# AHS Hospital Corp.

## Consolidated Financial Statements
## As of and for the Six Month Periods Ended
## June 30, 2023 and 2022

## AHS Hospital Corp.

Consolidated Balance Sheets
As of June 30, 2023 and December 31, 2022
*(in thousands)*

| ASSETS | Unaudited June 30, 2023 | Audited December 31, 2022 |
|---|---|---|
| Current assets: | | |
| Cash and cash equivalents | $ 643,154 | $ 680,644 |
| Assets limited as to use | 117,073 | 117,073 |
| Patient accounts receivable, net | 337,439 | 327,370 |
| Other current assets | 223,538 | 179,842 |
| Total current assets | 1,321,204 | 1,304,929 |
| Assets limited as to use, net of current portion | 2,400,267 | 2,219,445 |
| Long-term investments and other assets | 446,512 | 421,320 |
| Property, plant and equipment, net | 1,330,828 | 1,305,439 |
| Right of use assets, net | 312,542 | 329,148 |
| Total assets | $ 5,811,353 | $ 5,580,281 |
| **LIABILITIES AND NET ASSETS** | | |
| Current liabilities: | | |
| Current portion of long-term debt | $ 67,886 | $ 67,886 |
| Current portion of lease liability | 40,572 | 41,641 |
| Current portion of CARES Act Medicare advancements | - | 6,418 |
| Accounts payable and accrued expenses | 530,981 | 548,246 |
| Estimated amounts due to third party payers | 64,956 | 58,106 |
| Total current liabilities | 704,395 | 722,297 |
| Accrued employee benefits and other, net of current portion | 327,455 | 341,965 |
| Long-term debt, net of unamortized bond premium, debt issuance costs, and current portion | 1,351,676 | 1,354,518 |
| Long-term lease liability, net of current portion | 280,106 | 294,897 |
| Total liabilities | 2,663,632 | 2,713,677 |
| Net assets: | | |
| Without donor restrictions controlled by the Hospital | 2,940,767 | 2,658,068 |
| Without donor restrictions attributable to noncontrolling interest | 4,577 | 4,640 |
| Without donor restrictions | 2,945,344 | 2,662,708 |
| With donor restrictions | 202,377 | 203,896 |
| Total net assets | 3,147,721 | 2,866,604 |
| Total liabilities and net assets | $ 5,811,353 | $ 5,580,281 |

Consolidated Statements of Operations
For the six month periods ended June 30, 2023 and 2022
*(in thousands)*

| | Unaudited June 30, 2023 | Unaudited June 30, 2022 |
|---|---|---|
| **Revenues, gains and other support** | | |
| Net patient service revenue | $ 1,662,056 | $ 1,537,328 |
| Physician practice and other revenue | 269,980 | 249,362 |
| Legislative Funding from CARES Act and FEMA | 22,825 | 8,709 |
| Net assets released from restrictions | 7,740 | 9,157 |
| Total revenues, gains and other support | 1,962,601 | 1,804,556 |
| **Expenses** | | |
| Salaries | 894,218 | 785,838 |
| Supplies and other expenses | 712,477 | 680,326 |
| Employee benefits | 165,578 | 164,513 |
| Depreciation and amortization | 92,459 | 91,871 |
| Interest | 26,181 | 22,158 |
| Total operating expenses | 1,890,913 | 1,744,706 |
| Operating income | 71,688 | 59,850 |
| Change in net unrealized gains (losses) | 186,292 | (486,298) |
| Investment income, net | 12,253 | 10,805 |
| Nonoperating gain, net | (1,785) | (4,149) |
| Excess (deficiency) of revenues over expenses | 268,448 | (419,792) |
| **Other changes in net assets without donor restrictions** | | |
| Noncontrolling interest | (63) | (84) |
| Equity transfers to related parties | (7,473) | - |
| Net assets released from restrictions for capital purposes | 6,828 | 1,975 |
| Government grants used for capital purchases | 14,896 | 725 |
| Increase (decrease) in net assets without donor restrictions | $ 282,636 | $ (417,176) |

## AHS Hospital Corp.

Consolidated Statements of Changes in Net Assets
For the six month periods ended June 30, 2023 and 2022
*(in thousands)*

| | Unaudited June 30, 2023 | Unaudited June 30, 2022 |
|---|---|---|
| **Net assets without donor restrictions** | | |
| Excess (deficiency) of revenues over expenses | $ 268,448 | $ (419,792) |
| Equity transfers to related parties | (7,473) | - |
| Noncontrolling interest | (63) | (84) |
| Net assets released from restrictions for capital purposes | 6,828 | 1,975 |
| Government grants used for capital purchases | 14,896 | 725 |
| Increase (decrease) in net assets without donor restrictions | 282,636 | (417,176) |
| **Net asset with donor restictions** | | |
| Contributions | 9,121 | 17,680 |
| Investment income | 611 | 302 |
| Change in net unrealized gain (loss) | 3,317 | (7,799) |
| Net assets released from restrictions for operations | (7,740) | (9,157) |
| Net assets released from restrictions for capital purposes | (6,828) | (1,975) |
| Increase in net assets with donor restrictions | (1,519) | (949) |
| Increase (decrease) in net assets | 281,117 | (418,125) |
| **Net assets** | | |
| Beginning of year | 2,866,604 | 3,235,395 |
| End of period | $ 3,147,721 | $ 2,817,270 |

