



UNIVERSITY HOSPITAL
(A Component Unit of the State of New Jersey)
Financial Statements
June 30, 2021 and 2020
(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:

We have audited the accompanying financial statements of the business-type activities of University Hospital (the Hospital), a component unit of the State of New Jersey, as of and for the years ended June 30, 2021 and 2020, and the related notes to the financial statements, which collectively comprise the Hospital's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of University Hospital as of June 30, 2021 and 2020, and the changes in financial position and cash flows thereof for the years then ended, in accordance with U.S. generally accepted accounting principles.



Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 3 through 15 and the Schedules of the Hospital's Contributions, the Schedules of the Hospital's Proportionate Share of the Net Pension Liability, and the Schedule of the Hospital's Proportionate Share of the Other Postemployment Benefit (OPEB) Liability on pages 57 through 59, respectively, be presented to supplement the basic financial statements. Such information, 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 auditing standards generally accepted in the United States of America, 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 audit 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
May 11, 2022

UNIVERSITY HOSPITAL
(A Component Unit of the State of New Jersey)
Management's Discussion and Analysis (Unaudited)
June 30, 2021 and 2020

This section of the Hospital's annual financial report presents management's discussion and analysis of the summarized assets, liabilities, and net position as of June 30, 2021 compared to June 30, 2020 balances and June 30, 2020 compared to June 30, 2019 balances. This section also presents management's discussion and analysis of the financial performance during the years ended June 30, 2021 compared to June 30, 2020 and June 30, 2020 financial performance compared to June 30, 2019. 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 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, 2021 and 2020, 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 and liabilities 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.

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A summarized comparison of the Hospital's combined assets, liabilities, and net position at June 30, 2021, 2020, and 2019 are as follows (in thousands):

	<u>2021</u>	<u>2020</u>	<u>2019</u>
Assets:			
Current assets:			
Cash	\$ 144,123	139,845	73,587
Restricted investments	11,294	6,113	6,141
Patient accounts receivable, net	88,840	81,894	81,102
Other current assets	63,614	69,747	58,715
Noncurrent assets:			
Restricted investments	65,934	65,858	73,721
Prepaid bond insurance	14,382	14,969	15,556
Capital assets, net	<u>262,518</u>	<u>226,082</u>	<u>216,763</u>
Total assets	<u>\$ 650,705</u>	<u>604,508</u>	<u>525,585</u>
Deferred outflows of resources	\$ 268,686	211,496	172,062
Liabilities:			
Current liabilities	\$ 193,173	202,777	126,459
Long-term debt and capital leases, net	350,407	343,997	341,721
Pension liability	693,822	613,047	538,608
Other long-term liabilities	<u>17,636</u>	<u>17,485</u>	<u>18,466</u>
Total liabilities	<u>\$ 1,255,038</u>	<u>1,177,306</u>	<u>1,025,254</u>
Deferred inflows of resources	\$ 159,954	127,336	112,897
Net position:			
Net investment in capital assets	\$ 36,858	8,091	5,970
Unrestricted	<u>(532,459)</u>	<u>(496,729)</u>	<u>(446,474)</u>
Total net position	<u>\$ (495,601)</u>	<u>(488,638)</u>	<u>(440,504)</u>

Overall Financial Position and Operations

The novel coronavirus (COVID-19) was identified in China in December 2019 and was identified in the State of New Jersey in March 2020. It has since spread globally creating an international pandemic which has significantly impacted the economic conditions at a local, national, and global level. On March 8, 2020, the Governor of the State of New Jersey declared a state of emergency to ensure the swift deployment of resources necessary to address coronavirus in New Jersey and the forecasted potential surge of COVID-19 patients. On March 13, 2020, President Trump declared a national state of emergency with respect to the COVID-19 outbreak, ordering all states to establish emergency operations and authorizing the use of federal funds.

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In accordance with direction and mandates from the Governor, beginning on March 27, 2020, the Hospital cancelled or postponed all non-emergent and elective procedures. On May 26, 2020, the Governor changed the restrictions on non-emergent and elective procedures allowing the Hospital to resume non-emergent and elective procedures. The cancellation of procedures from the end of March to the end of May had a significant impact on volumes and revenues in the fiscal year. At the same time, the Hospital's expenses remained at close to historic levels due to its inability to adjust staffing levels to volumes. The Hospital's pandemic response plan has multiple facets and continues to evolve. In fiscal year 2021, 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 approximately \$107.3 million in fiscal years 2020 and 2021 to aid in the recovery of lost revenue and health-related expenses attributable to COVID-19.

The Hospital's total net position from the period June 30, 2020 to June 30, 2021, decreased by \$6.9 million. Net investment in capital assets increased by \$28.8 million during 2021. The Hospital's unrestricted position decreased \$35.7 million from \$496.7 million at June 30, 2020 to \$532.4 million at June 30, 2021. The decrease was mainly due to \$68.9 million of pension expense during fiscal year 2021 related to Governmental Accounting Standards Board (GASB) 68, *Accounting and Financial Reporting for Pensions*. (Pension expense, without consideration for GASB 68, was \$26.7 million during 2021). Without giving effect to the pension expense for GASB 68, the Hospital's unrestricted position increased by \$6.5 million in fiscal year 2021.

The Hospital's total net position from the period June 30, 2019 to June 30, 2020, decreased by \$48.1 million. Net investment in capital assets increased by \$2.1 million during 2020. The Hospital's unrestricted position decreased \$50.2 million from \$446.5 million at June 30, 2019 to \$496.7 million at June 30, 2020. The decrease was mainly due to \$59.9 million of pension expense during fiscal year 2020 related to Governmental Accounting Standards Board (GASB) 68, *Accounting and Financial Reporting for Pensions*. (Pension expense, without consideration for GASB 68, was \$19.9 million during 2020). Without giving effect to the pension expense for GASB 68, the Hospital's unrestricted position increased by \$9.7 million in fiscal year 2020.

Significant financial ratios are as follows:

	<u>2021</u>	<u>2020</u>	<u>2019</u>
Current ratio	1.59	1.47	1.74
Quick ratio	1.21	1.10	1.22
Days cash on hand	66.83	67.21	39.20
Net days revenue in patient receivables	54.62	55.56	55.87

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.

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Variances in Financial Statements

In this section, the Hospital explains the reasons for certain financial statement items with variances relating to 2021 amounts compared to 2020 and, where appropriate, 2019.

Statement of Net Position

Cash – 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. Cash at June 30, 2020 increased by \$66.3 million as compared to the prior year. This is primarily attributed to the receipt of the CARES Act funds of \$98.1 million of which \$57.7 million is deferred and recorded in other current liabilities.

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. Patient accounts receivable net, increased \$0.8 million from June 30, 2019 to June 30, 2020 of which \$0.3 million is related to University Hospital and \$0.5 million to Broadway House. Days in-patient accounts receivable of 55.9 are 2.8 days less than fiscal year 2019.

Other current assets – decreased \$6.1 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. *Other current assets* increased \$11.0 million from June 30, 2019 to June 30, 2020. This is due to the delay in receipt of funds from the State of New Jersey of \$3.1 million for appropriation initiatives and FICA reimbursements. Additionally, other current assets increased year over year because of the following: \$3.6 million due from Rutgers for rent and services, \$2.1 million for inventory purchases and \$1.6 million for prepaid expense.

Restricted investments (current and long term) – increased by \$5.3 million from June 30, 2020 to June 30, 2021 due to the withholding of \$5.2 million of bond principal by UH's trustee TD bank to satisfy the debt obligation due July 1, 2021. *Restricted investments (current and long term)* decreased by \$7.9 million from June 30, 2019 to June 30, 2020 due to the drawdown of capital funds used in the financing of routine and emergency capital needs and technology to replace the services formerly provided by Rutgers University, for capital upgrades, and for additions to various services and facilities.

Prepaid bond insurance – decreased \$0.6 million from June 30, 2020 to June 30, 2021 and from June 30, 2019 to June 30, 2020 due to amortization. The cost of the prepaid bond insurance was \$17.6 million and \$3.2 million as of June 30, 2021 and \$2.7 million has been amortized as of June 30, 2020, respectively.

