AHS Hospital Corp.

Consolidated Financial Statements
December 31, 2019 and 2018

AHS Hospital Corp.
Index
December 31, 2019 and 2018

Report of Independent Auditors

To the Board of Trustees of
AHS Hospital Corp.

We have audited the accompanying consolidated financial statements of AHS Hospital Corp. and its subsidiaries, which comprise the consolidated balance sheets as of December 31, 2019 and 2018, and the related consolidated statements of operations, of changes in net assets and of cash flows for the years then ended.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of AHS Hospital Corp. and its subsidiaries as of December 31, 2019 and 2018, and the results of their operations, changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Notes 2, 6 and 9 to the consolidated financial statements, the Company changed the manner in which it accounts for leases and unrealized gains on equity securities in 2019. Our opinion is not modified with respect to these matters.

PricewaterhouseCoopers LLP

Florham Park, New Jersey
April 13, 2020

AHS Hospital Corp.
Consolidated Balance Sheets
December 31, 2019 and 2018

(in thousands)	2019	2018
Assets		
Current assets		
Cash and cash equivalents	$ 400,402	$ 287,737
Assets limited as to use	48,681	49,777
Patient accounts receivable, net	314,669	314,014
Other current assets	132,952	128,985
Total current assets	896,704	780,513
Assets limited as to use, net of current portion	1,532,281	1,258,928
Long-term investments and other assets	207,202	182,432
Property, plant and equipment, net	1,257,476	1,217,065
Right of use assets, net	247,649	-
Total assets	$ 4,141,312	$ 3,438,938
Liabilities and Net Assets		
Current liabilities		
Current portion of long-term debt	$ 12,976	$ 13,526
Current portion of lease liability	30,738	-
Accounts payable and accrued expenses	333,341	290,683
Estimated amounts due to third party payers	53,970	59,022
Total current liabilities	431,025	363,231
Accrued employee benefits and other, net of current portion	298,632	326,590
Long-term debt, net of unamortized bond premium (discount), debt issuance costs, and current portion	904,133	917,110
Long-term lease liability, net of current portion	216,629	-
Total liabilities	1,850,419	1,606,931
Net assets		
Without donor restrictions controlled by the Hospital	2,119,953	1,682,385
Without donor restrictions attributable to noncontrolling interests	3,823	-
Without donor restrictions	2,123,776	1,682,385
With donor restrictions	167,117	149,622
Total net assets	2,290,893	1,832,007
Total liabilities and net assets	$ 4,141,312	$ 3,438,938

The accompanying notes are an integral part of these consolidated financial statements.

AHS Hospital Corp.
Consolidated Statements of Operations
Years Ended December 31, 2019 and 2018

(in thousands)	2019	2018
Revenues, gains and other support		
Net patient service revenue	$ 2,626,184	$ 2,436,212
Physician practice and other revenue	346,346	317,897
Net assets released from restrictions	21,371	22,072
Total revenues, gains and other support	2,993,901	2,776,181
Expenses		
Salaries	1,215,112	1,154,857
Supplies and other expenses	1,205,309	1,120,062
Employee benefits	241,758	223,051
Depreciation and amortization	156,449	142,609
Interest	34,874	35,465
Total operating expenses	2,853,502	2,676,044
Operating income	140,399	100,137
Change in net unrealized gains	137,774	-
Nonoperating gains, net	113,104	49,993
Excess of revenues over expenses	391,277	150,130
Other changes in net assets without donor restrictions		
Noncontrolling interest	3,823	-
Change in net unrealized loss on other than trading securities	-	(110,459)
Change in funded status of benefit plans	27,413	(21,616)
Net assets released from capital restrictions	18,878	13,482
Government grants used for capital purchases	-	44
Increase in net assets without donor restrictions	$ 441,391	$ 31,581

The accompanying notes are an integral part of these consolidated financial statements.

AHS Hospital Corp.
Consolidated Statements of Changes in Net Assets
Years Ended December 31, 2019 and 2018

(in thousands)	2019	2018
Net assets without donor restrictions		
Excess of revenues over expenses	$ 391,277	$ 150,130
Noncontrolling interest	3,823	-
Change in net unrealized loss on other than trading securities	-	(110,459)
Change in funded status of benefit plans	27,413	(21,616)
Net assets released from capital restrictions	18,878	13,482
Government grants used for capital purchases	-	44
Increase in net assets without donor restrictions	441,391	31,581
Net assets with donor restrictions		
Contributions	51,594	37,351
Investment income	1,946	2,668
Change in net unrealized gain (loss)	4,204	(5,163)
Net assets released from restrictions for operations	(21,371)	(22,072)
Net assets released from capital restrictions	(18,878)	(13,482)
Increase (decrease) in net assets with donor restrictions	17,495	(698)
Increase in net assets	458,886	30,883
Net assets		
Beginning of year	1,832,007	1,801,124
End of year	$ 2,290,893	$ 1,832,007

The accompanying notes are an integral part of these consolidated financial statements.

