

CONSOLIDATED FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION

AtlantiCare Health System, Inc. and Affiliates
Years Ended December 31, 2022 and 2021
With Report of Independent Auditors

Ernst & Young LLP



AtlantiCare Health System, Inc. and Affiliates

Consolidated Financial Statements and
Supplementary Information

Years Ended December 31, 2022 and 2021

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Report of Independent Auditors

The Board of Trustees
AtlantiCare Health System, Inc.

Opinion

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

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

We did not audit the financial statements of English Creek Assurance, Ltd., a wholly owned subsidiary, which statements reflect total assets of \$85.5 million and \$93.1 million as of December 31, 2022 and 2021, respectively, and total revenue of \$9.2 million and \$8.0 million for the years ended December 31, 2022 and 2021, respectively. Those statements were audited by other auditors, whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for English Creek Assurance, Ltd., is based solely on the report of the other auditors.

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS, we:

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

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about AtlantiCare’s ability to continue as a going concern for a reasonable period of time.

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

Supplementary Information

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

Ernst & Young LLP

May 10, 2023

AtlantiCare Health System, Inc. and Affiliates

Consolidated Balance Sheets
(Dollars in Thousands)

	December 31	
	2022	2021
Assets		
Current assets:		
Cash and cash equivalents	\$ 45,219	\$ 84,701
Assets limited as to use, current portion	6,991	8,510
Patient accounts receivable, net	127,233	116,515
Inventories and other current assets	89,230	74,607
Total current assets	<u>268,673</u>	284,333
Investments	964,603	1,180,095
Property and equipment, net	569,423	507,852
Operating lease assets	13,275	13,305
Other assets, net	48,343	52,307
Total assets	<u>\$ 1,864,317</u>	<u>\$ 2,037,892</u>
Liabilities and net assets		
Current liabilities:		
Long-term debt, current portion	\$ 4,784	\$ 3,647
Accounts payable	30,015	21,257
Estimated third-party payor settlements, current portion	20,609	75,716
Accrued expenses and other	156,681	168,368
Operating lease liabilities, current portion	4,163	4,040
Total current liabilities	<u>216,252</u>	273,028
Long-term debt, less current portion	247,579	245,490
Operating lease liabilities, less current portion	9,924	9,988
Estimated third-party payor settlements, less current portion	6,557	5,657
Accrued pension liability	921	33,627
Other liabilities	85,194	90,286
Total liabilities	<u>566,427</u>	658,076
Net assets:		
Net assets without donor restrictions	1,262,694	1,363,163
Net assets with donor restrictions	27,185	10,077
Non-controlling interest	8,011	6,576
Total net assets	<u>1,297,890</u>	1,379,816
Total liabilities and net assets	<u>\$ 1,864,317</u>	<u>\$ 2,037,892</u>

See accompanying notes.

AtlantiCare Health System, Inc. and Affiliates

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

	Year Ended December 31	
	2022	2021
Net assets without donor restrictions		
Revenue:		
Net patient service revenue	\$ 1,026,305	\$ 961,911
Other revenue	60,387	70,935
Total revenue	<u>1,086,692</u>	1,032,846
Expenses:		
Salaries and benefits	635,084	615,412
Supplies and other	248,420	229,003
Purchased services	119,669	108,841
Interest expense	8,763	3,949
Depreciation and amortization	53,339	53,198
Total expenses	<u>1,065,275</u>	1,010,403
Income from operations	21,417	22,443
Non-operating gains and losses:		
Investment (loss) gain, net	(174,846)	141,171
Expected return on plan assets and other components of net pension and other postretirement costs	38,601	20,343
Inherent contribution of net assets without donor restrictions received in the acquisition of John Brooks Recovery Center	6,607	-
Total non-operating gains and losses, net	<u>(129,638)</u>	161,514
(Deficiency) excess of revenue over expenses	(108,221)	183,957

Continued on next page.

AtlantiCare Health System, Inc. and Affiliates

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

	Year Ended December 31	
	2022	2021
Net assets without donor restrictions (continued)		
(Deficiency) excess of revenue over expenses (<i>from previous page</i>)	\$ (108,221)	\$ 183,957
Other changes in net assets without donor restrictions:		
Pension liability adjustments	9,773	49,895
Net asset transfers and net assets released from restriction for capital purchases, net	3,151	33
Contributions received for capital purchases	896	888
Income attributable to non-controlling interest	(6,068)	(410)
(Decrease) increase in net assets without donor restrictions	<u>(100,469)</u>	234,363
Net assets with donor restrictions		
Donor contributions	22,664	2,565
Investment (losses) earnings, net	(145)	165
Net assets released from restrictions	(5,411)	(1,906)
Increase in net assets with donor restrictions	<u>17,108</u>	824
(Decrease) increase in AtlantiCare Health System, Inc. net assets	(83,361)	235,187
Non-controlling interest		
Contributions and other changes in non-controlling interest	<u>1,435</u>	(2,488)
(Decrease) increase in net assets, including non-controlling interest	(81,926)	232,699
Net assets at beginning of year	1,379,816	1,147,117
Net assets at end of year	<u>\$ 1,297,890</u>	<u>\$ 1,379,816</u>

See accompanying notes.

AtlantiCare Health System, Inc. and Affiliates

Consolidated Statements of Cash Flows (Dollars in Thousands)

	Year Ended December 31	
	2022	2021
Operating activities		
(Decrease) increase in net assets	\$ (81,926)	\$ 232,699
Change in net assets attributable to non-controlling interest	(1,435)	2,488
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation and amortization	53,339	53,198
Net change in unrealized gains and losses	186,331	(87,360)
Net realized gains and losses on sale of investments	(8,484)	(52,570)
Inherent contribution of net assets received in the acquisition of John Brooks Recovery Center	(6,607)	-
Restricted contributions	(22,664)	(2,565)
Net change in operating assets and liabilities:		
Patient accounts receivable, net	(9,318)	(9,728)
Inventories and other	(38,160)	(25,980)
Accounts payable	8,404	6,001
Estimated third-party payor settlements, net	(54,207)	(23,170)
Accrued pension liability	(32,706)	(56,363)
Accrued expenses and other liabilities	(17,290)	16,525
Net cash (used in) provided by operating activities	(24,723)	53,175
Investing activities		
Purchases of property and equipment, net	(63,567)	(52,444)
Proceeds from sales (purchases) of investments, net	37,645	(78,681)
Cash received in acquisition of John Brooks Recovery Center	248	-
Net cash used in investing activities	(25,674)	(131,125)
Financing activities		
Proceeds from debt issuance	-	242,087
Repayments of long-term debt	(8,749)	(220,148)
Payment of deferred financing costs	-	(1,908)
Proceeds from restricted contributions	19,664	2,565
Net cash provided by financing activities	10,915	22,596
Decrease in cash and cash equivalents and restricted cash and cash equivalents	(39,482)	(55,354)
Cash and cash equivalents and restricted cash and cash equivalents, beginning of year	84,701	140,055
Cash and cash equivalents and restricted cash and cash equivalents, end of year	\$ 45,219	\$ 84,701
Supplemental disclosure of non-cash investing and financing activities		
Donated land	\$ 3,000	\$ -
Assets acquired under finance lease obligations	\$ -	\$ 472

See accompanying notes.

AtlantiCare Health System, Inc. and Affiliates

Notes to Consolidated Financial Statements

(Dollars in Thousands unless otherwise noted)

Years Ended December 31, 2022 and 2021

1. Organization

AtlantiCare Health System, Inc. (AtlantiCare) is the sole member of AtlantiCare Regional Health Services, AtlantiCare Foundation (Foundation), and AtlantiCare Health Engagement (Health Engagement).

AtlantiCare Regional Health Services is the sole member of AtlantiCare Regional Medical Center (the Medical Center), AtlantiCare Behavioral Health (ABH), and AtlantiCare Health Services (Health Services). The Medical Center is a 593 licensed bed, regional health care provider with hospital divisions in Atlantic City, New Jersey (City Campus) and Pomona, New Jersey (Mainland Campus). ABH is a provider of outpatient mental health, substance abuse/addiction recovery services and family care services to residents of southeastern New Jersey. Health Services operates a number of health and clinical support programs including a medically integrated fitness center, and leasing surgical and medical office suites.

Effective October 1, 2022, Health Services acquired John Brooks Recovery Center (JBRC). JBRC was founded in 1969 and is a New Jersey not-for-profit corporation organized to provide inpatient and outpatient rehabilitation services for alcohol and substance use disorders. JBRC receives funding predominantly from federal and state grants and from program service fees and contracts. Health Services accounted for this business combination by applying the acquisition method and, accordingly, the inherent contribution received was valued as the excess of the fair value of JBRC's assets over liabilities as of October 1, 2022. Health Services recorded an inherent contribution of \$6,607 in relation to assets acquired of \$20,971 (primarily property and equipment) and liabilities assumed of \$14,364 (primarily debt and accrued expenses).

Health Services and the Medical Center maintain a controlling interest in AtlantiCare Surgery Center, LLC (Surgery Center), which operates freestanding ambulatory surgical centers in Atlantic, Cape May, and Ocean Counties, New Jersey. The Surgery Center's financial information is included within these consolidated financial statements.

AtlantiCare also has a wholly-owned captive insurance company, English Creek Assurance, Ltd. (EC Assurance) and a for profit accountable care organization, AtlantiCare Health Solutions (Health Solutions).

