

Temple University Health System

Consolidated Financial Statements as of and
for the Years Ended June 30, 2022 and 2021,
Supplemental Schedules as of and for the
Year Ended June 30, 2022, and
Independent Auditor's Report

TEMPLE UNIVERSITY HEALTH SYSTEM

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Temple University Health System, Inc.
Philadelphia, Pennsylvania

Opinion

We have audited the consolidated financial statements of Temple University Health System (a wholly owned subsidiary of Temple University – Of the Commonwealth System of Higher Education) and subsidiaries (the "Health System"), which comprise the consolidated balance sheets as of June 30, 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 to the consolidated financial statements (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of June 30, 2022, and 2021, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Company 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 from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company'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 from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from

fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

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

Report on Supplemental Schedules

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The supplemental schedules listed in the table of contents are presented for the purpose of additional analysis and are not a required part of the financial statements. These schedules are the responsibility of the Company's management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. Such schedules have been subjected to the auditing procedures applied in our audits of the financial statements and certain additional procedures, including comparing and reconciling such schedules 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 GAAS. In our opinion, such schedules are fairly stated in all material respects in relation to the financial statements as a whole.

Deloitte & Touche LLP

October 27, 2022

TEMPLE UNIVERSITY HEALTH SYSTEM

CONSOLIDATED BALANCE SHEETS

AS OF JUNE 30, 2022 AND 2021

(In thousands)

	2022	2021
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 462,566	\$ 533,231
Patient accounts receivable—net of allowance for doubtful accounts	265,101	258,505
Other receivables—net of allowance for doubtful accounts of \$486 and \$967 in 2022 and 2021, respectively	84,287	99,354
Inventories and other current assets	56,943	56,062
Current portion of assets limited as to use	26,197	27,735
Investments	521,567	371,327
Current portion of workers' compensation fund	6,893	6,070
Current portion of self-insurance program receivables	6,500	2,000
Expenditures reimbursable by research grants and awards	7,040	10,668
Total current assets	<u>1,437,094</u>	<u>1,364,952</u>
PROPERTY, PLANT AND EQUIPMENT:		
Land and land improvements	13,808	13,808
Buildings	502,991	499,026
Fixed and movable equipment	595,292	578,851
Construction-in-progress	23,741	3,784
	<u>1,135,832</u>	<u>1,095,469</u>
Less accumulated depreciation	818,892	810,176
Net property, plant and equipment	<u>316,940</u>	<u>285,293</u>
OPERATING LEASE RIGHT-OF-USE ASSETS	24,160	21,382
ASSETS LIMITED AS TO USE	137,793	174,580
INVESTMENTS	154,060	74,537
WORKERS' COMPENSATION FUND	2,318	2,601
SELF-INSURANCE PROGRAM RECEIVABLES	45,451	40,423
GOODWILL AND OTHER INTANGIBLES	924	2,768
BENEFICIAL INTEREST IN ASSETS HELD BY OTHERS	121,464	142,011
OTHER ASSETS	49,941	103,408
TOTAL ASSETS	<u>\$ 2,290,145</u>	<u>\$ 2,211,955</u>

(Continued)

TEMPLE UNIVERSITY HEALTH SYSTEM

CONSOLIDATED BALANCE SHEETS

AS OF JUNE 30, 2022 AND 2021

(In thousands)

	2022	2021
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Current portion of long-term debt	\$ 17,028	\$ 13,016
Current portion of operating lease liabilities	4,157	4,389
Accounts payable	89,546	102,460
Accrued expenses	137,464	159,684
Current portion of estimated settlements with third-party payers	38,711	99,784
Current portion of self-insurance program liabilities	85,675	55,350
Unexpended research grants and awards	2,395	4,198
Other current liabilities	<u>80,668</u>	<u>106,805</u>
Total current liabilities	<u>455,644</u>	<u>545,686</u>
LONG-TERM DEBT	409,467	462,779
OPERATING LEASE LIABILITIES	21,082	17,974
ESTIMATED SETTLEMENTS WITH THIRD-PARTY PAYERS	-	30,356
SELF-INSURANCE PROGRAM LIABILITIES	259,180	243,754
ACCRUED POSTRETIREMENT BENEFITS	12,251	10,982
OTHER LONG-TERM LIABILITIES	<u>130,534</u>	<u>112,130</u>
Total liabilities	<u>1,288,158</u>	<u>1,423,661</u>
NET ASSETS:		
Without donor restrictions	829,386	603,239
With donor restrictions	<u>172,601</u>	<u>185,055</u>
Total net assets	<u>1,001,987</u>	<u>788,294</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 2,290,145</u>	<u>\$ 2,211,955</u>

See notes to consolidated financial statements.

(Concluded)

TEMPLE UNIVERSITY HEALTH SYSTEM

CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS FOR THE YEARS ENDED JUNE 30, 2022 AND 2021

(In thousands)

	2022	2021
NET ASSETS WITHOUT DONOR RESTRICTIONS:		
Revenues and other support without donor restrictions:		
Net patient service revenue	\$ 2,418,600	\$ 2,210,042
Research revenue	36,071	43,641
Contribution revenue	4,325	4,226
Other revenue	84,924	139,522
Investment income	299	145
Net assets released from restrictions used for operations	<u>6,038</u>	<u>7,291</u>
Revenues and other support without donor restrictions	<u>2,550,257</u>	<u>2,404,867</u>
Expenses:		
Salaries	1,103,608	1,010,564
Employee benefits	270,618	254,996
Professional fees	147,989	145,525
Supplies and pharmaceuticals	523,197	489,828
Purchased services and other	207,950	197,806
Maintenance and utilities	46,883	39,565
Leases	14,468	16,737
Insurance	96,071	88,469
Depreciation and amortization	46,506	43,700
Interest	21,192	23,465
Asset impairment	1,564	524
Loss (gain) on disposal of fixed assets	90	(520)
Gain on lease modification	<u>(122)</u>	<u>(639)</u>
Expenses	<u>2,480,014</u>	<u>2,310,020</u>
Operating income	<u>70,243</u>	<u>94,847</u>
Other income—net:		
Investment (loss) income	(64,321)	59,014
Gain on sale of equity method investment	234,591	-
Other—net	<u>(6,561)</u>	<u>11,180</u>
Other income—net	<u>163,709</u>	<u>70,194</u>
Excess of revenues and other support over expenses	<u>233,952</u>	<u>165,041</u>

(Continued)

TEMPLE UNIVERSITY HEALTH SYSTEM

CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS FOR THE YEARS ENDED JUNE 30, 2022 AND 2021 (In thousands)

	2022	2021
Excess of revenues and other support over expenses	\$ 233,952	\$ 165,041
Other changes in net assets without donor restrictions:		
Net transfers to the University	(9,284)	(6,259)
Net assets released from restrictions used for purchase of property, plant and equipment	1,020	2,499
Net change in fair value of investments	(16,733)	(2,787)
Adjustment to funded status of pension and postretirement liabilities	16,253	47,260
Other change in net assets	<u>939</u>	<u>(601)</u>
Increase in net assets without donor restrictions	<u>226,147</u>	<u>205,153</u>
NET ASSETS WITH DONOR RESTRICTIONS:		
Contribution income	13,228	6,344
Net assets released from restrictions	(7,058)	(9,790)
Net change in fair value of investments	(2,725)	3,494
Investment income	4,648	3,184
Change in beneficial interest in assets held by others	<u>(20,547)</u>	<u>19,535</u>
(Decrease) increase in net assets with donor restrictions	<u>(12,454)</u>	<u>22,767</u>
INCREASE IN NET ASSETS	213,693	227,920
NET ASSETS—Beginning of year	<u>788,294</u>	<u>560,374</u>
NET ASSETS—End of year	<u>\$ 1,001,987</u>	<u>\$ 788,294</u>

See notes to consolidated financial statements.

(Concluded)

TEMPLE UNIVERSITY HEALTH SYSTEM

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED JUNE 30, 2022 AND 2021

(In thousands)

	2022	2021
OPERATING ACTIVITIES:		
Increase in net assets	\$ 213,693	\$ 227,920
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Net realized and unrealized losses (gains) on investments	96,456	(54,505)
Net realized and unrealized losses (gains) on beneficial interests in assets held by others	20,547	(19,535)
Depreciation, amortization and accretion	46,506	43,700
Impairment on intangibles	1,564	524
Amortization of bond premium, discount, debt issuance costs and underwriter's discount	(2,026)	(1,704)
Allowance for doubtful accounts	(527)	(267)
Adjustment to funded status of pension, postretirement and long-term disability liabilities	(17,192)	(47,419)
Loss on extinguishment of debt	9,650	-
Net assets released from restrictions used for purchase of property, plant and equipment	(1,020)	(2,499)
Loss (gain) on disposal of fixed assets	90	(520)
Gain on lease modification	(122)	(639)
Perpetually restricted gifts and donations received	(2,787)	516
Net transfers to the University	9,284	6,259
Gain on insurance recovery	(4,767)	(5,880)
Gain on sale of equity method investment	(234,591)	-
Changes in operating assets and liabilities:		
Patient accounts receivable	(6,069)	(46,452)
Other receivables	15,067	(1,573)
Inventories and other current assets	(881)	(1,513)
Expenditures reimbursable by research grants and awards	3,628	(1,613)
Other assets	(13,542)	(21,840)
Accounts payable and accrued expenses	(26,609)	46,558
Estimated settlements with third-party payers	(91,429)	(47,083)
Self-insurance program receivables and liabilities	36,223	53,581
Unexpended research grants and awards	(1,803)	(466)
Net change in operating lease right-of-use assets and liabilities	98	(664)
Other liabilities	<u>10,581</u>	<u>108,580</u>
Net cash provided by operating activities	<u>60,022</u>	<u>233,466</u>

(Continued)

TEMPLE UNIVERSITY HEALTH SYSTEM

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED JUNE 30, 2022 AND 2021 (In thousands)

	2022	2021
INVESTING ACTIVITIES:		
Decrease (increase) in assets limited as to use and workers' compensation fund	\$ 12,383	\$ (14,189)
Purchases of property, plant and equipment	(85,254)	(53,808)
Purchases of investments	(562,283)	(363,948)
Proceeds from sales of investments	266,819	142,755
Proceeds from sale of equity method investment	301,600	-
Proceeds from sales of property, plant and equipment	58	1,509
Proceeds from insurance recovery	<u>4,767</u>	<u>8,134</u>
Net cash used in investing activities	<u>(61,910)</u>	<u>(279,547)</u>
FINANCING ACTIVITIES:		
Proceeds from contributions and investments restricted to property, plant and equipment and endowments	1,020	2,499
Repayment of long-term debt	(21,892)	(10,605)
Repayment of finance lease liabilities	(3,305)	(4,426)
Repurchase of bonds	(219,210)	-
Proceeds from issuance of long-term debt	186,460	-
Perpetually restricted gifts and donations received	2,787	(516)
Net transfers to the University	<u>(9,284)</u>	<u>(6,259)</u>
Net cash used in financing activities	<u>(63,424)</u>	<u>(19,307)</u>
NET DECREASE IN CASH, CASH EQUIVALENTS, AND RESTRICTED CASH	(65,312)	(65,388)
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH—Beginning of year	<u>547,433</u>	<u>612,821</u>
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH—End of year	<u>\$ 482,121</u>	<u>\$ 547,433</u>
Cash and cash equivalents	\$ 462,566	\$ 533,231
Restricted cash included in assets limited as to use	<u>19,555</u>	<u>14,202</u>
Total cash, cash equivalents, and restricted cash	<u>\$ 482,121</u>	<u>\$ 547,433</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION—Cash paid for interest		
	<u>\$ 27,756</u>	<u>\$ 25,299</u>
SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING AND FINANCING ACTIVITY:		
Amounts recorded for purchases of property and equipment in excess of amounts paid	<u>\$ 8,163</u>	<u>\$ 16,687</u>
Cost of assets acquired through finance leases	<u>\$ 1,023</u>	<u>\$ 4,280</u>
See notes to consolidated financial statements.		(Concluded)

TEMPLE UNIVERSITY HEALTH SYSTEM

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED JUNE 30, 2022 AND 2021

1. ORGANIZATION AND DESCRIPTION OF BUSINESS

Temple University Health System, Inc. (“TUHS”) is a Pennsylvania nonprofit corporation of which Temple University—Of The Commonwealth System of Higher Education (the “University” or “TU”) is its sole member. TUHS was incorporated in August 1995 and serves principally to coordinate the activities and plans of its health care subsidiaries and affiliates in Philadelphia and the surrounding area. The subsidiaries and affiliates (herein referred to as “corporate members”) of TUHS (collectively, with TUHS, referred to as the “Health System”), all of which operate in Philadelphia and the surrounding area, include the following:

- Temple University Hospital, Inc. (“TUH”), a nonprofit corporation, operating an 879-bed acute care teaching hospital at three inpatient campuses and additional outpatient locations in Philadelphia and Montgomery Counties, with TUHS as its sole member;
- Temple University Health System Foundation (“TUHSF”), a nonprofit corporation formed to support the health-care-related activities of TUHS, with TUH as its sole member;
- Episcopal Hospital (“Episcopal”), a nonprofit corporation, providing clinical outpatient health care services, with TUHS as its sole member;
- Temple Health System Transport Team, Inc. (“T3”), a nonprofit corporation, is a critical care air and ground ambulance company, with TUHS as its sole member;
- Temple Physicians, Inc. (“TPI”), a nonprofit corporation formed to develop and acquire community-based primary care practices located in the service area of TUHS, with TUHS as its sole member;
- TUHS Insurance Company, Ltd. (“TUHIC”), a captive insurance company established to reinsure the professional liability claims of certain subsidiaries of TUHS. TUHS is the beneficial owner of TUHIC which is domiciled in Bermuda;
- American Oncologic Hospital d/b/a The Hospital of Fox Chase Cancer Center (“AOH”), a nonprofit corporation, is a 100 licensed bed specialty hospital that provides advanced inpatient and outpatient care to cancer patients, with TUHS as its sole member;
- Institute for Cancer Research d/b/a the Research Institute of Fox Chase Cancer Center (“ICR”), a nonprofit corporation, is primarily engaged in basic research, including programs in cancer biology, developmental therapeutics, immune cell development and host disease, cancer epigenetics, and cancer prevention and control and is a National Cancer Institute designated Comprehensive Cancer Center, with AOH as its sole member;
- Fox Chase Cancer Center Medical Group, Inc. (“MGI”), a nonprofit corporation, employs and provides physician services to the Fox Chase family of organizations, with AOH as its sole member;

- Fox Chase Network, Inc. (“Network”), a nonprofit corporation, provides cancer related clinical and administrative services to cancer programs of community hospitals and physicians, with AOH as its sole member;
- Fox Chase, Ltd. (“Limited”), a business corporation that holds minority interests in joint ventures with area hospitals, with AOH as its sole stockholder;
- Temple Center for Population Health, LLC (“TCPH”), a Pennsylvania limited liability company, participating in accountable care, coordinated care, shared savings, bundled payment programs and other similar programs or initiatives with or implemented by governmental payers, commercial payers and other parties, with TUHS as its sole member;
- Temple Faculty Practice Plan, Inc. (“TFPP”), a nonprofit corporation, provides teaching and physician services to the TUHS hospitals, with TUHS as its sole member; and
- Temple Health Subsidiaries, Inc. (“THS”), a business corporation formed to participate in for-profit joint ventures, the sole shareholder of which is TUH. THS is currently inactive.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation—The accompanying consolidated financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (“GAAP”) and include the accounts of the Health System. All significant intercompany transactions and balances are eliminated in consolidation.

Cash, Cash Equivalents, and Restricted Cash—Cash, cash equivalents, and restricted cash consist primarily of highly liquid investments, such as money market funds and debt instruments with original maturities of three months or less at the time of purchase. At June 30, 2022 and 2021, the Health System had cash balances in financial institutions, which exceed federal depository insurance limits. Management believes that credit risks related to these deposits are minimal. Cash, cash equivalents, and restricted cash are carried at cost, which approximates fair value.

Investments—Investments in equity securities with readily determinable fair values and all investments in debt securities are reported at fair value. Investment income or loss (including realized gains and losses, interest, and dividends) is included in other income unless the income is restricted by donor or law, except for investment income on borrowed funds held by trustees as collateral on outstanding debt. This investment income is included in revenues and other support without donor restrictions. Unrealized gains and losses on equity securities are included within other income. Unrealized gains and losses on debt securities are included within other changes in net assets unless the amount was recorded as part of a credit loss impairment adjustment as disclosed in Note 6.

The Health System also invests in various limited partnerships and hedge funds. Such investments are accounted for using a net asset value (“NAV”) equivalent, which approximates fair value as determined by the fund managers and financial information provided by the funds. This financial information includes assumptions and methods that were reviewed by the Health System. The Health System believes that the estimated fair value is reasonable as of June 30, 2022 and 2021. Because these investments are not readily marketable, the estimated fair values are subject to uncertainty and, therefore, may differ from the value that would have been used had a ready market existed, and such differences could be material. These investments vary as to their level of liquidity, with differing requirements for notice prior to redemption or withdrawal. Investment gains and losses on these funds are included in other income.

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

The Health System reviews its debt securities to identify those for which market value is below cost. The Health System then makes a determination as to whether a credit loss impairment exists based on guidelines established in FASB ASC Topic 326.

