement date, the projection of cash flows used to determine the discount rate assume that the contribution from plan members will be made at the current member contribution rates and that contributions from employers and the nonemployer contributing entity will be based on 100% of the actuarially determined contributions for the State employer and 100% of actuarially determined contributions for the local employers. Based on those assumptions, the plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on plan investments was applied to projected benefit payments to determine the total pension liability.

For the June 30, 2020 measurement date the projection of cash flows used to determine the discount rate in 2020 assume that the contribution from plan members will be made at the current member contribution rates and that contributions from employers and the nonemployer contributing entity will be based on 78% of the actuarially determined contributions for the State employer and 100% of actuarially determined contributions for the local employers. Based on those assumptions, the plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on plan investments was applied to projected benefit payments to determine the total pension liability.

The following presents the Hospital's proportionate share of the net pension liabilities, measured as of June 30, 2021 and 2020, calculated using the discount rate as disclosed above, as well as what the Hospital's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower or one-percentage-point higher than the current rate (in millions):

	2021		
	1% Decrease (6.00%)	**Discount rate (7.00%)**	**1% Increase (8.00%)**
Hospital's proportionate share of the net pension liability	763.8	665.5	582.3

	2020		
	1% Decrease (6.00%)	**Discount rate (7.00%)**	**1% Increase (8.00%)**
Hospital's proportionate share of the net pension liability	791.6	693.8	611.2

(Continued)

(d) Collective Deferred Outflows of Resources and Deferred Inflows of Resources

Deferred Outflows of Resources from Pensions

		2022	2021
		(In thousands)	
Differences between expected and actual experience	$	16,175	18,241
Changes of assumptions		1,358	11,575
Changes in proportion		133,213	196,569
Net difference between projected and actual investment earnings on pension plan investments		—	7,874
Contributions paid to the plan subsequent to measurement date **		53,153	34,427
Total	$	203,899	268,686

** The contributions paid to the plan subsequent to the measurement date are recognized as a reduction of the net pension liability in fiscal year 2022 and 2021, respectively.

Deferred Inflows of Resources from Pensions

		2022	2021
		(In thousands)	
Differences between expected and actual experience	$	2,299	3,739
Changes of assumptions		94,322	156,215
Changes in proportion		9,486	—
Net difference between projected and actual investment earnings on pension plan investments		20,931	—
Total	$	127,038	159,954

(Continued)

The deferred inflows and outflows of resources at June 30, 2022 will be recognized as pension expense as follows (in thousands):

	Amount
Years ended June 30:	
2023	$ 4,994
2024	15,062
2025	9,765
2026	(5,984)
2027	(129)
	$ 23,708

(e) Annual Pension and Postemployment Benefits Other Than Pension Expense

The Hospital's annual pension expense for the fiscal year ended June 30, 2022 was approximately $43.8 million and for the fiscal year ended June 30, 2021 was approximately $87.9 million.

(i) Alternate Benefit Program (ABP)

Plan Description – ABP is an employer, defined-contribution State retirement plan established as an alternative to PERS. The payroll for the Hospital's employees covered by ABP for the years ended June 30, 2022 and 2021 was $66.6 million and $72.8 million, respectively.

Professional and administrative staff, and certain other salaried employees hired prior to July 1, 2013 are eligible to participate in ABP. Employer (State) contributions vest on reaching one year of credited service. The program also provides long-term disability and life insurance benefits. Benefits are payable upon termination at the member's option unless the participant is reemployed in another institution that participates in ABP.

Contributions – The employee mandatory contribution rate for ABP is 5% of base salary and is matched by the State at 8% of base salary. Contributions can be invested with up to seven investment carriers available under the plan for fiscal year 2022. Additional voluntary contributions may be made on a tax-deferred basis, subject to limits within the Internal Revenue Code. Employer contributions for the years ended June 30, 2022 and 2021 were $5.3 million and $5.8 million, respectively. Employee contributions for the years ended June 30, 2022 and 2021 were $3.3 million and $3.6 million, respectively.