## AHS Hospital Corp.

Consolidated Statements of Cash Flows
For the six month periods ended June 30, 2023 and 2022

| *(in thousands)* | Unaudited June 30, 2023 | Unaudited June 30, 2022 |
|---|---|---|
| **Cash flows from operating activities** | | |
| Change in net assets | $ 281,117 | $ (418,125) |
| Adjustments to reconcile change in net assets to net cash provided by operating activities | | |
| Equity transfers to related parties | 7,473 | - |
| Depreciation and amortization | 92,459 | 91,871 |
| Gain on disposal of property, plant and equipment | 761 | - |
| Noncontrolling interest | (63) | (84) |
| Net realized and unrealized (gain) loss on investments | (182,744) | 494,349 |
| Change in value of swap agreements | 843 | 1,607 |
| Amortization of deferred financing costs and bond premium/discounts | (1,176) | (1,176) |
| Amortization of right of use assets | 21,943 | 16,108 |
| Contributions restricted for capital | (8,196) | (10,413) |
| Contributions restricted for permanent investments | (136) | (1,145) |
| Changes in assets and liabilities | | |
| Increase in net patient accounts receivable | (10,069) | (43,707) |
| Increase in other assets | (45,384) | (59,351) |
| Decrease in liability from Medicare Advance | (6,418) | (128,412) |
| (Decrease) increase in accounts payable, accrued expenses, est. amounts due from third party payers, lease liability, and other liabilities | (46,465) | (67,306) |
| Net cash provided by (used in) operating activities | 103,945 | (125,784) |
| **Cash flows from investing activities** | | |
| Purchases of investments | (241,521) | (27,541) |
| Proceeds from sales of investments | 238,380 | 5,726 |
| Intercompany loan issued to AHSIC | (19,890) | - |
| Repayment of loan receivables due from AHSIC | 1,473 | - |
| Additions to property, plant and equipment | (119,108) | (80,987) |
| Net cash used in investing activities | (140,666) | (102,802) |
| **Cash flows from financing activities** | | |
| Principal payments on long-term debt | (1,667) | - |
| Equity transfers to related parties | (7,473) | - |
| Proceeds from issuance of 2022 Commercial Loan | - | 100,000 |
| Contributions restricted for capital | 8,235 | 3,405 |
| Contributions restricted for permanent investments | 136 | - |
| Net cash (used in) provided by financing activities | (769) | 103,405 |
| Decrease in cash and cash equivalents | (37,490) | (125,181) |
| Cash and cash equivalents, beginning of year | 680,644 | 868,891 |
| Cash and cash equivalents, end of the period | $ 643,154 | $ 743,710 |

**AHS Hospital Corp.**
**For the six month periods ended June 30, 2023 and 2022**

| | | Period Ended June 30, | |
|---|---|---|---|
| | | **2023** | **2022** |
| **Licensed Beds (1)** | | | |
| | MMC | 735 | 735 |
| | OMC | 513 | 513 |
| | NMC | 148 | 148 |
| | CMC | 260 | 260 |
| | HMC | 111 | 111 |
| | Total Acute Care | 1,767 | 1,767 |
| **Admissions** | | | |
| | MMC | 21,576 | 20,872 |
| | OMC | 11,111 | 10,621 |
| | NMC | 3,973 | 3,908 |
| | CMC | 4,181 | 3,749 |
| | HMC | 1,787 | 1,798 |
| | Total Acute Care | 42,628 | 40,948 |
| **Observations** | | | |
| | MMC | 4,098 | 3,565 |
| | OMC | 2,403 | 2,094 |
| | NMC | 934 | 915 |
| | CMC | 1,925 | 1,855 |
| | HMC | 465 | 412 |
| | | 9,825 | 8,841 |
| **Admissions + Observations** | | | |
| | MMC | 25,674 | 24,437 |
| | OMC | 13,514 | 12,715 |
| | NMC | 4,907 | 4,823 |
| | CMC | 6,106 | 5,604 |
| | HMC | 2,252 | 2,210 |
| | | 52,453 | 49,789 |