Assets Limited as to Use—Assets limited as to use primarily include assets held by trustees under indenture and insurance agreements, designated assets set aside by the Board primarily for future capital improvements, over which the Board retains control and may at its discretion subsequently use for other purposes, and donor restricted assets. Amounts required to meet current liabilities of the Health System have been classified as current assets in the consolidated balance sheets.

Property, Plant and Equipment—Property, plant and equipment are stated at cost. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed using the straight-line method. Depreciation expense was \$46,079,000 and \$42,993,000 for the years ended June 30, 2022 and 2021, respectively. Expenditures for maintenance and repairs necessary to maintain property, plant and equipment are charged to operations. Costs of renewals and betterments are capitalized.

Costs associated with the development and installation of internal-use software are accounted for in accordance with FASB ASC Subtopic 350-40 *Intangibles – Goodwill and Other, Internal-Use Software*. Internal-use software costs are expensed or capitalized and amortized according to the provisions of the accounting standard. The total cost of capitalized software was \$68,012,000 and \$66,595,000 at June 30, 2022 and 2021, respectively. Total accumulated amortization was \$36,579,000 and \$30,189,000 at June 30, 2022 and 2021, respectively. These amounts are included within property, plant and equipment in the consolidated balance sheets.

Leases—The Health System determines if an arrangement is a lease at inception. A contract is or contains a lease if the contract conveys the right to control and obtain substantially all of the economic benefits from an identified asset, and provides the Health System with the right to direct the use of the identified asset for a period of time in exchange for consideration.

Operating leases are included in operating lease right-of-use assets, current portion of operating lease liabilities, and operating lease liabilities in the consolidated balance sheets. Finance leases are included in net property, plant, and equipment, current portion of long-term debt, and long-term debt in the consolidated balance sheets.

Right-of-use assets and lease liabilities are recognized at the commencement date, based on the present value of lease payments over the lease term. If a lease agreement does not provide an implicit rate, based on the information available at the commencement date, the Health System uses its incremental borrowing rate in determining the present value of lease payments. The Health System determines its incremental borrowing rate based on the approximate rate at which the Health System would borrow, on a collateralized basis, over a similar term. This determination involves numerous assumptions such as credit standing, lease term, amount of borrowing, and location of leased assets. The lease term includes periods covered by options to extend the lease when it is reasonably certain the Health System will exercise the option, as well as periods covered by options to terminate the lease when it is reasonably certain that the Health System will not exercise the option.

Expense for operating lease payments is recognized on a straight-line basis over the lease term and is presented within leases expense in the consolidated statement of operations. Finance lease assets are amortized on a straight-line basis over the term of the lease and presented within depreciation and amortization in the consolidated statement of operations. Interest expense on finance lease liabilities is recognized using the effective interest method and is presented within interest expense in the consolidated statement of operations.

The Health System has elected the practical expedient that allows lessees to choose not to separate lease and non-lease components and is applying this expedient to all real estate leases and all embedded equipment leases related to consumable purchase agreements.

A short-term lease is a lease with a term of twelve months or less and that does not include purchase options that are reasonably certain to be exercised. ASC 842 includes a recognition exemption specific to short-term leases that, if elected, would allow a lessee to not recognize on the balance sheet right-of-use assets and lease liabilities related to such leases, but rather expense the payments related to the short-term lease on a straight-line basis over the lease term. The Health System has elected this recognition exemption for all asset classes.

Variable lease payments are defined as payments made by a lessee to a lessor that vary because of changes in facts and circumstances occurring after lease commencement. Certain lease agreements for real estate include payments based on actual common area maintenance and expenses. These variable lease payments are recognized within operating expenses but are not included in the calculation of right-of-use asset or liability balances.

Long-Lived Assets Review—The Health System reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If the carrying value of a long-lived asset is considered impaired, a loss is recognized by which the carrying value exceeds the fair value (less any costs related to disposal or abandonment, if applicable). The impairment amounts recognized on long-lived assets for the years ended June 30, 2022 and 2021 were \$0 and \$2,254,000, respectively. The amount for the year ended June 30, 2021 is recognized within other income – net, as it related to a non-operating casualty loss.

Goodwill and Other Intangibles—Goodwill and other intangible assets are accounted for in accordance with the accounting guidance in FASB ASC Topic 350 for *Intangibles—Goodwill and Other*. Goodwill and indefinite-lived intangible assets are not amortized, but are evaluated for impairment annually or when indicators of a potential impairment are present. The Health System’s annual impairment date is June 30th. The annual evaluation for impairment of goodwill and indefinite-lived intangibles is based on valuation models that incorporate assumptions and internal projections of expected future cash flows and operating plans. Any resulting impairment losses are recognized in the results of operations.

The cost of intangible assets with determinable useful lives is amortized to reflect the pattern of economic benefits consumed on a straight-line basis over the estimated periods benefited. Patents, technology and other intangibles with contractual terms are generally amortized over their respective legal or contractual lives. When certain events or changes in operating conditions occur, an impairment assessment is performed and lives of intangible assets with determinable lives may be adjusted and impairment charges recorded.

Refer to Note 8 for impairment charges recorded during the years ended June 30, 2022 and 2021.

Asset Retirement Obligations—The Health System recognizes the fair value of a liability for legal obligations associated with asset retirements in the period in which it is incurred, in accordance with FASB ASC Topic 410, if a reasonable estimate of the fair value of the obligation can be made. When the liability is initially recorded, the Health System capitalizes the cost of the asset retirement obligation by increasing the carrying amount of the related long-lived asset. The value of the asset, when established in 2006, was \$1,144,000. Over time, the liability is accreted to its present value each period using a discount rate between 5% and 7%, and the capitalized cost associated with the retirement obligation is depreciated over the useful life of the related asset. Upon settlement of the obligation, any difference between the cost to settle the asset retirement obligation and the liability recorded is recognized as a gain or loss in the consolidated statements of operations and changes in net assets. Effective June 30, 2018, the Health System determined that the anticipated timing of settlement for the obligation had changed and also revised its cost estimates. An estimated increase in future cash flows of \$1,409,000 was recognized as an additional asset retirement obligation and asset retirement cost on the balance sheet. At June 30, 2022 and 2021, the recorded asset retirement obligation was \$7,841,000 and \$7,695,000, respectively. Accretion costs for the years ended June 30, 2022 and 2021 were \$147,000 and \$468,000, respectively.

Deferred Financing Costs—Deferred financing costs are amortized over the term of the related debt. Gross deferred financing costs were \$8,281,000 and \$7,136,000 as of June 30, 2022 and 2021, respectively. Accumulated amortization of deferred financing costs was \$1,632,000 and \$2,394,000 as of June 30, 2022 and 2021, respectively. Deferred financing costs are presented on the balance sheets as a direct deduction from the carrying value of long-term debt.

Net Assets—Net assets are categorized according to externally (donor) imposed restrictions. A description of the two net asset categories follows:

Net Assets Without Donor Restrictions—are those assets that are available for the support of operations and whose use is not externally restricted, although their use may be limited by other factors such as by contract or board designation. Included in net assets without donor restrictions are board-designated assets of \$2,211,000 and \$2,055,000 at June 30, 2022 and 2021, respectively.

Net Assets With Donor Restrictions—are those assets subject to stipulations imposed by donors. Some donor restrictions are temporary in nature and limit the use of assets to a specific time period or purpose. Other donor restrictions are perpetual in nature and require that the corpus of the related gifts, trusts, or pledges be invested in perpetuity, with only the income available for operations or in accordance with donor restrictions (See Note 15).

Beneficial Interest in Perpetual Trusts—The Health System is the irrevocable beneficiary of the income from certain perpetual trusts administered by third parties. The Health System's beneficial interest is reported at the fair value of the underlying trust assets. Because the trusts are perpetual and the original corpus cannot be used, these funds are reported as net assets with donor restrictions.

Contributions, Grants and Awards, and Research Contracts—The Health System records unconditional promises to give (pledges) as receivables and revenues, and distinguishes between contributions received for each net asset category in accordance with donor-imposed restrictions. Upon expiration of donor restrictions, that is, when a stipulated time restriction ends and/or purpose restriction is accomplished, amounts are reclassified as net assets without donor restriction and reported as net assets released from restriction. Conditional promises to give are recognized once the Health System overcomes the barrier to be entitled to the resources and the grantor is released from its obligation to transfer the resources.

Donor restricted contributions whose restrictions are met within the same year they are received are reported as net assets without donor restrictions as either research revenue or contribution revenue depending on the purpose of the contribution.

Income from research contracts and grants and awards that are considered exchange transactions are recognized as research revenue over time by measuring progress toward complete satisfaction of the performance obligations. Overhead allowances are recorded as the related direct expenses are incurred. Indirect cost revenues on agency grants and contracts are subject to audit and possible adjustment by governmental payers. Appropriate allowances are made currently for estimated adjustments to governmental arrangements.

Performance Indicator—In the accompanying consolidated statements of operations and changes in net assets, the primary indicator of the Health System’s results is “Excess of revenues and other support over expenses”. Changes in net assets without donor restrictions which are excluded from the excess of revenues and other support over expenses, consistent with industry practice, include unrealized gains and losses on debt securities, permanent transfers of assets to and from affiliates for other than goods or services, contributions of long-lived assets and certain adjustments to pension, postretirement and long-term disability liabilities.

Net Patient Service Revenue, Patient Accounts Receivable, and Estimated Settlements with Third-Party Payers—The Health System reports net patient service revenue at the amount that reflects the consideration to which the Health System expects to be entitled in exchange for providing patient care. These amounts are due from Medicare and Medicaid, managed health care plans, commercial payers, patients and others. Reimbursement is primarily based on the payment terms of contractual arrangements, such as predetermined rates per diagnosis, per diem rates or discounted fee-for-service rates. Generally, the Health System bills the patients and third-party payers several days after the services are performed and/or the patient is discharged. In addition, the Health System receives Medical Assistance payments for the reimbursement of services for charity and uncompensated care services. The federal funding of such costs is subject to an upper payment limit and retrospective settlement.

Revenue is recognized as performance obligations are satisfied. Performance obligations are determined based on the nature of the services provided. The Health System recognizes revenues for performance obligations satisfied over a period of time based on actual charges incurred in relation to total expected (or actual) charges. The Health System believes that this method provides a reasonable representation of the transfer of services over the term of the performance obligation based on the inputs needed to satisfy the obligation. Generally, performance obligations satisfied over time relate to patients in the Health System receiving inpatient acute care services. The Health System measures performance obligations from admission to the point where there are no further services required for the patient, which is generally the time of discharge. The Health System recognizes revenues for performance obligations satisfied at a point in time, which generally relates to patients receiving outpatient services, when: (a) services are provided; and (b) the Health System does not believe the patient requires additional services.

The Health System estimates the transaction price for patients based on gross charges for services provided, reduced by explicit price concessions which include contractual adjustments provided to third-party payers and discounts provided to uninsured patients in accordance with the Health System’s policy. The Health System determines its estimates of contractual adjustments and discounts based on contractual agreements, its discount policies and historical collection experience. Revenues are also adjusted for implicit price concessions. Implicit price concessions are determined based on historical collection experience. The implicit price concessions included in estimating the transaction price represent the difference between amounts remaining to be paid and the amounts the Health System

generally expects to collect based on its historical experience. Subsequent changes to the estimate of transaction price are generally recorded as adjustments to patient service revenue in the period of change and are accrued on an estimated basis in the period the related services are rendered. Adjustments may also occur in future periods as final settlements are determined.

Because the Health System's patient service obligations generally relate to contracts with duration of less than one year, the Health System has elected to apply the optional exemption and, therefore, is not required to disclose the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied or partially unsatisfied at the end of the reporting period. The performance obligations for these contracts are generally completed when the patients are discharged, which generally occurs within days or weeks of the end of the reporting period.

Generally, patients who are covered by third-party payers are responsible for related co-pays, coinsurance and deductibles, which vary in amount. The Health System also provides services to uninsured patients and offers uninsured patients a discount from standard charges. The Health System estimates the transaction price for patients with co-pays, co-insurance and deductibles and for those who are uninsured based on historical collection experience and current market conditions. Under the Health System's uninsured discount programs, the discount offered to certain uninsured patients is recognized as a contractual discount, which reduces net operating revenues at the time the self-pay accounts are recorded. The uninsured patient accounts, net of contractual discounts recorded, are further reduced to their net realizable value at the time they are recorded through implicit price concessions based on historical collection trends for self-pay accounts and other factors that affect the estimation process. Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to net patient service revenues in the period of the change.

Consistent with the Health System's mission, care is provided to patients regardless of their ability to pay. The Health System provides care without charge, or at a standard rate discounted for uninsured patients that is not related to published charges, to patients who meet certain criteria under the Health System's charity care policy. Some patients qualify for charity care based on federal poverty guidelines or their financial condition being such that requiring payment would impose a hardship on the patient. Because the Health System does not pursue collection of amounts determined to qualify as charity care, they are not reported as net patient service revenue. The Health System has determined that it has provided sufficient explicit price concessions for these accounts.

In assessing collectability, the Health System uses a combination of contract specific adjustments (such as high dollar and long length-of-stay accounts) as well as a portfolio approach as a practical expedient to account for patient contracts as collective groups rather than individually. This portfolio approach is being used as the Health System has a large volume of similar contracts with similar classes of customers. The Health System reasonably expects that the effect of applying a portfolio approach would not differ materially from considering each contract separately. Management's judgment to group the contracts by portfolio is based on the payment behavior expected in each portfolio category. As a result, aggregating all of the contracts (which are at the patient level) by the particular payer or group of payers will result in the recognition of the same amount of revenue as applying the analysis at the individual patient level.

Amounts received under Medicare and Medicaid programs are subject to review and final determination by program intermediaries or their agents and the contracts the Health System has with commercial payers typically provide for retroactive audit and review of claims. Revenue includes an estimate of variable consideration for retroactive revenue adjustments due to settlements of audits, reviews and investigations. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered or when known by the Health System and adjusted in future periods as final

settlements or changes in estimates are determined. As a result, there is at least a reasonable possibility that recorded estimates could change by a material amount in the near term (see Note 3).

Accelerated Medicare payments requested by the Health System were received in April through June of 2020 and were provided through the Coronavirus Aid Relief and Economic Security Act (“CARES Act”). Medicare recouped a portion of these cash advances through subsequent claims for services during the years ended June 30, 2022 and 2021. All remaining advances were recouped or repaid as of September 30, 2022.

The Health System engages in various contracts with insurance companies where the Health System is at risk for the total cost of care to an attributed patient population as well as contracts that provide for pay-for-performance incentives. The value of these agreements is estimated and included in net patient service revenue.

Other Revenue—Other revenue includes amounts earned from cafeteria operations, parking garage operations, transport services provided by T3, and other non-patient care services. Revenue is recognized as performance obligations are satisfied.

The CARES Act authorized \$175 billion in funding to hospitals and other health care providers to be distributed through the Public Health and Social Services Emergency Fund (“Provider Relief Funds”). Payments from Provider Relief Funds are intended to compensate health care providers for lost revenues and qualified expenses incurred in response to the COVID-19 pandemic and are not required to be repaid; provided that the recipients attest to and comply with certain terms and conditions, including limitations on balance billing and not using Provider Relief Funds to reimburse expenses or losses that other sources are obligated to reimburse. The Health System received \$213,188,000 in Provider Relief Fund payments through June 30, 2022, of which \$8,698,000 and \$43,845,000 was recorded as deferred revenue in the consolidated balance sheets at June 30, 2022 and 2021, respectively. For the years ended June 30, 2022 and 2021, the consolidated statements of operations and changes in net assets include \$43,845,000 and \$70,543,000, respectively, in Provider Relief Funds recognized in other revenue.

Income Taxes—Substantially all of the individual members of the Health System are nonprofit corporations and have been recognized as tax-exempt pursuant to Section 501(c)(3) of the Internal Revenue Code. Limited, a wholly owned subsidiary in which the Health System exercises control, is a for-profit corporation that is subject to federal and state income tax. Such taxes are immaterial and have been reported with other expenses in the accompanying consolidated financial statements.

The Health System’s federal Exempt Organization Business Income Tax Returns for 2021, 2020, 2019, and 2018 remain subject to examination by the Internal Revenue Service (“IRS”).

Use of Estimates—The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates comprise explicit and implicit price concessions on patient service revenue and patient accounts receivable, estimated settlements with third-party payers, state Medicaid audit settlements, self-insurance program assets and liabilities, accrued postretirement benefits, estimated asset retirement obligations and the valuation of alternative investments.

Recently Issued Accounting Pronouncements—In August 2018, the FASB issued ASU 2018-14, *Compensation – Retirement Benefits – Defined Benefit Plans (Topic 715)*. The new guidance modifies

certain disclosure requirements for employers that sponsor defined benefit pension or other postretirement plans. The Health System adopted the new guidance on July 1, 2021 on a retrospective basis and modified the disclosures in Note 13 accordingly.

Financial Statement Presentation—Certain financial statement lines previously reported in the 2021 consolidated statement of operations and changes in net assets, and the 2021 consolidated statement of cash flows, have been combined in order to conform with 2022 presentation.