(ii) Deferred Compensation Plan

Hospital employees with membership in PERS or ABP are eligible to participate in the State of New Jersey's Employees Deferred Compensation Plan created in accordance with Internal Revenue Code Section 457. The plan permits employees to elect pretax and/or after-tax Roth contributions to invest a portion of their base salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. The plan is administered by Prudential Financial. The plan does not include any matching employer (State)

contributions. All amounts of compensation deferred under the plan, all property and rights purchased with those amounts and all income attributable to those amounts, property or rights, are held in trust by the State for the exclusive benefit of the participating employees and their beneficiaries.

(iii) Postemployment Benefits Other than Pensions

The Hospital's retirees participate in the State Health Benefit State Retired Employees Plan (the Plan).

Plan description, including benefits provided – The Plan is a single-employer defined-benefit other postemployment benefit plan, which provides medical, prescription drug, and Medicare Part B reimbursements to retirees and their covered dependents. Although the Plan is a single-employer plan, it is treated as a cost-sharing multiple employer plan for stand-alone reporting purposes. In accordance N.J.S.A. 52:14-17.32, the State is required to pay the premiums and periodic charges for OPEB of State employees who retire with 25 years or more of credited service, or on a disability pension, from one or more of the following pension plans: PERS, ABP, or the Police and Firemen's Retirement System (PFRS). In addition, Chapter 302, P.L. 1996 provides that for purposes of this Plan, the Hospital's employees retain any and all rights to the health benefits in the Plan, even though the Hospital is considered autonomous from the State, therefore, its employees are classified as State employees. As such, the State is legally obligated for the benefit payments on behalf of the retirees of the Hospital; therefore, the Plan meets the definition of a special funding situation as defined in GASB 75.

Retirees who are not eligible for employer-paid health coverage at retirement can continue in the program by paying the cost of the insurance for themselves and their covered dependents. Pursuant to Chapter 78, P.L, 2011, future retirees eligible for postretirement medical coverage, who have less than 20 years of creditable service on June 28, 2011, will be required to pay a percentage of the cost of their healthcare coverage in retirement provided they retire with 25 years or more of pension service credit. The percentage of the premium for which the retiree will be responsible for will be determined based on the retiree's annual retirement benefit and level of coverage.

The Plan is administered on a pay-as-you-go-basis. Accordingly, no assets are accumulated in a qualifying trust that meets the definition of a trust as per GASB 75.

Total OPEB Liability and OPEB Expense – As of June 30, 2022 and 2021, the State recorded a liability of $641.9 million and $709.9 million, respectively, which represents the portion of the State's total proportionate share of the collective total OPEB liability that is associated with the Hospital (the Hospital's share). The Hospital's share was based on the ratio of its members to the total members of the Plan. At June 30, 2022 and 2021, the Hospital's share was 9.4% and 2.6% and 8.9% and 2.5% of the special funding situation and of the Plan, respectively.

For the years ended June 30, 2022 and 2021, the Hospital recognized OPEB expense of $7.4 million and $12.4 million, respectively. As the State is legally obligated for benefit payments on behalf of the Hospital, the Hospital recognized nonoperating income related to the support provided by the State of $7.4 million and $12.4 million for the years ended 2022 and 2021, respectively.

Actuarial assumptions and other inputs – The State's liability associated with the Hospital at June 30, 2022 was determined by an actuarial valuation as of June 30, 2020, which was rolled forward to the measurement date of June 30, 2021. The State's liability associated with the Hospital at June 30, 2021 was determined by an actuarial valuation as of June 30, 2019, which was rolled forward to the measurement date of June 30, 2020. The valuations used the following assumptions:

	2021	2020
Inflation	2.50 %	2.50 %
Discount rate	2.16	2.21
Salary increases:		
Through 2026	1.55–6.00%	1.55–6.00%
Thereafter	2.75–7.00	2.75–7.00

The discount rate is based on the Bond Buyer GO 20-Bond Municipal Bond Index, which includes tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher. Salary increases depend on the pension plan a member is enrolled in. In addition, they are based on age or years of service.