Capital assets, net – increased \$36.4 million from June 30, 2020 to June 30, 2021 due mainly to \$54.7 million of acquisitions that were partially offset by current year depreciation of \$18.3 million. Capital assets, net increased \$9.3 million from June 30, 2019 to June 30, 2020 due mainly to \$29.8 million of acquisitions that were partially offset by current year depreciation of \$20.5 million.

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Accounts payable and accrued expenses – increased by \$18.9 million from June 30, 2020 to June 30, 2021 due primarily to purchases of personal protective equipment, purchased services, and COVID-19 related operating and capital purchases. Accounts payable and accrued expenses increased \$3.2 million from June 30, 2018 to June 30, 2019 due timing of normal operating activity. The Hospital continues with the practice of paying vendors within 45 days after providing services. The Hospital had days in accounts payable of 87.31 and 69.98 days as of June 30, 2021 and 2020, respectively.

Accrued salaries and related payroll taxes – decreased by \$2.4 million from June 30, 2020 to June 30, 2021 due to the settlement of union employees contracts. Accrued salaries and related payroll taxes increased by \$2.1 million from June 30, 2019 to June 30, 2020 due to change in estimated retroactive salary adjustments and for accrued days.

Due to Rutgers University – increased approximately \$4.0 million from June 30, 2020 to June 30, 2021 and \$9.1 million from June 30, 2019 to June 30, 2020 as the Hospital and Rutgers University continue to work toward a collegial relationship that would allow both entities to pay within agreed timeframes. The balance at June 30, 2021 and 2020 represents liabilities for both clinical and facility services. The payment timeframes depend on the service ranging from advanced payments to 45 days from date of invoice.

Accrued workers' compensation – increased \$0.2 million from June 30, 2020 to June 30, 2021 and decreased \$0.6 million from June 30, 2019 to June 30, 2020 due to an updated actuarial analysis. The Hospital continues to record this liability on an undiscounted basis.

Estimated third-party payor settlements – increased by \$0.3 million from June 30, 2020 to June 30, 2021 primarily due to settlements of prior year cost reports and changes in reserve estimates. Management Estimated third-party payor settlements decreased by \$3.2 million from June 30, 2019 to June 30, 2020 primarily due to settlements of prior year cost reports and changes in reserve estimates.

Other current liabilities – decreased \$35.8 million from June 30, 2020 to June 30, 2021 primarily due to the recognition of \$45.4 million of deferred revenue of Provider Relief Funds received in fiscal year 2020 which was partially offset by an additional deferral unearned stimulus funds of \$9.2 million received in fiscal year 2021 which can be earned in future periods. The balance also includes unearned stimulus funds \$12.4 million which have subsequently been returned to HHS. Other current liabilities from June 30, 2019 to June 30, 2020 increased by \$57.4 million due to the deferral of the Provider Relief Funds.

Current portion of long-term debt – increased \$5.1 million from June 30, 2020 to June 30, 2021 as a result of the first principal amount due on the Series 2015A bonds. *Current portion of long-term debt* remained flat from June 30, 2019 to June 30, 2020.

Long-term debt – 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 and payments to Rutgers for capital leases.

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Long-term debt increased \$2.3 million from June 30, 2019 to June 30, 2020, as a result of new loans from the New Jersey Energy Resiliency Bank (ERB) and Public Service Enterprise Group (PSE&G) in the amount of \$3.2 million. This is offset by \$1.0 million amortization of the bond premium and payments to Rutgers for capital leases.

Pension liability, deferred inflows of resources, and deferred outflows of resources – increased \$80.8 million, \$32.6 million and \$57.2 million respectively, from June 30, 2020 to June 30, 2021 due to changes in assumptions and proportion. Pension liability, deferred inflows of resources, and deferred outflows of resources increased \$74.4 million, \$14.4 million and \$39.2 million respectively, from June 30, 2019 to June 30, 2020 due to changes in assumptions and proportion.

Changes in Components of Net Position

Net investment in capital assets – increased \$28.8 million from June 30, 2020 to June 30, 2021 mainly as result capital contributions funded through grants and donors. Net investment in capital assets increased \$2.1 million from June 30, 2019 to June 30, 2020 mainly as result of \$21.9 million of capital additions not attributable to capital reserve funds reduced by depreciation expense of \$20.5 million. Net investment in capital assets.

Unrestricted net position, other than those mentioned above, resulted in a decrease of \$35.7 million for year 2021. *Unrestricted net position*, other than those mentioned above, resulted in a decrease of \$50.3 million for year 2020.

A summarized comparison of the Hospital's revenues, expenses, and changes in net position for the years ended June 30, 2021, 2020, and 2019 are as follows (in thousands):

	<u>2021</u>	<u>2020</u>	<u>2019</u>
Operating revenues:			
Net patient service revenue	\$ 593,675	538,027	529,873
Grants revenue	10,404	8,887	5,715
Other revenue	31,133	29,756	24,751
Total operating revenues	<u>635,212</u>	<u>576,670</u>	<u>560,339</u>
Operating expenses:			
Personnel services, fringe benefits, pension, physician and residents fees	565,810	537,212	502,537
Other postemployment benefits	12,443	2,648	25,638
Supplies and other	282,996	255,406	239,856
Depreciation	18,274	20,500	20,387
Total operating expenses	<u>879,523</u>	<u>815,766</u>	<u>788,418</u>
Operating loss	(244,311)	(239,096)	(228,079)

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	<u>2021</u>	<u>2020</u>	<u>2019</u>
Nonoperating income (expenses):			
Appropriations from the State of New Jersey	\$ 175,007	147,739	143,976
Other postemployment benefits paid by the State of New Jersey	12,443	2,648	25,638
Federal stimulus funds	46,098	40,350	—
Contributions and special events	13	33	47
Fundraising expenses	(34)	(61)	(55)
Interest income	319	1,002	1,736
Interest expense	<u>(15,830)</u>	<u>(15,614)</u>	<u>(15,622)</u>
Loss before other changes in net position	(26,295)	(62,999)	(72,359)
Other changes in net position:			
Capital contributions funded by grantors and donors	<u>19,332</u>	<u>14,865</u>	<u>10,967</u>
Decrease in net position	(6,963)	(48,134)	(61,392)
Net position at beginning of year	<u>(488,638)</u>	<u>(440,504)</u>	<u>(379,112)</u>
Net position at end of year	<u>\$ (495,601)</u>	<u>(488,638)</u>	<u>(440,504)</u>

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, 2021 exceeded 2020 by \$55.6 million mainly due to the increase in patient volume year over year. Inpatient discharges were 1,654 or 10.61% and outpatient clinic visits 19,680 or 11.19% greater in fiscal year 2021 over 2020. Due to the Covid pandemic, patient volume declined in fiscal year 2020 due to the cancellation of elective procedures. Net patient service revenue for the year ended June 30, 2020 exceeded 2019 by \$8.1 million, primarily due to \$6.4 million in additional Medicaid Graduate Medical Education (GME) payments and \$12.3 million increase in charity care subsidies (noted below) offset by lost revenues due to lower inpatient and outpatient volumes due to the COVID-19 pandemic.

The Hospital's net patient service revenues totaled \$593.7 million (including patient subsidies) in fiscal year 2021. 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 57% 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.

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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 75,347 in 2021 were lower from 2020 by 7,775 or 9.35% primarily due to COVID-19 pandemic concerns. Emergency room visits of 83,122 in 2020 were lower from 2019 by 8,930 visits primarily due to COVID-19 pandemic.

As mentioned above, 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%. Inpatient discharges for 2020, which account for approximately 68.1% of the Hospital's net patient service revenues, were lower than 2019 by 757 or 4.6%. Clinic visits which generate outpatient revenues, decreased from 2019 level of 223,612 to 199,804 in 2020 or 10.5%.

The level of charity care services provided by the Hospital represents nearly 6.8% of its overall patient care services. Charity care funding from the State of New Jersey (the State) totaled \$58.7 million and \$58.3 million in 2021 and 2020, 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.

Patient subsidies – The Hospital received a total of \$75.4 million in patient subsidies payments in fiscal year 2021 with the major components represented by payments of \$58.7 million for the New Jersey Charity Care Subsidy Program and approximately \$16.1 million for the QIP / DSRIP Program. In 2021, the State replaced the DSRIP program with QIP.