AtlantiCare Physician Group, P.A., (Physician Group) is a multispecialty physician group controlled by AtlantiCare through appointment of the nominee shareholder. The Foundation is a charitable fundraising organization.

AtlantiCare Health System, Inc. and Affiliates

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands unless otherwise noted)

2. COVID-19 Pandemic

The Coronavirus Disease 2019 (COVID-19) (the Pandemic) has materially adversely affected the state and national economies and, accordingly, negatively impacted AtlantiCare's operations and financial results. The impact of the pandemic continues to effect patient service patterns, revenue and the costs of providing health care services.

In response to the Pandemic, Congress passed the Coronavirus Aid, Relief, and Economic Security (CARES) Act on March 27, 2020. The CARES Act provided for economic relief impacting all sectors of the economy, including the healthcare industry. Under the CARES Act, funding was allocated to healthcare providers to help compensate for incremental expenses incurred or revenue losses attributable to the COVID-19 crisis under the Provider Relief Fund grant program. The American Rescue Plan Act of 2021 (ARPA), among other provisions, included additional funding for certain healthcare providers. The U.S. Department of Health and Human Services (HHS) has established terms and conditions related to the use of these funds.

Distributions from the Provider Relief Fund will not require repayment so long as funds are used for stipulated purposes. To keep funds already received, providers must agree not to seek collection of out-of-pocket payments from COVID-19 patients and certify to a number of detailed terms and conditions.

HHS has issued several Post-Payment Notices of Reporting Requirements and published responses to frequently asked questions (FAQs) regarding the Provider Relief Fund distributions. Additionally, on December 27, 2020, the Consolidated Appropriations Act, 2021 (CAA) was signed into law. The CAA appropriated additional funding for COVID-19 response and relief through the Provider Relief Fund and provided several changes and clarifications to the administration of the Provider Relief Fund. Distributions from the Provider Relief Fund are available for specified service periods with various required data submissions (data for funds received from July 1, 2021 to December 31, 2021 and the use of such funds through December 31, 2022 was submitted to HHS on March 30, 2023). Management will continue to monitor communications from HHS applicable to the Provider Relief Fund reporting and data submission requirements. HHS has indicated that the public health emergency period will end on May 11, 2023.

AtlantiCare Health System, Inc. and Affiliates

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands unless otherwise noted)

2. COVID-19 Pandemic (continued)

AtlantiCare recognized revenue of approximately \$0.05 million and \$3.0 million of Provider Relief Fund grants, including ARPA funds, within other revenue in 2022 and 2021, respectively. The recognized revenue has been determined based on applicable accounting guidance, Post-Payment Notices of Reporting Requirements, and FAQs that AtlantiCare has interpreted to be applicable to the accompanying consolidated financial statements.

Other relief provided for acute care hospitals in the CARES Act included the temporary elimination of the 2% reduction to Medicare payments through sequestration. This elimination was phased out in 2022 with the full reinstatement of the 2% reduction beginning July 1, 2022. The CARES Act also included a temporary 20% increase to the inpatient Prospective Payment System DRG weight for patients diagnosed with COVID-19 during the public health emergency, and an expansion of the CMS accelerated payment program. AtlantiCare received approximately \$86.0 million in CMS advance payments in 2020. At December 31, 2021, approximately \$57.5 million of unrecovered advances under this program were reported within current liabilities. The advance was fully recovered by Medicare during 2022.

AtlantiCare has submitted applications for reimbursement of qualifying expenses under the Federal Emergency Management Agency (FEMA) Disaster Relief Fund, and received \$11.5 million and \$6.4 million in 2022 and 2021, respectively, which is reported within other revenue. AtlantiCare expects to submit additional FEMA applications for expenses incurred throughout the pandemic.

Additionally, under the CARES Act, AtlantiCare is eligible to receive an employee retention credit, which is a credit against the employer portion of Social Security taxes for certain wages between March 13, 2020 and December 31, 2020. The CAA, ARPA and subsequent legislation extended the employee retention credit through September 30, 2021, while also modifying the provisions of the credit. The Internal Revenue Service (IRS) has started to process some of AtlantiCare's credits, while other filings are pending with the IRS.

Due to the evolving nature of the COVID-19 pandemic, the ultimate impact to AtlantiCare's operating results, including costs that may be incurred in the future, the level of utilization of the hospital's services, the resulting impact on net patient service revenue reported in the future, and the impact to its financial condition is presently unknown. AtlantiCare has also experienced significant price increases in personnel costs and medical supplies, as well as volatility in the interest rate and capital markets, due to the broader economic disruption caused by the pandemic.

AtlantiCare Health System, Inc. and Affiliates

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands unless otherwise noted)

3. Summary of Significant Accounting Policies

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP). The following is a summary of the significant accounting and reporting policies used in preparing the consolidated financial statements.

Use of Estimates

The preparation of financial statements in accordance with U.S. GAAP requires management to make estimates and assumptions that affect the amounts of assets and liabilities reported and disclosure of contingent assets and liabilities at the date of the financial statements and the amounts of revenues and expenses reported during the period. There is at least a reasonable possibility that certain estimates will change by material amounts in the near term. Actual results could differ from those estimates. Significant estimates include implicit and explicit price concessions for revenue transactions, estimated third-party payor settlements, and medical professional liabilities.

Cash and Cash Equivalents

Cash and cash equivalents include various checking and savings and short-term funds, with an initial maturity of three months or less. Cash equivalents held in investment custody account portfolios are reported as investments.

Patient Accounts Receivable, Net

Patient accounts receivable for which AtlantiCare receives payment under cost reimbursement, prospective payment formulae, or negotiated rates, which cover the majority of patient services, are stated at the estimated net amounts receivable from payors, which are generally less than the established billing rates of AtlantiCare (see Note 4).

Investments and Investment Income

Investments in marketable securities are measured at fair value. Interest income, dividends, and realized and unrealized gains and losses, net of investment-related expenses, on investments without donor restrictions are reported as investment (loss) gain, net within the consolidated statements of operations and changes in net assets.

AtlantiCare Health System, Inc. and Affiliates

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands unless otherwise noted)

3. Summary of Significant Accounting Policies (continued)

Restricted interest income, dividends, and realized and unrealized gains and losses on trusts held as donor restricted endowment funds are recorded as investment (losses) earnings, net within changes in net assets with donor restrictions in the consolidated statements of operations and changes in net assets.

Alternative investment private equity funds are reported based upon the underlying net asset value (NAV) of the fund or partnership. Adjustment from NAV is required when the investment is expected to be sold at a value other than NAV. Financial information used by AtlantiCare to evaluate its alternative investments is provided by the investment manager or general partner and includes fair value valuations of underlying holdings and other financial instruments held by the investee and estimates that require varying degrees of judgment. The financial statements of the investee companies are audited annually by independent auditors, although the timing for reporting the results of such audits for certain investee companies does not coincide with AtlantiCare's annual financial statement reporting.

Market risk exists to the extent that the values of AtlantiCare's investment portfolio assets fluctuate as a result of changes in market prices. Changes in market prices can arise from factors specific to individual securities or their respective issuers or factors affecting all securities traded in a particular market. Relevant factors for the investment portfolio are both volatility and liquidity of specific securities and markets for the investments. Professional investment managers and established investment guidelines are utilized to ensure that the portfolio is diversified and exposure to market risk is managed. Due to the level of risk associated with investments and the level of uncertainty related to changes in their value, it is at least reasonably possible that changes in market valuations in the near term could materially affect account balances and the amounts reported in the consolidated financial statements.

Investments in Joint Ventures

AtlantiCare has invested in joint ventures primarily for the purpose of promoting health and fulfilling health and wellness needs in the communities it serves. Generally, AtlantiCare consolidates the financial statements of those joint ventures in which it maintains a controlling interest or ownership above 50 percent. When ownership is 50 percent or less and AtlantiCare exercises significant influence over the investee's operating and financial policies, the equity method of accounting is applied. Under the equity method of accounting, the investment is

AtlantiCare Health System, Inc. and Affiliates

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands unless otherwise noted)

3. Summary of Significant Accounting Policies (continued)

recorded at cost and adjusted for a portion of the changes in the investee's equity. Investments in equity method joint ventures are reported in other assets, net in the accompanying consolidated balance sheets.

Inventories

Inventories are stated at the lower of cost or net realizable value. Cost is determined using the average cost method. Inventories are used in the provision of patient care.

Property and Equipment, Net

Property and equipment and construction in progress are recorded at the lower of cost or fair value, if impaired. Depreciation is recorded using the straight-line method over the estimated useful lives of the respective assets. Leasehold improvements are amortized over the shorter of their useful life or the term of the related lease and renewal periods using the straight-line method. Repairs and maintenance are expensed as incurred. Assets acquired under finance leases and software licenses are amortized over the shorter of their useful life or the term of the lease or license agreement using the straight-line method. The cost of assets and the related accumulated depreciation are removed from the consolidated balance sheets upon retirement or disposition and any gain or loss is reported in supplies and other expenses in the consolidated statements of operations and changes in net assets.

AtlantiCare recognizes an impairment loss if the carrying amount of a long-lived asset is not recoverable from its future undiscounted cash flows and measures any impairment loss as the difference between the carrying amount and the fair value of the asset.