**AHS Hospital Corp.**
**For the six month periods ended June 30, 2023 and 2022**

| | Period Ended June 30, | |
|---|---|---|
| | **2023** | **2022** |
| **Patient Days** | | |
| MMC | 117,366 | 110,997 |
| OMC | 54,981 | 51,414 |
| NMC | 21,631 | 21,666 |
| CMC | 20,030 | 18,085 |
| HMC | 9,073 | 9,062 |
| Total Acute Care | 223,081 | 211,224 |
| **Average Length of Stay** | | |
| Acute Avg LOS | 5.2 | 5.2 |
| **Inpatient Surgeries** | | |
| MMC | 6,503 | 6,274 |
| OMC | 2,231 | 2,209 |
| NMC | 404 | 407 |
| CMC | 566 | 629 |
| HMC | 304 | 303 |
| | 10,008 | 9,822 |
| **Outpatient Surgeries** | | |
| MMC (2) | 11,807 | 10,659 |
| OMC | 5,960 | 5,225 |
| NMC | 1,273 | 1,037 |
| CMC | 2,203 | 2,250 |
| HMC | 578 | 493 |
| | 21,821 | 19,664 |
| **Total Surgeries** | | |
| MMC | 18,310 | 16,933 |
| OMC | 8,191 | 7,434 |
| NMC | 1,677 | 1,444 |
| CMC | 2,769 | 2,879 |
| HMC | 882 | 796 |
| | 31,829 | 29,486 |

**AHS Hospital Corp.**
**For the six month periods ended June 30, 2023 and 2022**

| | Period Ended June 30, | |
|---|---|---|
| | **2023** | **2022** |
| **Outpatient Visits (3)** | | |
| MMC | 384,655 | 402,840 |
| OMC | 158,336 | 156,680 |
| NMC | 51,095 | 49,261 |
| CMC | 64,198 | 62,094 |
| HMC | 37,481 | 36,260 |
| | 695,765 | 707,135 |
| **Emergency Room Visits (4)** | | |
| MMC | 52,617 | 49,205 |
| OMC (5) | 51,074 | 45,032 |
| NMC | 17,878 | 17,511 |
| CMC | 22,728 | 21,196 |
| HMC | 11,056 | 10,246 |
| | 155,353 | 143,190 |
| **Deliveries (6)** | | |
| MMC | 2,560 | 2,479 |
| OMC | 1,181 | 1,250 |
| NMC | 268 | 244 |
| CMC | 338 | 266 |
| HMC | - | - |
| | 4,347 | 4,239 |
| **HomeCare Visits** | 113,455 | 110,890 |
| **Full time equivalents (7) Hospital divisions, AVN, and AMG** | 16,502 | 15,351 |

**Notes:**

(1) Excludes newborn bassinets.

(2) Includes outpatient surgeries from 111 Madison Ave and Rockaway.

(3) 1,838 COVID vaccinations during YTD June 2023 vs.
25,519 for the same period in 2022

(4) Includes visits resulting in admission.

(5) Includes ER Visits from Union

(6) Includes multiple births.

(7) Calculation of FTE is as of period end and assumes 37.5-hour work week.

## 1. Organization

AHS Hospital Corp. and subsidiaries (the “Hospital”) is a New Jersey not-for-profit entity comprised of five hospital facilities, the Morristown Medical Center (“Morristown Division” or “MMC”), the Overlook Medical Center (“Overlook Division” or “OMC”), the Newton Medical Center (“Newton Division” or “NMC”), the Chilton Medical Center (“Chilton Division” or “CMC”), and the Hackettstown Medical Center (“Hackettstown Division” or “HMC”). Atlantic Visiting Nurse (“AVN”), which provides comprehensive home health and hospice and palliative care services as well as adult day care services and various community health services, is also included within the Hospital. Each of the above operate as divisions within Hospital Corp. and not as separate corporations. Also, included in the Hospital is the Foundation for the Morristown Medical Center (“MMCF”), a wholly owned subsidiary and not-for-profit fundraising organization. The Hospital is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code.

The Hospital provides regional health care services including a broad range of adult, pediatric, obstetrical/gynecological, psychiatric, oncology, intensive care, cardiac care and newborn acute care services to patients from the counties of Morris, Essex, Passaic, Sussex, Bergen, Hunterdon, Union, Warren and Somerset in New Jersey, Pike County in Pennsylvania and southern Orange County in New York. The Hospital is also a regional health trauma center that provides tri-state coverage and provides numerous outpatient ambulatory services, rehabilitation and skilled care and emergency care.

Also included in the Hospital is Practice Associates Medical Group doing business as Atlantic Medical Group, P.A. (“AMG”), the captive physician practice serving all of the Hospital divisions. It is a nonprofit corporation and an organization described in Section 501(c)(3) of the Internal Revenue Code. Originally formed to provide billing and collection services for fees generated by physicians employed by the hospital divisions, AMG now serves as a physician-governed group practice entity with over 1,500 providers. AMG supports the Hospital by improving consistency, enhancing collaboration among those delivering care and optimizing care system operations.