The Hospital received a total of \$72.1 million in patient subsidies payments in 2020 with the major components represented by payments of \$58.3 million for the New Jersey Charity Care Subsidy Program and \$13.1 million for the DSRIP Program.

The Hospital's overall increase in subsidy funding from 2021 to 2020 is mainly attributable to the increase of the DSRIP/QIP subsidy of \$3.0 million.

Grant and other revenue – was \$41.5 million for the year ended June 30, 2021 compared to \$38.6 million for the year ended June 30, 2020 for an increase of \$2.9 million. This was mainly due additional revenue from new and existing grants.

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 adjustments.

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Personnel services, fringe benefits, pension, physician, and resident fees were \$537.2 million for the year ended June 30, 2020 and were unfavorable by \$34.7 million compared to prior year. Personnel services costs for the year ended June 30, 2020 of \$284.3 million were \$11.6 million over 2019. This increase is primarily driven by the estimated accrued amount of \$7.6 million for retroactive salary adjustments for union and nonunion employees and due to new hires. Pension costs of \$73.2 million for the year ended June 30, 2020 relating to GASB 68 were higher by \$21.1 million when compared to the 2019 due to an updated actuarial analysis. Cost of \$91.4 million for the year ended June 30, 2020 for medical staff and residents contracted with Rutgers University increased by \$5.2 million as compared to the prior year due to contractual increases.

Other postemployment benefits expense – increased by \$9.8 million from June 30, 2020 to June 30, 2021 and decreased by \$23 million from June 30, 2019 to June 30, 2020 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 10 for additional information on OPEB.

Supplies and other expenses – increased by \$27.6 million or 10.8% from June 30, 2020 to June 30, 2021 and \$15.5 million from June 30, 2019 to June 30, 2020. The increase is mainly attributed to increases in patient volume and COVID-19 for additional pharmaceuticals, personal protective equipment and professional contracted services. Economic factor adjustments and new clinical initiatives also contribute to the increase.

State appropriations – 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 \$50.7 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.

The Hospital recorded \$147.7 million in State Appropriations in 2020. These amounts include \$102.0 million for fringe benefits of Hospital employees paid by the State, and a special Higher Education Appropriation of \$45.6 million for those expenses incurred as a result of the New Jersey Medical and Sciences Education Restructuring Act and Institutional Support and \$0.1 million for malpractice costs.

Other postemployment benefits paid by the State of New Jersey – increased by \$9.8 million from June 30, 2020 to June 30, 2021 and decreased by \$23 million from June 30, 2019 to June 30, 2020 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 10 for additional information on OPEB.

Federal stimulus funds – In 2021, the Hospital recognized \$46.1 million in Provider Relief Funds to recover lost revenues associated with lower volumes, reduced services and incremental expenses attributable to COVID-19. In 2020, the Hospital recognized \$40.4 million in Provider Relief Funds to recover lost revenues associated with lower volumes, reduced services and incremental expenses attributable to COVID-19.

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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):

	<u>2021</u>	<u>2020</u>	<u>2019</u>
Land and land improvements	\$ 373	1,598	1,598
Buildings and leasehold improvements	358,609	371,272	328,107
Equipment	164,820	239,778	236,230
Capital leases	73,849	73,849	73,851
Construction in process	64,967	33,093	50,102
Total	<u>662,618</u>	<u>719,590</u>	<u>689,888</u>
Less accumulated depreciation	<u>400,100</u>	<u>493,508</u>	<u>473,125</u>
Net capital assets	<u>\$ 262,518</u>	<u>226,082</u>	<u>216,763</u>

The Hospital had 2021 write-offs and additions to capital assets as follows:

- \$111.7 million in overall reduction due to write-off of fully depreciated assets, offset by \$54.7 million of 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. Building and leasehold improvements decreased by \$12.6 million due to \$22.8 million of write-off of fully depreciated assets offset by \$10.2 million of additions in renovations, which includes 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.

The Hospital had 2020 additions to capital assets as follows:

- \$29.8 million in overall additions with \$3.7 million in major movable equipment including patient furnishings and medical equipment and investments in information technology system upgrades, as well as \$26.1 million in renovations, which includes building renovation projects, Cogeneration energy project and a sprinkler system upgrade. The estimate to complete the Co-Gen and Higher Education projects is approximately \$50.1 million.

More detailed information about the Hospital's capital assets is presented in note 6 to the financial statements.

Long-Term Debt

At June 30, 2021, the Hospital has approximately \$282.3 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

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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 imaging 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 2021, the credit rating of BB – from Fitch was reaffirmed.

Principal payments on the bonds are due annually and are not set to commence until 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 8 to the financial statements.

On July 1, 2013, the Hospital entered into five capital lease agreements with Rutgers, the State University of New Jersey for space in various locations on its Newark campus. The agreements are for 76 years and require monthly rent payments in advance. The Hospital capitalized the present value of the lease payments, based on the Hospital's incremental borrowing rate, and are amortizing the asset over the estimated useful life of each of the buildings.

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 2022.

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As of June 30, 2021, the Hospital drew \$14.5 million, of which \$9.4 million was drawn from ERB, \$4.0 million from the Infrastructure Bank \$1.0 million from PSE&G. The Hospital also received \$21.7 million in grant from the ERB during this period.

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.

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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 Gary Huck, 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, 2021 and 2020

(In thousands)

Assets	2021	2020
Current assets:		
Cash (note 3)	\$ 144,123	139,845
Restricted investments (note 7)	11,294	6,113
Patient accounts receivable, net (note 5)	88,840	81,894
Due from State of New Jersey	12,831	22,061
Supplies	20,788	21,277
Grants receivable	7,403	8,413
Other current assets (note 9)	22,592	17,996
Total current assets	307,871	297,599
Noncurrent assets:		
Restricted investments (notes 7 and 8)	65,934	65,858
Prepaid bond insurance	14,382	14,969
Capital assets, net (notes 6 and 8)	262,518	226,082
Total noncurrent assets	342,834	306,909
Total assets	650,705	604,508
Deferred Outflows of Resources		
Pension related (note 10)	268,686	211,496
Total assets and deferred outflows of resources	\$ 919,391	816,004
Liabilities		
Current liabilities:		
Accounts payable and accrued expenses	\$ 67,686	48,967
Accrued salaries and related payroll taxes	18,836	21,228
Accrued vacation and sick pay	14,336	13,980
Due to Rutgers University (note 9)	57,043	53,009
Current portion of accrued claims liability (note 11)	5,225	5,187
Estimated third-party payor settlements, net (note 11)	1,780	1,456
Current portion of long-term debt and capital lease obligations (note 8)	5,326	232
Other current liabilities	22,941	58,718
Total current liabilities	193,173	202,777
Noncurrent liabilities:		
Accrued claims liability, net of current portion (note 11)	17,636	17,485
Capital lease obligations, net of current portion (note 8)	73,330	73,333
Long-term debt, net of current portion (note 8)	277,077	270,664
Pension liability (note 10)	693,822	613,047
Total noncurrent liabilities	1,061,865	974,529
Total liabilities	1,255,038	1,177,306
Deferred Inflows of Resources		
Pension related (note 10)	159,954	127,336
Total liabilities and deferred inflows of resources	1,414,992	1,304,642
Net Position		
Net investment in capital assets	36,858	8,091
Unrestricted	(532,459)	(496,729)
Total net position	(495,601)	(488,638)
Total liabilities and net position	\$ 919,391	816,004

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, 2021 and 2020
(In thousands)