The June 30, 2020 valuation used preretirement mortality rates based on the Pub-2010 Healthy "Teachers" (TPAF/ABP), "General" (PERS/JRS) classification headcount-weighted mortality table with fully generational mortality improvement projections from the central year using the MP-2021 scale. Postretirement mortality rates were based on the Pub-2010 "General" classification headcount weighted mortality table with fully generational mortality improvement projections from the central year using the MP-2021 scale. Future disability mortality was based on the Pub-2010 "Teachers" (TPAF/ABP) and "General" (PERS/JRS) classification headcount-weighted disabled mortality table with fully generational mortality improvement projections from the central year using the MP-2021 scale. Current disabled retirees mortality rate was based on the Pub-2010 "General" classification headcount-weighted disabled mortality table with fully generational mortality improvement projections from the central year using Scale MP-2021.

The June 30, 2019 valuation used preretirement mortality rates based on the Pub-2010 Healthy "Teachers" (TPAF/ABP), "General" (PERS/JRS) classification headcount-weighted mortality table with fully generational mortality improvement projections from the central year using the MP-2020 scale. Postretirement mortality rates were based on the Pub-2010 "General" classification headcount weighted mortality table with fully generational mortality improvement projections from the central year using the MP-2020 scale. Disability mortality was based on the Pub-2010 "Teachers" (TPAF/ABP) and "General" (PERS/JRS) classification headcount-weighted disabled mortality table with fully generational mortality improvement projections from the central year using the MP-2020 scale.

Certain actuarial assumptions used in the June 30, 2020 valuation were based on the results of actuarial experience studies of the State of New Jersey's defined-benefit plans, including PERS

(July 1, 2014 through June 30, 2018) and ABP (using the experience of the Teacher's Pension and Annuity Fund – July 1, 2015 through June 30, 2018).

Certain actuarial assumptions used in the June 30, 2019 valuation were based on the results of actuarial experience studies of the State of New Jersey's defined-benefit plans, including PERS (July 1, 2014 through June 30, 2018) and ABP (using the experience of the Teacher's Pension and Annuity Fund – July 1, 2015 through June 30, 2018).

Health Care Trend Assumptions – For pre-Medicare medical benefits, this amount initially is 5.65% for June 30, 2020 and decreases to a 4.5% long-term trend rate after seven years. For post-65 medical benefits, the actual fully insured Medicare Advantage trend rates for the fiscal year 2022 and 2023 are reflected. For PPO, the trend is initially 5.79% in fiscal year 2024, increasing to 13.79% in fiscal year 2025 and decreases to 4.5% after 11 years. For HMO, the trend is initially 5.98% in fiscal year 2024, increasing to 15.49% in fiscal year 2025 and decreases to 4.5% after 11 years. For prescription drug benefits, the initial trend rate is 6.75% and decreases to 4.5% long-term trend rate after seven years.

For pre-Medicare medical benefits, this amount initially is 5.6% for June 30, 2019 and decreases to a 4.5% long-term trend rate after seven years. For post-65 medical benefits, the actual fully insured Medicare Advantage trend rate for the fiscal year 2021 and 2022 are reflected. The rates used for 2023 and 2024 are 21.83% and 18.53%, respectively, trending to 4.5% for all future years. The assumed post-65 medical trend rate is 4.5% for all future years. For prescription drug benefits, the initial trend rate is 7.0% for June 30, 2019, decreasing to a 4.5% long-term trend rate after seven years.

(12) Commitments and Contingencies

(a) Reimbursement

The Hospital derives significant third-party revenues from the Medicare and Medicaid programs. Medicare reimburses most inpatient acute services on a prospectively determined rate per discharge, based on diagnosis-related groups (DRGs) of illnesses, i.e., the Prospective Payment System (PPS). For outpatient services, Medicare payments are based on service groups called ambulatory payment classifications (APCs).