3. NET PATIENT SERVICE REVENUE AND ACCOUNTS RECEIVABLE

Net patient service revenue from these major payer sources based on primary insurance designation is as follows for the years ended June 30, 2022 and 2021 (in thousands):

	2022		
	Inpatient	Outpatient	Total
Medicare	\$ 199,894	\$ 169,509	\$ 369,403
Managed Medicare	190,530	158,207	348,737
Medicaid	31,269	3,251	34,520
Managed Medicaid	268,092	170,417	438,509
Commercial and managed care	205,216	391,374	596,590
Self-pay	1,125	6,545	7,670
Other	<u>378,630</u>	<u>244,541</u>	<u>623,171</u>
Net patient service revenue	<u>\$ 1,274,756</u>	<u>\$ 1,143,844</u>	<u>\$ 2,418,600</u>
	2021		
	Inpatient	Outpatient	Total
Medicare	\$ 213,426	\$ 160,849	\$ 374,275
Managed Medicare	186,117	127,382	313,499
Medicaid	28,745	3,311	32,056
Managed Medicaid	269,741	147,928	417,669
Commercial and managed care	215,115	366,241	581,356
Self-pay	1,014	8,050	9,064
Other	<u>276,737</u>	<u>205,386</u>	<u>482,123</u>
Net patient service revenue	<u>\$ 1,190,895</u>	<u>\$ 1,019,147</u>	<u>\$ 2,210,042</u>

Physician revenue is included in outpatient revenue in the above schedules. Prior year amounts in the above schedule were disclosed in the 2021 consolidated financial statements before allowance for doubtful accounts. We have updated the disclosure to conform with current year presentation.

Included in the Other category above is support received from the Commonwealth of Pennsylvania, primarily related to providing access to health care services, including care for the uninsured and indigent population (see Note 5). Revenues recognized for the years ended June 30, 2022 and 2021 were \$463,905,000 and \$361,040,000, respectively. To the extent that these support payments are dependent on a provider tax from the hospitals, those expenses are included in purchased services and other in the consolidated statements of operations and changes in net assets. Provider tax assessment expenses for the years ended June 30, 2022 and June 30, 2021 were \$58,742,000 and \$56,255,000, respectively. There is no guarantee that this funding will continue in future years. Under certain circumstances, the Health System could be required to repay certain support payments received from the Commonwealth.

Net patient service revenue also includes estimates of reimbursement from third-party payers. For the years ended June 30, 2022 and 2021, net patient service revenue decreased by \$7,756,000 and increased by \$2,199,000, respectively, as a result of settlements related to prior years or changes in estimates associated with Medicare cost reports and state Medicaid audits. Audits pertaining to fiscal years through 2017 have been closed.

Net patient accounts receivable includes the allowance for doubtful accounts of \$1,797,000 and \$3,256,000 at June 30, 2022 and 2021, respectively. Net patient accounts receivable consists of the following components at June 30, 2022 and 2021:

	2022	2021
Patient receivables	\$ 246,358	\$ 240,623
Contract assets	<u>18,743</u>	<u>17,882</u>
	<u>\$ 265,101</u>	<u>\$ 258,505</u>

Contract assets relate to in-house patients who were provided services during the fiscal year but were not discharged as of the reporting date, and for which the Health System may not have the right to bill.

4. BUSINESS AND CREDIT CONCENTRATION

The Health System provides diversified health care services primarily to area residents through its inpatient and outpatient care facilities in the Greater Philadelphia Metropolitan Area. As a function of its mission and location, the Health System serves a disproportionately high number of poor or indigent patients; consequently, the Health System derives a substantial portion of its revenue from the Medicare (federal government) and the Medical Assistance (Commonwealth of Pennsylvania, Department of Human Services [DHS]) programs.

The distribution of inpatient services provided from continuing operations (TUH and AOH) based upon patient discharges (excluding newborns) by class of payer for the years ended June 30, 2022 and 2021, is as follows (unaudited):

	2022		2021	
	Discharges	%	Discharges	%
Medical Assistance:				
Fee for service	1,756	4.7 %	2,200	5.3 %
Managed care	<u>14,266</u>	<u>37.8</u>	<u>15,640</u>	<u>37.4</u>
Total Medical Assistance	<u>16,022</u>	<u>42.5</u>	<u>17,840</u>	<u>42.7</u>
Medicare:				
Fee for service	7,146	18.9	7,835	18.8
Managed care	<u>8,420</u>	<u>22.3</u>	<u>9,571</u>	<u>22.9</u>
Total Medicare	<u>15,566</u>	<u>41.2</u>	<u>17,406</u>	<u>41.7</u>
Commercial and managed care	<u>5,754</u>	<u>15.2</u>	<u>6,081</u>	<u>14.6</u>
Other	<u>411</u>	<u>1.1</u>	<u>445</u>	<u>1.0</u>
	<u>37,753</u>	<u>100.0 %</u>	<u>41,772</u>	<u>100.0 %</u>

Health Choices is a DHS program that requires all Medical Assistance recipients in the Philadelphia five-county area to join a Medicaid Health Maintenance Organization (“HMO”). Under Health Choices, DHS has entered into capitation arrangements with five Medicaid HMOs, four of which the Health System contracts with, which in turn negotiate separate payment rates with health care providers. The Medical Assistance-managed care category above includes the four Medicaid HMOs under the Health Choices program with which the Health System contracts. The Health System grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payer agreements.

The mix of net receivables from third-party payers and patients at June 30, 2022 and 2021 is as follows:

	2022	2021
Medical Assistance:		
Fee for service (FFS)	3.3 %	3.6 %
Managed care	23.5	23.3
Medicare		
Fee for service (FFS)	13.1	10.4
Managed care	17.7	16.6
Commercial and managed care	37.8	40.1
Other	<u>4.6</u>	<u>6.0</u>
	<u>100.0 %</u>	<u>100.0 %</u>

5. CHARITY CARE

The Health System maintains detailed records to identify and monitor the level of charity care it provides to its patients. Charity care costs are estimated by applying an overall cost to charge ratio to charity care charges. The estimated costs and expenses incurred to provide charity care, including the estimated unreimbursed cost of services in excess of specific payments for services rendered to Medical Assistance recipients, were \$240,941,000 and \$247,396,000 for the years ended June 30, 2022 and 2021, respectively (see Note 3).

6. INVESTMENTS

Assets Limited as to Use—The composition of assets limited as to use at June 30, 2022 and 2021, is set forth in the following table (in thousands):

	2022	2021
Under indenture agreements-held by trustee:		
Debt service funds	\$ 20,327	\$ 17,428
Debt service reserve funds	<u>24,046</u>	<u>51,515</u>
	44,373	68,943
Under debt agreements	231	231
Under insurance arrangements (TUHIC)	73,943	93,812
Board designated	2,211	2,055
Donor restricted	42,238	36,242
Workers' and unemployment compensation	<u>994</u>	<u>1,032</u>
	163,990	202,315
Less amounts required for current liabilities	<u>26,197</u>	<u>27,735</u>
	<u>\$ 137,793</u>	<u>\$ 174,580</u>

By security classification (in thousands):

	2022	2021
U.S. government securities	\$ 76,066	\$ 110,210
Fixed income mutual funds	12,189	3,168
Corporate bonds, notes, and other debt securities	16,393	23,938
Cash, money market funds, and certificates of deposit	46,404	50,080
Equity securities and mutual funds	11,296	13,637
Limited partnerships	<u>1,642</u>	<u>1,282</u>
	<u>\$ 163,990</u>	<u>\$ 202,315</u>

Workers' Compensation Fund—Workers' compensation fund at June 30, 2022 and 2021, consisted of (in thousands):

	2022	2021
U.S. government securities	\$ 7,814	\$ -
Cash, money market funds, and certificates of deposit	<u>1,397</u>	<u>8,671</u>
	<u>\$ 9,211</u>	<u>\$ 8,671</u>

Investments—Investments at June 30, 2022 and 2021, consisted of (in thousands):

	2022	2021
U.S. government securities	\$ 29,740	\$ 73,968
Fixed income mutual funds	55,246	30,137
Corporate bonds, notes, and other debt securities	65,309	27,530
Equity securities and mutual funds	371,336	239,859
Real estate	320	320
Hedge funds	57,547	30,567
Limited partnerships	94,986	42,081
Limited liability corporations	687	946
Other	<u>456</u>	<u>456</u>
	<u>\$ 675,627</u>	<u>\$ 445,864</u>

Investment Income—Investment income and gains (losses) from investments, including assets limited as to use and cash and cash equivalents, are comprised of the following for the years ended June 30, 2022 and 2021 (in thousands):

	2022	2021
Interest and dividend income	\$ 18,704	\$ 10,875
Net realized gains on sales of investments	1,642	958
Net change in fair value of alternative investments	15,064	5,231
Recognition of credit loss impairment	(5,431)	(1,867)
Investment management fees	(1,080)	(463)
Net unrealized (losses) gains on equity securities	<u>(107,731)</u>	<u>48,316</u>
	<u>\$ (78,832)</u>	<u>\$ 63,050</u>

Interest, dividends, realized and unrealized gains (losses) for the years ended June 30, 2022 and 2021 are reported as follows (in thousands):

	2022	2021
Consolidated statements of operations and changes in net assets:		
Revenues without donor restrictions—investment income	\$ 299	\$ 145
Other income without donor restrictions—investment (loss) income	(64,321)	59,014
Other changes in net assets without donor restrictions— net change in fair value	(16,733)	(2,787)
Net assets with donor restrictions—investment income	4,648	3,184
Net assets with donor restrictions—net change in fair value	<u>(2,725)</u>	<u>3,494</u>
	<u>\$ (78,832)</u>	<u>\$ 63,050</u>

Unless their use was restricted by the donor, unrealized gains (losses) on equity investments are included within other income and unrealized gains (losses) on debt securities are reported as a component of other changes in net assets without donor restrictions.

The following tables provide information on the gross unrealized losses and fair market value of the Health System's debt securities with unrealized losses that are not deemed to have a credit loss impairment, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at June 30, 2022 and 2021 (in thousands):

	At June 30, 2022					
	Less Than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. government securities	\$ 28,146	\$ (3,267)	\$ -	\$ -	\$ 28,146	\$ (3,267)
Corporate bonds, notes, and other debt securities	59,396	(8,415)	5,224	(829)	64,620	(9,244)
Total temporarily impaired securities	<u>\$ 87,542</u>	<u>\$ (11,682)</u>	<u>\$ 5,224</u>	<u>\$ (829)</u>	<u>\$ 92,766</u>	<u>\$ (12,511)</u>

	At June 30, 2021					
	Less Than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. government securities	\$ 16,420	\$ (2)	\$ -	\$ -	\$ 16,420	\$ (2)
Corporate bonds, notes, and other debt securities	21,048	(32)	-	-	21,048	(32)
Total temporarily impaired securities	<u>\$ 37,468</u>	<u>\$ (34)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 37,468</u>	<u>\$ (34)</u>

With respect to the debt securities in an unrealized loss position as of June 30, 2022 and 2021, the Health System has determined it is not more likely than not that the Health System may be required to sell its available-for-sale securities before their anticipated recoveries. In assessing the likelihood that the Health System will be required to sell a security before its anticipated recovery, the Health System considers various factors including its future cash flow requirements, legal and regulatory requirements, the level of its cash, cash equivalents, short-term investments and fixed maturity investments available-for-sale in an unrealized gain position, and other relevant factors.

In evaluating credit losses, the Health System considers a variety of factors in the assessment of a security including: (1) the extent of the decline below cost and par; (2) the potential for the security to recover in value; (3) an analysis of the financial condition of the issuer; (4) the rating of the issuer; and (5) failure of the issuer of the security to make scheduled interest or principal payments.

During fiscal years 2022 and 2021, the Health System recorded credit loss impairment charges of \$5,431,000 and \$1,867,000, respectively, on certain investments in debt securities.

TUHIC Debt Securities—At June 30, 2022 and 2021, TUHIC held investments in debt securities which are included as assets limited as to use in the Health System's consolidated balance sheets. The amortized cost of debt securities at June 30, 2022 and 2021, by contractual maturity, is shown below (in thousands). Expected maturities may differ from contractual maturities because borrowers may have the right to call or repay obligations with or without call or prepayment penalties. Gross unrealized holding gains on these securities aggregated \$6,000 and \$1,696,000 at June 30, 2022 and 2021, respectively.

Gross unrealized holding losses on these securities aggregated \$4,951,000 and \$676,000 at June 30, 2022 and 2021, respectively.

	Amortized Cost	
	2022	2021
Due within one year	\$ 2,997	\$ 285
Due after one year through five years	36,428	46,206
Due after five years through ten years	<u>37,720</u>	<u>38,231</u>
	77,145	84,722
Mortgage and asset-backed securities	<u>1,616</u>	<u>1,621</u>
	<u>\$ 78,761</u>	<u>\$ 86,343</u>

7. PLEDGES

As of June 30, 2022 and 2021, pledges are included in the consolidated financial statements at their net present value, less estimated uncollectible amounts, as follows (in thousands):

	2022	2021
Total value of pledges	\$ 5,114	\$ 4,096
Unamortized discount for gross pledges	(107)	(10)
Reserve for uncollectible pledges	<u>(122)</u>	<u>-</u>
Reported value for pledges	<u>\$ 4,885</u>	<u>\$ 4,086</u>

The discount rates applied to pledges were between 2.8% to 3.38% for 2022 and 0.07% to 0.87% for 2021.

Based upon payment schedules that are either specified by donors or estimated by the Health System, payments on pledges are due as follows (in thousands):

	2022	2021
Amounts due within one year	\$ 2,657	\$ 2,052
Amounts due in two to five years	<u>2,228</u>	<u>2,034</u>
Reported value for pledges	<u>\$ 4,885</u>	<u>\$ 4,086</u>

The current and long-term portion of pledges receivable are presented within other receivables and other assets, respectively, on the consolidated balance sheets.

8. GOODWILL AND OTHER INTANGIBLES

At June 30, 2021 the Health System had \$2,768,000 of intangible assets related to the affiliation with AOH and acquisitions of community-based primary care practices by TPI. There were no new intangible assets acquired during 2022.

Goodwill and other intangibles at June 30, 2022 and 2021 are summarized as follows (in thousands):

	Goodwill	Other Intangible Assets	Total
Balance at June 30, 2021	\$ -	\$ 2,768	\$ 2,768
Adjustments:			
Intangible assets acquired	-	-	-
Impairment	-	(1,564)	(1,564)
Amortization	-	(280)	(280)
Balance at June 30, 2022	<u>\$ -</u>	<u>\$ 924</u>	<u>\$ 924</u>

	Goodwill	Other Intangible Assets	Total
Balance at July 1, 2020	\$ 524	\$ 3,050	\$ 3,574
Adjustments:			
Intangible assets acquired	-	-	-
Impairment	(524)	-	(524)
Amortization	-	(282)	(282)
Balance at June 30, 2021	<u>\$ -</u>	<u>\$ 2,768</u>	<u>\$ 2,768</u>

The following table summarizes intangible assets with indefinite lives at June 30, 2022 and 2021 (in thousands):

	2022		
	Gross	Impairment	Net
Research and development of intellectual property	<u>\$ 1,564</u>	<u>\$ (1,564)</u>	<u>\$ -</u>
Total intangibles with indefinite lives	<u>\$ 1,564</u>	<u>\$ (1,564)</u>	<u>\$ -</u>
	2021		
	Gross	Impairment	Net
Research and development of intellectual property	<u>\$ 1,564</u>	<u>\$ -</u>	<u>\$ 1,564</u>
Total intangibles with indefinite lives	<u>\$ 1,564</u>	<u>\$ -</u>	<u>\$ 1,564</u>

The following table summarizes amortizing intangible assets at June 30, 2022 and 2021 (in thousands):

	2022			
	Gross	Accumulated Amortization	Impairment	Net
Intellectual property	\$ 4,342	\$ (3,178)	\$ (797)	\$ 367
Contracts and agreements	1,860	(1,332)	-	528
Physician contracts	2,346	(2,238)	(108)	-
Other	<u>619</u>	<u>(590)</u>	<u>-</u>	<u>29</u>
Total amortizing intangibles	<u>\$ 9,167</u>	<u>\$ (7,338)</u>	<u>\$ (905)</u>	<u>\$ 924</u>
	2021			
	Gross	Accumulated Amortization	Impairment	Net
Intellectual property	\$ 4,342	\$ (3,049)	\$ (797)	\$ 496
Contracts and agreements	1,860	(1,226)	-	634
Physician contracts	2,346	(2,238)	(108)	-
Other	<u>619</u>	<u>(545)</u>	<u>-</u>	<u>74</u>
Total amortizing intangibles	<u>\$ 9,167</u>	<u>\$ (7,058)</u>	<u>\$ (905)</u>	<u>\$ 1,204</u>

Aggregate amortization expense was \$280,000 and \$282,000 for the years ended June 30, 2022 and 2021, respectively. Amortization expense for the next five years and thereafter is expected to be as follows (in thousands):

2023	\$ 264
2024	234
2025	214
2026	106
2027	106
Thereafter	<u>-</u>
Total	<u>\$ 924</u>

9. LONG-TERM DEBT AND LINE OF CREDIT

Long-term debt at June 30, 2022 and 2021, was as follows (in thousands):

	2022	2021
2022 TUHS Hospital Revenue Bonds issued by the Hospitals and Higher Education Facilities Authority of Philadelphia (the "Authority") at fixed interest rates of 4.0% to 5.0% due in installments through 2041		
Principal amount	\$ 165,890	\$ -
Unamortized premium, debt issuance costs, and underwriter's discount	<u>18,104</u>	<u>-</u>
Long-term debt net of unamortized premium, debt issuance costs, and underwriter's discount	183,994	-
2017 TUHS Hospital Revenue Bonds issued by the Authority at a fixed interest rate of 5.0% due in installments through 2035		
Principal amount	\$ 217,615	\$ 223,295
Unamortized premium, debt issuance costs, and underwriter's discount	<u>13,686</u>	<u>15,731</u>
Long-term debt net of unamortized premium, debt issuance costs, and underwriter's discount	231,301	239,026
2012 TUHS Series A Hospital Revenue Bonds issued by the Authority at a fixed interest rate of 5.625% and due in installments through 2043		
Principal amount	-	219,210
Unamortized discount, debt issuance costs, and underwriter's discount	<u>-</u>	<u>(7,000)</u>
Long-term debt net of unamortized discount, debt issuance costs, and underwriter's discount	-	212,210
Various finance lease obligations due in installments through 2027 at varied fixed interest rates ranging from 2.45% to 5.67%	6,890	9,172
Equipment financing arrangements due in installments through 2024 at a fixed interest rate of 2.86%	4,310	7,224
Mortgage obligation due in installments through December 2031 at a fixed interest rate of 4.18%	<u>-</u>	<u>8,163</u>
	426,495	475,795
Less current portion of long-term debt	<u>17,028</u>	<u>13,016</u>
	<u>\$ 409,467</u>	<u>\$ 462,779</u>

In April 2022, the Health System issued, through the Authority, \$165,890,000 aggregate principal Revenue Bonds. The proceeds of the Bonds were used to defease the Authority's outstanding Revenue Bond Series A of 2012, resulting in a loss of approximately \$9,650,000, which has been recorded as a non-operating loss in other income.