Deferred Financing Costs

Financing costs are included as a deduction to long-term debt in the accompanying consolidated balance sheets and are amortized using the effective interest method over the term that the related debt is expected to be outstanding.

AtlantiCare Health System, Inc. and Affiliates

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands unless otherwise noted)

3. Summary of Significant Accounting Policies (continued)

Contribution and Grant Revenue, and Pledges Receivable

AtlantiCare receives grant funding from several grantors, including Federal, State, and local government agencies, and private grantors. Only allowable expenses stipulated in the contracts are charged to the grants. Financial reports are submitted in a timely manner when required.

Unconditional donor promises to give cash, marketable securities, and other assets are reported at fair value and discounted to present value at the date the promise is received to the extent the contribution is estimated to be collectible. Pledges receivable are reported in other assets, net in the consolidated balance sheets. Conditional donor promises to give and indications of intentions to give are not recognized until all donor-imposed conditions are met. Contributions received with donor restrictions that limit the use of the donated assets are reported within net assets with donor restrictions in the consolidated statements of operations and changes in net assets.

When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are transferred to net assets without donor restrictions and reported in the consolidated statements of operations and changes in net assets as net assets released from restriction. Donor contributions restricted for the purchase of property and equipment are released from restriction when the asset is placed in service.

AtlantiCare has elected to report restricted contributions and grants whose restrictions are met in the same reporting period as when received as revenue without donor restrictions in the consolidated statements of operations and changes in net assets.

AtlantiCare recognizes governmental grants where commensurate value is not exchanged as contributions when conditions and restrictions are satisfied and reports such amounts within other revenue (see Note 16).

Net Asset Classification

Net assets without donor restrictions are not externally restricted for identified purposes by donors or grantors. Resources arising from the results of operations or assets set aside by AtlantiCare's Board are not considered to be donor restricted.

AtlantiCare Health System, Inc. and Affiliates

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands unless otherwise noted)

3. Summary of Significant Accounting Policies (continued)

Net assets with donor restrictions include net assets whose use is subject to donor-imposed restrictions to support operations or for capital purchases that will be met either by the actions of AtlantiCare or the passage of time and net assets that have been restricted by donors to be maintained by AtlantiCare, or a designated trustee, in perpetuity.

Net assets restricted to be maintained in perpetuity are recorded at the original fair value of gifts donated to AtlantiCare through endowments. AtlantiCare follows the requirements of the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as it relates to its permanent endowment contributions and net assets, as enacted by the State of New Jersey. Unless otherwise directed by the donor, gifts received for endowments are invested in accordance with AtlantiCare's investment policy. AtlantiCare expends the income distributed from endowments on an annual basis in a manner consistent with donor stipulations.

(Deficiency) Excess of Revenue Over Expenses

The (deficiency) excess of revenue over expenses (the performance indicator) includes all revenue, expenses, and non-operating gains and losses for the reporting period classified as net assets without donor restrictions. Net asset transfers, net assets released from restriction for capital purchases, pension liability adjustments, and income attributable to non-controlling interest are reported outside the performance indicator.

Transactions deemed by management to be ongoing, major, or central to the provision of health care services are reported within income from operations. Investment (loss) gain, net and certain transactions which are peripheral or of an infrequent nature are excluded from income from operations.

Income Taxes

The majority of the consolidated entities of AtlantiCare are exempt from Federal income tax on related income under Section 501(c)(3) of the Internal Revenue Code. These entities are also exempt from state and local taxes. EC Assurance is a captive insurance company domiciled in Bermuda and Health Solutions is a taxable for profit company. The provision for income taxes is not significant to AtlantiCare's consolidated financial statements.

AtlantiCare Health System, Inc. and Affiliates

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands unless otherwise noted)

3. Summary of Significant Accounting Policies (continued)

Related-Party Transactions

The entities comprising AtlantiCare provide various inter-entity services to their affiliated entities and the AtlantiCare parent company. The services consist of certain administrative, financial planning, information systems and telecommunications, general accounting, and other services. Charges for such services are based on the approximate cost to provide the services and are allocated between the entities based on an agreed-upon methodology. Such inter-entity charges and balances eliminate in consolidation.

Recent Accounting Pronouncements

In June 2016, the Financial Accounting Standards Board issued Accounting Standards Update No. (ASU) 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* (ASU 2016-13). The main objective of ASU 2016-13 and related ASU updates is to provide financial statement users with more decision-useful information about the expected credit losses on financial instruments and other commitments to extend credit held by a reporting entity at each reporting date. The amendments affect loans, debt securities, trade receivables, net investments in leases, off balance sheet credit exposures, reinsurance receivables, and any other financial assets not excluded from the scope that have the contractual right to receive cash. The amendments in ASU 2016-13 are effective for AtlantiCare for fiscal years beginning after December 15, 2022. AtlantiCare is in the process of evaluating the impact of ASU 2016-13 on its consolidated financial statements.

4. Net Patient Service Revenue

Accounts Receivable and Net Patient Service Revenue

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

AtlantiCare Health System, Inc. and Affiliates

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands unless otherwise noted)

4. Net Patient Service Revenue (continued)

Revenue is recognized as performance obligations are satisfied. Performance obligations are determined based on the nature of the services provided by AtlantiCare. Revenue for performance obligations satisfied at a point in time is recognized when services are provided and completed. Revenue for performance obligations satisfied over time is recognized based on actual charges incurred in relation to total expected or actual charges. AtlantiCare believes that this method provides a reasonable depiction of the transfer of services over the term of the performance obligation. AtlantiCare measures the performance obligation from the start of services to the point when it has completed services for that patient, which is generally at the time of discharge or the completion of an outpatient service. This span of services is considered to be a single performance obligation. Unsatisfied or partially unsatisfied performance obligations primarily relate to inpatient acute care services at the end of the reporting period for patients who remain admitted at that time (in-house patients).

AtlantiCare records net patient service revenue based on standard charges for services provided, reduced by explicit contractual adjustments provided to third-party payors and implicit price concessions provided to patients as reductions from established billing rates. AtlantiCare determines its estimates of explicit and implicit price concessions based on contractual terms and historical data, which considers experience, market conditions, and other factors utilizing a portfolio approach consisting of major payor classes.

Explicit and implicit price concessions to net patient service revenue are recorded at the time the performance obligations are satisfied. Substantially all changes to these concessions, as a result of subsequent reassessment, are recognized in the period the change is identified as adjustments to net patient service revenue. Amounts recognized due to changes in estimates of explicit and implicit price concessions for the years ended December 31, 2022 and 2021 were not significant. Subsequent changes that are determined to be the result of an adverse change in the patient's or payor's ability to pay, if material, are recorded as bad debt expense. No bad debt expense was recorded for the years ended December 31, 2022 and 2021 related to net patient service revenue.

AtlantiCare Health System, Inc. and Affiliates

Notes to Consolidated Financial Statements (continued)
(Dollars in Thousands unless otherwise noted)

4. Net Patient Service Revenue (continued)

Net patient service revenue by major payor source for the years ended December 31, 2022 and 2021, based on primary insurance designation, is as follows:

	Year Ended December 31	
	2022	2021
Medicare (including Medicare managed care)	\$ 317,315	\$ 315,005
Medicaid (including Medicaid managed care)	202,404	168,164
Commercial carriers	501,216	471,191
Self-pay	5,370	7,551
	\$ 1,026,305	\$ 961,911

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

Net patient service revenue for the years ended December 31, 2022 and 2021, by line of business is as follows:

	Year Ended December 31	
	2022	2021
Hospital and ambulatory facilities	\$ 840,424	\$ 795,400
Physician services	185,881	166,511
	\$ 1,026,305	\$ 961,911

At December 31, 2022 and 2021, net accounts receivable is comprised of the following components:

	December 31	
	2022	2021
Patient receivables, net	\$ 116,867	\$ 108,932
Contract assets, net	10,366	7,583
	\$ 127,233	\$ 116,515

AtlantiCare Health System, Inc. and Affiliates

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands unless otherwise noted)

4. Net Patient Service Revenue (continued)

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

Third-Party Payment Programs

AtlantiCare has agreements with third-party payors that provide for payment for services rendered at amounts different from its established rates. A summary of the payment arrangements with major third-party payors follows:

Medicare: Hospitals are paid for most Medicare inpatient and outpatient services under the national prospective payment system and other methodologies of the Medicare program for certain other services. Federal regulations provide for certain adjustments to current and prior years' payment rates, based on industry-wide and hospital-specific data.

Medicaid: Inpatient acute care services rendered to Medicaid program beneficiaries are paid at prospectively determined rates per discharge. Outpatient services rendered to Medicaid program beneficiaries are reimbursed under cost-based and fee schedule methodologies. AtlantiCare is reimbursed for outpatient services at a tentative rate with final settlement determined after submission of annual cost reports and audits thereof by the Medicaid fiscal intermediary.

Other Third-Party Payors: AtlantiCare has entered into payment agreements with certain commercial insurance carriers and managed care organizations. The basis for payment to AtlantiCare under these agreements includes prospectively determined rates per discharge or days of hospitalization and discounts from established charges.

Amounts received from Medicare and Medicaid are subject to review and final determination by program intermediaries or their agents through cost reports submitted by AtlantiCare. Tentative settlements of cost reports have been completed through December 31, 2021. Provisions have been made in the accompanying consolidated financial statements for anticipated adjustments that are estimable and are reported as estimated third-party payor settlements on the accompanying consolidated balance sheets.