	<u>2021</u>	<u>2020</u>
Operating revenues:		
Net patient service revenue (notes 4, 5, and 11)	\$ 593,675	538,027
Grants revenue	10,404	8,887
Other revenue	31,133	29,756
Total operating revenues	<u>635,212</u>	<u>576,670</u>
Operating expenses:		
Personnel services	292,101	284,337
Contracted physician and resident fees (note 9)	88,268	91,385
Fringe benefits (notes 2 and 10)	97,574	88,337
Other postemployment benefits (note 10)	12,443	2,648
Pension (note 10)	87,867	73,153
Supplies and other (note 9)	282,996	255,406
Depreciation (note 6)	18,274	20,500
Total operating expenses	<u>879,523</u>	<u>815,766</u>
Operating loss	(244,311)	(239,096)
Nonoperating income (expenses):		
Appropriations from the State of New Jersey (notes 10 and 11)	175,007	147,739
Other postemployment benefits paid by the State of New Jersey (note 10)	12,443	2,648
Federal stimulus funds	46,098	40,350
Contributions and special events	13	33
Fundraising expenses	(34)	(61)
Interest income	319	1,002
Interest expense	(15,830)	(15,614)
Loss before other changes in net position	<u>(26,295)</u>	<u>(62,999)</u>
Other changes in net position:		
Capital contributions funded by grantors and donors	19,332	14,865
Total other changes in net position	<u>19,332</u>	<u>14,865</u>
Decrease in net position	(6,963)	(48,134)
Net position at beginning of year	<u>(488,638)</u>	<u>(440,504)</u>
Net position at end of year	<u>\$ (495,601)</u>	<u>(488,638)</u>

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, 2021 and 2020

(In thousands)

	<u>2021</u>	<u>2020</u>
Cash flows from operating activities:		
Cash received from patients and third-party payors	\$ 594,312	533,543
Receipts from grants	9,213	6,190
Other receipts	26,741	24,809
Cash paid for personnel services	(294,208)	(281,181)
Cash paid for contracted physician and resident fees	(80,775)	(86,484)
Cash paid for fringe benefits	(2,677)	(13,289)
Cash paid for supplies and other expenses	(280,853)	(245,946)
Net cash used by operating activities	<u>(28,247)</u>	<u>(62,358)</u>
Cash flows from noncapital financing activities:		
Cash appropriations received from State of New Jersey and other	50,634	45,566
Cash received from Federal stimulus funding	10,693	98,077
Net cash provided by noncapital financing activities	<u>61,327</u>	<u>143,643</u>
Cash flows from capital and related financing activities:		
Purchase of capital assets	(41,286)	(27,091)
Capital contributions by grantors	21,533	16,626
Proceeds from issuance of long term debt	12,513	3,188
Net cash received from line of credit	—	11
Payments of capital lease obligation	(160)	(126)
Payments of long-term debt	(112)	(144)
Interest paid	(16,348)	(16,384)
Net cash used in capital and related financing activities	<u>(23,860)</u>	<u>(23,920)</u>
Cash flows from investing activities:		
Purchases of investments	(17,763)	(12,214)
Sales of investments	12,540	20,146
Interest received	281	961
Net cash (used in) provided by investing activities	<u>(4,942)</u>	<u>8,893</u>
Net increase in cash	4,278	66,258
Cash at beginning of year	<u>139,845</u>	<u>73,587</u>
Cash at end of year	<u>\$ 144,123</u>	<u>139,845</u>
Supplemental disclosures:		
Appropriations paid by the State of New Jersey	\$ 124,352	102,145
Other postemployment benefits paid by the State of New Jersey	12,443	2,648
Capital assets included within accounts payable and accrued expenses	18,194	4,821

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

Statements of Cash Flows

Years ended June 30, 2021 and 2020

(In thousands)

	2021	2020
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	\$ (244,311)	(239,096)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Amortization of prepaid bond insurance	587	587
Depreciation	18,274	20,500
Provision for bad debts	160,702	147,762
Other postemployment benefits paid by the State of New Jersey	12,443	2,648
Appropriations paid by the State of New Jersey	124,352	102,145
Changes in assets and liabilities:		
Patient accounts receivable, net	(167,648)	(148,554)
Due from State of New Jersey	9,230	(3,142)
Grants receivable	(1,191)	(2,696)
Supplies and other current assets	(4,107)	(6,955)
Accounts payable and accrued expenses	5,346	6,884
Accrued salaries and related payroll taxes	(2,392)	2,112
Accrued vacation and sick	356	1,053
Due to Rutgers University	4,034	9,074
Accrued claims liability	189	(609)
Estimated third-party payor settlements, net	324	(3,191)
Pension liability, deferred outflows and deferred inflows	56,204	49,444
Other current liabilities	(639)	(324)
Net cash used by operating activities	\$ (28,247)	(62,358)

See accompanying notes to financial statements.

UNIVERSITY HOSPITAL
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Notes to Financial Statements
June 30, 2021 and 2020

(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 Jim Hub, 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

The novel coronavirus (COVID-19) was identified in China in December 2019 and was identified in the State of New Jersey in March 2020. It has spread globally creating an international pandemic which has significantly impacted the economic conditions at a local, national, and global level. On March 8, 2020, the Governor of the State of New Jersey declared a state of emergency to ensure the swift deployment of resources necessary to address coronavirus in the State of New Jersey and the forecasted potential surge of COVID-19 patients. On March 13, 2020, President Trump declared a national state of emergency with respect to the COVID-19 outbreak, ordering all states to establish emergency operations and authorizing the use of federal funds. Both the national state of emergency and New Jersey state of emergency have continued through fiscal year 2021. COVID-19 cases fluctuated throughout the fiscal year 2021 and the Hospital experienced multiple COVID-19 surges.

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 distributions of \$9.2 million and \$98.1 million during 2021 and 2020, respectively. For the years ended June 30, 2021 and 2020, the Hospital recognized PRFs of approximately \$46.1 million and

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Notes to Financial Statements
June 30, 2021 and 2020

\$40.4 million, respectively, which is recorded within federal stimulus funding in the statement of revenues, expenses and changes in net position. As of June 30, 2021, the Hospital has \$21.6 million recorded in other current liabilities in the statement of net position as of which \$9.2 million relates to unearned stimulus funds received in fiscal year 2021 expected to be earned in future periods and \$12.4 million of unearned stimulus funds to be returned to HHS. At June 30, 2020, the Hospital had \$57.7 million recorded in other current liabilities in the statement of net position which related to unearned stimulus funds.

(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 11(a) and 11(c), respectively.

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(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 loss before other changes in net position, consist of capital contributions funded by grantors or donors.

(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 \$160.7 million in 2021 and \$147.8 million in 2020.

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, 2021 is \$258.2 million and at June 30, 2020 is \$260.6 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 11). 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 10 and 11).

In 2021 and 2020, the fringe benefits of employees paid by the State were \$124.4 million and \$102.0 million, respectively. The medical malpractice and general liability settlements paid by the State were \$25 thousand and \$145 thousand in 2021 and 2020, respectively. The State also paid the Hospital \$50.7 million in 2021 and \$45.6 million in 2020 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.

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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 \$3.2 million at June 30, 2021 and \$2.6 million at June 30, 2020.

(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 capital lease obligations and leasehold improvements are depreciated over the shorter of either the lease term or the estimated useful life.

(k) Supplies

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

(l) 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.

UNIVERSITY HOSPITAL
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Notes to Financial Statements
June 30, 2021 and 2020

(m) 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.

(n) 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.

(o) 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 reduced by outstanding borrowings used to finance the purchase 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.

(p) 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.

(q) 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.

(r) 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.

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Notes to Financial Statements
June 30, 2021 and 2020

(s) Accrued Claims Liability

Accrued claims liability represents estimated amounts payable related to workers' compensation claims (note 11(c)).

(t) Accounting Standards

(i) Upcoming Accounting Pronouncements

In June 2017, the GASB issued Statement No. 87, *Leases*. This statement improves the accounting and financial reporting for leases by governments. This statement requires 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. This GASB statement will be effective for the fiscal year ending June 30, 2022, as amended by the issuance of Statement No. 95. The Hospital is evaluating the impact of this new standard.

(u) 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.

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(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, 2021 and 2020, the actual amount of cash in the Hospital's bank accounts was \$152.2 million and \$147.2 million (with \$8.1 million and \$7.4 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):

	2021	2020
Charity care:		
Charges foregone, based on established rates	\$ 244,927	220,705
Estimated cost incurred to provide charity care	71,510	69,315
	2021	2020
Provision for bad debt:		
Charges foregone, based on established rates	\$ 160,252	147,762
Estimated cost incurred to provide bad debt	46,788	46,406

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 \$58.7 million and \$58.3 million from the State's Charity Care Subsidy Fund in 2021 and 2020, 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.

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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 a increase in 2021 and decrease in 2020 to net patient service revenues (note 11(a)).