The bond issues and notes payable are generally collateralized by the assets and gross revenues of the TUHS Obligated Group and are subject to various financial covenants. The TUHS Obligated Group includes TUHS, TUH, TPI, T3, AOH, ICR, MGI and Network. The Health System is in compliance with its debt covenants for 2022 and 2021.

At June 30, 2022, total aggregate principal payments under long-term debt and finance lease obligations for the next five years and thereafter are (in thousands):

	Long-Term Debt	Finance Leases
2023	\$ 14,782	\$ 2,246
2024	12,425	1,848
2025	15,083	1,313
2026	14,920	949
2027	15,685	381
Thereafter	<u>314,920</u>	<u>153</u>
Total	<u>\$ 387,815</u>	<u>\$ 6,890</u>

The Health System has a revolving line of credit arrangement with a financial institution allowing for outstanding borrowings not to exceed \$75,000,000 and expiring in October 2022. Interest is calculated at term SOFR plus 1.40%. There were no outstanding borrowings at June 30, 2022 and 2021.

10. LEASES

Leases are presented in accordance with FASB ASC Topic 842, which the Health System adopted on July 1, 2020. The Health System has operating leases primarily for real estate, including medical office buildings, corporate and other administrative offices, as well as medical equipment, with terms expiring through 2046. Finance leases are primarily for medical equipment, with terms expiring through 2028.

Total lease costs for the years ended June 30, 2022 and 2021 consist of the following (in thousands):

	2022	2021
Lease expense:		
Operating lease cost	\$ 5,714	\$ 6,446
Variable lease cost	4,043	2,413
Short-term lease cost	<u>4,711</u>	<u>7,878</u>
Total lease expense	<u>14,468</u>	<u>16,737</u>
Finance lease cost:		
Amortization of lease assets	2,595	3,848
Interest on lease liabilities	<u>272</u>	<u>371</u>
Total finance lease cost	<u>2,867</u>	<u>4,219</u>
Sublease income	<u>-</u>	<u>(552)</u>
Total lease cost	<u>\$ 17,335</u>	<u>\$ 20,404</u>

Supplemental consolidated balance sheet information related to leases as of June 30, 2022 and 2021 is as follows (in thousands):

	2022	2021
Operating leases:		
Operating lease right-of-use assets	\$ 24,160	\$ 21,382
Current portion of operating lease liabilities	4,157	4,389
Operating lease liabilities	<u>21,082</u>	<u>17,974</u>
Total operating lease liabilities	<u>\$ 25,239</u>	<u>\$ 22,363</u>
Finance leases:		
Property, plant and equipment, net	\$ 6,675	\$ 8,818
Current portion of long-term debt	2,246	3,079
Long-term debt	<u>4,644</u>	<u>6,093</u>
Total finance lease liabilities	<u>\$ 6,890</u>	<u>\$ 9,172</u>

Supplemental consolidated cash flow information related to leases for the years ended June 30, 2022 and 2021 is as follows (in thousands):

	2022	2021
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows for operating leases	\$ 5,615	\$ 6,471
Operating cash flows for finance leases	272	371
Financing cash flows for finance leases	3,305	4,426
Right-of-use assets obtained in exchange for lease obligations:		
Operating leases	\$ 7,696	\$ 4,182
Finance leases	1,023	4,280

The weighted-average remaining lease terms and discount rates for operating and finance leases as of June 30, 2022 and 2021 are as follows:

	2022	2021
Weighted-average remaining lease term (in years):		
Operating leases	7.94	7.74
Finance leases	3.63	3.72
Weighted-average discount rate:		
Operating leases	3.40%	3.66%
Finance leases	3.37%	3.67%

A maturity analysis of future lease payments under operating and finance leases as of June 30, 2022 is as follows (in thousands):

	Operating	Finance
2023	\$ 4,975	\$ 2,440
2024	4,118	1,968
2025	3,690	1,379
2026	3,218	980
2027	2,961	390
Thereafter	<u>10,502</u>	<u>154</u>
Total lease payments	29,464	7,311
Less: Amount representing interest	<u>4,225</u>	<u>421</u>
Total lease liabilities	<u>\$ 25,239</u>	<u>\$ 6,890</u>

The Health System also has certain consumable agreements in which a vendor provides a piece of equipment at no additional cost in exchange for the Health System's commitment to purchase a minimum quantity of consumable products. These agreements are considered embedded finance leases. Therefore, the Health System recognizes right-of-use assets and lease liabilities on the consolidated balance sheets related to these agreements. There are \$3,527,000 and \$5,658,000 of such assets included within net property, plant, and equipment at June 30, 2022 and 2021, respectively. There are \$2,029,000 and \$2,112,000 included within other current liabilities and \$1,585,000 and \$3,614,000 included within other long-term liabilities at June 30, 2022 and 2021, respectively. For the years ended June 30, 2022 and 2021, amortization of the lease assets was \$2,130,000 and \$2,130,000, respectively, and interest on the lease liabilities was \$117,000 and \$168,000, respectively. For the years ended June 30, 2022 and 2021, operating cash flows were \$2,112,000 and \$2,061,000, respectively, and financing cash flows were \$117,000 and \$168,000, respectively. A maturity analysis of future lease payments under these agreements as of June 30, 2022 is as follows:

2023	\$ 2,094
2024	1,374
2025	233
2026	-
2027	-
Thereafter	<u>-</u>
Total minimum payments	3,701
Less: Amount representing interest	<u>87</u>
Total liabilities	<u>\$ 3,614</u>

11. RELATED PARTY TRANSACTIONS

Temple University—The Health System has made various transfers of net assets without donor restrictions to the University to be used for health-related programs and initiatives. In fiscal years 2022 and 2021, \$9,657,000 and 6,259,000, respectively, in net asset transfers were recognized. In addition, the University has made transfers of unrestricted net assets to the Health System to be used for capital projects. In fiscal years 2022 and 2021, \$373,000 and \$0, respectively, in net asset transfers were recognized.

The Health System and University allocate certain costs for services provided to each other. Costs billed to the Health System by the University in 2022 and 2021 include (in thousands):

	Health System Expense	
	2022	2021
TFPP salaries and employee benefits	\$ 196,903	\$ 215,012
Strategic support assessment	77,040	82,563
Maintenance	11,356	9,794
Telecommunications	4,916	4,707
Institutional support	5,396	4,178
Security	2,302	2,261
Employee tuition	2,662	2,237
Other administrative support	<u>3,518</u>	<u>2,513</u>
Total expenses billed	<u>\$ 304,093</u>	<u>\$ 323,265</u>

The University also billed the Health System for capital projects in the amount of \$3,199,000 and \$360,000 for the years ended June 30, 2022 and 2021, respectively.

TUH is the teaching hospital for Temple University’s Lewis Katz School of Medicine (“LKSOM”) and its former clinical practice plan physicians, known as TUP. Effective July 1, 2019, the University transferred the assets and liabilities of TUP to TFPP, a newly-formed subsidiary of the Health System. As of that date, all activities related to the physician practice plan were assumed by TFPP.

During the year ended June 30, 2020, the University continued to administer all payroll and employee benefits for TFPP employees. Effective January 1, 2021, payroll and benefits for TFPP non-faculty employees transitioned to the Health System. The University continues to administer payroll and benefits for dually-employed LKSOM faculty physicians. The Health System reimburses the University for the associated expenses.

The Health System charges the University for the cost of services provided to the University. Amounts billed to the University in 2022 and 2021 include (in thousands):

	2022	2021
Salaries and fringe benefits	\$ 1,052	\$ 875
Rent	238	945
Other	<u>1,176</u>	<u>2,616</u>
Total expenses billed to the University	<u>\$ 2,466</u>	<u>\$ 4,436</u>

Such amounts are included as other revenue or a reduction of expenses reported in the consolidated statements of operations and changes in net assets.

At June 30, 2022 and 2021, \$13,707,000 and \$24,720,000, respectively, are due to the University for transactions during those years and are included in accounts payable. At June 30, 2022 and 2021, \$7,987,000 and \$1,564,000, respectively, are due from the University for transactions during those years and are included in other receivables.

Health Partners Plans — TUH and Episcopal were participants and governing members in a Medicaid, Medicare, and Children’s Health Insurance Program (“CHIP”) HMO known as Health Partners Plans (“HPP”). In November 2021, the Health System sold its equity interest in HPP. Prior to the sale, the Health System applied the equity method of accounting to its investment in HPP because it exercised significant influence over, but did not have a controlling interest in, HPP. After the sale, TUH and Episcopal continue to participate in Medicaid contracts with HPP.

Under certain of its contracts with HPP, the Health System is the beneficiary of, or is responsible for, allocated HPP gains and losses that are based primarily on the number of HPP members enrolled in the Health System’s primary care physicians’ network and other factors as approved by the HPP board. The Health System’s total revenues from HPP are included in the accompanying consolidated statements of operations and changes in net assets as a component of other revenue. The revenues recorded in the years ended June 30, 2022 and 2021 were \$13,469,000 and \$44,125,000, respectively. The Health System’s share of HPP net assets was \$0 and \$58,192,000, as of June 30, 2022 and 2021, respectively, and is included in other non-current assets. As of June 30, 2022 and 2021, the Health System had a receivable due from HPP in the amount of \$5,815,000 and \$28,085,000, respectively, which is included in other receivables.

HPP’s annual premium revenues for Medicaid were \$1,375,058,000 for fiscal year 2021. For fiscal years 2022 and 2021, the Health System recognized gains of \$12,532,000 and \$30,596,000, respectively, for Medicaid in other revenue from HPP members.

HPP’s annual premium revenues for Medicare were \$246,705,000 for fiscal year 2021. For fiscal years 2022 and 2021, the Health System recognized gains of \$773,000 and \$862,000, respectively, for Medicare in other revenue from HPP members.

HPP’s annual premium revenues for CHIP were \$16,285,000 for fiscal year 2021. For fiscal years 2022 and 2021, the Health System recognized a loss of \$365,000 and a gain of \$199,000, respectively, for CHIP in other revenue from HPP members.

In fiscal year 2018, the Health System obtained a letter of credit in the amount of \$17,200,000, of which HPP was the beneficiary. The letter of credit automatically extended for four consecutive years. No amounts were drawn on the letter of credit during fiscal year 2022 or 2021 and it expired during fiscal year 2022.

The Health System received cash proceeds of \$301,600,000 from the sale of its equity interest in HPP, with an additional \$3,400,000 held in escrow, which resulted in a gain of \$234,591,000, recognized within other income. The escrow is included within other receivables as of June 30, 2022.

12. MEDICAL PROFESSIONAL LIABILITY AND WORKERS' COMPENSATION INSURANCE

The Health System members participate in the Health System's insurance programs for medical professional liability claims. Primary coverage is provided by an insurance company and reinsured to TUHIC.

Because primary losses are reinsured through TUHIC, primary losses are essentially self-insured up to certain limits, which are coordinated with statutory excess coverage provided through the Pennsylvania Medical Care Availability and Reduction of Error Fund ("MCare Fund"). Also, additional excess liability coverage has been obtained through a commercial insurance carrier.

The Health System accrues liabilities for the estimated losses on asserted and unasserted claims. The discount rates used in determining the liability at June 30, 2022 and 2021 were 2.75% and 0.00%, respectively. The liabilities are comprised of asserted claims for self-insured components of the program and accruals for unasserted claims. Asserted claims are specifically identified, with actuarial determination of the ultimate liability on asserted and unasserted claims based on claims settlement history. The estimated discounted liability accrued for asserted and unasserted claims for the Health System was \$324,195,000 and \$276,997,000 at June 30, 2022 and 2021, respectively. The estimated liability accrued for asserted and unasserted claims for TUHIC was \$58,262,000 and \$57,911,000 and at June 30, 2022 and 2021, respectively. The Health System incurred net medical professional liability insurance expense of \$92,431,000 and \$84,687,000 in 2022 and 2021, respectively. These costs are recorded in the consolidated statements of operations and changes in net assets as insurance expense.

The activity in the liability for claims reported and claims incurred but not reported for TUHIC for the years ended June 30, 2022 and 2021, is summarized as follows (in thousands):

	2022	2021
Outstanding	\$ 32,816	\$ 30,930
Incurred but not reported	<u>25,446</u>	<u>26,981</u>
	<u>\$ 58,262</u>	<u>\$ 57,911</u>
Balance—July 1	\$ 57,911	\$ 48,778
Incurred related to current year	18,902	17,537
Incurred related to prior year	<u>(1,667)</u>	<u>(1,559)</u>
	<u>17,235</u>	<u>15,978</u>
Paid related to current year	308	270
Paid related to prior year	<u>16,576</u>	<u>6,575</u>
	<u>16,884</u>	<u>6,845</u>
Net balance—June 30	<u>\$ 58,262</u>	<u>\$ 57,911</u>

As a result of changes in estimates of insured events in prior years, loss and loss adjustment expenses relating to prior years decreased by \$1,667,000 and \$1,559,000 for the years ended June 30, 2022 and 2021, respectively.

TUHIC is registered under the Bermuda Insurance Act of 1978, amendments thereto and the Related Regulations (the "Insurance Act") and is obliged to comply with various provisions of the Insurance Act regarding solvency and liquidity. The minimum required statutory capital and surplus at June 30, 2022

and 2021, was \$5,983,000 and \$5,795,000, respectively, and the actual statutory capital and surplus was \$28,412,000 and \$38,176,000, respectively. The minimum required level of liquid assets was \$45,751,000 and \$46,843,000 and actual liquid assets were \$89,790,000 and \$108,358,000 at June 30, 2022 and 2021, respectively.

The Health System is primarily self-insured for workers' compensation. Program assets at June 30, 2022 and 2021 were \$9,211,000 and \$8,671,000, respectively. Program liabilities were determined using a discount rate of 3.25% and 0.75% for fiscal years 2022 and 2021, respectively. The estimated discounted liability accrued at June 30, 2022 and 2021, was \$19,079,000 and \$22,067,000, respectively. Workers' compensation expense was \$5,373,000 and \$4,567,000 for fiscal years 2022 and 2021, respectively. These costs are recorded in the consolidated statements of operations and changes in net assets as employee benefits expense.

The Health System follows ASU 2010-24, which clarifies that a health care entity should not net insurance recoveries against a related claim liability. The ASU requires that the ultimate costs of claims or similar contingent liabilities shall be accrued when the incidents that give rise to the claims occur. This guidance also requires recognition of additional offsetting assets and liabilities on the balance sheet relating to workers' compensation and medical professional liability recoveries and claims. The current and long-term asset balances recorded due to this guidance are reflected on the consolidated balance sheets as current portion of self-insurance program receivables and self-insurance program receivables, while the offsetting liabilities are reflected within current portion of self-insurance liabilities and self-insurance liabilities. The amounts below are also included in the disclosure of liabilities within this footnote above. The balances recorded for the years ended June 30, 2022 and 2021 are summarized as follows (in thousands):

	2022			2021		
	Current	Long-Term	Total	Current	Long-Term	Total
Workers' compensation:						
Open reserves in excess of retention	\$ -	\$ 305	\$ 305	\$ -	\$ 365	\$ 365
Incurred but not recorded reserves in excess of retention	-	267	267	-	243	243
Professional liability:						
Claims settled within the MCare Layer	6,500	-	6,500	2,000	-	2,000
Open reserves within the MCare Layer	-	15,050	15,050	-	13,650	13,650
Incurred but not recorded reserves in excess of the MCare Layer	-	12,560	12,560	-	12,261	12,261
Incurred but not recorded reserves in excess of the Buffer Layer	-	17,269	17,269	-	13,904	13,904
	<u>\$ 6,500</u>	<u>\$ 45,451</u>	<u>\$ 51,951</u>	<u>\$ 2,000</u>	<u>\$ 40,423</u>	<u>\$ 42,423</u>

13. PENSION AND OTHER POSTRETIREMENT BENEFITS

The Health System has sponsored various defined benefit plans at the individual affiliate level based on prescribed eligibility requirements. Effective June 30, 2022, those plans were merged into a single defined benefit plan. Certain Health System employees also participate in the University's defined benefit plan. In addition, certain Health System members participate in the defined contribution retirement plans for eligible employees that provide benefits through contributions made by the Health System and its employees. In 2007, the last of the TUHS defined benefit retirement plans was closed to new participants; only certain grandfathered employees are eligible to participate in the defined benefit pension plans. These employees are not eligible to participate in the Health System's defined contribution plans.