AtlantiCare Health System, Inc. and Affiliates

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands unless otherwise noted)

4. Net Patient Service Revenue (continued)

Cost report settlements and other adjustments with third-party payors are estimated based on the terms of the payment agreement with the payor, correspondence from the payor and AtlantiCare's historical settlement activity (for example, repayments related to recovery audits), including an assessment to ensure that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the retroactive adjustment is subsequently resolved. Such estimates are determined through either a probability-weighted estimate or an estimate of the most likely amount, depending on the circumstances related to a given estimated settlement item. Estimated settlements are adjusted in future periods as adjustments become known (that is, new information becomes available), or as years are settled or are no longer subject to such audits, reviews, and investigations. For the years ended December 31, 2022 and 2021, there was no material net change from AtlantiCare's revisions to prior year settlement estimates which impacted net patient service revenue. There is at least a reasonable possibility that recorded estimates will change by a material amount when open years are settled, audits are completed and additional information is obtained.

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

Laws and regulations concerning government programs, including Medicare and Medicaid, are complex and subject to varying interpretation. Periodically, in the ordinary course of business, situations arise requiring additional scrutiny by management to ensure that no instances of non-compliance with laws and regulations exist. If an instance of non-compliance is identified, governing bodies are alerted and efforts are made to estimate contingencies. If these contingencies are probable and estimable, they are recorded as liabilities in the consolidated balance sheets. AtlantiCare is not aware of any allegations of non-compliance that could have a material adverse effect on the accompanying consolidated financial statements and believes that it is in compliance with all applicable laws and regulations.

AtlantiCare Health System, Inc. and Affiliates

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands unless otherwise noted)

4. Net Patient Service Revenue (continued)

AtlantiCare grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of receivables from patients and third party payors as of December 31, 2022 and 2021 was as follows:

	December 31	
	2022	2021
Medicare (including Medicare managed care)	39%	35%
Medicaid (including Medicaid managed care)	16	16
Blue Cross	17	19
Self-pay	6	9
Other Commercial carriers	22	21
	100%	100%

Charity Care and Other Funding

AtlantiCare provides services to all patients regardless of ability to pay. In accordance with AtlantiCare's policy, a patient is classified as a charity patient based on income eligibility criteria. AtlantiCare also provides free care to certain other patients that are determined to be in need. The charges for charity care provided by AtlantiCare are entirely offset by the related implicit price concessions and therefore, are not recognized as net patient service revenue.

Additionally, AtlantiCare sponsors other charitable programs that provide substantial benefit to the broader community. Such programs include services to the needy and elderly population requiring special support, various clinical outreach programs, and health education and promotion.

The cost of charity service provided was approximately \$13.9 million and \$15.1 million for the years ended December 31, 2022 and 2021, respectively. The cost of charity care is derived from both estimated and actual data. The cost of charity includes the direct and indirect cost of providing such services and is estimated utilizing the providers' ratio of cost to standard charges, which is then multiplied by the uncompensated charges associated with providing care to charity patients.

AtlantiCare Health System, Inc. and Affiliates

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands unless otherwise noted)

4. Net Patient Service Revenue (continued)

In addition to charity care, services are provided under the Medicaid program to financially needy patients. The payments received under this program are less than the cost of providing the services.

The New Jersey Health Care Subsidy Funds were established for various purposes, including the distribution of charity care payments to hospitals statewide. AtlantiCare received \$8.9 million and \$17.4 million in charity care subsidies during the years ended December 31, 2022 and 2021, respectively, of which \$1.1 million and \$6.7 million is recorded as a deferred liability at December 31, 2022 and 2021, respectively.

To support continued population health improvement across New Jersey, the Department of Health (DOH) developed and implemented a hospital performance initiative called the Quality Improvement Program-New Jersey (QIP-NJ) effective July 1, 2020. The first year did not include quality-based measures and was a per diem add-on for inpatient claims. Initial payments received in March and October 2021 totaled \$6.4 million (per diem add-on for inpatient claims). Subsequent payments are determined through quality-based measures for which AtlantiCare recorded revenue of \$8.2 million and \$2.7 million in 2022 and 2021, respectively.

AtlantiCare receives additional Medicaid funding under the New Jersey County Option Hospital Fee Program. This program is administered through the New Jersey Department of Human Services-Division of Medical Assistance and Health Services and began as a pilot in July 2021 in certain counties in New Jersey. Subsequently, this program was made permanent in July 2022 by the State. The program requires that participating hospitals pay quarterly assessed fees based on estimated non-Medicare discharge data within the county, and such payments are then pooled with federal Medicaid matching funds and redistributed to the participating hospitals as State Directed Payments. The State Directed Payments are subject to annual settlement based on actual Medicaid utilization data and other factors. The program resulted in fees paid by AtlantiCare of \$21.7 million and \$10.9 million in 2022 and 2021, respectively. AtlantiCare recorded \$62.0 million and \$28.4 million in net patient service revenue for this program in 2022 and 2021, respectively.

AtlantiCare Health System, Inc. and Affiliates

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands unless otherwise noted)

5. Investments

AtlantiCare's investments, which include assets whose use is limited by the Board of Trustees and external parties and those restricted by donors, consist of the following at December 31, 2022 and 2021:

	December 31	
	2022	2021
Cash equivalents	\$ 11,440	\$ 14,825
Equity funds	616,734	734,162
Marketable equity securities	377	352
Corporate obligations	27,445	69,602
Fixed income funds	278,799	335,000
U.S. government and agency obligations	23,210	20,854
Alternative investments	13,589	13,810
	971,594	1,188,605
Less current portion	6,991	8,510
Non-current portion	\$ 964,603	\$ 1,180,095

Investment (loss) gain, net consists of the following:

	Year Ended December 31	
	2022	2021
Interest and dividend income	\$ 3,001	\$ 1,241
Net realized gains and losses on sale of investments	8,484	52,570
Net change in unrealized gains and losses	(186,331)	87,360
	\$ (174,846)	\$ 141,171

AtlantiCare Health System, Inc. and Affiliates

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands unless otherwise noted)

6. Property and Equipment

Property and equipment consist of the following at December 31, 2022 and 2021:

	Estimated Useful Lives	December 31 2022	December 31 2021
Land		\$ 47,184	\$ 42,550
Land improvements	(3–30 years)	14,828	13,759
Buildings and building improvements	(3–50 years)	569,655	500,009
Equipment	(3–20 years)	164,371	144,701
Computer hardware	(3–5 years)	39,455	36,639
Computer software	(3–5 years)	49,620	46,956
		885,113	784,614
Accumulated depreciation and amortization		(356,475)	(304,819)
		528,638	479,795
Construction in progress		40,785	28,057
		\$ 569,423	\$ 507,852

Depreciation and amortization expense related to property and equipment for the years ended December 31, 2022 and 2021 was \$53.3 million and \$53.2 million, respectively.

7. Joint Ventures

AtlantiCare’s investment in unconsolidated joint ventures, included in other assets, net in the accompanying consolidated balance sheets, totaled \$6.4 million and \$5.6 million at December 31, 2022 and 2021, respectively. Distributions from these joint ventures totaled \$0.7 million and \$0.8 million for the years ended December 31, 2022 and 2021, respectively.

The Osprey Rehabilitation, LLC joint venture was created on December 8, 2022 by Health Services and Rehabclinics (SPT), Inc. (Select) as its members. The joint venture was formed to operate certain outpatient clinics and an inpatient rehabilitation facility. Health Services will hold 49% of the ownership interest and it is expected to begin operations on April 1, 2023.

AtlantiCare Health System, Inc. and Affiliates

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands unless otherwise noted)

8. Long-Term Debt

Long-term debt consists of the following at December 31, 2022 and 2021:

	December 31	
	2022	2021
AtlantiCare Health System Obligated Group Issue, Series 2021, consisting of \$117,370 serial bonds maturing through July 1, 2041 with interest rates ranging from 2.0% to 5.0%; \$99,625 term bonds maturing July 1, 2046 and July 1, 2051 with interest rates ranging from 2.375% to 3.0%	\$ 216,995	\$ 216,995
Other long-term debt	13,072	8,036
Finance lease obligations, with interest rate of 6.6% and payments through 2024	301	450
	230,368	225,481
Less: current portion	(4,784)	(3,647)
Less: unamortized deferred financing costs	(1,772)	(1,906)
Add: unamortized premium	23,767	25,562
	\$ 247,579	\$ 245,490

In September 2021, the New Jersey Health Care Facilities Financing Authority issued \$217.0 million Revenue Bonds, AtlantiCare Health System Obligated Group Issue, Series 2021 (the Series 2021 Bonds) with interest payments due semiannually on January 1st and July 1st. Total proceeds from the issuance, including an original issue premium of \$25.8 million, were \$242.6 million.

In connection with the Series 2021 Bonds, a Master Trust Indenture (MTI) was executed. Under the terms of the MTI, the parent company (AtlantiCare Health System) and the Medical Center are the current members of the Obligated Group for the Series 2021 Bonds, and have each granted the Master Trustee a first lien on and security interest in their gross revenues. In addition to the Obligated Group, under the MTI Health Services and Physician Group are Designated Affiliates, which are not jointly and severally obligated with respect to the Series 2021 Bonds and have not pledged their gross revenues, but could be required to pay, loan or otherwise transfer such amounts as necessary to pay amounts due under the Series 2021 Bonds.