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

	<u>2021</u>	<u>2020</u>
Gross charges	\$ 2,924,251	2,670,687
Additions (deductions) from gross charges:		
Charity care subsidy fund and DSRIP/QIP revenue	75,447	72,061
Contractual and other allowances	(2,245,321)	(2,056,959)
Provision for bad debts	<u>(160,702)</u>	<u>(147,762)</u>
Subtotal	<u>(2,330,576)</u>	<u>(2,132,660)</u>
Net patient service revenues	<u>\$ 593,675</u>	<u>538,027</u>

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

	<u>2021</u>	<u>2020</u>
Medicaid and Medicaid HMO	\$ 225,409	200,082
Medicare	161,355	132,990
Other third-party payors	115,968	123,521
Self-pay	<u>15,496</u>	<u>9,373</u>
Net patient service revenue by payor	518,228	465,966
Charity care subsidy fund and DSRIP/QIP revenue	<u>75,447</u>	<u>72,061</u>
Net patient service revenue	<u>\$ 593,675</u>	<u>538,027</u>

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

	<u>2021</u>		<u>2020</u>	
Medicaid and Medicaid HMO \$	25,508	28.7 %	\$ 22,828	27.9 %
Medicare	9,634	10.8	9,018	11.0
Other third-party payors	47,666	53.7	41,788	51.0
Self-pay	<u>6,032</u>	<u>6.8</u>	<u>8,260</u>	<u>10.1</u>
\$	<u>88,840</u>	<u>100.0 %</u>	<u>\$ 81,894</u>	<u>100.0 %</u>

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

	<u>2021</u>	<u>2020</u>
Beginning balance	\$ 260,610	253,883
Provision for bad debts	160,702	147,762
Write-off, net of recoveries	<u>(163,090)</u>	<u>(141,035)</u>
Ending balance	<u>\$ 258,222</u>	<u>260,610</u>

(6) Capital Assets

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

	<u>June 30, 2020</u> <u>balance</u>	<u>Acquisitions,</u> <u>net of</u> <u>transfers</u>	<u>Sales,</u> <u>retirements,</u> <u>and</u> <u>adjustments</u>	<u>June 30, 2021</u> <u>balance</u>
Land and land improvements \$	1,598	—	(1,225)	373
Buildings and leasehold improvements	371,272	10,162	(22,825)	358,609
Equipment	239,778	11,651	(86,609)	164,820
Capital leases	73,849	—	—	73,849
Construction in progress	<u>33,093</u>	<u>32,897</u>	<u>(1,023)</u>	<u>64,967</u>
\$	<u>719,590</u>	<u>54,710</u>	<u>(111,682)</u>	<u>662,618</u>

	<u>June 30, 2019</u> <u>balance</u>	<u>Acquisitions,</u> <u>net of</u> <u>transfers</u>	<u>Sales,</u> <u>retirements,</u> <u>and</u> <u>adjustments</u>	<u>June 30, 2020</u> <u>balance</u>
Land and land improvements \$	1,598	—	—	1,598
Buildings and leasehold improvements	328,107	43,163	2	371,272
Equipment	236,230	3,635	(87)	239,778
Capital leases	73,851	—	(2)	73,849
Construction in progress	<u>50,102</u>	<u>(17,009)</u>	<u>—</u>	<u>33,093</u>
\$	<u>689,888</u>	<u>29,789</u>	<u>(87)</u>	<u>719,590</u>

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Related information on accumulated depreciation for the years ended June 30 was as follows (in thousands):

	June 30, 2020 balance	Acquisitions, net of transfers	Sales, retirements, and adjustments	June 30, 2021 balance
Land and land improvements \$	1,225	—	(1,225)	—
Buildings and leasehold improvements	270,976	4,858	(23,856)	251,978
Equipment	208,722	11,621	(86,609)	133,734
Capital leases	12,585	1,795	8	14,388
	<u>\$ 493,508</u>	<u>18,274</u>	<u>(111,682)</u>	<u>400,100</u>

	June 30, 2019 balance	Acquisitions, net of transfers	Sales, retirements, and adjustments	June 30, 2020 balance
Land and land improvements \$	1,225	—	—	1,225
Buildings and leasehold improvements	264,031	6,945	—	270,976
Equipment	197,079	11,760	(117)	208,722
Capital leases	10,790	1,795	—	12,585
	<u>\$ 473,125</u>	<u>20,500</u>	<u>(117)</u>	<u>493,508</u>

(7) Restricted Investments

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

	2021	2020
Under bond resolutions:		
Capital reserve funds (a)	\$ 47,146	47,136
Debt service reserve funds (a)	17,259	17,290
Debt service funds (a)	11,970	6,744
	<u>76,375</u>	<u>71,170</u>
Other investments (b)	853	801
Less current portion of restricted investments	(11,294)	(6,113)
	<u>\$ 65,934</u>	<u>65,858</u>

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- (a) Restricted investments under the terms of the bond resolutions (note 8) 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, 2021 and 2020, 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.

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(8) Long-Term Debt and Capital Lease Obligations

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

	<u>2021</u>	<u>2020</u>
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)	\$ 254,975	254,975
NJHCFFA Series 2015A net premium and amortized over the 30 year life of the bond (a)	11,589	12,360
New Jersey Educational Facilities Authority (NJEFA) Higher Education Capital Improvement Fund, Series 2000 A annual principal payments (b)	—	101
Capital lease obligations (c)	73,468	73,605
New Jersey Energy Resiliency Bank loan (d)	9,410	2,156
PSE&G loan (d)	1,032	1,032
New Jersey Infrastructure Bank loan (d)	<u>5,259</u>	<u>—</u>
	355,733	344,229
Less current installments	<u>5,326</u>	<u>232</u>
Long-term portion of bonds and capital lease payable	<u>\$ 350,407</u>	<u>343,997</u>

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

	<u>June 30, 2020</u> <u>balance</u>	<u>Additions/adj</u>	<u>Reductions</u>	<u>June 30, 2021</u> <u>balance</u>	<u>Amounts</u> <u>due within</u> <u>one year</u>
Long-term debt:					
Bonds payable 2015A	\$ 267,335	—	(771)	266,564	5,188
Bonds payable NJEFA	101	—	(101)	—	—
Capital lease obligations	73,605	—	(137)	73,468	138
Energy Resiliency Bank	2,156	7,254	—	9,410	—
PSE&G	1,032	—	—	1,032	—
Infrastructure Bank	<u>—</u>	<u>5,259</u>	<u>—</u>	<u>5,259</u>	<u>—</u>
Net long term debt	<u>\$ 344,229</u>	<u>12,513</u>	<u>(1,009)</u>	<u>355,733</u>	<u>5,326</u>

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	<u>June 30, 2019</u> balance	<u>Additions/adj</u>	<u>Reductions</u>	<u>June 30, 2020</u> balance	<u>Amounts due within one year</u>
Long-term debt:					
Bonds payable 2015A	\$ 268,105	—	(770)	267,335	—
Bonds payable NJEFA	245	(48)	(96)	101	101
Capital lease obligations	73,731	—	(126)	73,605	131
Energy Resiliency Bank	—	2,156	—	2,156	—
PSE&G	—	1,032	—	1,032	—
	<u>342,081</u>	<u>3,140</u>	<u>(992)</u>	<u>344,229</u>	<u>232</u>
Net long term debt	\$ 342,081	3,140	(992)	344,229	232

- (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.

Principal payments on the bonds are due annually and are not set to commence until 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.

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

	<u>Principal</u>	<u>Interest</u>	<u>Total payment</u>
2022	\$ 5,188	11,935	17,123
2023	5,447	11,935	17,382
2024	5,720	11,669	17,389
2025	6,005	11,390	17,395
2026	6,305	11,097	17,402
2027–2031	36,585	48,762	85,347
2032–2036	45,890	39,430	85,320
2037–2041	56,265	28,731	84,996
2042–2046	71,140	13,347	84,487
Thereafter	16,430	411	16,841
	<u>\$ 254,975</u>	<u>188,707</u>	<u>443,682</u>

- (b) In addition, on July 1, 2013, the Hospital assumed a portion of the UMDNJ obligation of the New Jersey Educational Facilities Authority's Higher Education Capital Improvement fund, Series 2000A (as revised) in the amount of \$0.7 million. This was paid off in August of 2020.
- (c) On July 1, 2013, the Hospital entered into five capital lease agreements with Rutgers, the State University of New Jersey for space in various locations on its Newark campus. The agreements are for 76 years and require monthly rent payments in advance. The Hospital has capitalized the present value of the lease payments using a discount factor of 5.1%, based on the Hospital's incremental borrowing rate, and amortizes the asset over the estimated useful life of each of the buildings.