The Health System makes contributions to participants' accounts under the Health System's defined contribution plans based on a defined percentage of the employee's base wages and length of service. The Health System contributions to the plans for fiscal years 2022 and 2021 were \$39,048,000 and \$36,289,000, respectively. Contributions to the plans for fiscal year 2023 are expected to be \$44,291,000.

Multiemployer Plans—Also, certain Health System employees participate in multiemployer pension plans based on collective-bargaining agreements. The Health System contributes to two multiemployer pension plans under the terms of collective-bargaining agreements that cover these union-represented employees. The risks of participating in these multiemployer plans are different from a single-employer plan in the following aspects:

- a. Assets contributed to the multiemployer plan by one employer may be used to provide benefits to employees of other participating employers.
- b. If a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers.
- c. If the Health System chooses to stop participating in one or both of its multiemployer plans, the Company may be required to pay that plan(s) an amount based on the underfunded status of the plan(s), referred to as a withdrawal liability.

The Health System's participation in these plans for the annual period ended June 30, 2022, is outlined in the table below. The "EIN/Pension Plan Number" column provides the Employer Identification Number (EIN) and the three-digit plan number, if applicable. The most recent Pension Protection Act (PPA) zone status available in 2022 and 2021 is also noted below. The zone status is based on information that the Health System received from the plan and is certified by the plan's actuary. Among other factors, plans in the red zone are generally less than 65% funded, plans in the yellow zone are less than 80% funded, and plans in the green zone are at least 80% funded. The "FIP/RP Status Pending/Implemented" column indicates plans for which a financial improvement plan (FIP) or a

rehabilitation plan (RP) is either pending or has been implemented. The last column lists the expiration date(s) of the collective-bargaining agreement(s) to which the plans are subject.

Pension Fund	EIN/Pension Plan Number	Pension Protection Act Zone Status		FIP/RP Status Pending/ Implemented	Contributions of TUHS		Surcharge Imposed	Expiration Date of Collective Bargaining Agreement
		2022	2021		2022	2021		
The Pension Fund for Hospital and Health Care Employees Philadelphia and Vicinity (1)	23-2627428/001	Red	Red	Yes	\$ 8,932,000	\$ 8,200,000	Yes	Various up to 2024
Central Pension Fund of the International Union of Operating Engineers and Participating Employers (2)	36-6052390/001	Green	Green	No	102,000	108,000	No	November 2023
Total contributions					<u>\$ 9,034,000</u>	<u>\$ 8,308,000</u>		

(1) Plan years began 1/1/22 and 1/1/21

(2) Plan years began 2/1/22 and 2/1/21

The Health System was listed in its plan's Form 5500 as providing more than 5% of the total contributions for the following plan and plan year:

Pension Fund	Year Contributions to the Plan Exceeded More Than 5% of Total Contributions (as of December 31 of the Plan's Year End)
The Pension Fund for Hospital and Health Care Employees — Philadelphia and Vicinity	2021

At the date these consolidated financial statements were issued, Forms 5500 were not available for the plan year ending in 2022.

Certain Health System employees participate in the University's postretirement health and life insurance plan. Benefits begin for eligible employees at age 62, and upon the accumulation of 10 years' service.

Postretirement Health Care Plan Trends—For measurement purposes, 7.2% and 7.1% annual rates of increase in the per-capita cost of postretirement benefits were assumed for 2022 for the shared plan of the Health System and University and the AOH and Affiliates plan, respectively, compared to the rates of 8.2% and 7.6% for 2021. For 2022, these rates are assumed to decrease gradually to 4.5% in 2030 and to remain at those levels thereafter. Assumed health care cost trend rates have a significant effect on the amounts reported for the postretirement benefit plan.

Defined Benefit Pension, Defined Contribution and Postretirement Benefit Plans—Total defined benefit pension, defined contribution, and other postretirement benefit plans expense under all Health System programs amounted to \$55,423,000 and \$44,597,000 for the years ended June 30, 2022 and 2021, respectively.

The following table sets forth the activity of the pension and other postretirement benefit plans (which includes the joint Health System and University plans) as of and for the years ended June 30, 2022 and 2021 (in thousands). A measurement date of June 30th is used for the plans.

	Pensions		Other Postretirement Benefit Plan	
	2022	2021	2022	2021
Change in benefit obligation:				
Benefit obligation—beginning of year	\$ 229,296	\$ 229,922	\$ 366,805	\$ 363,424
Service cost	2,651	2,554	11,479	12,155
Interest cost	4,893	5,050	9,097	8,103
Plan participant contributions	224	228	1,316	1,563
Actuarial loss (gain)	(38,788)	2,619	(70,059)	(4,733)
Benefits paid	(33,677)	(9,310)	(15,916)	(13,707)
Administrative expenses paid	(3,157)	(1,759)	-	-
Settlement	3,073	(8)	-	-
	<u>164,515</u>	<u>229,296</u>	<u>302,722</u>	<u>366,805</u>
Benefit obligation—end of year				
Change in plan assets:				
Fair value of plan assets—beginning of year	217,077	186,957	389,955	315,838
Actual return on plan assets	(29,428)	37,711	(17,491)	83,182
Employer contributions	-	3,250	3,534	3,079
Plan participant contributions	224	228	1,316	1,563
Plan expenses	(3,157)	(1,759)	-	-
Benefits paid	(33,677)	(9,310)	(15,916)	(13,707)
	<u>151,039</u>	<u>217,077</u>	<u>361,398</u>	<u>389,955</u>
Fair value of plan assets—end of year				
Funded status	(13,476)	(12,219)	58,676	23,150
Less University prepaid (accrued) cost	<u>(3,343)</u>	<u>(4,435)</u>	<u>39,269</u>	<u>15,986</u>
Net amount recognized—TUHS Only	<u>\$ (10,133)</u>	<u>\$ (7,784)</u>	<u>\$ 19,407</u>	<u>\$ 7,164</u>
Amount recognized in the balance sheets, include:				
Other noncurrent assets	\$ -	\$ 14	\$ 21,903	\$ 10,802
Other current liabilities	-	-	(377)	(454)
Accrued postretirement benefits—noncurrent	<u>(10,133)</u>	<u>(7,798)</u>	<u>(2,119)</u>	<u>(3,184)</u>
Net amount recognized—TUHS Only	<u>\$ (10,133)</u>	<u>\$ (7,784)</u>	<u>\$ 19,407</u>	<u>\$ 7,164</u>

During the year ended June 30, 2022, the Health System executed a lump sum window for its defined benefit pension plans, resulting in total lump sum payments of \$24,124,000 to plan participants. This settlement activity triggered a settlement charge of \$11,009,000, recognized within other income.

	Pensions		Other Postretirement Benefit Plan	
	2022	2021	2022	2021
Amounts recognized in unrestricted net assets:				
Prior service cost (credit)	\$ -	\$ -	\$ -	\$ -
Net actuarial loss (gain)	58,365	66,306	(24,127)	(15,969)
Net amount recognized in unrestricted net assets	\$ 58,365	\$ 66,306	\$ (24,127)	\$ (15,969)
Weighted-average assumptions to determine benefit obligation:				
Discount rate	4.55%-4.80%	2.33%-3.04%	3.94%-4.76%	1.10%-2.88%
Rate of compensation increase	2.50%	2.50%-3.00%	N/A	N/A
Weighted-average assumptions to determine net periodic cost:				
Discount rate	2.31%-3.04%	2.43%-3.03%	1.10%-2.85%	1.30%-2.87%
Rate of compensation increase	2.50%-3.00%	2.50%-3.00%	N/A	N/A
Expected return on plan assets	3.75%-6.50%	4.50%-6.50%	6.50%	7.00%
Components of net periodic cost (benefit):				
Service cost	\$ 2,651	\$ 2,554	\$ 11,479	\$ 12,155
Interest cost	4,893	5,050	9,097	8,103
Expected return on plan assets	(10,869)	(10,884)	(24,804)	(21,551)
Recognized net actuarial loss	3,948	4,682	(5,768)	201
Settlement	11,009	44	-	-
Net periodic cost	11,632	1,446	(9,996)	(1,092)
Less: University net periodic cost	(1,343)	(1,323)	7,047	969
TUHS net periodic cost	\$ 10,289	\$ 123	\$ (2,949)	\$ (123)

The service cost component of net period pension and postretirement benefit cost is included within employee benefits expenses in the consolidated statements of operations and changes in net assets. All other components are included within other income outside the subtotal of income from operations.

Assets Allocations—The following details the Health System’s defined benefit plans asset allocations:

Pension Plans Assets	Target Allocation	Percentage of Plan Assets at	
	Fiscal Year Ending June 30, 2022	June 30, 2022	June 30, 2021
Equity funds and alternative funds	30 %	29 %	77 %
Cash and fixed income	70 %	71	23
Total		100 %	100 %

The following details the University-sponsored pension and other postretirement defined benefit plan asset allocations:

Pension and Other Postretirement Benefit Plan Assets	Target Allocation	Percentage of Plan Assets at	
	Fiscal Year Ending June 30, 2022	June 30, 2022	June 30, 2021
Equity funds and alternative funds	25 - 70%	65 %	72 %
Cash and fixed income	30 - 75%	35	28
Total		100 %	100 %

Investment Strategy—The long-term investment strategy for pension and other postretirement benefit plans assets is to: meet present and future benefit obligations to all participants and beneficiaries; cover reasonable expenses incurred to provide such benefits; and provide a total return that maximizes the ratio of assets to liabilities by maximizing investment return at the appropriate level of risk.

The pension plans assets of the joint Health System and Temple University plans were \$151,039,000 and \$217,077,000 at June 30, 2022 and 2021, respectively. The fair values of the pension plan assets at June 30, 2022, by asset category are as follows (in thousands):

Assets	Level 1	Level 2	Level 3	Investments Measured at NAV	Total
Cash and cash equivalents	\$ 4,116	\$ -	\$ -	\$ -	\$ 4,116
U.S. government securities	14,869	-	-	-	14,869
Corporate bonds, notes, and other debt securities	-	15,206	-	-	15,206
Equity funds and securities	101	-	-	43,225	43,326
Fixed income funds	-	-	-	73,522	73,522
Total market value	<u>\$ 19,086</u>	<u>\$ 15,206</u>	<u>\$ -</u>	<u>\$ 116,747</u>	<u>\$ 151,039</u>

The fair values of the pension plan assets at June 30, 2021, by asset category are as follows (in thousands):

Assets	Level 1	Level 2	Level 3	Investments Measured at NAV	Total
Cash and cash equivalents	\$ 6,079	\$ -	\$ -	\$ -	\$ 6,079
U.S. government securities	14,825	-	-	-	14,825
Corporate bonds, notes, and other debt securities	-	21,063	-	-	21,063
Equity funds and securities	107,346	-	-	22,587	129,933
Alternative funds	-	-	-	3,184	3,184
Fixed income mutual funds	36,003	-	-	-	36,003
Limited partnerships	-	-	-	5,990	5,990
Total market value	<u>\$ 164,253</u>	<u>\$ 21,063</u>	<u>\$ -</u>	<u>\$ 31,761</u>	<u>\$ 217,077</u>

During the years ended June 30, 2022 and 2021, there were no transfers into or out of Level 3, nor were there any purchases or sales of Level 3 assets.

The fair values of the following investments have been estimated using an NAV equivalent (e.g. ownership interest in partners' capital to which a proportionate share of net assets is attributable) as of June 30, 2022 and 2021.

	Fair Value (In Thousands)	Unfunded Commitments (In Thousands)	Frequency (If Currently Eligible)	Notice Period (If Applicable)
As of June 30, 2022:				
Multi-Strategy Hedge Funds (a)	\$ 6,048	\$ -	Quarterly	90 days
Fixed Income Funds (c)	75,153	-	Daily, Quarterly	30–90 days
Equity Funds (d)	<u>35,546</u>	<u>-</u>	Daily, Monthly	1 - 30 days
	<u>\$ 116,747</u>	<u>\$ -</u>		
	Fair Value (In Thousands)	Unfunded Commitments (In Thousands)	Redemption Frequency (If Currently Eligible)	Redemption Notice Period (If Applicable)
As of June 30, 2021:				
Multi-Strategy Hedge Funds (a)	\$ 13,883	\$ -	Daily, Quarterly	60–90 days
Real Estate Funds (b)	9,174	-	Quarterly	45–90 days
Fixed Income Funds (c)	1,860	-	Daily, Monthly	1 - 45 days
Equity Funds (d)	<u>6,844</u>	<u>-</u>	Daily, Monthly	1 - 30 days
	<u>\$ 31,761</u>	<u>\$ -</u>		

- (a) This category includes investments that seek to earn above-average, risk adjusted, long-term returns that have a low correlation to traditional equity and fixed income markets. The investments include futures contracts, call options, warrants and structured products all of which are referenced as derivative instruments.
- (b) This category includes investments that maintain exposure to real estate through public and private investments whose value is strongly controlled by real estate and may act as a hedge against unanticipated inflation.
- (c) This category includes investments in intermediate and long term U.S. government securities and credit securities and U.S. fixed income index funds and commingled funds.
- (d) This category includes investments in U.S., International Developed Markets and Emerging Markets equities via commingled funds and index funds. The funds seek to balance the long term growth of capital with income and high total return.

The postretirement plan assets of the joint Health System and Temple University were \$361,398,000 and \$389,955,000 at June 30, 2022 and 2021, respectively, of which only a portion of this pool of assets belongs to the Health System. The fair values of the postretirement plan assets at June 30, 2022, by asset category are as follows (in thousands):

Assets	Level 1	Level 2	Level 3	Investments Measured at NAV	Total
Cash and cash equivalents	\$ 14,760	\$ -	\$ -	\$ -	\$ 14,760
U.S. government securities	60,212	-	-	-	60,212
Fixed income funds	-	-	-	35,924	35,924
Equity funds and securities	5,575	-	-	99,873	105,448
Commodity funds	-	-	-	6,702	6,702
Private equity funds	-	-	-	25,045	25,045
Real estate funds	-	-	-	16,842	16,842
Multi-strategy hedge funds	-	-	-	83,322	83,322
Opportunistic funds	-	-	-	13,143	13,143
	<u>-</u>	<u>-</u>	<u>-</u>	<u>13,143</u>	<u>13,143</u>
Total market value	<u>\$ 80,547</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 280,851</u>	<u>\$ 361,398</u>

The fair values of the postretirement plan assets at June 30, 2021, by asset category are as follows (in thousands):

Assets	Level 1	Level 2	Level 3	Investments Measured at NAV	Total
Cash and cash equivalents	\$ 9,865	\$ -	\$ -	\$ -	\$ 9,865
U.S. government securities	34,481	-	-	-	34,481
Fixed income funds	-	-	-	48,849	48,849
Equity funds and securities	9,311	-	-	158,241	167,552
Commodity funds	-	-	-	7,869	7,869
Private equity funds	-	-	-	14,153	14,153
Real estate funds	-	-	-	14,033	14,033
Multi-strategy hedge funds	-	-	-	84,427	84,427
Opportunistic funds	-	-	-	8,726	8,726
	<u>-</u>	<u>-</u>	<u>-</u>	<u>8,726</u>	<u>8,726</u>
Total market value	<u>\$ 53,657</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 336,298</u>	<u>\$ 389,955</u>

The fair values of the following investments have been estimated using an NAV equivalent (e.g. ownership interest in partners' capital to which a proportionate share of net assets is attributable) as of June 30, 2022 and 2021.