MMCF solicits funds in its general appeal to primarily support the Morristown Division and the community as MMCF’s Board may deem appropriate. The by-laws of MMCF were amended on November 19, 2015, to provide that funds received by MMCF after the date of the amendment may be used for the benefit of Atlantic Health System, Inc. (the “Parent”) and the Hospital, including all subsidiaries, upon approval of the Executive Committee of the Board of MMCF.

In June 2019, Atlantic Rehabilitation Institute (“ARI”) began operations under a joint venture between the Hospital and Kindred Healthcare. ARI is a two-story, 38-bed rehabilitation facility, located in Madison, NJ and provides patient-focused rehabilitation dedicated to the treatment and recovery of individuals through intensive specialized rehabilitation services for patients who have experienced a loss of function from an injury or illness. The Hospital contributed the existing rehabilitation business for a 55% ownership investment of $6,618. The Hospital consolidates the joint venture’s operations and records an adjustment for the noncontrolling interest within other changes in net assets without donor restrictions on the consolidated statements of operations and separates Kindred’s equity as noncontrolling interest within net assets without donor restrictions on the consolidated balance sheet.

The Hospital is a wholly controlled subsidiary of the Parent, a not-for-profit organization. The Parent wholly owns the following for-profit entities; Atlantic Health Management Corp., a for-profit holding company, which owns AHS Investment Corporation and Subsidiaries ("AHSIC"), AHS Insurance Company, Ltd. (the "Captive"), a for-profit insurance company licensed under the provisions of the Cayman Islands Insurance Law; AHS Health Network LLC, a for-profit established to provide a vehicle to report risk contracting under the requirements of the banking and insurance regulations; Primary Care Partners, LLC and Atlantic Health Partners, LLC, for-profit physician practice entities; and AHS ACO, LLC ("ACO") and Care Better ACO LLC, for-profit limited liability companies established for the purpose of participating in the Medicare Shared Savings Program under the Patient Protection and Affordable and Accountable Care Act of 2010 as well as participating in shared savings programs with certain commercial carriers. AHSIC holds real estate interests and manages health care businesses including magnetic resonance imaging, durable medical equipment, and private duty home care services. The Captive's principal activity is to provide for professional and commercial general liability insurance to the Parent and its subsidiaries beginning January 1, 2002. In addition, the Parent wholly owns the following not-for-profit entities: Atlantic Ambulance Corp., a not-for-profit company established to provide emergency and nonemergency medical transportation to the Parent and its subsidiaries; North Jersey Health Care Properties which owns commercial buildings; Prime Care, Inc. which provides various wellness, health education and other health services; and Newton Medical Center Foundation, Inc.("NMCF") and the Chilton Medical Center Foundation, Inc. ("CMCF"), both not-for-profit fund-raising organizations for the benefit of their respective Hospital Divisions.

The Overlook Foundation ("OF") and the Foundation for the Hackettstown Medical Center ("HMCF") are not-for-profit fundraising organizations affiliated with the Overlook and Hackettstown Divisions, respectively, however, they are not controlled subsidiaries of the Parent or the Hospital.

In June 2013, the Parent signed an Operating Agreement with Hunterdon Healthcare System to form a jointly-owned health care alliance, Midjersey Health Alliance, LLC ("MHA"). The purpose of the organization is to form a regional healthcare alliance to improve and enhance the scope, quality and cost-effectiveness of health care services in Hunterdon, Somerset, Mercer and Warren counties while developing sound economic and financial solutions to health care issues affecting all patients, providers and healthcare organizations and moving toward clinical integration. Each system will retain its independence but will create clinical and economic efficiencies to reduce health care costs.

On October 21, 2020, the Parent and CentraState Healthcare System ("CentraState"), a nonprofit health system with a continuum of care operating one acute care hospital in Freehold, New Jersey in Monmouth County, reached a Definitive Agreement to expand their partnership to create a co-membership model for the Parent and CentraState. Effective January 1, 2022, the Parent and CentraState completed their newly expanded partnership, creating a unique model for health system co-ownership under which the Parent became the 51% majority corporate member in CentraState and CentraState joined the System's network of care. The partnership is structured to deliver benefits to patients, physicians, and caregivers in CentraState's communities by strengthening its integrated clinical services, physician network and infrastructure through capital investments. The transaction was accounted for by the Parent in accordance with ASC Topic 958-805, Not-for-profit Entities: Business Combinations. No consideration was exchanged to complete the partnership.