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The following table summarizes future minimum lease payments under capitalized leases as of June 30 (in thousands):

Year	Amount
2022	\$ 3,853
2023	3,853
2024	3,853
2025	3,853
2026	3,853
2027–2031	19,264
2032–2036	19,264
2037–2041	19,264
2042–2046	19,264
2047–2051	19,264
2052–2056	19,264
Thereafter	120,912
Total	255,761
Less amount representing interest	(182,293)
Net	\$ 73,468

- (d) 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, 2021 and 2020, the Hospital recognized \$16.7 million and \$5.0 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, 2021, the Hospital drew down \$15.7 million, of which \$9.4 million was drawn from the ERB, \$5.3 million from the Infrastructure Bank and \$1.0 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

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the life of the loan. The estimated completion of the project is expected to occur during fiscal year 2022.

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.

(9) Due to Rutgers University

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

	2020			2021
	Balance due to Rutgers	Charges	Hospital payments	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
	<u>\$ 53,009</u>	<u>116,161</u>	<u>112,127</u>	<u>57,043</u>

	2019			2020
	Balance due to Rutgers	Charges	Hospital payments	Balance due to Rutgers
Information technology services (a) \$	742	1,484	866	1,360
Contracted physicians (b)	15,569	66,964	64,942	17,591
Contracted residents (c)	4,851	22,511	19,632	7,730
Facilities service agreements (d)	10,557	10,284	10,342	10,499
Other services (e)	12,216	13,371	9,758	15,829
	<u>\$ 43,935</u>	<u>114,614</u>	<u>105,540</u>	<u>53,009</u>

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

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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.

The Hospital also has receivables due from Rutgers of \$9.5 million and \$9.3 million as of June 30, 2021 and 2020, 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.

(10) 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 2021 and 2020 aggregated \$40.2 million and \$33.2 million, respectively. Summary information regarding these plans is provided below.

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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, 2021 and 2020 was \$139.6 million and \$135.3 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 2021 and 2020. 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 2021 and 2020. 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

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www.state.nj.us/treasury/pensions/annrpts.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, 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%.

At June 30, 2020, the Hospital reported a liability of \$613 million, for its proportionate share of the PERS net pension liability. The total pension liability is based on measurement date as of June 30, 2019. 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 2019, which was 2.664%.

(a) Actuarial Assumptions

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 %	

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The total pension liability for the June 30, 2019 measurement date was determined by an actuarial valuation as of July 1, 2018, which was rolled forward to June 30, 2019, and was determined using the following actuarial assumptions:

Inflation rate:			
Price	2.75 %		
Wage	3.25		
Salary increases:			
Through 2026	1.55–6.00 %	based on years of service	
Thereafter	2.75–7.00	based on years of service	
Investment rate of return	7.00 %		

(i) Mortality Tables

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.

The July 1, 2018 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-2019.

(b) Expected Rate of Return on Investments

In accordance with State statute, the long-term expected rate of return on plan investments 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

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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, 2020 and 2019 are summarized in the following table:

Asset class	2020 Target allocation	2020 Long-term expected real rate of return	2019 Target allocation	2019 Long-term expected real rate of return
Risk mitigation strategies	3.00 %	3.40 %	3.00 %	4.67 %
Cash equivalents	4.00	0.50	5.00	2.00
U.S. Treasuries	5.00	1.94	5.00	2.68
Investment grade credit	8.00	2.67	10.00	4.25
High yield	2.00	5.95	2.00	5.37
Private credit	8.00	7.59	6.00	7.92
Real assets	3.00	9.73	2.50	9.31
Real estate	8.00	9.56	7.50	8.33
U.S. equity	27.00	7.71	28.00	8.26
Non-U.S. developed market equity	13.50	8.57	12.50	9.00
Emerging market equity	5.50	10.23	6.50	11.37
Private equity	13.00	11.42	12.00	10.85

(c) Discount Rate

The discount rate used to measure the total pension liability was 7.00% and 6.28% as of June 30, 2020 and 2019, respectively. For the June 30, 2019, the single blended discount rate was based on the long-term expected rate of return on pension plan investments of 7.00% and a municipal bond rate of 3.50%. 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.

For the June 30, 2019 measurement date, the projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current member contribution rates and that contributions from employers will be made based on the contributions rate in the most recent fiscal year. The State employer contributed 70% of the actuarially determined contributions and the local employers contributed 100% of their actuarially determined contributions. Based on those assumptions, the plan's fiduciary net position was projected to be available to make projected future benefit payments of current plan members through 2057. Therefore, the long-term expected rate of return on plan investments was applied to projected benefit payments through 2057, and the municipal

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bond rate was applied to projected benefit payments after that date in determining the total pension liability.

The following presents the Hospital's proportionate share of the net pension liabilities, measured as of June 30, 2020 and 2019, 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):

	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

	2019		
	1% Decrease (5.28%)	Discount rate (6.28%)	1% Increase (7.28%)
Hospital's proportionate share of the net pension liability	\$ 705.3	613.0	535.5

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

Deferred Outflows of Resources from Pensions

	2021	2020
	(In thousands)	
Differences between expected and actual experience	\$ 18,241	6,332
Changes of assumptions	11,575	34,039
Changes in proportion	196,569	143,836
Net difference between projected and actual investment earnings on pension plan investments	7,874	593
Contributions paid to the plan subsequent to measurement date **	34,427	26,696
Total	\$ 268,686	211,496

** The contributions paid to the plan subsequent to the measurement date are recognized as a reduction of the net pension liability in fiscal year 2021 and 2020, respectively.

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Deferred Inflows of Resources from Pensions

	2021	2020
	(In thousands)	
Differences between expected and actual experience	\$ 3,739	4,389
Changes of assumptions	156,215	122,947
Changes in proportion	—	—
Net difference between projected and actual investment earnings on pension plan investments	—	—
Total	\$ 159,954	127,336

The deferred inflows and outflows of resources at June 30, 2021 will be recognized as pension expense as follows (in thousands):

	Amount
Years ended June 30:	
2022	\$ 19,252
2023	12,469
2024	22,795
2025	17,711
2026	2,078
	\$ 74,305

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

The Hospital's annual pension expense for the fiscal year ended June 30, 2021 was approximately \$87.9 million and for the fiscal year ended June 30, 2020 was approximately \$73.2 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, 2021 and 2020 was \$72.8 million and \$76.1 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

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investment carriers available under the plan for fiscal year 2021. 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, 2021 and 2020 were \$5.8 million and \$6.4 million, respectively. Employee contributions for the years ended June 30, 2021 and 2020 were \$3.6 million and \$3.8 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.

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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, 2021 and 2020, the State recorded a liability of \$709.9 million and \$443.6 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, 2021 and 2020, the Hospital’s share was 8.9% and 2.5% and 8.1% and 2.4% of the special funding situation and of the Plan, respectively.

For the years ended June 30, 2021 and 2020, the Hospital recognized OPEB expense of \$12.4 million and \$2.6 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 \$12.4 million and \$2.6 million for the years ended 2021 and 2020, respectively.

Actuarial assumptions and other inputs – 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 State’s liability associated with the Hospital at June 30, 2020 was determined by an actuarial valuation as of June 30, 2018, which was rolled forward to the measurement date of June 30, 2019. The valuations used the following assumptions:

	2020	2019
Inflation	2.50 %	2.50 %
Discount rate	2.21	3.50
Salary increases:		
Through 2026	1.55–6.00%	1.55–6.00%
Thereafter	2.75–7.00	1.55–7.00

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, 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.

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The June 30, 2018 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-2019 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-2019 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-2019 scale.

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).

Certain actuarial assumptions used in the June 30, 2018 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 5.6% 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.