Medicare adjusts the reimbursement rates for capital, medical education, costs related to treating a disproportionate share of indigent patients, and some physician services are reimbursed on a cost basis. Due to these adjustments and other factors, final determination of the reimbursement settlement for a given year is not known until Medicare performs its annual audit. The Hospital's costs reports have been settled by the Medicare fiscal intermediary through June 30, 2018, except for 2005. The Hospital's Medicaid cost report have been audited and settled with the Medicaid fiscal intermediary through June 30, 2019.

The Hospital has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment to the Hospital under these agreements includes prospectively determined rates per day/case and discounts from established charges.

Revenues received under the various reimbursement systems and agreements are subject to audit and adjustment. Accordingly, provisions for estimated adjustments resulting from audit, final settlement, and changes in estimates have been recorded. Differences between the provisions and the amounts settled are recorded in the year of settlement. The Hospital recognized an increase in net patient service revenue of $2.4 million and $1.4 million in 2022 and 2021, respectively, as a result of changes in estimated third-party settlements.

The Hospital is in varying stages of appeals relating to third-party payors' reimbursement rates. Management routinely provides for the effects of all determinable prior year appeals, settlements, and audit adjustments and records estimates based upon existing regulations, past experience, and discussions with third-party payors. However, since the ultimate outcomes for various appeals are not presently determinable, no provision has been made in the accompanying financial statements for such issues.

The Patient Protection and Affordable Care Act, as amended by the Health Care and Education Reconciliation Act of 2010 (collectively, Health Reform Law), which was signed into law on March 23, 2010, changed how healthcare services are covered, delivered, and reimbursed through expanded coverage of uninsured individuals, reduced growth in Medicare program spending, reduction in Medicaid Disproportionate Share Hospital payments, overall reduction and significant redistribution of Medicare Disproportionate Share Hospital payments, and the establishment of programs in which reimbursement is tied to quality and integration. In addition, Health Reform Law reforms certain aspects of health insurance, expands existing efforts to tie Medicare and Medicaid payments to performance and quality, and contains provisions intended to strengthen fraud and abuse enforcement.

There are various proposals at the federal and state levels that could, among other things, reduce reimbursement rates, modify reimbursement methods, or increase managed care penetration, including Medicare and Medicaid. The ultimate outcome of these proposals and other market changes cannot presently be determined.

Laws and regulations governing Medicaid and Medicare are complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. The Hospital believes that it is in compliance with all applicable regulations and that any pending or possible investigations involving allegations of potential wrongdoing will not materially impact the accompanying financial statements. While certain regulatory inquiries have been made, compliance with the regulations can be subject to future government review and interpretation, as well as significant regulatory action, i.e., fines, penalties, and possible exclusion from Medicaid and Medicare, in the event of noncompliance. In accordance with recent trends in healthcare financial operations, the Hospital has established a Corporate Compliance Committee and appointed a Corporate Compliance Officer to monitor adherence to laws and regulations.

(b) Legal Matters

There are outstanding legal claims against the Hospital for alleged negligence, medical malpractice, and other torts, and for alleged breach of contract. Pursuant to the Agreement, the Hospital is indemnified by the State for such costs, which were $15 thousand and $25 thousand for 2022 and 2021, respectively. The Hospital records these costs when settled by the State as appropriations from

(Continued)

the State and as supplies and other expenses in the accompanying financial statements. Accordingly, no provision has been made in the accompanying financial statements for unsettled claims, whether asserted or not.

(c) Accrued Claims Liability

The Hospital is self-insured for workers' compensation benefits. At June 30, 2022 and 2021, the accrual for estimated workers' compensation claims, based on an independent actuary's estimate, includes undiscounted estimates of ultimate costs for both reported claims and claims incurred but not reported of approximately $22.9 million and $22.9 million, respectively, and is included in accrued claims liability in the accompanying statements of net position. In addition, the Hospital maintains an excess Workers' Compensation Policy with a commercial insurance company.