AtlantiCare Health System, Inc. and Affiliates

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands unless otherwise noted)

8. Long-Term Debt (continued)

Under the terms of the MTI and other agreements related to the Series 2021 Bonds, the Obligated Group and Designated Affiliates, as a combined group, are required to maintain certain financial ratios and be in compliance with other restrictive covenants as described in the respective agreements. At December 31, 2022, the Obligated Group and Designated Affiliates were in compliance with such financial covenants.

Scheduled maturities of long-term debt for the next five years ending December 31 and thereafter are as follows:

2023	\$	4,784
2024		4,981
2025		5,054
2026		5,287
2027		5,526
Thereafter		<u>204,736</u>
	\$	<u>230,368</u>

Net interest paid was \$6.4 million and \$3.9 million for the years ended December 31, 2022 and 2021, respectively.

AtlantiCare Health System, Inc. and Affiliates

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands unless otherwise noted)

9. Leases

AtlantiCare determines if an arrangement is or contains a lease at contract inception and recognizes an asset and a lease liability at the lease commencement date. Contract terms determine whether a lease will be accounted for as an operating or finance lease.

For operating leases with initial terms greater than a year, the lease liability is measured at the present value of the unpaid lease payments. The right-of-use (ROU) asset is subsequently measured throughout the lease term at the carrying amount of the lease liability, plus initial direct costs, plus (minus) any prepaid (accrued) lease payments, less the unamortized balance of lease incentives received. Lease expense is recognized on a straight-line basis over the lease term. AtlantiCare does not recognize ROU assets and lease liabilities for short-term leases that have a term of 12 months or less.

AtlantiCare uses the initial lease term to determine the ROU asset and the lease liability at the commencement date and for the amortization period of the ROU asset. AtlantiCare monitors inputs that require reassessment including the lease term. If needed, an adjustment is made to the ROU asset's carrying amount unless doing so would reduce the carrying amount of the ROU asset to less than zero. In that case, the adjustment amount would be recorded in profit or loss.

Several key estimates and judgments are used to determine the ROU assets and operating lease liabilities including the discount rate used to discount the unpaid lease payments to present value, lease term and lease payments. AtlantiCare uses its incremental borrowing rate for purposes of discounting its leases. The incremental borrowing rate is the rate of interest AtlantiCare would have to pay to borrow an amount equal to the lease payments under similar terms and conditions.

AtlantiCare leases medical office buildings and land primarily under operating leases. The remaining lease term of all leases ranges from 3–51 years.

AtlantiCare Health System, Inc. and Affiliates

Notes to Consolidated Financial Statements (continued)
(Dollars in Thousands unless otherwise noted)

9. Leases (continued)

The following schedules summarize information related to the lease assets and liabilities as of and for the years ended December 31, 2022 and 2021:

	December 31	
	2022	2021
Lease cost:		
Finance lease cost:		
Amortization of right-of-use asset	\$ 94	\$ 14
Interest on lease liabilities	24	4
Operating lease cost	7,029	6,668
Short-term lease cost	25	90
Total lease cost	<u>\$ 7,172</u>	<u>\$ 6,776</u>
Right-of-use assets and liabilities:		
Right-of-use assets – finance leases	\$ 364	\$ 458
Lease liability – finance leases	301	450
Right-of-use assets – operating leases	13,275	13,305
Lease liability – operating leases	14,087	14,028
Other information:		
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flow for financing leases	\$ 24	\$ 4
Operating cash flow for operating leases	5,692	5,329
Financing cash flow for financing leases	149	22
Right of use assets obtained in exchange for new financing lease liabilities	\$ –	\$ 472
Right of use assets obtained in exchange for new operating lease liabilities	5,580	3,463
Weighted average remaining lease term – finance leases	1.9	2.9
Weighted average remaining lease term – operating leases	5.6	4.7
Weighted average discount rate – finance leases	6.6%	6.6%
Weighted average discount rate – operating leases	4.6%	4.6%

AtlantiCare Health System, Inc. and Affiliates

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands unless otherwise noted)

9. Leases (continued)

For finance leases, ROU assets are recorded in property and equipment and lease liabilities are recorded in long-term debt in the accompanying consolidated balance sheets. For operating leases, ROU assets are recorded in operating lease assets and lease liabilities are recorded in operating lease liability, current and non-current, in the accompanying consolidated balance sheets.

The following table reconciles the undiscounted lease payments to the lease liabilities recorded on the accompanying consolidated balance sheet at December 31, 2022:

	Financing Leases	Operating Leases
2023	\$ 173	\$ 4,683
2024	146	3,664
2025	–	2,552
2026	–	1,371
2027	–	960
Thereafter	–	2,918
Total undiscounted future lease payments	319	16,148
Less present value discount	(18)	(2,061)
Discounted future lease payments	301	14,087
Less current portion	(158)	(4,163)
Long-term portion	<u>\$ 143</u>	<u>\$ 9,924</u>

AtlantiCare Health System, Inc. and Affiliates

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands unless otherwise noted)

10. Liquidity and Availability of Resources

Liquid financial resources are utilized by AtlantiCare to meet short-term, one year or less, expenditure needs. AtlantiCare's investment strategy is to maintain liquid resources sufficient to meet short-term needs and invest the excess. AtlantiCare's long-term investments without donor restrictions, except for private equity funds, are intended for long-term uses but are available for short-term needs. The following summarizes AtlantiCare's financial assets and liquidity resources available within one year to meet the needs of AtlantiCare as of December 31, 2022 and 2021:

	December 31	
	2022	2021
Financial assets:		
Cash and cash equivalents	\$ 45,219	\$ 84,701
Patient accounts receivable	127,233	116,515
Investments	971,594	1,188,605
Total financial assets	1,144,046	1,389,821
Less investments not available to be used for general expenditures within one year:		
Externally designated by donors	27,185	10,077
Private equity funds	13,589	13,810
	\$ 1,103,272	\$ 1,365,934

11. Pension and Other Postretirement Benefit Plans

AtlantiCare sponsors a noncontributory defined benefit pension plan (the Pension Plan) covering approximately 1,500 Active Employees, Retirees and Deferred Vested Participants. The benefits are based on an employee's final average compensation. An amendment to the Pension Plan closed it to all employees who are hired or rehired on or after January 1, 2010. These employees are participants in a defined contribution pension plan that provides a 3% of pay contribution that is made to a separate account maintained on their behalf.

Additionally, certain retired employees of the Medical Center who met the requirements to become vested under the terms of the Pension Plan and were over 55 years of age at the time of their retirement were provided health and life insurance benefits (Other Benefits Plan). Effective January 1, 1993, the Medical Center revised the eligibility requirements and maximum benefits for employees retiring after 1993. The Medical Center discontinued providing retirement health

AtlantiCare Health System, Inc. and Affiliates

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands unless otherwise noted)

11. Pension and Other Postretirement Benefit Plans (continued)

benefits for employees retiring after December 31, 1995. Effective February 29, 2008, a voluntary employees' beneficiary association (VEBA) was established with a contribution of \$9,900 to prefund the cost of certain employee benefits, including retiree health care benefits.

The funded status of the Pension Plan and Other Benefits Plan as recognized on AtlantiCare's consolidated balance sheets at December 31, 2022 and 2021 and changes in funded status for the years ended December 31, 2022 and 2021 are as follows:

	December 31, 2022		December 31, 2021	
	Pension Plan	Other Benefits	Pension Plan	Other Benefits
Change in benefit obligation				
Benefit obligation at beginning of year	\$ 518,527	\$ 9,458	\$ 560,235	\$ 10,173
Service cost	18,569	192	20,907	218
Interest cost	15,465	268	14,957	271
Benefits paid	(3,344)	(228)	(3,202)	(340)
Retiree contributions	-	24	-	30
Settlements	(91,276)	-	(44,459)	-
Actuarial gain	(161,253)	(3,564)	(29,911)	(894)
Benefit obligation at end of year	<u>296,688</u>	<u>6,150</u>	518,527	9,458
Change in plan assets				
Fair value of plan assets at beginning of year	484,900	17,945	470,245	16,441
Actual return on plan assets	(97,970)	(2,739)	52,878	1,783
Employer contributions	3,457	-	9,438	-
Settlements	(91,276)	-	(44,459)	-
Benefits paid	(3,344)	(259)	(3,202)	(279)
Fair value of plan assets at end of year	<u>295,767</u>	<u>14,947</u>	484,900	17,945
Funded status at end of year	<u>\$ (921)</u>	<u>\$ 8,797</u>	\$ (33,627)	\$ 8,487

The settlements recorded in 2022 and 2021 primarily relate to lump sum payments as a result of increased retirements and terminations and the purchase of a \$39.3 million annuity in 2022 to transfer certain participant accounts to an insurance company.

The actuarial gains in 2022 primarily relate to an increase in the discount rate assumption. The actuarial gains in 2021 primarily relate to investment gains and changes in the discount rate assumption.