(Dollar amounts in thousands) (Unaudited)

## 2. Basis of Presentation

The consolidated financial statements included herein are unaudited and include all adjustments (consisting of normal recurring adjustments), which are, in the opinion of management, necessary for a fair presentation of the financial position and results of operations. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been omitted. These financial statements should be read in conjunction with the Hospital's audited financial statements for the years ended December 31, 2022 and 2021.

In June 2016, the FASB issued ASU 2016-13, Financial Instruments – Credit Losses: Measurement of Credit Losses on Financial Instruments. The previous standard delays the recognition of a credit loss on a financial asset until the loss is probable of occurring. The new standard removes the requirement that a credit loss be probable of occurring for it to be recognized, and requires entities to use historical experience, current conditions, and reasonable and supportable forecasts to estimate their future expected credit losses. The standard is required to be applied using the modified retrospective approach with a cumulative-effect adjustment to net assets, if any, upon adoption. This ASU is effective for the Hospital for fiscal years beginning after December 15, 2022. The Hospital is currently evaluating the impact of the standard on the consolidated financial statements.

Other revenue in the consolidated statements of operations are those amounts the Hospital derives from physician practice revenue, cafeteria sales, parking lot revenue, purchase discounts and various other miscellaneous receipts. Physician services are billed at professional rates tied to contracts for visits and procedures done in the physician office setting. The Hospital determines estimates for implicit price concessions, in accordance with ASC 606 *Revenue from Contracts with Customers,* based on its historical collection experience with every class of patients/payers, including run rates for denials, as well as instances where self-pay patients in process of being screened for Medicaid (which has lower reimbursement rates). During the six month period ended June 30, 2023, the impact of changes to inputs used to determine the transaction price for physician practice and other revenues was considered immaterial to the current period. Physician practice revenues amounted to $250,118 and $232,993 for the six month periods ended June 30, 2023 and 2022, respectively.

Physician practice revenue by payer for the six month periods ended June 30, 2023 and 2022, respectively, is as follows:

| | June 30, 2023 | | June 30, 2022 | |
|---|---|---|---|---|
| Medicare | 22.7 | % | 24.4 | % |
| Medicaid | 0.3 | | 0.3 | |
| Managed Care and other third party payers | 76.7 | | 75.1 | |
| Self Pay | 0.3 | | 0.2 | |
| | 100.0 | % | 100.0 | % |

(Dollar amounts in thousands) (Unaudited)

## 3. Net Patient Service Revenue

The components of net patient service revenue for the six month periods ended June 30, 2023 and 2022 are as follows:

| | June 30, 2023 | June 30, 2022 |
|---|---|---|
| **Gross charges** | | |
| Inpatient | $ 4,280,579 | $ 3,932,639 |
| Outpatient | 4,350,325 | 3,809,275 |
| Total gross charges | 8,630,904 | 7,741,914 |
| **Net additions (deductions) from gross charges** | | |
| Contractual discounts and implicit price concessions | (6,907,990) | (6,143,480) |
| Charity care discount | (66,265) | (67,427) |
| Charity care subsidy | 5,227 | 6,141 |
| Special mental health subsidy | 180 | 180 |
| | (6,968,848) | (6,204,586) |
| Net patient service revenue | $ 1,662,056 | $ 1,537,328 |

The Hospital recorded $47,687 and $57,377 of implicit price concessions as a direct reduction of patient service revenues during the six month periods ended June 30, 2023 and 2022, respectively.

The mix of patient service revenue, net of contractual discounts and implicit price concessions from patients and third-party payers for the six month periods ended June 30, 2023 and 2022 is as follows:

| | June 30, 2023 | June 30, 2022 |
|---|---|---|
| Medicare | 25.6 % | 24.0 % |
| Medicaid | 0.9 | 0.9 |
| Managed Care and other third party payers | 73.0 | 74.3 |
| Self Pay | 0.2 | 0.3 |
| Charity | 0.3 | 0.5 |
| | 100.0 % | 100.0 % |

## 4. Federal Legislative Relief Funds

In April 2020, the Hospital received $341,166 in Medicare advances. The recoupment period for the Hospital's Medicare advances commenced one year after receipt of the advances (April 2021) and occur via offsets to Medicare payments. The offset commenced at 25% of Medicare payments for the first eleven months of the recoupment period, and then increased to 50% of Medicare payments for the next six months (starting March 2022). The Hospital has presented its total Medicare advances within current and noncurrent liabilities on the consolidated balance sheet as of December 31, 2022 and 2021, which was fully repaid as of March 31, 2023.

During 2022, the Hospital applied for and received approval for the reimbursement of qualifying expense under FEMA. For the six month period ended June 30, 2023, the Hospital recognized $22,825 of FEMA funds within operating revenue in the consolidated statement of operations. No funding had been received as of the six month period ended June 30, 2022. FEMA can and does retrospectively adjust grant distribution formulas and may adjust funding already received which may impact the amount the Hospital has recorded for the six month period ended June 30, 2023, in future financial statement periods.