AHS Hospital Corp.
Consolidated Statements of Cash Flows
Years Ended December 31, 2019 and 2018

(in thousands)	2019	2018
Cash flows from operating activities		
Change in net assets	$ 458,886	$ 30,883
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Change in funded status of benefit plans	(27,413)	21,616
Depreciation and amortization	156,449	142,609
Loss on disposal of property, plant and equipment	3,061	113
Noncontrolling interest	3,823	-
Net realized and unrealized (gain) loss on investments	(200,372)	112,719
Change in value of swap agreements	(1,810)	(305)
Amortization of deferred financing costs and bond premium/discounts	(2,442)	(2,442)
Amortization of right of use assets	40,071	-
Contributions restricted for capital	(18,533)	(14,592)
Contributions restricted for permanent investments	(171)	(1,293)
Changes in assets and liabilities		
Increase in net patient accounts receivable	(655)	(33,995)
Increase in other assets	(16,996)	(10,884)
Increase in accounts payable, accrued expenses, estimated amounts due to third party payers, and other liabilities	(3,253)	1,448
Net cash provided by operating activities	390,645	245,877
Cash flows from investing activities		
Purchases of investments	(192,503)	(67,125)
Proceeds from sales of investments	106,768	17,096
Additions to property, plant and equipment	(198,150)	(218,436)
Net cash used in investing activities	(283,885)	(268,465)
Cash flows from financing activities		
Principal payments on long-term debt	(11,085)	(11,345)
Contributions restricted for capital	16,552	13,309
Contributions restricted for permanent investments	438	1,460
Net cash provided by financing activities	5,905	3,424
Increase (decrease) in cash, cash equivalents, and restricted cash	112,665	(19,164)
Cash, cash equivalents, and restricted cash		
Beginning of year	287,737	306,901
End of the year	$ 400,402	$ 287,737
Supplemental disclosure of cash flow information		
Cash paid for interest	$ 35,151	$ 35,729
Change in accruals for acquisition of property, plant, and equipment	(1,771)	960
Right of use assets obtained in exchange for operating lease obligations	287,749	-

The accompanying notes are an integral part of these consolidated financial statements.

(in thousands)

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"), which operate as divisions within Hospital Corp. and not as separate corporations. Prior to 2018, HMC was a separate corporation and wholly controlled subsidiary of the Hospital, but on July 1, 2018, HMC was merged into AHS Hospital Corp. 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 Faculty Practice Plan 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 more than 1,100 providers. AMG supports the System 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 AHS Hospital Corp., including all subsidiaries, upon approval of the Executive Committee of the Board of MMCF.

The Hospital is a wholly controlled subsidiary of Atlantic Health System, Inc., 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; AHS ACO, LLC ("ACO"), Healthcare Quality Partners LLC, 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 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, 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.

On June 19, 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.

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 non-controlling interest within other changes in net assets without donor restrictions on the consolidated statements of operations and separates Kindred's equity as non-controlling interest within net assets without donor restrictions on the consolidated balance sheet.

Effective January 1, 2020, Hospital consummated a member substitution transaction with Visiting Nurse Association of Somerset Hills, Inc. and its affiliates ("VNASH") with the Hospital becoming the sole member of VNASH and its subsidiaries. The operations of VNASH were merged with the operations of the division of the Hospital known as Atlantic Home Care and Hospice. Concurrently, the division changed its name to Atlantic Visiting Nurse ("AVN"). The Hospital and VNASH agreed that the acquisition will improve their ability to provide comprehensive home health and hospice and palliative care services (together "Core Services"), as well as, adult day care services and various community health services ("Ancillary Services") in the counties served by the Hospital and VNASH. The change in control will be accounted for as an acquisition under the Merger and Acquisition guidance for Not-for-Profit Entities, whereby the assets and liabilities of each of the acquired entities will be reported at fair value at the effective date of the merger. No consideration was exchanged for the acquisition. Due to the nearness in term, management has not completed the initial accounting for the acquisition.