AtlantiCare Health System, Inc. and Affiliates

Notes to Consolidated Financial Statements (continued)
(Dollars in Thousands unless otherwise noted)

11. Pension and Other Post Retirement Plans (continued)

The projected benefit obligation, accumulated benefit obligation, and fair value of plan assets for the Pension Plan at December 31, 2022 and 2021 are as follows:

	December 31	
	2022	2021
Projected benefit obligation	\$ 296,688	\$ 518,527
Accumulated benefit obligation	256,671	443,317
Fair value of plan assets	295,767	484,900

The actuarial losses and service cost for the Pension Plan included in net assets without donor restrictions at December 31, 2022 and 2021 is \$70.3 million and \$59.5 million, respectively, including \$10.8 million related to 2022. Amounts that are recognized as a component of changes in net assets without donor restrictions will be subsequently recognized as net periodic pension (credit) cost in future periods.

The following table provides the components of net periodic pension (credit) cost for the Pension Plan:

	Year Ended December 31	
	2022	2021
Service cost	\$ 18,569	\$ 20,907
Interest cost	15,465	14,957
Expected return on plan assets	(30,726)	(28,902)
Recognized actuarial loss and administrative expenses	(21,574)	(4,976)
Net periodic pension (credit) cost	\$ (18,266)	\$ 1,986

AtlantiCare Health System, Inc. and Affiliates

Notes to Consolidated Financial Statements (continued)
(Dollars in Thousands unless otherwise noted)

11. Pension and Other Post Retirement Plans (continued)

The following assumptions were used in determining the benefit obligations and net periodic pension (credit) costs for the Pension Plan and Other Benefits plan:

	December 31	
	2022	2021
Discount rate:		
Benefit obligations	5.55%	3.05%
Net periodic pension (credit) cost	3.05	2.80
Expected long-term return on plan assets	6.60	6.40

Current target investment allocations are as follows:

Equity funds	50–70%
Fixed income funds	30–50
Cash and cash equivalents	0–10

During the years ended December 31, 2022 and 2021, AtlantiCare contributed \$3.5 million and \$9.4 million, respectively, to the Pension Plan. AtlantiCare intends to contribute approximately \$3.5 million to the Pension Plan in 2023.

The following is a schedule by year of estimated future benefit payments as of December 31:

2023	\$ 30,340
2024	26,690
2025	26,150
2026	27,260
2027	26,410
2028-2032	130,620

AtlantiCare Health System, Inc. and Affiliates

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands unless otherwise noted)

11. Pension and Other Post Retirement Plans (continued)

Defined Contribution Pension Plans

A defined contribution plan is maintained for all employees hired after January 1, 2010. AtlantiCare incurred \$9,142 and \$9,160 of expense related to the defined contribution plan during the years ended December 31, 2022 and 2021, respectively.

12. Fair Value Measurements

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value hierarchy is comprised of three levels based on inputs that market participants would use in valuing the asset or liability based on market data obtained from sources independent of AtlantiCare as follows:

Level 1: Unadjusted quoted market prices in active markets for identical assets or liabilities.

Level 2: Unadjusted quoted prices in active markets for similar assets or liabilities, unadjusted quoted prices for identical or similar assets or liabilities in markets that are not active, or inputs other than quoted prices that are observable.

Level 3: Unobservable inputs for the asset or liability.

Inputs broadly refer to the assumptions that market participants use to make valuation decisions, including assumptions about risk. Inputs may include price information, volatility statistics, specific and broad credit data, liquidity statistics, and other factors. AtlantiCare's investment strategy is to maximize the use of observable inputs (Levels 1 and 2) and minimize the use of unobservable inputs (Level 3). AtlantiCare considers observable data to be that market data, which is readily available, regularly distributed or updated, reliable and verifiable, not proprietary and provided by independent sources that are actively involved in the relevant market. The categorization of a financial instrument within the hierarchy is based upon the pricing transparency of the instrument and does not necessarily correspond to AtlantiCare's perceived risk of that instrument.

AtlantiCare Health System, Inc. and Affiliates

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands unless otherwise noted)

12. Fair Value Measurements (continued)

Financial instruments are disclosed within the hierarchy based on the lowest (or least observable) input that is significant to the measurement. AtlantiCare's assessment of the significance of an input requires judgment, which may affect the valuation and categorization within the fair value hierarchy. Fair value using Level 3 inputs is generally determined by using pricing models or discounted cash flow methods, which all require significant management judgment or estimation.

The basis for fair value measurement and NAV for AtlantiCare's financial instruments are established below:

Cash Equivalents

Cash equivalents include short-term investments and fixed income investments with initial maturities of less than three months. Cash equivalents are valued using observable market data and are categorized as Level 1 based on quoted market prices in active markets. The majority of cash equivalents are held in money market accounts.

Equity Funds

Equity funds consist of commingled trust funds and mutual funds that are valued based upon quoted market prices in active markets obtained from exchange or dealer markets for identical assets. Equity funds are categorized as Level 2 with no valuation adjustments applied.

Marketable Equity Securities

Marketable equity securities consist of individual securities that are generally valued based upon quoted market prices in active markets obtained from exchange or dealer markets and are accordingly categorized as Level 1 with no valuation adjustments applied.

Corporate Obligations

Corporate obligations consist of individual securities that are valued based upon quoted market prices or dealer or broker quotations which may include model-based valuation techniques and are categorized as Level 2.

AtlantiCare Health System, Inc. and Affiliates

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands unless otherwise noted)

12. Fair Value Measurements (continued)

Fixed Income Funds

Fixed income funds consist of commingled trust funds and mutual funds, which are valued based upon quoted market prices in active markets obtained from exchange or dealer markets for identical assets and categorized as Level 2.

U.S. Government and Agency Obligations

U.S. government and agency obligations consist of individual securities and are valued based on quoted market prices or dealer/broker quotations. Direct obligations of the U.S. government are categorized as Level 1 and agency obligations are categorized as Level 2.

Alternative Investments

Alternative investments include private equity investment interests.

Private equity investments are in the form of limited partnership interests. The fund managers primarily invest in private investments for which there is no readily determinable market value. The fund manager may value the underlying private investments based on an appraised value, discounted cash flow, industry comparable, or some other method. These limited partnership investments are recorded under the equity method and valued at NAV and are not categorized in the fair value hierarchy.

Assets Held in Trust

Assets held in trust represent AtlantiCare's beneficial interest in perpetual and other trusts that are maintained and administered by independent trustees and are valued based on the fair value of the underlying assets held in trust. Trusts that are perpetual, whereby the original corpus cannot be expended, and trusts that have donor-imposed restrictions are reported as net assets with donor restrictions. Distributions from trusts are recorded as investment gain, net in net assets without donor restrictions, or as investment earnings, net in net assets with donor restrictions if their use is restricted by the donor. Assets held in trust are included in other assets, net, in the accompanying consolidated balance sheets. These assets are categorized as Level 3.

AtlantiCare Health System, Inc. and Affiliates

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands unless otherwise noted)

12. Fair Value Measurements (continued)

The following table sets forth AtlantiCare's financial assets at December 31, 2022 and 2021, by level within the fair value hierarchy and NAV:

	Level 1	Level 2	Level 3	NAV	Total
December 31, 2022					
Cash equivalents	\$ 56,659	\$ –	\$ –	\$ –	\$ 56,659
Equity funds	–	616,734	–	–	616,734
Marketable equity securities	377	–	–	–	377
Corporate obligations	–	27,445	–	–	27,445
Fixed income funds	–	278,799	–	–	278,799
U.S. government and agency obligations	12,003	11,207	–	–	23,210
Alternative investments	–	–	–	13,589	13,589
Assets held in trust	–	–	651	–	651
	\$ 69,039	\$ 934,185	\$ 651	\$ 13,589	\$ 1,017,464

	Level 1	Level 2	Level 3	NAV	Total
December 31, 2021					
Cash equivalents	\$ 99,526	\$ –	\$ –	\$ –	\$ 99,526
Equity funds	–	734,162	–	–	734,162
Marketable equity securities	352	–	–	–	352
Corporate obligations	–	69,602	–	–	69,602
Fixed income funds	–	335,000	–	–	335,000
U.S. government and agency obligations	8,761	12,093	–	–	20,854
Alternative investments	–	–	–	13,810	13,810
Assets held in trust	–	–	807	–	807
	\$ 108,639	\$ 1,150,857	\$ 807	\$ 13,810	\$ 1,274,113

AtlantiCare Health System, Inc. and Affiliates

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands unless otherwise noted)

12. Fair Value Measurements (continued)

The following table sets forth the composition of plan assets for the Pension Plan and Other Benefits Plan, by level and actual asset allocations at December 31, 2022 and 2021:

	Level 1	Level 2	Level 3	NAV	Total	Allocation
December 31, 2022						
Equity funds	\$ 151,067	\$ –	\$ –	\$ –	\$ 151,067	49%
Fixed income funds	106,154	–	–	–	106,154	34
Private equity	–	–	–	6,348	6,348	2
Cash and cash equivalents	47,145	–	–	–	47,145	15
	<u>\$ 304,366</u>	<u>\$ –</u>	<u>\$ –</u>	<u>\$ 6,348</u>	<u>\$ 310,714</u>	<u>100%</u>
December 31, 2021						
Equity funds	\$ 289,884	\$ –	\$ –	\$ –	\$ 289,884	58%
Fixed income funds	202,567	–	–	–	202,567	40
Private equity	–	–	–	8,333	8,333	1
Cash and cash equivalents	2,061	–	–	–	2,061	1
	<u>\$ 494,512</u>	<u>\$ –</u>	<u>\$ –</u>	<u>\$ 8,333</u>	<u>\$ 502,845</u>	<u>100%</u>

The following is a summary of alternative investments recorded at NAV, the restrictions on AtlantiCare's ability to redeem such investments at the measurement date and any unfunded capital commitments as of December 31, 2022:

Description of Investment	Fair Value	Unfunded Commitments	Redemption Frequency (if Currently Eligible)	Redemption Notice Period
Private equity ^(a)	\$ 19,937	N/A	Quarterly/Annual	90 days to 29 months

^(a) Private equity investments include limited partnership investments in funds pursuing strategies in corporate buyouts, venture capital, and other investments.