For pre-Medicare medical benefits, this amount initially is 5.7% for June 30, 2018 and decreases to a 4.5% long-term trend rate after eight years. For post-65 medical benefits, the actual fully insured Medicare Advantage trend rate for the fiscal year 2020 are reflected. The assumed post-65 medical trend rate is 4.5% for all future years. For prescription drug benefits, the initial trend rate is 7.5% for June 30, 2018, decreasing to a 4.5% long-term trend rate after eight years. For the Medicare Part B reimbursement, the trend rate is 5.0% for the June 30, 2018 valuation.

(11) 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

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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 \$1.4 million in 2021 and a decrease of \$2.9 million in 2020, 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,

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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 \$25 thousand and \$145 thousand for 2021 and 2020, respectively. The Hospital records these costs when settled by the State as appropriations from 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, 2021 and 2020, 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 \$22.7 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):

	2021	2020
Balances at July 1	\$ 22,672	23,281
Claims incurred	4,900	4,400
Claims paid	(2,790)	(3,118)
Change in prior year estimate	(1,921)	(1,891)
Balances at June 30	\$ 22,861	22,672

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

(d) Operating Leases

The Hospital leases equipment, off-site clinic space, and office space under various operating leases. Total rental expense, recorded in supplies and other expenses, for operating leases was approximately \$3.3 million and \$2.9 million in 2021 and 2020.

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The following is a schedule by years of future minimum rental payments required under operating leases that have initial or remaining no cancelable lease terms in excess of one year as of June 30, 2021:

Year	Total
2022	\$ 1,746
2023	1,650
2024	715
2025	430
2026	430
Thereafter	1,249
	\$ 6,220

(e) 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 9).

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(12) Condensed Combining Information

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:				
Current assets:				
Cash	\$ 142,543	1,580	—	144,123
Restricted investments	11,221	73	—	11,294
Patient accounts receivable, net	86,712	2,128	—	88,840
Other current assets	63,370	407	(163)	63,614
Noncurrent assets:				
Restricted investments	65,154	780	—	65,934
Prepaid bond insurance	14,382	—	—	14,382
Capital assets, net	261,161	1,357	—	262,518
Total assets	644,543	6,325	(163)	650,705
Deferred outflows of resources	268,686	—	—	268,686
Total assets and deferred outflows of resources	\$ 913,229	6,325	(163)	919,391
Liabilities:				
Current liabilities	\$ 190,991	2,345	(163)	193,173
Long-term debt and capital leases, net	350,407	—	—	350,407
Pension liability	693,822	—	—	693,822
Other long-term liabilities	17,636	—	—	17,636
Total liabilities	1,252,856	2,345	(163)	1,255,038
Deferred inflows of resources	159,954	—	—	159,954
Total liabilities and deferred inflows of resources	1,412,810	2,345	(163)	1,414,992
Net position:				
Net investment in capital assets	35,529	1,329	—	36,858
Unrestricted	(535,110)	2,651	—	(532,459)
Total net position	(499,581)	3,980	—	(495,601)
Total liabilities and net position	\$ 913,229	6,325	(163)	919,391

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The condensed combining statement of net position at June 30, 2020 is as follows (in thousands):

	UH June 30, 2020	BHCC December 31, 2019	Elimination	Total
Assets:				
Current assets:				
Cash	\$ 139,260	585	—	139,845
Restricted investments	6,032	81	—	6,113
Patient accounts receivable, net	80,012	1,882	—	81,894
Other current assets	69,717	193	(163)	69,747
Noncurrent assets:				
Restricted investments	65,138	720	—	65,858
Prepaid bond insurance	14,969	—	—	14,969
Capital assets, net	224,685	1,397	—	226,082
Total assets	599,813	4,858	(163)	604,508
Deferred outflows of resources	211,496	—	—	211,496
Total assets and deferred outflows of resources	\$ 811,309	4,858	(163)	816,004
Liabilities:				
Current liabilities	\$ 201,580	1,360	(163)	202,777
Long-term debt and capital leases, net	343,997	—	—	343,997
Pension liability	613,047	—	—	613,047
Other long-term liabilities	17,485	—	—	17,485
Total liabilities	1,176,109	1,360	(163)	1,177,306
Deferred inflows of resources	127,336	—	—	127,336
Total liabilities and deferred inflows of resources	1,303,445	1,360	(163)	1,304,642
Net position:				
Net investment in capital assets	6,703	1,388	—	8,091
Unrestricted	(498,839)	2,110	—	(496,729)
Total net position	(492,136)	3,498	—	(488,638)
Total liabilities and net position	\$ 811,309	4,858	(163)	816,004

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

	UH June 30, 2021	BHCC December 31, 2020	Elimination	Total
Operating revenues:				
Net patient service revenue	\$ 584,101	9,574	—	593,675
Grants revenue	10,173	231	—	10,404
Other revenue	31,132	1	—	31,133
Total operating revenues	<u>625,406</u>	<u>9,806</u>	<u>—</u>	<u>635,212</u>
Operating expenses:				
Personnel services	288,249	3,852	—	292,101
Contracted physician and resident fees	88,268	—	—	88,268
Fringe benefits	97,064	510	—	97,574
Other postemployment benefits	12,443	—	—	12,443
Pension	87,867	—	—	87,867
Supplies and other	277,420	5,576	—	282,996
Depreciation	18,094	180	—	18,274
Total operating expenses	<u>869,405</u>	<u>10,118</u>	<u>—</u>	<u>879,523</u>
Operating loss	(243,999)	(312)	—	(244,311)
Nonoperating income (expenses):				
Appropriations from the State of New Jersey	175,007	—	—	175,007
Other postemployment benefits paid by the State of New Jersey	12,443	—	—	12,443
Federal stimulus funds	45,355	743	—	46,098
Contributions and special events	—	13	—	13
Fundraising expenses	—	(34)	—	(34)
Interest income	247	72	—	319
Interest expense	(15,830)	—	—	(15,830)
Loss before other changes in net position	<u>(26,777)</u>	<u>482</u>	<u>—</u>	<u>(26,295)</u>
Other changes in net position:				
Capital contributions funded by grantors and donors	19,332	—	—	19,332
Total other changes in net position	<u>19,332</u>	<u>—</u>	<u>—</u>	<u>19,332</u>
Decrease in net position	(7,445)	482	—	(6,963)
Net position at beginning of year	<u>(492,136)</u>	<u>3,498</u>	<u>—</u>	<u>(488,638)</u>
Net position at end of year	<u>\$ (499,581)</u>	<u>3,980</u>	<u>—</u>	<u>(495,601)</u>

UNIVERSITY HOSPITAL
(A Component Unit of the State of New Jersey)
Notes to Financial Statements
June 30, 2021 and 2020

The condensed combining statement of revenues, expenses, and changes in net position at June 30, 2020 is as follows (in thousands):

	UH June 30, 2020	BHCC December 31, 2019	Elimination	Total
Operating revenues:				
Net patient service revenue	\$ 529,529	8,498	—	538,027
Grants revenue	8,662	225	—	8,887
Other revenue	29,703	53	—	29,756
Total operating revenues	<u>567,894</u>	<u>8,776</u>	<u>—</u>	<u>576,670</u>
Operating expenses:				
Personnel services	281,037	3,300	—	284,337
Contracted physician and resident fees	91,385	—	—	91,385
Fringe benefits	87,817	520	—	88,337
Other postemployment benefits	2,648	—	—	2,648
Pension	73,153	—	—	73,153
Supplies and other	250,318	5,088	—	255,406
Depreciation	20,156	344	—	20,500
Total operating expenses	<u>806,514</u>	<u>9,252</u>	<u>—</u>	<u>815,766</u>
Operating loss	(238,620)	(476)	—	(239,096)
Nonoperating income (expenses):				
Appropriations from the State of New Jersey	147,739	—	—	147,739
Other postemployment benefits paid by the State of New Jersey	2,648	—	—	2,648
Federal stimulus funds	40,350	—	—	40,350
Contributions and special events	—	33	—	33
Fundraising expenses	—	(61)	—	(61)
Interest income	943	59	—	1,002
Interest expense	(15,614)	—	—	(15,614)
Loss before other changes in net position	<u>(62,554)</u>	<u>(445)</u>	<u>—</u>	<u>(62,999)</u>
Other changes in net position:				
Capital contributions funded by grantors and donors	14,865	—	—	14,865
Total other changes in net position	<u>14,865</u>	<u>—</u>	<u>—</u>	<u>14,865</u>
Decrease in net position	(47,689)	(445)	—	(48,134)
Net position at beginning of year	<u>(444,447)</u>	<u>3,943</u>	<u>—</u>	<u>(440,504)</u>
Net position at end of year	<u>\$ (492,136)</u>	<u>3,498</u>	<u>—</u>	<u>(488,638)</u>