Activity in the liability for accrued claims liability, which includes workers' compensation claims, and included in supplies and other expenses, is summarized as follows (in thousands):

		2022	2021
Balances at July 1	$	22,861	22,672
Claims incurred		4,500	4,900
Claims paid		(3,062)	(2,790)
Change in prior year estimate		(1,442)	(1,921)
Balances at June 30	$	22,857	22,861

The change in prior year estimate is generally the result of ongoing analysis of recent loss development trends.

(d) Rutgers University and the State

The Hospital entered into a master affiliation agreement, various real estate agreements, transition service agreement, continuing service agreement, and various operational agreements with Rutgers University and the State. The agreements include various real estate leases, information technology services, clinical services, research affiliation, medical education, and other services (note 10).

(Continued)

(13) Condensed Combining Information

The condensed combining statement of net position at June 30, 2022 is as follows (in thousands):

	UH June 30, 2022	BHCC December 31, 2021	Elimination	Total
Assets and deferred outflows of resources:				
Current assets	$ 387,867	4,103	(163)	391,807
Noncurrent assets	190,950	746	—	191,696
Capital assets, net	221,101	1,460	—	222,561
Deferred outflows of resources	203,899	—	—	203,899
Total assets and deferred outflows of resources	$ 1,003,817	6,309	(163)	1,009,963
Liabilities, deferred inflows of resources and net position:				
Current liabilities	$ 192,769	1,663	(163)	194,269
Long-term debt, net	276,864	—	—	276,864
Other long-term liabilities	763,433	—	—	763,433
Deferred inflows of resources	162,241	—	—	162,241
Total liabilities and deferred inflows of resources	1,395,307	1,663	(163)	1,396,807
Net position:				
Net investment in capital assets	62,032	1,446	—	63,478
Unrestricted	(453,522)	3,200	—	(450,322)
Total net position	(391,490)	4,646	—	(386,844)
Total liabilities and net position	$ 1,003,817	6,309	(163)	1,009,963

(Continued)

The condensed combining statement of net position at June 30, 2021 is as follows (in thousands):

		UH June 30, 2021	BHCC December 31, 2020	Elimination	Total
Assets and deferred outflows of resources:					
Current assets	$	303,911	4,188	(163)	307,936
Noncurrent assets		195,848	780	—	196,628
Capital assets, net		201,696	1,357	—	203,053
Deferred outflows of resources		268,686	—	—	268,686
Total assets and deferred outflows of resources	$	970,141	6,325	(163)	976,303
Liabilities, deferred inflows of resources, and net position:					
Current liabilities	$	193,065	2,345	(163)	195,247
Long-term debt		277,075	—	—	277,075
Other long-term liabilities		791,676	—	—	791,676
Deferred inflows of resources		195,683	—	—	195,683
Total liabilities and deferred inflows of resources		1,457,499	2,345	(163)	1,459,681
Net position:					
Net investment in capital assets		47,791	1,329	—	49,120
Unrestricted		(535,149)	2,651	—	(532,498)
Total net position		(487,358)	3,980	—	(483,378)
Total liabilities and net position	$	970,141	6,325	(163)	976,303

(Continued)

The condensed combining statement of revenues, expenses, and changes in net position at June 30, 2022 and 2021 is as follows (in thousands):

	UH June 30, 2022	BHCC December 31, 2021	Elimination	Total
Total operating revenues	$ 732,529	10,413	—	742,942
Total operating expenses	857,677	10,472	—	868,149
Operating loss	(125,148)	(59)	—	(125,207)
Nonoperating income (expenses)	199,909	725	—	200,634
Interest expense	(15,978)	—	—	(15,978)
Other changes in net position	37,085	—	—	37,085
Increase in net position	95,868	666	—	96,534
Net position at beginning of year	(487,358)	3,980	—	(483,378)
Net position at end of year	$ (391,490)	4,646	—	(386,844)