There were no transfers among levels or significant changes in Level 3 investments.

AtlantiCare Health System, Inc. and Affiliates

Notes to Consolidated Financial Statements (continued)
(Dollars in Thousands unless otherwise noted)

13. Net Assets with Donor Restrictions

Net assets with donor restrictions are available for the following purposes at December 31:

	December 31	
	2022	2021
Time and purpose restrictions:		
Casino Reinvestment Development Authority – Ohio		
Avenue project	\$ 15,340	\$ –
Support operations	6,789	5,869
Purchase of equipment	2,736	1,743
	<u>24,865</u>	<u>7,612</u>
Amounts held in perpetuity – endowments and trusts	2,320	2,465
	<u>\$ 27,185</u>	<u>\$ 10,077</u>

In 2020, Health Services entered into an agreement with the Casino Reinvestment Development Authority (CRDA), a public corporate body of the State of New Jersey, under which CRDA provided land with a fair value of \$3.0 million and \$15.3 million of grant funding for the construction and development of a medical services facility by Health Services. The grant provisions require the operation of the facility for a minimum of ten years. The project was completed in 2022 and Health Services will recognize contribution revenue ratably over the required service period.

Net assets were released from donor restriction by incurring expenditures satisfying the restricted purpose to support operations and capital purchases in the amount of \$5.4 million and \$1.9 million for the years ended December 31, 2022 and 2021, respectively.

The composition of and changes in endowment net assets, excluding trusts, is as follows:

	December 31	
	2022	2021
Endowment net assets at beginning of period	\$ 1,658	\$ 1,607
Net investment earnings	17	58
Annual appropriations	(6)	(7)
Endowment net assets at end of period	<u>\$ 1,669</u>	<u>\$ 1,658</u>

AtlantiCare Health System, Inc. and Affiliates

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands unless otherwise noted)

14. Non-controlling Interest

Non-controlling interest represents the proportionate share of Surgery Center not controlled by AtlantiCare. The net income of this venture is allocated to the non-controlling interest holders based on their percentage of ownership. Total non-controlling interest was \$8.0 million and \$6.6 million as of December 31, 2022 and 2021, respectively.

15. Hospital and Provider Professional Liability Claims Coverage

In the ordinary course of business, various claimants have asserted professional and general liability claims against AtlantiCare. These claims are in various stages of processing or, in certain instances, are in litigation. In addition, there are known incidents, and unknown incidents, that may result in the assertion of additional claims. AtlantiCare has accrued its best estimate of both asserted and unasserted claims based on actuarially determined amounts.

AtlantiCare insures hospital and provider professional liability and general liability claims coverage through a captive insurance program with EC Assurance. The limits of the professional liability coverage follows:

Coverage	Per Claim Limit*	Annual Aggregate Limit
	<i>(In Millions)</i>	
Institutional professional	\$ 6.0	\$ –
General liability	1.0	1.0
Physician professional	6.0	–

* Effective November 1, 2016, per claim limits are shared by hospital and physicians and captive policy aggregate limits are not recognized by excess coverage.

AtlantiCare Health System, Inc. and Affiliates

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands unless otherwise noted)

15. Hospital and Provider Professional Liability Claims Coverage (continued)

The total net loss accruals were \$48.1 million and \$47.1 million at December 31, 2022 and 2021, respectively. The loss accruals, which were discounted at a rate of approximately 4% for December 31, 2022 and 2021, include estimates of known and incurred but not reported losses based on annual actuarial studies and are reported in accrued expenses and other liabilities in the consolidated balance sheets. Amounts expected to be paid in the next 12 months are reported as a current liability in accrued expenses and other in the consolidated balance sheets.

16. Other Revenue

Other revenue consists of the following:

	Year Ended December 31	
	2022	2021
Provider Relief Fund grant	\$ 51	\$ 2,957
Other grant revenue	20,562	18,446
FEMA Disaster Relief Fund	11,502	6,389
457B investment (loss) return	(8,261)	2,301
Rental income	3,724	4,278
Tuition	3,609	3,173
Shared Savings and accountable care organization gains	6,500	15,395
Net assets released from restrictions for operations	2,260	1,873
Other	20,440	16,123
	\$ 60,387	\$ 70,935

17. Functional Expenses

Expenses attributed to each program or supporting function of AtlantiCare are reported in the following table. Expenses attributable to more than one program require allocation, which is consistently applied and based upon reasonable statistics such as revenue, expenses or full-time equivalents. Indirect costs incurred for the benefit of multiple programs are classified as management and general expenses.

AtlantiCare Health System, Inc. and Affiliates

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands unless otherwise noted)

17. Functional Expenses (continued)

Expenses by function and natural classification are as follows:

Year ended December 31, 2022:

	Program Services			Management & General	Total
	Clinical Enterprise	Other	Total		
Salaries and benefits	\$ 475,008	\$ 64,945	\$ 539,953	\$ 95,131	\$ 635,084
Supplies and other	219,936	26,920	246,856	1,564	248,420
Purchased services	62,759	46,022	108,781	10,888	119,669
Interest expense	721	88	809	7,954	8,763
Depreciation and amortization	47,904	5,215	53,119	220	53,339
Other non-service periodic pension costs	–	–	–	(38,601)	(38,601)
Total expenses	\$ 806,328	\$ 143,190	\$ 949,518	\$ 77,156	\$ 1,026,674

Year ended December 31, 2021:

	Program Services			Management & General	Total
	Clinical Enterprise	Other	Total		
Salaries and benefits	\$ 436,628	\$ 62,605	\$ 499,233	\$ 116,179	\$ 615,412
Supplies and other	195,045	26,059	221,104	7,899	229,003
Purchased services	57,826	41,765	99,591	9,250	108,841
Interest expense	779	281	1,060	2,889	3,949
Depreciation and amortization	48,513	4,646	53,159	39	53,198
Other non-service periodic pension costs	–	–	–	(20,343)	(20,343)
Total expenses	\$ 738,791	\$ 135,356	\$ 874,147	\$ 115,913	\$ 990,060

18. Subsequent Events

Subsequent events have been evaluated through May 10, 2023, which is the date the accompanying consolidated financial statements were issued. Except as disclosed in Note 2, no subsequent events have occurred that require disclosure in or adjustment to the accompanying consolidated financial statements.

Supplementary Information – Consolidating Financial Information

AtlantiCare Health System, Inc. and Affiliates
Consolidating Balance Sheet
(Dollars In Thousands)
December 31, 2022