### 5. Pension Plan Contribution

The Hospital contributed $30,000 to the cash balance pension plan during the six month periods ended June 30, 2023 and 2022. The service cost component of annual pension expense for the year ended December 31, 2023 is expected to be $32,173, as compared to $37,296 for the year ended December 31, 2022.

(Dollar amounts in thousands) (Unaudited)

## 6. Assets Limited as to Use

Assets limited as to use at June 30, 2023 and December 31, 2022, consist of the following:

| | June 30, 2023 | December 31, 2022 |
|---|---|---|
| **Board designated** | | |
| Short-term investments including money market funds | $ 336,964 | $ 331,447 |
| Mutual funds | 2,163,387 | 1,975,789 |
| Alternative investments - equity | 160 | 163 |
| | 2,500,511 | 2,307,399 |
| **Under bond indenture agreements** | | |
| Short-term investments including money market funds | | |
| Interest account | 3,784 | 21,301 |
| Principal account | 12,374 | 7,153 |
| Debt service reserve fund | 671 | 665 |
| | 16,829 | 29,119 |
| Total assets whose use is limited | 2,517,340 | 2,336,518 |
| Less, assets limited as to use and are required for current liabilities | 117,073 | 117,073 |
| Noncurrent assets limited as to use | $ 2,400,267 | $ 2,219,445 |

Assets limited as to use under bond indenture agreements represent certain funds that are controlled by trustees for as long as any of the bonds remain outstanding. These funds, including interest income, are held by bank trustees who administer the trusts as required under the bond indenture agreements.

(Dollar amounts in thousands) (Unaudited)

## 7. Long-Term Investments and Other Assets

Long-term investments and other assets at June 30, 2023 and December 31, 2022 are as follows:

| | June 30, 2023 | December 31, 2022 |
|---|---|---|
| **Long-term investments** | | |
| Money market funds | $ 483 | $ 2,744 |
| Mutual funds | 77,034 | 70,627 |
| Alternative investments - equity | 3,415 | 3,600 |
| | 80,932 | 76,971 |
| **Other assets** | | |
| CentraState intercompany loan | 103,497 | 103,497 |
| AHSIC intercompany loans | 56,759 | 39,045 |
| Professional and general liability insurance recoveries | 102,337 | 102,337 |
| Workers compensation liability insurance recoveries | 4,500 | 4,500 |
| Due from Overlook Medical Center Foundation | 43,100 | 49,263 |
| Due from Newton Medical Center Foundation | 2,993 | 3,093 |
| Due from Chilton Medical Center Foundation | 6,268 | 6,534 |
| Due from Hackettstown Medical Center Foundation | 2,308 | 2,308 |
| Venture capital private equity funds | 22,731 | 11,576 |
| Equity method investments | 6,615 | 6,749 |
| Beneficial interest in trusts | 2,042 | 2,042 |
| Other | 12,430 | 13,405 |
| | 365,580 | 344,349 |
| Total long-term investments and other assets | $ 446,512 | $ 421,320 |

On August 17, 2022, the Hospital entered into a secured loan agreement with CentraState in the amount of $103,497, whereby the proceeds were utilized by CentraState to pay off or legally defease all of its financed obligations as of that date. CentraState will pay interest to the Hospital monthly at a fixed rate of 3.21% with the full principal amount due to the Hospital on May 17, 2037. The loan is collateralized by the gross receipts of CentraState as well as its owned properties. In addition, certain financial covenants must be maintained by CentraState.

The Hospital accrues an estimate of the ultimate cost of claims under all insurance policies whether the policy is fully insured or a self-insurance policy, with any insurance recoverable under such policies recorded as a receivable. As of June 30, 2023 and December 31, 2022, the Hospital has recorded $102,337, in other long-term assets for professional and general liability insurance recoveries. A corresponding liability for the above is recorded within accrued employee benefits and other in the consolidated balance sheets. The Hospital also recorded $4,500 for workers compensation liability insurance recoveries at June 30, 2023 and December 31, 2022. As of June

30, 2023 and December 31, 2022, the Hospital recorded liabilities related to workers compensation claims totaling $24,770 and $21,700, respectively, within accounts payable and accrued expenses in the consolidated balance sheets.

Due from Overlook, Newton, Chilton and Hackettstown Medical Center Foundations relate to the amounts due from the Foundations for contributions received by the Foundations on behalf of the Overlook, Newton, Chilton and Hackettstown Divisions. The Foundations solicit funds in their general appeal to support the Hospital and for other health care purposes as the respective Foundation's individual Board of Trustees may deem appropriate. In the absence of donor restrictions, the Foundations' have discretionary control over the amounts to be distributed to the providers of health care services, the timing of such distributions, and the purposes for which such funds are used. The assets held at the affiliated foundations are comprised primarily of cash and cash equivalents, marketable equity securities and debt securities.