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

Notes to Financial Statements

June 30, 2021 and 2020

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

	UH June 30, 2021	BHCC December 31, 2020	Elimination	Total
Cash flows from operating activities:				
Cash received from patients and third-party payors	\$ 584,984	9,328	—	594,312
Receipts from grants	8,991	222	—	9,213
Other receipts	26,740	1	—	26,741
Cash paid for personnel services	(290,357)	(3,851)	—	(294,208)
Cash paid for contracted physician and resident fees	(80,775)	—	—	(80,775)
Cash paid for fringe benefits	(2,239)	(438)	—	(2,677)
Cash paid for supplies and other expenses	(275,258)	(5,595)	—	(280,853)
Net cash used in operating activities	(27,914)	(333)	—	(28,247)
Cash flows from noncapital financing activities:				
Cash appropriations received from State of New Jersey and other	50,655	(21)	—	50,634
Cash received from Federal Stimulus Funding	9,241	1,452	—	10,693
Net cash provided by noncapital financing activities	59,896	1,431	—	61,327
Cash flows from capital and related financing activities:				
Purchase of capital assets	(41,197)	(89)	—	(41,286)
Capital contributions by grantors	21,533	—	—	21,533
Proceeds from issuance of long term debt	12,513	—	—	12,513
Payments of capital lease obligations	(137)	(23)	—	(160)
Payments of long-term debt	(101)	(11)	—	(112)
Net cash received for line of credit	—	—	—	—
Interest paid	(16,348)	—	—	(16,348)
Net cash used in capital and related financing activities	(23,737)	(123)	—	(23,860)
Cash flows from investing activities:				
Purchases of investments	(17,577)	(186)	—	(17,763)
Sales of investments	12,372	168	—	12,540
Interest received	243	38	—	281
Net cash (used in) provided by investing activities	(4,962)	20	—	(4,942)
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

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

Notes to Financial Statements

June 30, 2021 and 2020

	UH June 30, 2021	BHCC December 31, 2020	Elimination	Total
Supplemental disclosure:				
Appropriation paid by the State of New Jersey	\$ 124,352	—	—	124,352
Other postemployment benefits paid by the State of New Jersey	12,443	—	—	12,443
Capital assets included within accounts payable and accrued expenses	18,194	—	—	18,194

The condensed combining statement of cash flows for the year ended June 30, 2020 is as follows (in thousands):

	UH June 30, 2020	BHCC December 31, 2019	Elimination	Total
Cash flows from operating activities:				
Cash received from patients and third-party payors	\$ 525,513	8,030	—	533,543
Receipts from grants	5,941	249	—	6,190
Other receipts	24,756	53	—	24,809
Cash paid for personnel services	(277,880)	(3,301)	—	(281,181)
Cash paid for contracted physician and resident fees	(86,484)	—	—	(86,484)
Cash paid for fringe benefits	(12,777)	(512)	—	(13,289)
Cash paid for supplies and other expenses	(240,918)	(5,028)	—	(245,946)
Net cash used in operating activities	(61,849)	(509)	—	(62,358)
Cash flows from noncapital financing activities:				
Cash appropriations received from State of New Jersey and other	45,595	(29)	—	45,566
Cash received from Federal Stimulus Funding	98,077	—	—	98,077
Net cash provided by noncapital financing activities	143,672	(29)	—	143,643
Cash flows from capital and related financing activities:				
Purchase of capital assets	(27,032)	(59)	—	(27,091)
Capital contributions by grantors	16,626	—	—	16,626
Proceeds from issuance of long term debt	3,188	—	—	3,188
Payments of capital lease obligations	(126)	—	—	(126)
Payments of long-term debt	(144)	—	—	(144)
Net cash received for line of credit	—	11	—	11
Interest paid	(16,384)	—	—	(16,384)
Net cash used in capital and related financing activities	(23,872)	(48)	—	(23,920)

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

Notes to Financial Statements

June 30, 2021 and 2020

	UH June 30, 2020	BHCC December 31, 2019	Elimination	Total
Cash flows from investing activities:				
Purchases of investments	\$ (12,049)	(165)	—	(12,214)
Sales of investments	19,999	147	—	20,146
Interest received	943	18	—	961
Net cash provided by investing activities	<u>8,893</u>	<u>—</u>	<u>—</u>	<u>8,893</u>
Net increase (decrease) in cash	66,844	(586)	—	66,258
Cash at beginning of year	<u>72,416</u>	<u>1,171</u>	<u>—</u>	<u>73,587</u>
Cash at end of year	<u>\$ 139,260</u>	<u>585</u>	<u>—</u>	<u>139,845</u>
Supplemental disclosure:				
Appropriation paid by the State of New Jersey	\$ 102,145	—	—	102,145
Other postemployment benefits paid by the State of New Jersey	2,648	—	—	2,648
Capital assets included within accounts payable and accrued expenses	4,821	—	—	4,821

The condensed combining statement of cash flows for the year ended June 30, 2021 and 2020 is as follows (in thousands):

	UH June 30, 2021	BHCC December 31, 2020	Elimination	Total
Reconciliation of operating loss to net cash used in operating activities:				
Operating loss	\$ (243,999)	(312)	—	(244,311)
Adjustments to reconcile operating loss to net cash used in operating activities	315,728	630	—	316,358
Net change in assets and liabilities	<u>(99,643)</u>	<u>(651)</u>	<u>—</u>	<u>(100,294)</u>
Net cash used in operating activities	<u>\$ (27,914)</u>	<u>(333)</u>	<u>—</u>	<u>(28,247)</u>

UNIVERSITY HOSPITAL
(A Component Unit of the State of New Jersey)
Notes to Financial Statements
June 30, 2021 and 2020

	<u>UH</u> <u>June 30, 2020</u>	<u>BHCC</u> <u>December 31,</u> <u>2019</u>	<u>Elimination</u>	<u>Total</u>
Reconciliation of operating loss to net cash used in operating activities:				
Operating loss	\$ (238,620)	(476)	—	(239,096)
Adjustments to reconcile operating loss to net cash used in operating activities	273,022	620	—	273,642
Net change in assets and liabilities	<u>(96,251)</u>	<u>(653)</u>	<u>—</u>	<u>(96,904)</u>
Net cash used in operating activities	\$ <u>(61,849)</u>	<u>(509)</u>	<u>—</u>	<u>(62,358)</u>

(13) Subsequent Event

Management evaluated all events and transactions that occurred after June 30, 2021 and through May 11, 2022.

UNIVERSITY HOSPITAL
(A Component Unit of the State of New Jersey)
Required Supplementary Information
Schedules of the Hospital's Contributions
(Unaudited)
For the Seven Years ended June 30, 2021
(Dollar amounts in thousands)

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

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 Seven Years ended June 30, 2021
(Dollar amounts in thousands)

Public Employees Retirement System (PERS)	2021	2020	2019	2018	2017	2016	2015
Hospital's proportion of the net pension liability	3.121 %	2.664 %	2.272 %	2.112 %	1.878 %	1.732 %	1.722 %
Hospital's proportionate share of the net pension liability	\$ 693,821	613,047	538,608	541,572	552,097	410,860	346,611
Hospital's covered-employee payroll	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	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	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 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%.

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 Four Years ended June 30, 2021
(Dollar amounts in thousands)

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
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	\$ <u>709,864</u>	<u>443,668</u>	<u>559,176</u>	<u>618,890</u>
Total proportionate share of the collective OPEB liability	\$ <u><u>709,864</u></u>	<u><u>443,668</u></u>	<u><u>559,176</u></u>	<u><u>618,890</u></u>
Hospital's covered-employee payroll	\$ 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 2020, the discount rate was change to 2.21% from 3.50%. For 2019, the discount rate was changed to 3.50% from 3.87%. For 2018, the discount rate was changed to 3.87% from 3.58%.