	AtlantiCare Regional Health Services												
	(OG) AtlantiCare Regional Medical Center	AtlantiCare Behavioral Health	(DA) AtlantiCare Health Services	(DA) AtlantiCare Physician Group, P.A.	(OG) AtlantiCare Health System, Inc.	English Creek Assurance, Ltd.	AtlantiCare Foundation	AtlantiCare Surgery Center, LLC	AtlantiCare Health Engagement	AtlantiCare Health Solutions	Eliminations	Total Consolidated	Total OG + DA
Assets													
Current assets:													
Cash and cash equivalents	\$ 10,316	\$ 5,297	\$ 3,106	\$ 2,737	\$ 1,596	\$ 10,344	\$ 1,057	\$ 6,366	\$ 1,972	\$ 2,428	\$ –	\$ 45,219	\$ 17,755
Assets limited as to use, current portion	6,789	–	202	–	–	–	–	–	–	–	–	6,991	6,991
Patient accounts receivable, net	108,837	674	3,306	14,314	–	–	–	5,105	–	–	(5,003)	127,233	121,454
Due from affiliates	21,871	(896)	(10,751)	(4,835)	807	–	(1,481)	(3,541)	1,082	(2,256)	–	–	7,092
Inventories and other current assets	62,661	910	6,672	4,634	7,412	11,327	76	230	–	179	(4,871)	89,230	81,379
Total current assets	210,474	5,985	2,535	16,850	9,815	21,671	(348)	8,160	3,054	351	(9,874)	268,673	234,671
Investments	841,035	–	16,904	–	33,705	63,874	6,176	–	2,909	–	–	964,603	891,644
Property and equipment, net	344,843	3,792	182,166	19,091	383	–	–	26,173	1	–	(7,026)	569,423	539,457
Operating lease assets	1,569	591	2,743	7,268	676	–	–	2,684	–	–	(2,256)	13,275	12,256
Other assets, net	77,731	–	28,791	–	599	–	2,270	1,397	–	–	(62,445)	48,343	107,121
Total assets	\$ 1,475,652	\$ 10,368	\$ 233,139	\$ 43,209	\$ 45,178	\$ 85,545	\$ 8,098	\$ 38,414	\$ 5,964	\$ 351	\$ (81,601)	\$ 1,864,317	\$ 1,785,149
Liabilities and net assets													
Current liabilities:													
Long-term debt, current portion	\$ 3,940	\$ –	\$ 472	\$ –	\$ –	\$ –	\$ –	\$ 1,198	\$ –	\$ –	\$ (826)	\$ 4,784	\$ 4,412
Accounts payable	28,017	6	611	237	120	126	7	891	–	–	–	30,015	28,985
Estimated third-party payor settlements, current portion	20,609	–	–	–	–	–	–	–	–	–	–	20,609	20,609
Accrued expenses and other	102,420	2,737	12,017	27,193	10,558	4,460	30	5,430	747	186	(9,097)	156,681	147,185
Operating lease liabilities, current portion	626	268	400	2,291	390	–	–	271	–	–	(83)	4,163	3,707
Total current liabilities	155,612	3,011	13,500	29,721	11,068	4,586	37	7,790	747	186	(10,006)	216,252	204,898
Long-term debt, less current portion	235,050	–	10,463	–	–	–	–	13,470	–	–	(11,404)	247,579	245,513
Operating lease liabilities, less current portion	1,130	330	2,562	5,257	373	–	–	3,052	–	–	(2,780)	9,924	2,296
Estimated third-party payor settlements, less current portion	6,557	–	–	–	–	–	–	–	–	–	–	6,557	6,557
Accrued pension liability	921	–	–	–	–	–	–	–	–	–	–	921	921
Other liabilities	77,392	8	4,877	128	2,331	41,266	–	–	145	–	(40,953)	85,194	84,728
Total liabilities	476,662	3,349	31,402	35,106	13,772	45,852	37	24,312	892	186	(65,143)	566,427	544,913
Net assets:													
Net assets without donor restrictions	993,754	6,803	186,397	8,103	31,406	39,693	1,668	14,102	5,072	165	(24,469)	1,262,694	1,219,660
Net assets with donor restrictions	5,236	216	15,340	–	–	–	6,393	–	–	–	–	27,185	20,576
Non-controlling interest	–	–	–	–	–	–	–	–	–	–	8,011	8,011	–
Total net assets	998,990	7,019	201,737	8,103	31,406	39,693	8,061	14,102	5,072	165	(16,458)	1,297,890	1,240,236
Total liabilities and net assets	\$ 1,475,652	\$ 10,368	\$ 233,139	\$ 43,209	\$ 45,178	\$ 85,545	\$ 8,098	\$ 38,414	\$ 5,964	\$ 351	\$ (81,601)	\$ 1,864,317	\$ 1,785,149

(OG) – Entity is a member of the Obligated Group, as described in certain documents related to the New Jersey Health Care Facilities Financing Authority Revenue Bonds, Series 2021, AtlantiCare Health System Obligated Group Issue (Series 2021 Bonds). Refer to Note 8 to the financial statements.

(DA) – Entity is a Designated Affiliate, as described in certain documents related to the Series 2021 Bonds. Refer to Note 8 to the financial statements.

Note: The column “Total OG + DA” represents the combination of the Obligated Group and Designated Affiliates, net of eliminations of inter-entity balances and activities. Refer to Note 8 to the financial statements.

AtlantiCare Health System, Inc. and Affiliates
Consolidating Statement of Operations and Changes in Net Assets
(Dollars In Thousands)
Year Ended December 31, 2022

	AtlantiCare Regional Health Services												
	(OG)		(DA)	(DA)	(OG)							Total	
	AtlantiCare Regional Medical Center	AtlantiCare Behavioral Health	AtlantiCare Health Services	AtlantiCare Physician Group, P.A.	AtlantiCare Health System, Inc.	English Creek Assurance, Ltd.	AtlantiCare Foundation	AtlantiCare Surgery Center, LLC	AtlantiCare Health Engagement	AtlantiCare Health Solutions	Eliminations	Consolidated	Total OG + DA
Net assets without donor restrictions													
Revenue:													
Net patient service revenue	\$ 791,350	\$ 10,126	\$ 34,450	\$ 139,614	\$ –	\$ –	\$ –	\$ 50,765	\$ –	\$ –	\$ –	\$ 1,026,305	\$ 965,414
Other revenue	20,348	14,555	24,319	87,027	85,952	9,179	2,877	370	2,333	3,871	(190,444)	60,387	53,689
Total revenue	811,698	24,681	58,769	226,641	85,952	9,179	2,877	51,135	2,333	3,871	(190,444)	1,086,692	1,019,103
Expenses:													
Salaries and benefits	340,804	16,273	23,479	195,375	36,731	–	1,125	16,321	4,976	–	–	635,084	596,389
Supplies and other	330,669	6,397	14,209	42,324	13,436	5,444	1,510	18,825	2,179	3,871	(190,444)	248,420	236,681
Purchased services	49,350	772	12,155	17,806	35,732	166	898	2,471	319	–	–	119,669	115,043
Interest expense	8,420	–	178	–	–	–	–	165	–	–	–	8,763	8,598
Depreciation and amortization	43,912	209	3,156	2,936	53	–	–	3,056	17	–	–	53,339	50,057
Total expenses	773,155	23,651	53,177	258,441	85,952	5,610	3,533	40,838	7,491	3,871	(190,444)	1,065,275	1,006,768
Income (loss) from operations	38,543	1,030	5,592	(31,800)	–	3,569	(656)	10,297	(5,158)	–	–	21,417	12,335
Non-operating gains and losses:													
Investment in subsidiary	1,129	–	3,503	–	–	–	–	–	–	–	(4,632)	–	4,632
Investment (loss) gain, net	(152,474)	–	(3,150)	–	(6,380)	(10,494)	(1,150)	–	(1,199)	1	–	(174,846)	(162,004)
Expected return on plan assets and other components of net pension and other postretirement costs	38,601	–	–	–	–	–	–	–	–	–	–	38,601	38,601
Inherent contribution of net assets without donor restrictions received in the acquisition of John Brooks Recovery Center	–	–	6,607	–	–	–	–	–	–	–	–	6,607	6,607
Total non-operating gains and losses, net	(112,744)	–	6,960	–	(6,380)	(10,494)	(1,150)	–	(1,199)	1	(4,632)	(129,638)	(112,164)
(Deficiency) excess of revenue over expenses	(74,201)	1,030	12,552	(31,800)	(6,380)	(6,925)	(1,806)	10,297	(6,357)	1	(4,632)	(108,221)	(99,829)
Other changes in net assets without donor restrictions:													
Pension liability adjustments	9,773	–	–	–	–	–	–	–	–	–	–	9,773	9,773
Net asset transfers and net assets released from restriction for capital purchases, net	–	22	3,129	–	–	–	–	–	–	–	–	3,151	3,129
Contributions received for capital purchases	898	–	102	(104)	–	–	–	–	–	–	–	896	896
Transfers (to) from affiliates, net	(35,908)	1,408	7,000	27,500	–	–	–	(3,771)	–	–	3,771	–	(1,408)
Income attributable to non-controlling interest	–	–	–	–	–	–	–	(6,068)	–	–	–	(6,068)	–
(Decrease) increase in net assets without donor restrictions	(99,438)	2,460	22,783	(4,404)	(6,380)	(6,925)	(1,806)	458	(6,357)	1	(861)	(100,469)	(87,439)
Net assets with donor restrictions													
Donor contributions	44	–	18,469	–	–	–	4,151	–	–	–	–	22,664	18,513
Investment (losses) earnings, net	(145)	–	–	–	–	–	–	–	–	–	–	(145)	(145)
Net assets released from restrictions and other transfers, net	–	(22)	(3,129)	–	–	–	(2,260)	–	–	–	–	(5,411)	(3,129)
(Decrease) increase in net assets with donor restrictions	(101)	(22)	15,340	–	–	–	1,891	–	–	–	–	17,108	15,239
(Decrease) increase in AtlantiCare Health System, Inc. net assets	(99,539)	2,438	38,123	(4,404)	(6,380)	(6,925)	85	458	(6,357)	1	(861)	(83,361)	(72,200)
Non-controlling interest													
Contributions and other changes in non-controlling interest	–	–	–	–	–	–	–	1,433	–	–	2	1,435	–
(Decrease) increase in net assets, including non-controlling interest	(99,539)	2,438	38,123	(4,404)	(6,380)	(6,925)	85	1,891	(6,357)	1	(859)	(81,926)	(72,200)
Net assets at beginning of year	1,098,529	4,581	163,614	12,507	37,786	46,618	7,976	12,211	11,429	164	(15,599)	1,379,816	1,312,436
Net assets at end of year	\$ 998,990	\$ 7,019	\$ 201,737	\$ 8,103	\$ 31,406	\$ 39,693	\$ 8,061	\$ 14,102	\$ 5,072	\$ 165	\$ (16,458)	\$ 1,297,890	\$ 1,240,236

(OG) – Entity is a member of the Obligated Group, as described in certain documents related to the New Jersey Health Care Facilities Financing Authority Revenue Bonds, Series 2021, AtlantiCare Health System Obligated Group Issue (Series 2021 Bonds). Refer to Note 8 to the financial statements.

(DA) – Entity is a Designated Affiliate, as described in certain documents related to the Series 2021 Bonds. Refer to Note 8 to the financial statements.

Note: The column “Total OG + DA” represents the combination of the Obligated Group and Designated Affiliates, net of eliminations of inter-entity balances and activities. Refer to Note 8 to the financial statements.

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