	Fair Value (In Thousands)	Unfunded Commitments (In Thousands)	Redemption Frequency (If Currently Eligible)	Redemption Notice Period (If Applicable)
As of June 30, 2022:				
Commodity funds (a)	\$ 6,702	\$ -	Daily	2 days
Multi-Strategy Hedge Funds (b)	83,322	-	Quarterly	90 days
Private Equity Funds (c)	25,045	20,107	Illiquid	N/A
Real Estate Funds (d)	16,842	-	Quarterly	45–90 days
Fixed Income Funds (e)	35,924	-	Monthly, Quarterly	30–90 days
Equity Funds (f)	99,873	-	Daily, Monthly	1–30 days
Opportunistic Funds (g)	<u>13,143</u>	<u>5,231</u>	Quarterly, Illiquid	60 days, N/A
	<u>\$ 280,851</u>	<u>\$ 25,338</u>		

	Fair Value (In Thousands)	Unfunded Commitments (In Thousands)	Redemption Frequency (If Currently Eligible)	Redemption Notice Period (If Applicable)
As of June 30, 2021:				
Commodity funds (a)	\$ 7,869	\$ -	Daily, Monthly	1–2 days
Multi-Strategy Hedge Funds (b)	84,427	-	Quarterly	90 days
Private Equity Funds (c)	14,153	24,516	Illiquid	N/A
Real Estate Funds (d)	14,033	-	Quarterly	30–90 days
Fixed Income Funds (e)	48,849	-	Daily, Monthly	1–45 days
Equity Funds (f)	158,241	-	Daily, Monthly	1–30 days
Opportunistic Funds (g)	<u>8,726</u>	<u>5,781</u>	Illiquid	N/A
	<u>\$ 336,298</u>	<u>\$ 30,297</u>		

- (a) This category includes investments in both long and short commodities derivatives in a unitized fund structure.
- (b) This category includes investments that seek to earn above-average, risk adjusted, long-term returns that have a low correlation to traditional equity and fixed income markets. The investments include futures contracts, call options, warrants and structured products all of which are referenced as derivative instruments.
- (c) This category includes real estate loans and non-public company equity and debt securities.
- (d) This category includes investments that maintain exposure to real estate through public and private investments whose value is strongly controlled by real estate and may act as a hedge against unanticipated inflation.
- (e) This category includes investments in intermediate and long term U.S. government securities and credit securities and U.S. fixed income index funds and commingled funds.
- (f) This category includes investments in U.S., International Developed Markets and Emerging Markets equities via commingled funds and index funds. The funds seek to balance the long term growth of capital with income and high total return.
- (g) This category includes investments with attractive risk/return characteristics based on a particular market environment. These investments include strategies such as private credit, distressed debt, and direct lending.

Expected Return on Plan Assets—The expected long-term rate of return of 3.6% for the plans' total assets is based on the expected return of each of the above investment categories, weighted based on the median of the target allocation for each class.

Expected Cash Flows—The following table shows expected cash flows related to the defined benefit pension and other postretirement benefit plans (in thousands):

	Plans TU/ Health System	Benefit Plan TU/ Health System
Expected Health System contributions for fiscal year ending June 30, 2023:		
Expected employer contributions	\$ -	\$ 375
Expected employee contributions		1,302
Estimated future benefit payments from plan assets reflecting expected future service for the fiscal year ending June 30:		
2023	11,000	15,688
2024	11,030	15,722
2025	11,329	15,651
2026	11,397	15,464
2027	11,526	15,239
2028 to 2032	57,936	162,700

14. ENDOWMENT

The Health System’s endowment consists of several funds established for a variety of purposes. As required by FASB ASC Topic 958, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law—The Health System classifies as net assets with donor restrictions (a) the original value of the gifts donated to the permanent endowment when explicit donor stipulations requiring permanent maintenance of the historical fair value are present, and (b) the original value of the subsequent gifts to the permanent endowment when explicit donor stipulations requiring permanent maintenance of the historical fair value are present. The remaining portion of the donor-restricted endowment fund comprised of accumulated investment earnings not required to be maintained in perpetuity is classified as net assets with donor restrictions until those amounts are appropriated for expenditure by the Health System in a manner consistent with the donor’s stipulations. The Health System considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: duration and preservation of the fund, purposes of the donor-restricted endowment funds, general economic conditions, the possible effect of inflation and deflation, the expected total return from income and the appreciation of investments, other resources of the Health System, and the investment policies of the Health System.

Changes in endowment net assets for the years ended June 30, 2022 and 2021 (in thousands):

	With Donor Restrictions
Endowment net assets—June 30, 2020	\$ 20,394
Contributions	(516)
Investment return—investment income	6,678
Appropriations of endowment assets for expenditure	<u>(4,080)</u>
Endowment net assets—June 30, 2021	22,476
Contributions	2,787
Investment return—investment income	1,922
Appropriations of endowment assets for expenditure	<u>(3,837)</u>
Endowment net assets—June 30, 2022	<u>\$ 23,348</u>

Underwater Endowments—From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor requires the Health System to retain as a fund of perpetual duration. The Health System’s policy allows spending from funds with such deficiencies unless otherwise precluded by donor intent or relevant laws and regulations. There were no material deficiencies of this nature at June 30, 2022 and 2021.

Investment Return Objectives and Spending Policy—The Health System has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to the programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner to generate returns at least equal to and preferably greater than the consumer price index plus 4.5%. To satisfy its long-term rate-of-return objectives, the Health System targets a diversified asset allocation that places a greater emphasis on equity based investments within prudent risk constraints.

The Health System has a policy of appropriating for distribution each year 2% to 7% of its endowment fund’s average fair value over the prior three years. The Board of Directors approved an appropriation of 4.5% for each of the years ended June 30, 2022 and 2021.

15. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions were held for the following purposes at June 30, 2022 and 2021 (in thousands):

	2022	2021
Subject to expenditure for specified purpose:		
Property and equipment additions	\$ 3,000	\$ 2,690
Research	15,168	12,059
Specific health care programs	<u>12,485</u>	<u>8,324</u>
	30,653	23,073
Beneficial interest in perpetual trusts, income from which is expendable for:		
Research	14,015	14,931
Specific health care programs	<u>27,118</u>	<u>31,254</u>
	41,133	46,185
Beneficial interest in assets held by Episcopal Foundation	28,124	32,489
Beneficial interest in assets held by Fox Chase Cancer Center Foundation	52,207	63,337
Perpetual endowment funds, income from which is expendable for:		
Research	12,678	11,681
Specific health care programs	<u>7,806</u>	<u>8,290</u>
	20,484	19,971
Total net assets with donor restrictions	<u>\$ 172,601</u>	<u>\$ 185,055</u>

The Episcopal Healthcare Foundation (the “EH Foundation”) controls certain investments that, according to its organizational structure, are held for the benefit of TUH’s Episcopal campus operations. TUH has recognized the fair market value of investments held by the EH Foundation as an asset (beneficial interest in the assets held by Episcopal Foundation) and net assets with donor restrictions of \$28,124,000 and \$32,489,000 at June 30, 2022 and 2021, respectively.

The Fox Chase Cancer Center Foundation (the “FCCC Foundation”) controls certain investments that, according to its organizational structure, are held for the benefit of ICR’s research operations and AOH’s clinical operations. ICR and AOH have recognized the fair market value of investments held by the FCCC Foundation as an asset (beneficial interest in the assets held by Fox Chase Cancer Center Foundation) and net assets with donor restrictions of \$52,207,000 and \$63,337,000 at June 30, 2022 and 2021, respectively.

As reported by the respective trustees, the composition of the above funds in which the Health System has a beneficial interest is approximately 85% marketable equity securities and 15% fixed income securities at June 30, 2022 and 2021.

16. COMMITMENTS AND CONTINGENCIES

The Commonwealth of Pennsylvania owns the land on which certain TUH facilities are located. The land is leased to the University for a term ending December 31, 2043, for a nominal rent. The University subleases these facilities to TUH.

The Friends Fiduciary Corporation owns the land upon which the TUH Jeanes campus facilities are located. The land is leased to TUH for a term ending June 30, 2046, for a nominal rent.

There are reversionary rights held by the land grantor, Friends Fiduciary Corporation, in certain deeds to the properties that make up the main campus of Fox Chase Cancer Center. The grantor may exercise its reversionary rights if ICR or AOH, respectively, no longer manage, operate and control the premises or if the premises are no longer used for permitted purposes.

As of June 30, 2022, TUH has committed to making investments of \$51,000 into a partnership (a real estate fund), which may be requested through capital calls from the partnership. Detail regarding the unfunded commitments is disclosed in Note 17.

TUHC holds cash and investments in debt securities in the amount of \$74,320,000 and \$101,537,000 and as of June 30, 2022 and 2021, respectively, which are being held in trust in order to secure TUHC's liabilities under certain reinsurance contracts.

The Health System is involved in litigation and regulatory investigations arising in the course of business. After consultation with legal counsel, management estimates that these matters will be resolved without material adverse effect on the Health System's financial position, results of operations, or cash flows.

The health care industry is subject to numerous and complex laws and regulations of federal, state, and local governments. These laws and regulations include, but are not limited to, matters such as licensure, accreditation, privacy, government health care program participation, government reimbursement for patient services, and fraud and abuse requirements. The CARES Act Terms and Conditions require attestation to accept related funding. Requirements to earn the funds are numerous and guidance has been continually updated, and continues to be updated, by the Department of Health and Human Services ("HHS"). Laws and regulations concerning government programs, including Medicare, Medicaid and the CARES Act, are subject to varying interpretations. Compliance with such laws and regulations is complex and can be subject to future government review and interpretation as well as significant regulatory enforcement actions, including fines, penalties, and potential exclusion from government health care programs, such as Medicare and Medicaid. There can be no assurance that regulatory authorities will not challenge the Health System's compliance with these laws and regulations. In addition, the contracts the Health System has with commercial payers also provide for retroactive audit and review of claims. The health care industry in general is experiencing an increase in these activities as federal and state governments increase their enforcement activities and institute new programs designed to identify potential irregularities in reimbursement or quality of patient care. Based on the information received to date, management is not aware of any undisclosed matters that will have a material adverse effect on the Health System's future consolidated financial position, results of operations, or cash flows.

17. FAIR VALUE MEASUREMENTS

FASB ASC Topic 820, which defines fair value, provides a framework for measuring fair value, and expands disclosures required for fair value measurements.

FASB ASC Topic 820 emphasizes that fair value is a market-based measurement, not an entity-specific measurement. Therefore, a fair value measurement should be determined based on the assumptions that market participants would use in pricing the asset or liability. As a basis for considering market participant assumptions in fair value measurements, FASB ASC Topic 820 establishes a fair value hierarchy that distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity (observable inputs that are classified within Levels 1 and 2 of the hierarchy) and the reporting entity's own assumption about market participant assumptions (unobservable inputs classified within Level 3 of the hierarchy).

FASB ASC Topic 820 classifies the inputs used to measure fair value into the following hierarchy:

Level 1—Level 1 inputs are quoted prices in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2—Level 2 inputs include the following:

- Quoted prices in active markets for similar assets or liabilities.
- Quoted prices in markets that are not active for identical or similar assets or liabilities.
- Inputs other than quoted prices, that are observable for the asset or liability.
- Inputs that are derived primarily from or corroborated by observable market data by correlation or other means.

Level 3—Level 3 inputs are unobservable inputs for the asset or liability.

The following table sets forth, by level within the fair value hierarchy, the financial assets and liabilities recorded at fair value on a recurring basis as of June 30, 2022 (in thousands):

Assets	Level 1	Level 2	Level 3	Investments Measured at NAV	Total
Assets limited as to use:					
U.S. government securities	\$ 61,061	\$ 15,005	\$ -	\$ -	\$ 76,066
Fixed income mutual funds	12,189	-	-	-	12,189
Corporate bonds, notes, and other debt securities	-	16,393	-	-	16,393
Cash, money market funds, and certificates of deposit	45,410	994	-	-	46,404
Equity securities and mutual funds	11,296	-	-	-	11,296
Alternative funds	-	-	-	1,642	1,642
	<u>129,956</u>	<u>32,392</u>	<u>-</u>	<u>1,642</u>	<u>163,990</u>
Workers' Compensation Fund:					
U.S. government securities	7,814	-	-	-	7,814
Cash, money market funds, and certificates of deposit	1,397	-	-	-	1,397
	<u>9,211</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>9,211</u>
Investments:					
U.S. government securities	11,417	18,323	-	-	29,740
Fixed income mutual funds	55,246	-	-	-	55,246
Corporate bonds, notes, and other debt securities	-	65,309	-	-	65,309
Equity securities and mutual funds	371,336	-	-	-	371,336
Real estate	-	320	-	-	320
Alternative funds	-	-	-	57,547	57,547
Limited partnerships	-	-	-	93,682	93,682
	<u>437,999</u>	<u>83,952</u>	<u>-</u>	<u>151,229</u>	<u>673,180</u>
Beneficial interest in perpetual trusts	-	-	41,133	-	41,133
Beneficial interest in the assets held by Episcopal Foundation	-	-	28,124	-	28,124
Beneficial interest in the Fox Chase Cancer Center Foundation	-	-	52,207	-	52,207
Total	<u>\$ 577,166</u>	<u>\$ 116,344</u>	<u>\$ 121,464</u>	<u>\$ 152,871</u>	<u>\$ 967,845</u>

The following table sets forth, by level within the fair value hierarchy, the financial assets and liabilities recorded at fair value on a recurring basis as of June 30, 2021 (in thousands):

Assets	Level 1	Level 2	Level 3	Investments Measured at NAV	Total
Assets limited as to use:					
U.S. government securities	\$ 78,247	\$ 31,963	\$ -	\$ -	\$ 110,210
Fixed income mutual funds	3,168	-	-	-	3,168
Corporate bonds, notes, and other debt securities	-	23,938	-	-	23,938
Cash, money market funds, and certificates of deposit	48,925	1,155	-	-	50,080
Equity securities and mutual funds	13,637	-	-	-	13,637
Alternative funds	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,282</u>	<u>1,282</u>
	<u>143,977</u>	<u>57,056</u>	<u>-</u>	<u>1,282</u>	<u>202,315</u>
Workers' Compensation Fund:					
Cash, money market funds, and certificates of deposit	<u>8,671</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>8,671</u>
	<u>8,671</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>8,671</u>
Investments:					
U.S. government securities	70,930	3,038	-	-	73,968
Fixed income mutual funds	30,137	-	-	-	30,137
Corporate bonds, notes, and other debt securities	-	27,530	-	-	27,530
Equity securities and mutual funds	239,859	-	-	-	239,859
Real estate	-	320	-	-	320
Alternative funds	-	-	-	30,567	30,567
Limited partnerships	<u>-</u>	<u>-</u>	<u>-</u>	<u>40,741</u>	<u>40,741</u>
	<u>340,926</u>	<u>30,888</u>	<u>-</u>	<u>71,308</u>	<u>443,122</u>
Beneficial interest in perpetual trusts	<u>-</u>	<u>-</u>	<u>46,185</u>	<u>-</u>	<u>46,185</u>
Beneficial interest in the assets held by Episcopal Foundation	<u>-</u>	<u>-</u>	<u>32,489</u>	<u>-</u>	<u>32,489</u>
Beneficial interest in the Fox Chase Cancer Center Foundation	<u>-</u>	<u>-</u>	<u>63,337</u>	<u>-</u>	<u>63,337</u>
Total	<u>\$ 493,574</u>	<u>\$ 87,944</u>	<u>\$ 142,011</u>	<u>\$ 72,590</u>	<u>\$ 796,119</u>

U.S. government securities, money market funds, equity securities and mutual funds classified as Level 1 are measured using quoted market prices.

Marketable debt securities classified as Level 1 were classified as such due to the usage of observable market prices for identical securities that are traded in active markets. These debt securities primarily include US Treasury Bonds.

The marketable debt securities classified as Level 2 were classified as such due to the usage of observable market prices for similar securities that are traded in less active markets or when observable market prices for identical securities are not available, marketable debt instruments are priced using: non-binding market consensus prices that are corroborated with observable market data; quoted market prices for similar instruments; or pricing models, such as a discounted cash flow model, with all significant inputs derived from or corroborated with observable market data. These debt securities primarily include government bonds, corporate bonds, notes and other debt securities.

The estimated fair values of the Health System’s beneficial interest in perpetual trusts, in the assets held by Episcopal Foundation, and in the assets held by Fox Chase Cancer Center Foundation are classified as Level 3 due to lack of observable market data. Currently there is no market in which beneficial interest in trusts are traded and as such, no observable exit price exists for these assets. The fair values are determined based on information provided by the trustees.

During the years ended June 30, 2022 and 2021, there were no transfers into or out of Level 3, nor were there any purchases or sales of Level 3 assets.

The fair values of the following investments have been estimated using an NAV equivalent (e.g. ownership interest in partners’ capital to which a proportionate share of net assets is attributable) as of June 30, 2022 and 2021.

	Fair Value (In thousands)	Unfunded Commitments (In thousands)	Redemption Frequency (if Currently Eligible)	Redemption Notice Period (if Applicable)
As of June 30, 2022:				
Multi-Strategy Hedge Funds (a)	\$ 57,621	\$ -	Annual,	45–60 days
Real Estate Funds (b)	<u>95,250</u>	<u>51</u>	Quarterly	90 days
	<u>\$ 152,871</u>	<u>\$ 51</u>		
As of June 30, 2021:				
Multi-Strategy Hedge Funds (a)	\$ 30,646	\$ -	Annual,	45–60 days
Real Estate Funds (b)	<u>41,944</u>	<u>51</u>	Quarterly	90 days
	<u>\$ 72,590</u>	<u>\$ 51</u>		

- (a) This category includes investments in hedge funds that use a variety of strategies. These strategies may include long/short equity, long/short credit, event-driven, capital structure arbitrage, fixed income arbitrage, credit of distressed companies, and restructuring and underpriced companies. The remaining restriction period for these investments ranged from three to twelve months.
- (b) This category includes investments that maintain exposure to real estate and natural resources through public and private investments whose value is strongly controlled by commodities and real estate and may act as a hedge against unanticipated inflation.

The fair value of the Health System’s pension assets is disclosed in Note 13.