	UH June 30, 2021	BHCC December 31, 2020	Elimination	Total
Total operating revenues	$ 624,058	9,806	—	633,864
Total operating expenses	869,420	10,118	—	879,538
Operating loss	(245,362)	(312)	—	(245,674)
Nonoperating income (expenses)	234,864	794	—	235,658
Interest expense	(16,266)	—	—	(16,266)
Other changes in net position	19,332	—	—	19,332
Decrease (increase) in net position	(7,432)	482	—	(6,950)
Net position at beginning of year	(479,926)	3,498	—	(476,428)
Net position at end of year	$ (487,358)	3,980	—	(483,378)

(Continued)

The condensed combining statement of cash flows for the year ended June 30, 2022 and 2021 is as follows (in thousands):

	UH June 30, 2022	BHCC December 31, 2021	Elimination	Total
Net cash provided by operating activities	$ 12,304	354	—	12,658
Net cash provided by noncapital financing activities	51,917	69	—	51,986
Net cash used in capital and related financing activities	(27,337)	(308)	—	(27,645)
Net cash provided by investing activities	7,390	20	—	7,410
Net increase in cash	44,274	135	—	44,409
Cash at beginning of year	142,543	1,580	—	144,123
Cash at end of year	$ 186,817	1,715	—	188,532

	UH June 30, 2021	BHCC December 31, 2020	Elimination	Total
Net cash used in operating activities	$ (26,711)	(333)	—	(27,044)
Net cash provided by noncapital activities	59,896	1,431	—	61,327
Net cash used in capital and related financing activities	(26,828)	(123)	—	(26,951)
Net cash (used in) provided by investing activities	(3,074)	20	—	(3,054)
Net increase in cash	3,283	995	—	4,278
Cash at beginning of year	139,260	585	—	139,845
Cash at end of year	$ 142,543	1,580	—	144,123

(14) Subsequent Event

Management evaluated all events and transactions that occurred after June 30, 2022 and through March 30, 2023.

UNIVERSITY HOSPITAL

(A Component Unit of the State of New Jersey)

Required Supplementary Information

Schedules of the Hospital's Contributions

(Unaudited)

For the Eight Years ended June 30, 2022

(Dollar amounts in thousands)

Public Employee Retirement System (PERS)	2022	2021	2020	2019	2018	2017	2016	2015
Contractually required contribution	$ 53,153	34,427	26,696	19,940	13,638	9,174	7,233	3,906
Contribution in relation to the contractually required contribution	(53,153)	(34,427)	(26,696)	(19,940)	(13,638)	(9,174)	(7,233)	(3,906)
Contribution deficiency	$ —	—	—	—	—	—	—	—
Covered-employee payroll	$ 153,226	139,662	135,298	131,708	120,783	114,464	95,926	88,210
Contributions as a percentage of covered-employee payroll	34.69 %	24.65 %	19.73 %	15.14 %	11.29 %	8.01 %	7.54 %	4.43 %

Note: Contributed by the State of New Jersey

See accompanying independent auditors' report.

Notes

1) Information provided for required supplementary information will be provided for 10 years as the information becomes available in subsequent years.

2) There were no significant changes in benefits for any of the actuarial valuations used to determine required contributions.

3) There were no significant changes in assumptions except for the annual change in the discount rate and the change in the long-term rate of return as follows:

   For 2021, the discount rate remained at 7.00% and the municipal bond rate was not used. For 2020, the discount rate change to 7.00% and the municipal bond rate was not used. For 2019, the discount rate changed to 6.28% and the municipal bond rate changed to 3.50% from 3.87%. For 2018, the discount rate changed to 5.66% and the municipal bond rate changed to 3.87% from 3.58%. For 2017, the discount rate changed to 5.00% and the long-term rate of return changed to 7.00%. For 2016, the discount rate changed to 3.98%, the long-term expected rate of return changed to 7.65% from 7.90%. For 2015, the discount rate changed to 4.90% from 5.39%.