## 8. Long-Term Debt and Interest Rate Swaps

The Hospital is the sole member of the obligated group as defined in and established under the Master Trust Indenture. Neither the Parent nor any of its affiliates is liable to make any payment with respect to the bonds or any other obligations under the Master Indentures. Under the terms of the Master Trust Indenture, the Hospital is required to maintain certain deposits with a trustee, which are included with assets limited as to use in the consolidated balance sheets. The Master Trust Indenture also contain provisions whereby certain financial ratios are to be maintained and permit additional borrowings subject to the maintenance of specific financial ratios. The most restrictive covenant is for the Hospital to maintain a debt service coverage ratio in each year of at least 1.2 times the debt service requirement on all long-term debt in that year. The Hospital is compliant with its financial covenants at June 30, 2023 and December 31, 2022.

On May 31, 2022, the Hospital entered into a $100,000 taxable loan agreement with a commercial bank. The loan proceeds are to be used for general corporate purposes. Principal and interest, at a fixed rate of 3.21% on the outstanding balance, are due quarterly commencing September 1, 2022, with the remaining unpaid principal in the amount of approximately $50,833 due and payable on May 31, 2037. The agreement contains provisions whereby certain financial ratios are to be maintained which mirror those of the Hospital's outstanding tax-exempt bond covenants. Subsequently, the Hospital entered into a secured loan agreement with CentraState to enable CentraState to pay off or legally defease all if its financed obligations as of that date.

On January 27, 2021, the Hospital issued $450,000 Series 2021 Fixed Rate Taxable Bonds, the proceeds of which will be used for eligible corporate purposes of the Hospital and its affiliates. In addition, a portion of the proceeds were used to pay the costs of issuance. The Hospital also utilized the proceeds of the bonds to repay $50,000 that was outstanding on its $200,000 revolving line of credit. The agreement contains provisions whereby certain financial ratios are to be maintained which mirror those of the Hospital's outstanding tax-exempt bond covenants.

On April 21, 2020, the Hospital entered into a $200,000 revolving credit agreement with a commercial bank to provide for additional liquidity due the uncertainties created by the COVID-19 pandemic. The line incurs interest at a rate of SOFR adjusted by 0.65% per annum on the amount drawn. Additionally, the line incurs a monthly fee of 0.10% on the unused portion of the line of credit. There were no amounts drawn on the line as of either March 31, 2023 or December 31,

2022. The line is set to mature in April 2024. The line of credit contains provisions whereby certain financial ratios are to be maintained which mirror those of the Hospital's outstanding tax-exempt bond covenant.

In October 2016, the Hospital issued $224,800 Series 2016 Fixed Rate Tax-exempt Revenue Bonds through the NJHCFFA. The proceeds were used to refund a portion of the principal of its outstanding Revenue Bonds issued through the NJHCFFA in the amount of $114,255 (Series 2008A) and $120,115 (Series 2011), and to pay all of the cost of issuance in the amount of $1,782. In addition, the NJHCFFA released $14,260 of the Hospital's debt service reserve fund in connection with the bond refunding to pay down a portion of the aforementioned outstanding principal on the Series' 2008A and 2011 bonds.

In May 2015, the Hospital issued $200,000 Series 2015 Fixed Rate Taxable Bonds, the proceeds of which are to be used for eligible corporate purposes of the Hospital and its affiliates. In addition, a portion of the proceeds were used to pay the costs of issuance. Effective August 2017, the Hospital executed a "tap" on the Series 2015 Fixed Rate Taxable Issuance for an additional $225,000. The Hospital received total proceeds of $268,023, which included a premium of $43,023. The agreement contains provisions whereby certain financial ratios are to be maintained which mirror those of the Hospital's outstanding tax-exempt bond covenants.

In December 2013, the Hospital entered into a $50,000 taxable loan agreement with a commercial bank. The majority of the proceeds were used to legally defease Chilton Division's NJHCFFA Series 2009 Revenue Bonds, which were assumed by the Hospital in2014, concurrent with the merger. The agreement contains provisions whereby certain financial ratios are to be maintained which mirror those of the Hospital's outstanding tax-exempt bond covenants.