The following methods and assumptions were used by the Health System in estimating fair value for disclosures in the consolidated financial statements:

Long-Term Debt—The fair value of long-term debt is based on quoted market prices or is estimated using discounted cash flow analyses for similar types of borrowing arrangements based on incremental borrowing rates. The carrying and fair values of long-term debt, excluding finance lease liabilities and equipment financing arrangements at June 30, 2022, are \$415,295,000 and \$399,111,000, respectively. The carrying and fair values of long-term debt, excluding finance lease liabilities, equipment financing arrangements, and the mortgage obligation at June 30, 2021, are \$451,236,000 and \$485,560,000, respectively.

Other—Cash and cash equivalents, patient and other accounts receivable, and all other current assets and liabilities are reported at amounts that approximate fair value due to the relatively short period to maturity.

18. FUNCTIONAL EXPENSES

The Health System provides general health care services to residents within its geographic location. Expenses related to providing these services for the years ended June 30, 2022 and 2021 are as follows (in thousands):

	2022				
	Health Care Services	Research	General and Administrative	Institutional Support	Total Expenses
Salaries	\$ 923,323	\$ 27,237	\$ 151,529	\$ 1,519	\$ 1,103,608
Employee benefits	216,887	8,280	44,990	461	270,618
Professional fees	139,916	772	7,186	115	147,989
Supplies and pharmaceuticals	486,067	5,546	31,124	460	523,197
Purchased services and other	115,059	5,377	84,437	3,077	207,950
Maintenance and utilities	20,318	2,442	23,997	126	46,883
Leases	6,358	-	8,110	-	14,468
Insurance	96,095	-	(24)	-	96,071
Depreciation and amortization	27,654	1,784	17,068	-	46,506
Interest	19,242	930	1,020	-	21,192
Asset impairment	-	-	1,564	-	1,564
Gain on disposal of fixed assets	-	-	90	-	90
Gain on lease modification	-	-	(122)	-	(122)
Total expenses	<u>\$ 2,050,919</u>	<u>\$ 52,368</u>	<u>\$ 370,969</u>	<u>\$ 5,758</u>	<u>\$ 2,480,014</u>

	2021				
	Health Care Services	Research	General and Administrative	Institutional Support	Total Expenses
Salaries	\$ 859,717	\$ 27,581	\$ 121,822	\$ 1,444	\$ 1,010,564
Employee benefits	213,931	8,170	32,466	429	254,996
Professional fees	114,310	894	30,321	-	145,525
Supplies and pharmaceuticals	470,073	5,701	13,937	117	489,828
Purchased services and other	112,284	4,095	78,905	2,522	197,806
Maintenance and utilities	20,493	2,314	16,758	-	39,565
Leases	7,944	-	8,793	-	16,737
Insurance	85,131	-	3,338	-	88,469
Depreciation and amortization	26,907	2,383	14,410	-	43,700
Interest	21,805	1,031	629	-	23,465
Asset impairment	-	-	524	-	524
Gain on disposal of fixed assets	-	-	(520)	-	(520)
Gain on lease modification	-	-	(639)	-	(639)
Total expenses	<u>\$ 1,932,595</u>	<u>\$ 52,169</u>	<u>\$ 320,744</u>	<u>\$ 4,512</u>	<u>\$ 2,310,020</u>

The financial statements report certain expense categories that are attributable to more than one program or supporting function. Therefore, these expenses require an allocation on a reasonable basis that is consistently applied. Costs not directly attributable to a function, including depreciation, amortization, and other occupancy costs, are allocated on a square-footage basis. Other expenses are directly assigned to the related programs or supporting functions according to the functional department for which they

are incurred. Departmental expenses may include allocations of costs based on direct assignment or other methods.

19. LIQUIDITY AND AVAILABILITY OF RESOURCES

The Health System's financial assets available to meet cash needs for general expenditures within one year, as of June 30, 2022 and 2021, were as follows (in thousands):

	2022	2021
Cash and cash equivalents	\$ 462,566	\$ 533,231
Patient accounts receivable—net of allowance for doubtful accounts	265,101	258,505
Other receivables—net of allowance for doubtful accounts	84,287	99,354
Assets limited as to use—board-designated	1,952	1,952
Short-term investments	521,567	371,327
Expenditures reimbursable by research grants and awards	<u>7,040</u>	<u>10,668</u>
	<u>\$1,342,513</u>	<u>\$1,275,037</u>

Current financial assets not available for general use as of June 30, 2022 and 2021 were \$37,638,000 and \$33,853,000, respectively. Amounts not available for general use include debt service funds held by trustee, workers' compensation funds, and self-insurance assets.

As part of its liquidity management plan, the Health System invests cash in excess of planned requirements in short-term investments. The Health System also has long-term investments which could be liquidated in the event of an unanticipated cash need. Long-term investments as of June 30, 2022 and 2021 were \$154,060,000 and \$74,537,000, respectively.

The Health System maintains a revolving line of credit arrangement with a financial institution, as described in Note 9. As of June 30, 2022 and 2021, unused borrowings of \$75,000,000, remained available on this line of credit.

In April through June of 2020, the Health System received \$158,593,000 in cash advances from accelerated Medicare payments requested under the CARES Act. At June 30, 2021, \$125,391,000 remained on the consolidated balance sheet. Of this amount, \$95,035,000 was reported within current portion of estimated settlements with third-party payers and \$30,356,000 was within estimated settlements with third-party payers. At June 30, 2022, \$29,321,000 was reported within current portion of estimated settlements with third-party payers.

The CARES Act also provides for deferred payment of the employer portion of social security taxes between March 27, 2020 and December 31, 2020 with 50% of the deferred amount due no later than December 31, 2021 and the remaining 50% due no later than December 31, 2022. The Health System began deferring the employer portion of social security taxes in April 2020. Deferred payments of \$15,139,000 and \$28,066,000 are reported within accrued expenses on the consolidated balance sheets as of June 30, 2022 and June 30, 2021, respectively.

20. SUBSEQUENT EVENTS

The Health System has evaluated subsequent events through October 27, 2022, the date the financial statements were issued. There were no subsequent events requiring recording or disclosure in the consolidated financial statements, except as noted below.

On August 8, 2022, the Health System formed an alliance with Redeemer Health, (“Redeemer”) and Philadelphia College of Osteopathic Medicine, (“PCOM”) and collectively signed a definitive agreement to acquire Chestnut Hill Hospital from Tower Health, (“Tower”). The Health System will be the majority partner with 60% ownership of the newly named Temple Health-Chestnut Hill Hospital and will manage the newly formed not-for-profit company following the acquisition. Redeemer and PCOM will own 20% each. The acquisition, which is expected to close by the end of calendar year 2022, is pending approval by regulators as well as Tower’s bondholders.

* * * * *

SUPPLEMENTAL SCHEDULES

TEMPLE UNIVERSITY HEALTH SYSTEM

SUPPLEMENTAL SCHEDULE OF CONSOLIDATING BALANCE SHEET INFORMATION

AS OF JUNE 30, 2022

(In thousands)

	Temple University Hospital, Inc.	Institute for Cancer Research	American Oncologic Hospital	FCCC Medical Group, Inc.	Fox Chase Network, Inc.	Temple Physicians Inc.	Temple Health System Transport Team, Inc.	TUHS Parent Company (1)	Obligated Group Eliminations	Obligated Group Consolidated
ASSETS										
CURRENT ASSETS:										
Cash and cash equivalents	\$ 269,938	\$ 5,007	\$ 15,857	\$ 24,909	\$ 1,008	\$ 6,399	\$ 808	\$ 46,423	\$ -	\$ 370,349
Patient accounts receivable—net of allowance for doubtful accounts	217,389	-	24,618	171	-	3,287	-	-	-	245,465
Other receivables—net of allowance for doubtful accounts	62,251	2,481	2,018	557	15	29	175	2,447	-	69,973
Inventories and other current assets	40,581	640	5,818	-	-	357	1	9,262	-	56,659
Current portion of assets limited as to use	15	684	492	-	-	-	-	22,279	-	23,470
Investments	428,888	7,071	44,795	-	-	-	-	13,133	-	493,887
Current portion of workers' compensation fund	6,492	182	175	19	-	25	-	-	-	6,893
Current portion of self-insurance program receivables	-	-	-	-	-	-	-	6,500	-	6,500
Expenditures reimbursable by research grants and awards	-	6,063	977	-	-	-	-	-	-	7,040
Due from affiliates—current portion	21,063	7,855	12,298	10,302	66	4,344	177	49,132	(86,268)	18,969
Total current assets	1,046,617	29,983	107,048	35,958	1,089	14,441	1,161	149,176	(86,268)	1,299,205
PROPERTY, PLANT AND EQUIPMENT:										
Land and land improvements	8,953	1,221	3,394	-	-	-	-	9	-	13,577
Buildings	419,356	24,345	31,489	-	-	4,967	-	8,055	-	488,212
Fixed and movable equipment	410,911	26,684	54,318	168	-	4,815	1,864	81,709	-	580,469
Construction-in-progress	17,516	568	355	-	-	-	-	5,302	-	23,741
	856,736	52,818	89,556	168	-	9,782	1,864	95,075	-	1,105,999
Less accumulated depreciation	639,828	26,898	46,771	149	-	9,250	1,361	67,338	-	791,595
Net property, plant and equipment	216,908	25,920	42,785	19	-	532	503	27,737	-	314,404
OPERATING LEASE RIGHT-OF USE ASSETS	2,334	-	2,105	-	-	1,732	6	17,672	-	23,849
ASSETS LIMITED AS TO USE	9,807	22,222	10,222	28	-	46	-	24,192	-	66,517
INVESTMENTS	132,609	320	7,314	-	-	-	-	5,262	-	145,505
WORKERS' COMPENSATION FUND	48	405	1,631	63	-	-	171	-	-	2,318
SELF-INSURANCE PROGRAM RECEIVABLES	14,869	-	334	4,740	-	9,614	-	45,451	(29,557)	45,451
INVESTMENT IN TUHIC	-	-	-	-	-	-	-	28,697	-	28,697
GOODWILL AND OTHER INTANGIBLES	-	366	30	-	528	-	-	-	-	924
BENEFICIAL INTEREST IN ASSETS HELD BY OTHERS	55,243	60,310	5,911	-	-	-	-	-	-	121,464
DUE FROM AFFILIATES	-	-	-	-	-	-	-	317,965	(317,965)	-
OTHER ASSETS	36,225	8,129	1,066	132	-	137	-	4,259	-	49,948
TOTAL ASSETS	\$ 1,514,660	\$ 147,655	\$ 178,446	\$ 40,940	\$ 1,617	\$ 26,502	\$ 1,841	\$ 620,411	\$ (433,790)	\$ 2,098,282

(1) TUHS Parent Company accounts for its investment in TUHIC under the equity method. The remaining entities are accounted for at cost.

(Continued)

TEMPLE UNIVERSITY HEALTH SYSTEM

SUPPLEMENTAL SCHEDULE OF CONSOLIDATING BALANCE SHEET INFORMATION

AS OF JUNE 30, 2022

(In thousands)

	Episcopal Hospital	TUHS Insurance Company, Ltd.	TUHS Foundation	Fox Chase Limited	Temple Center for Population Health	Temple Faculty Practice Plan, Inc.	Non-Obligated Group Eliminations	Non-Obligated Group Consolidated	Remaining Eliminations	Temple University Health System Consolidated
ASSETS										
CURRENT ASSETS:										
Cash and cash equivalents	\$ 11,140	\$ 13,905	\$ 14,266	\$ -	\$ 2,571	\$ 50,335	\$ -	\$ 92,217	\$ -	\$ 462,566
Patient accounts receivable—net of allowance for doubtful accounts	-	-	-	-	-	19,636	-	19,636	-	265,101
Other receivables net of allowance for doubtful accounts	140	1,834	238	-	1,289	10,813	-	14,314	-	84,287
Inventories and other current assets	-	16	-	-	146	122	-	284	-	56,943
Current portion of assets limited as to use	-	2,727	-	-	-	-	-	2,727	-	26,197
Investments	2,664	-	25,016	-	-	-	-	27,680	-	521,567
Current portion of workers' compensation fund	-	-	-	-	-	-	-	-	-	6,893
Current portion of self-insurance program receivables	-	-	-	-	-	-	-	-	-	6,500
Expenditures reimbursable by research grants and awards	-	-	-	-	-	-	-	-	-	7,040
Due from affiliates—current portion	684	-	-	4	1,709	20,462	(323)	22,536	(41,505)	-
Total current assets	14,628	18,482	39,520	4	5,715	101,368	(323)	179,394	(41,505)	1,437,094
PROPERTY, PLANT AND EQUIPMENT:										
Land and land improvements	231	-	-	-	-	-	-	231	-	13,808
Buildings	12,868	-	-	-	-	1,911	-	14,779	-	502,991
Fixed and movable equipment	533	-	-	-	-	14,290	-	14,823	-	595,292
Construction-in-progress	-	-	-	-	-	-	-	-	-	23,741
	13,632	-	-	-	-	16,201	-	29,833	-	1,135,832
Less accumulated depreciation	12,174	-	-	-	-	15,123	-	27,297	-	818,892
Net property, plant and equipment	1,458	-	-	-	-	1,078	-	2,536	-	316,940
OPERATING LEASE RIGHT-OF-USE ASSETS	-	-	-	-	-	311	-	311	-	24,160
ASSETS LIMITED AS TO USE	-	71,215	-	-	-	61	-	71,276	-	137,793
INVESTMENTS	931	-	7,564	60	-	-	-	8,555	-	154,060
WORKERS' COMPENSATION FUND	-	-	-	-	-	-	-	-	-	2,318
SELF-INSURANCE PROGRAM RECEIVABLES	-	-	-	-	-	7,109	-	7,109	(7,109)	45,451
INVESTMENT IN TUHIC	-	-	-	-	-	-	-	-	(28,697)	-
GOODWILL AND OTHER INTANGIBLES	-	-	-	-	-	-	-	-	-	924
BENEFICIAL INTEREST IN ASSETS HELD BY OTHERS	28,124	-	-	-	-	-	-	28,124	(28,124)	121,464
DUE FROM AFFILIATES	-	-	-	-	-	-	-	-	-	-
OTHER ASSETS	-	-	-	-	-	(7)	-	(7)	-	49,941
TOTAL ASSETS	\$ 45,141	\$ 89,697	\$ 47,084	\$ 64	\$ 5,715	\$ 109,920	\$ (323)	\$ 297,298	\$ (105,435)	\$ 2,290,145

(Continued)

TEMPLE UNIVERSITY HEALTH SYSTEM

SUPPLEMENTAL SCHEDULE OF CONSOLIDATING BALANCE SHEET INFORMATION

AS OF JUNE 30, 2022

(In thousands)

	Temple University Hospital, Inc.	Institute for Cancer Research	American Oncologic Hospital	FCCC Medical Group, Inc.	Fox Chase Network, Inc.	Temple Physicians Inc.	Temple Health System Transport Team, Inc.	TUHS Parent Company (1)	Obligated Group Eliminations	Obligated Group Consolidated
LIABILITIES AND NET ASSETS										
CURRENT LIABILITIES:										
Current portion of long-term debt	\$ 2,951	\$ 136	\$ 544	\$ -	\$ -	\$ 11	\$ -	\$ 13,368	\$ -	\$ 17,010
Current portion of operating lease liabilities	487	-	1,080	-	-	693	7	1,760	-	4,027
Accounts payable	64,610	4,032	5,972	230	-	122	10	11,808	-	86,784
Accrued expenses	60,761	5,420	13,602	9,218	-	4,564	222	58,971	(29,557)	123,201
Current portion of estimated settlements with third-party payers	3,974	-	34,737	-	-	-	-	-	-	38,711
Current portion of self-insurance program liabilities	35,523	182	371	1,046	-	1,779	-	6,573	-	45,474
Unexpended research grants and awards	-	1,550	845	-	-	-	-	-	-	2,395
Due to affiliates—current portion	44,852	15,942	20,942	9,306	195	2,873	492	14,529	(86,268)	22,863
Other current liabilities	45,217	189	7,802	360	-	1,673	-	19,281	-	74,522
Total current liabilities	258,375	27,451	85,895	20,160	195	11,715	731	126,290	(115,825)	414,987
LONG-TERM DEBT	5,893	212	696	-	-	28	-	402,625	-	409,454
OPERATING LEASE LIABILITIES	1,807	-	1,179	-	-	1,081	-	16,832	-	20,899
SELF-INSURANCE PROGRAM LIABILITIES	87,016	142	2,639	8,606	-	11,520	63	45,658	-	155,644
ACCRUED POSTRETIREMENT BENEFITS	6,797	643	1,132	339	-	-	-	-	-	8,911
DUE TO AFFILIATES	234,881	19,468	63,616	-	-	-	-	-	(317,965)	-
OTHER LONG-TERM LIABILITIES	123,772	1,460	1,244	528	-	351	-	311	-	127,666
Total liabilities	718,541	49,376	156,401	29,633	195	24,695	794	591,716	(433,790)	1,137,561
NET ASSETS (DEFICIT):										
Without donor restrictions	729,684	10,124	4,034	11,307	1,422	1,807	1,047	28,695	-	788,120
With donor restrictions	66,435	88,155	18,011	-	-	-	-	-	-	172,601
Total net assets (deficit)	796,119	98,279	22,045	11,307	1,422	1,807	1,047	28,695	-	960,721
TOTAL LIABILITIES AND NET ASSETS	\$ 1,514,660	\$ 147,655	\$ 178,446	\$ 40,940	\$ 1,617	\$ 26,502	\$ 1,841	\$ 620,411	\$ (433,790)	\$ 2,098,282

(1) TUHS Parent Company accounts for its investment in TUHIC under the equity method. The remaining entities are accounted for at cost.