(Continued)

UNIVERSITY HOSPITAL

(A Component Unit of the State of New Jersey)

Required Supplementary Information

Schedules of the Hospital's Proportionate Share of the Net Pension Liability

(Unaudited)

For the Eight Years ended June 30, 2022

(Dollar amounts in thousands)

Public Employees Retirement System (PERS)	2022	2021	2020	2019	2018	2017	2016	2015
Hospital's proportion of the net pension liability	3.076 %	3.121 %	2.664 %	2.272 %	2.112 %	1.878 %	1.732 %	1.722 %
Hospital's proportionate share of the net pension liability	$ 665,514	693,822	613,047	538,608	541,572	552,097	410,860	346,611
Hospital's covered-employee payroll	139,662	135,298	131,708	120,783	114,464	95,926	88,210	79,796
Hospital's proportionate share of the net pension liability as a percentage of its covered-employee payroll	$ 476.52 %	512.81 %	465.46 %	445.93 %	473.14 %	575.54 %	465.77 %	434.37 %
Plan fiduciary net position as a percentage of the total pension liability	51.52 %	41.76 %	42.04 %	40.40 %	36.78 %	31.20 %	38.21 %	42.74 %

See accompanying independent auditors' report.

Notes

1) Information provided for required supplementary information will be provided for 10 years as the information becomes available in subsequent years.

2) There were no significant changes in benefits for any of the actuarial valuations used to determine required contributions.

3) There were no significant changes in assumptions except for the annual change in the discount rate and the change in the long-term rate of return as follows:

   For 2021, the discount rate remained at 7.00% and the long-term rate of returned remained at 7.00%. For 2020, the discount rate change to 7.00% from 6.28% and the long-term rate of returned remained at 7.00%. For 2019, the discount rate changed to 6.28% and the municipal bond rate changed to 3.50% from 3.87%. For 2018, the discount rate changed to 5.66% and the municipal bond rate changed to 3.87% from 3.58%. For 2017, the discount rate changed to 5.00% and the long-term rate of return changed to 7.00%. For 2016, the discount rate changed to 3.98%, the long-term expected rate of return changed to 7.65% from 7.90%. For 2015, the discount rate changed to 4.90% from 5.39%.

(Continued)

UNIVERSITY HOSPITAL
(A Component Unit of the State of New Jersey)

Required Supplementary Information

Schedules of the Hospital's Proportionate Share of the Total Other Postemployment Benefit (OPEB) Liability

(Unaudited)

For the Five Years ended June 30, 2022

(Dollar amounts in thousands)

	2022	2021	2020	2019	2018
Hospital's proportion of the collective total OPEB liability	— %	— %	— %	— %	— %
Hospital's proportionate share of the collective total OPEB liability	—	—	—	—	—
State of New Jersey's proportionate share of the collective total OPEB liability associated with the Hospital	$ 641,908	709,864	443,668	559,176	618,890
Total proportionate share of the collective OPEB liability	$ 641,908	709,864	443,668	559,176	618,890
Hospital's covered-employee payroll	$ 239,267	232,583	228,465	226,743	193,087
Hospital's proportionate share of the collective total OPEB liability as a percentage of the Hospital's covered-employee payroll	— %	— %	— %	— %	— %

See accompanying independent auditors' report.

Notes

1) Information provided for required supplementary information will be provided for 10 years as the information becomes available in subsequent years.

2) For the State Health Benefit State Retired Employees Plan, there are no assets accumulated in a trust that meets the criteria in paragraph 4 of GASB 75.

3) There were no significant changes in assumptions except for the annual change in the discount rate as follows:

   For 2021 the discount rate was changed to 2.16% from 2.21%. The mortality tables utilized Pub-2010 and Scale MP-2021. For 2020, the discount rate was change to 2.21% from 3.50%. The mortality tables utilized Pub-2010 and Scale MP-2020. For 2019, the discount rate was changed to 3.50% from 3.87%. The mortality tables utilized change from RP-2006 in 2018 to Pub-2010 in 2019. For 2018, the discount rate was changed to 3.87% from 3.58%.