In May 2008, the Hospital issued, through the NJHCFFA, $177,110 Series 2008A Revenue Bonds (Fixed Rate) and $177,110 Series 2008B and 2008C Revenue Bonds (Variable Rate), collectively referred to as the 2008 Bonds, to pay in full the Hospital's obligations under the interim method of financing enabling the Hospital to redeem all of its outstanding bond issues and terminate a portion of its related swaps for the Series 2003, 2004, 2006 and 2007 Revenue Bonds. The proceeds of the 2008 Bonds were also used to pay the costs of issuance of the 2008 Bonds. The Series 2006 and Series 2007 Revenue Bonds were issued in part to pay for the costs of certain capital projects of the Hospital and construction trustee funds were set up for disbursement for the payment of such costs. Amounts equal to the amounts on deposit in such construction funds were deposited with the trustee for the 2008 proceeds to complete those projects. In connection with the issuance of the Series 2016 Refunding Bonds noted above, $114,255 of the outstanding principal was refunded in October 2016.

The 2008 Variable Rate Bonds bear interest at weekly rates as determined by the remarketing agent. In the event that the purchase price of the corresponding Series of the Variable Bonds are not remarketed at the corresponding principal amount of such Series, the Variable Bonds are backed by a separate, irrevocable direct pay letters of credit by two banks, each expiring January 2026.

On April 9, 2008, the Hospital unwound and reissued two new barrier swaps: the 2008 Swap and the 2004 Swap.

(Dollar amounts in thousands) (Unaudited)

The 2008 Swap was resissued in place of the 2006A Swap when the Series 2006A Revenue Bonds were redeemed. This was a noncash transaction. The original notional amount of the swap was $91,550 subject to reduction in the principal amortization of a portion of the Hospital’s Series 2008 variable rate debt and will expire on July 1, 2036, with an annual fee of 0.51%. The notional amount of the swap at June 30, 2023 and December 31, 2022, was $87,400. Under the terms of the swap agreement, if the Securities Industry and Financial Markets Association (“SIFMA”), formerly known as the Bond Market Association, Municipal Swap Index, exceeds 4.05% for 90 days, the Hospital will pay a fixed rate of 4.00% in addition to the annual fee of 0.51%. The Hospital will then receive 68% of LIBOR and pay the counterparty 4.00%. Currently the swap is treated as an ineffective swap for accounting purposes until SIFMA exceeds 4.05% for 90 days, at that time the swap will be tested to determine if it qualifies as a cash flow hedge.

The 2004 Swap was reissued in place of the 2004 Swap when the Series 2003 and 2004 Revenue Bonds were redeemed. This was a noncash transaction and there were no changes to the terms of the swap. The notional amount of the swap was $97,525, subject to reduction in the principal amortization of a portion of the Hospital’s Series 2008 variable rate debt and will expire on July 1, 2025, with an annual fee of 0.52%. The notional amount of the swap at June 30, 2023 and December 31, 2022 was $14,550. Under the terms of the swap agreement, if SIFMA exceeds 4.05% for 90 days, the Hospital will pay a fixed rate of 4.00% in addition to the annual fee of 0.52%. The Hospital will then receive 68% of LIBOR and pay the counterparty 4.00%. Currently the swap is treated as an ineffective swap for accounting purposes until SIFMA exceeds 4.05% for 90 days, at that time the swap will be tested to determine if it qualifies as a cash flow hedge.

The following table presents the swap liabilities, recorded in accrued employee benefits and other, net of current portion, as of June 30, 2023 and December 31, 2022:

| | June 30, 2023 | December 31, 2022 |
|---|---|---|
| 2008 interest rate swap | $ 8,133 | $ 7,240 |
| 2004 interest rate swap | 75 | 125 |

(Dollar amounts in thousands) (Unaudited)

The following table sets forth the effect of the interest rate swap agreements on the consolidated statements of operations for the six month periods ended June 30, 2023 and 2022:

| | Amount of (loss) gain recognized in the performance indicator | |
|---|---|---|
| | June 30, 2023 | June 30, 2022 |
| **Derivative in Non-Hedging Relationship** | | |
| Non operating (loss) gains, net | | |
| 2008 interest rate swap | $ (893) | $ (1,647) |
| 2004 interest rate swap | $ 50 | $ 40 |

In accordance with the above swap agreements, the Hospital is required to fund a cash collateral account if the market value of the combined swaps exceeds the trigger amount of $12,000. As of June 30, 2023 and December 31, 2022, the combined market value of the swaps was below the trigger and as such, no collateral was required by the counterparty.

## 9. Commitments and Contingencies

The Hospital is subject to complaints, subpoenas, claims and litigation which have risen in the normal course of business. In addition, the Hospital is subject to reviews and investigation by various federal and state government agencies to assure compliance with applicable laws, some of which are subject to different interpretations. While the outcome of such matters cannot be determined based upon information available at this time, management, based on advice from legal counsel, believes that any loss which may arise from these actions will not have a material adverse effect on the financial position or results of operations of the Hospital.

## 10. Subsequent Events

The Hospital performed an evaluation of subsequent events through August 14, 2023, the date that these unaudited consolidated financial statements were issued. No subsequent events have occurred that require disclosure in or adjustment to the consolidated financial statements.