(Continued)

TEMPLE UNIVERSITY HEALTH SYSTEM

SUPPLEMENTAL SCHEDULE OF CONSOLIDATING BALANCE SHEET INFORMATION

AS OF JUNE 30, 2022

(In thousands)

	Episcopal Hospital	TUHS Insurance Company, Ltd.	TUHS Foundation	Fox Chase Limited	Temple Center for Population Health	Temple Faculty Practice Plan, Inc.	Non-Obligated Group Eliminations	Non-Obligated Group Consolidated	Remaining Eliminations	Temple University Health System Consolidated
LIABILITIES AND NET ASSETS										
CURRENT LIABILITIES:										
Current portion of long-term debt	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 18	\$ -	\$ 18	\$ -	\$ 17,028
Current portion of operating lease liabilities	-	-	-	-	-	130	-	130	-	4,157
Accounts payable	54	-	-	-	-	2,708	-	2,762	-	89,546
Accrued expenses	-	76	-	-	-	18,880	-	18,956	(4,693)	137,464
Current portion of estimated settlements with third-party payers	-	-	-	-	-	-	-	-	-	38,711
Current portion of self-insurance program liabilities	-	25,069	-	-	-	15,132	-	40,201	-	85,675
Unexpended research grants and awards	-	-	-	-	-	-	-	-	-	2,395
Due to affiliates—current portion	403	1,092	36	69	1,775	15,590	(323)	18,642	(41,505)	-
Other current liabilities	1	-	-	-	2,469	3,676	-	6,146	-	80,668
Total current liabilities	458	26,237	36	69	4,244	56,134	(323)	86,855	(46,198)	455,644
LONG-TERM DEBT	-	-	-	-	-	13	-	13	-	409,467
OPERATING LEASE LIABILITIES	-	-	-	-	-	183	-	183	-	21,082
SELF-INSURANCE PROGRAM LIABILITIES	2,416	34,763	-	-	-	68,773	-	105,952	(2,416)	259,180
ACCRUED POSTRETIREMENT BENEFITS	3,340	-	-	-	-	-	-	3,340	-	12,251
DUE TO AFFILIATES	-	-	-	-	-	-	-	-	-	-
OTHER LONG-TERM LIABILITIES	31,059	-	-	-	-	(67)	-	30,992	(28,124)	130,534
Total liabilities	37,273	61,000	36	69	4,244	125,036	(323)	227,335	(76,738)	1,288,158
NET ASSETS (DEFICIT):										
Without donor restrictions	7,868	28,697	47,048	(5)	1,471	(15,116)	-	69,963	(28,697)	829,386
With donor restrictions	-	-	-	-	-	-	-	-	-	172,601
Total net assets (deficit)	7,868	28,697	47,048	(5)	1,471	(15,116)	-	69,963	(28,697)	1,001,987
TOTAL LIABILITIES AND NET ASSETS	\$ 45,141	\$ 89,697	\$ 47,084	\$ 64	\$ 5,715	\$ 109,920	\$ (323)	\$ 297,298	\$ (105,435)	\$ 2,290,145

(Concluded)

TEMPLE UNIVERSITY HEALTH SYSTEM

SUPPLEMENTAL SCHEDULE OF CONSOLIDATING STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS INFORMATION

FOR THE YEAR ENDED JUNE 30, 2022

(In thousands)

	Temple University Hospital, Inc.	Institute for Cancer Research	American Oncologic Hospital	FCCC Medical Group, Inc.	Fox Chase Network, Inc.	Temple Physicians Inc.	Temple Health System Transport Team, Inc.	TUHS Parent Company (1)	TUHS Obligated Group Eliminations	Obligated Group Consolidated
NET ASSETS WITHOUT DONOR RESTRICTIONS:										
Revenues and other support without donor restrictions:										
Net patient service revenue	\$ 1,905,596	\$ -	\$ 223,882	\$ (388)	\$ -	\$ 46,893	\$ -	\$ -	\$ -	\$ 2,175,983
Research revenue	-	38,650	-	-	-	-	-	-	(2,579)	36,071
Contribution revenue	1,153	1,909	1,263	-	-	-	-	-	-	4,325
Other revenue	79,583	1,664	3,900	31,688	(454)	22,202	3,469	184,407	(217,802)	108,657
Investment income	-	-	-	-	-	-	-	299	-	299
Net assets released from restrictions used for operations	314	5,092	632	-	-	-	-	-	-	6,038
	<u>1,986,646</u>	<u>47,315</u>	<u>229,677</u>	<u>31,300</u>	<u>(454)</u>	<u>69,095</u>	<u>3,469</u>	<u>184,706</u>	<u>(220,381)</u>	<u>2,331,373</u>
Expenses:										
Salaries	563,299	44,491	92,198	58,532	436	43,088	3,859	64,352	-	870,255
Employee benefits	152,599	13,528	23,621	8,977	114	10,003	1,024	18,291	-	228,157
Professional fees	219,539	2,653	17,440	(35,276)	(150)	8,541	103	25,907	(40,428)	198,329
Supplies and pharmaceuticals	442,939	7,937	43,921	227	1	2,833	83	17,884	11	515,836
Purchased services and other	326,644	3,370	40,371	(2,570)	(15)	6,597	805	20,458	(156,042)	239,618
Maintenance and utilities	31,636	4,807	3,174	28	1	1,008	112	4,081	54	44,901
Leases	8,702	216	2,561	4	12	3,211	158	3,039	(3,223)	14,680
Insurance	50,519	191	1,856	6,287	1	6,674	29	57	-	65,614
Depreciation and amortization	30,834	2,864	4,975	13	106	355	60	6,916	-	46,123
Interest	16,732	1,030	3,761	-	-	37	4	20,380	(20,753)	21,191
Asset impairment	-	1,564	-	-	-	-	-	-	-	1,564
(Gain) loss on disposal of fixed assets	29	-	-	-	-	-	-	49	-	78
Gain on lease modification	(122)	-	-	-	-	-	-	-	-	(122)
	<u>1,843,350</u>	<u>82,651</u>	<u>233,878</u>	<u>36,222</u>	<u>506</u>	<u>82,347</u>	<u>6,237</u>	<u>181,414</u>	<u>(220,381)</u>	<u>2,246,224</u>
Operating income (loss)	<u>143,296</u>	<u>(35,336)</u>	<u>(4,201)</u>	<u>(4,922)</u>	<u>(960)</u>	<u>(13,252)</u>	<u>(2,768)</u>	<u>3,292</u>	<u>-</u>	<u>85,149</u>
Other income—net:										
Investment income (loss)	(53,329)	763	(1,937)	62	-	142	(1)	(6,996)	-	(61,296)
Gain on sale of equity method investment	234,591	-	-	-	-	-	-	-	-	234,591
Other income (loss)	2,070	(41)	(81)	(16)	-	-	-	(4,269)	-	(2,337)
	<u>183,332</u>	<u>722</u>	<u>(2,018)</u>	<u>46</u>	<u>-</u>	<u>142</u>	<u>(1)</u>	<u>(11,265)</u>	<u>-</u>	<u>170,958</u>
Excess (deficiency) of revenues and other support over expenses from continuing operations	<u>326,628</u>	<u>(34,614)</u>	<u>(6,219)</u>	<u>(4,876)</u>	<u>(960)</u>	<u>(13,110)</u>	<u>(2,769)</u>	<u>(7,973)</u>	<u>-</u>	<u>256,107</u>

(1) TUHS Parent Company accounts for its investment in TUHIC under the equity method. The remaining entities are accounted for at cost.

(Continued)

TEMPLE UNIVERSITY HEALTH SYSTEM

SUPPLEMENTAL SCHEDULE OF CONSOLIDATING STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS INFORMATION FOR THE YEAR ENDED JUNE 30, 2022

(In thousands)

	Episcopal Hospital	TUHS Insurance Company, Ltd.	TUHS Foundation	Fox Chase Limited	Temple Center for Population Health	Temple Faculty Practice Plan, Inc.	Non-Obligated Group Eliminations	Non-Obligated Group Consolidated	Remaining Eliminations	Temple University Health System Consolidated
NET ASSETS WITHOUT DONOR RESTRICTIONS:										
Revenues and other support without donor restrictions:										
Net patient service revenue	\$ 270	\$ -	\$ -	\$ -	\$ 4,944	\$ 240,923	\$ (730)	\$ 245,407	\$ (2,790)	\$ 2,418,600
Research revenue	-	-	-	-	-	-	-	-	-	36,071
Contribution revenue	-	-	-	-	-	-	-	-	-	4,325
Other revenue	2,811	26,614	-	-	137	58,485	(16)	88,031	(111,764)	84,924
Investment income	-	-	-	-	-	-	-	-	-	299
Net assets released from restrictions used for operations	-	-	-	-	-	-	-	-	-	6,038
Revenues and other support without donor restrictions	<u>3,081</u>	<u>26,614</u>	<u>-</u>	<u>-</u>	<u>5,081</u>	<u>299,408</u>	<u>(746)</u>	<u>333,438</u>	<u>(114,554)</u>	<u>2,550,257</u>
Expenses:										
Salaries	971	-	-	-	2,725	231,071	-	234,767	(1,414)	1,103,608
Employee benefits	793	2,622	-	-	891	40,894	-	45,200	(2,739)	270,618
Professional fees	7	-	-	-	412	(38,151)	(16)	(37,748)	(12,592)	147,989
Supplies and pharmaceuticals	128	-	-	-	4	7,229	-	7,361	-	523,197
Purchased services and other	100	331	-	2	1,045	36,879	(730)	37,627	(69,295)	207,950
Maintenance and utilities	421	-	-	-	8	1,553	-	1,982	-	46,883
Leases	-	-	-	-	-	4,641	-	4,641	(4,853)	14,468
Insurance	215	17,486	-	-	-	30,242	-	47,943	(17,486)	96,071
Depreciation and amortization	124	-	-	-	-	259	-	383	-	46,506
Interest	-	-	-	-	-	1	-	1	-	21,192
Asset impairment	-	-	-	-	-	-	-	-	-	1,564
(Gain) loss on disposal of fixed assets	-	-	-	-	-	12	-	12	-	90
Gain on lease modification	-	-	-	-	-	-	-	-	-	(122)
Expenses	<u>2,759</u>	<u>20,439</u>	<u>-</u>	<u>2</u>	<u>5,085</u>	<u>314,630</u>	<u>(746)</u>	<u>342,169</u>	<u>(108,379)</u>	<u>2,480,014</u>
Operating income (loss)	<u>322</u>	<u>6,175</u>	<u>-</u>	<u>(2)</u>	<u>(4)</u>	<u>(15,222)</u>	<u>-</u>	<u>(8,731)</u>	<u>(6,175)</u>	<u>70,243</u>
Other income—net:										
Investment income (loss)	(365)	(3,842)	(3,234)	-	3	571	-	(6,867)	3,842	(64,321)
Gain on sale of equity method investment	-	-	-	-	-	-	-	-	-	234,591
Other income (loss)	(6,443)	-	-	-	-	2,219	-	(4,224)	-	(6,561)
Other income—net	<u>(6,808)</u>	<u>(3,842)</u>	<u>(3,234)</u>	<u>-</u>	<u>3</u>	<u>2,790</u>	<u>-</u>	<u>(11,091)</u>	<u>3,842</u>	<u>163,709</u>
Excess (deficiency) of revenues and other support over expenses from continuing operations	<u>(6,486)</u>	<u>2,333</u>	<u>(3,234)</u>	<u>(2)</u>	<u>(1)</u>	<u>(12,432)</u>	<u>-</u>	<u>(19,822)</u>	<u>(2,333)</u>	<u>233,952</u>

(Continued)

TEMPLE UNIVERSITY HEALTH SYSTEM

SUPPLEMENTAL SCHEDULE OF CONSOLIDATING STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS INFORMATION

FOR THE YEAR ENDED JUNE 30, 2022

(In thousands)

	Temple University Hospital, Inc.	Institute for Cancer Research	American Oncologic Hospital	FCCC Medical Group, Inc.	Fox Chase Network, Inc.	Temple Physicians, Inc.	Temple Health System Transport Team, Inc.	TUHS Parent Company (1)	Obligated Group Eliminations	Obligated Group Consolidated
Excess (deficiency) of revenues and other support over expenses	\$ 326,628	\$ (34,614)	\$ (6,219)	\$ (4,876)	\$ (960)	\$ (13,110)	\$ (2,769)	\$ (7,973)	\$ -	\$ 256,107
Other changes in net assets without donor restrictions:										
Transfers (to) from affiliates/the University	(68,389)	37,077	(3,462)	564	700	5,500	2,500	14,755	-	(10,755)
Net assets released from restrictions used for purchase of property and equipment	463	359	198	-	-	-	-	-	-	1,020
Net change in fair value of investments	(8,381)	(984)	(3,845)	-	-	-	-	(3,524)	-	(16,734)
Adjustment to funded status of pension and postretirement liabilities	9,990	316	579	173	-	-	-	-	-	11,058
Other change in net assets	564	57	110	25	-	52	-	76	-	884
Increase (decrease) in net assets without donor restrictions	260,875	2,211	(12,639)	(4,114)	(260)	(7,558)	(269)	3,334	-	241,580
NET ASSETS WITH DONOR RESTRICTIONS:										
Contribution income	3,711	7,109	2,408	-	-	-	-	-	-	13,228
Net assets released from restrictions	(777)	(5,451)	(830)	-	-	-	-	-	-	(7,058)
Net change in fair value of investments	(598)	(1,446)	(681)	-	-	-	-	-	-	(2,725)
Investment income (loss)	174	3,895	579	-	-	-	-	-	-	4,648
Change in beneficial interest in assets held by others	(8,501)	(10,786)	(1,260)	-	-	-	-	-	-	(20,547)
Increase (decrease) in net assets with donor restrictions	(5,991)	(6,679)	216	-	-	-	-	-	-	(12,454)
INCREASE (DECREASE) IN NET ASSETS	254,884	(4,468)	(12,423)	(4,114)	(260)	(7,558)	(269)	3,334	-	229,126
NET ASSETS (DEFICIT)—Beginning of year	541,235	102,747	34,468	15,421	1,682	9,365	1,316	25,361	-	731,595
NET ASSETS (DEFICIT)—End of year	\$ 796,119	\$ 98,279	\$ 22,045	\$ 11,307	\$ 1,422	\$ 1,807	\$ 1,047	\$ 28,695	\$ -	\$ 960,721

(1) TUHS Parent Company accounts for its investment in TUHIC under the equity method. The remaining entities are accounted for at cost.

(Continued)

TEMPLE UNIVERSITY HEALTH SYSTEM

SUPPLEMENTAL SCHEDULE OF CONSOLIDATING STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS INFORMATION

FOR THE YEAR ENDED JUNE 30, 2022

(In thousands)

	Episcopal Hospital	TUHS Insurance Company, Ltd.	TUHS Foundation	Fox Chase Limited	Temple Center for Population Health	Temple Faculty Practice Plan, Inc.	Non-Obligated Group Consolidated	Remaining Eliminations	Temple University Health System Consolidated
Excess (deficiency) of revenues and other support over expenses	\$ (6,486)	\$ 2,333	\$ (3,234)	\$ (2)	\$ (1)	\$ (12,432)	\$ (19,822)	\$ (2,333)	\$ 233,952
Other changes in net assets without donor restrictions:									
Transfers (to) from affiliates/the University	-	(10,000)	-	-	-	1,471	(8,529)	10,000	(9,284)
Net assets released from restrictions used for purchase of property and equipment	-	-	-	-	-	-	-	-	1,020
Net change in fair value of investments	-	(2,097)	-	-	1	-	(2,096)	2,097	(16,733)
Adjustment to funded status of pension and postretirement liabilities	5,195	-	-	-	-	-	5,195	-	16,253
Other change in net assets	-	-	-	-	-	55	55	-	939
Increase (decrease) in net assets without donor restrictions	(1,291)	(9,764)	(3,234)	(2)	-	(10,906)	(25,197)	9,764	226,147
NET ASSETS WITH DONOR RESTRICTIONS:									
Contribution income	-	-	-	-	-	-	-	-	13,228
Net assets released from restrictions	-	-	-	-	-	-	-	-	(7,058)
Net change in fair value of investments	-	-	-	-	-	-	-	-	(2,725)
Investment income (loss)	-	-	-	-	-	-	-	-	4,648
Change in beneficial interest in assets held by others	-	-	-	-	-	-	-	-	(20,547)
Increase (decrease) in net assets with donor restrictions	-	-	-	-	-	-	-	-	(12,454)
INCREASE (DECREASE) IN NET ASSETS	(1,291)	(9,764)	(3,234)	(2)	-	(10,906)	(25,197)	9,764	213,693
NET ASSETS (DEFICIT)—Beginning of year	9,159	38,461	50,282	(3)	1,471	(4,210)	95,160	(38,461)	788,294
NET ASSETS (DEFICIT)—End of year	\$ 7,868	\$ 28,697	\$ 47,048	\$ (5)	\$ 1,471	\$ (15,116)	\$ 69,963	\$ (28,697)	\$ 1,001,987

(Concluded)