(in thousands)

2. Summary of Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America. The consolidated financial statements include the accounts of its controlled subsidiary MMCF. All significant intercompany balances and transactions are eliminated in consolidation.

Adopted Authoritative Pronouncements

In January 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Updates ("ASU") 2016-01 - Overall (Subtopic 825-10): *Recognition and Measurement of Financial Assets and Financial Liabilities*. This guidance primarily affects the accounting for equity investments, financial liabilities under the fair value option, and the presentation and disclosure requirements for financial instruments. The standard was effective for fiscal years beginning after December 15, 2018. Unrealized gains and losses will now be reflected within the performance indicator, whereas prior to adoption the unrealized gains and losses associated with the available for sale securities were reported within "other adjustments in net assets without donor restrictions." The amendments in this update require equity investments (except those accounted for under the equity method) to be generally measured at fair value with changes in fair value recognized within the performance indicator. The Hospital adopted this guidance effective January 1, 2019. There was no impact upon total net assets or change in net assets as a result of the adoption.

In February 2016, the FASB issued ASU, 2016-02 *Leases*. Under the new standard lessees will be required to recognize the following for all leases (with the exception of leases with a term of twelve months or less) at the application date: (a) a lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis; and (b) a right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. Leases are classified as either operating or financing, and the lease classification determines the pattern of expense recognition in the Statement of Operations. Operating leases result in straight-line expense, over the term of the lease, in the Statement of Operations.

The Hospital adopted this ASU on January 1, 2019 using a modified retrospective approach, and elected the transition method that allows for application of the standard at the adoption date rather than at the beginning of the earliest comparative period presented in the consolidated financial statements. The Hospital has operating leases primarily for real estate, including medical office buildings, corporate and other administrative offices, as well as medical and office equipment. As permitted under the transition guidance in ASC 842, the Hospital has applied the transitional package of practical expedients allowed by the standard relating to the carry forward of historical lease identification, classification and initial direct costs of leases. The Hospital has made an accounting policy election to not apply recognition requirements of the guidance to short-term leases. For real estate leases, the Hospital elected to separate lease and non-lease components, this was not elected for equipment leases. To determine the measurement of the lease liability for operating leases with variable payments based on consumer price indices that commenced prior to the adoption of ASU 2016-02, the Hospital elected to apply the active index or rate at the effective date.

Upon adoption the Hospital recognized $ 249,838 in operating lease right of use assets with corresponding operating lease obligations in the December 31, 2019 consolidated balance sheet. There was no impact to the opening net assets (as of January 1, 2019). The adoption of ASU

(in thousands)

2016-02 did not have a material impact on the Hospital's result of operations or cash flows, other than disclosure of supplemental non cash information.

In November 2016, the FASB issued ASU 2016-18, *Restricted Cash*, which addresses the presentation, disclosure, and cash flow classification of restricted cash and requires that the statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Entities would also be required to reconcile these amounts on the balance sheets to the statements of cash flows and disclose the nature of the restrictions. The new standard was effective as of January 1, 2019 and was adopted using a retrospective application. There was no impact upon adoption to the Hospital's consolidated statement of cash flows.

In June 2018, the FASB issued ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The amendments in this update provide a framework for evaluating whether grants should be accounted for as exchange transactions or as nonexchange transactions. This ASU was effective for annual periods beginning after June 15, 2018, and was adopted by the Hospital in 2019 on a modified prospective basis. The Hospital has determined this new guidance is not material to the consolidated financial statements.

Use of Estimates
The preparation of consolidated 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 and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The most significant estimates relate to contractual discounts, third party payer settlements, self-insurance liabilities, investment valuation and accrued employee benefits. Actual results may differ from those estimates.

Cash and Cash Equivalents
Cash and cash equivalents include highly liquid short-term investments with original maturities of three months or less from the date of acquisition except the Hospital elected to treat highly liquid short-term investments held within its assets limited as to use and long-term investments and other assets financial statement line items as investments.

At December 31, 2019 and 2018, the Hospital had cash balances in a financial institution that exceeded federal depository insurance limits. Management believes that the credit risk related to these deposits is minimal.

Assets Limited as to Use and Investments
Assets limited as to use principally consist of short-term investments including money market funds held by a trustee under the bond indenture agreement and funds set aside by the Board of Trustees over which the Board of Trustees retains control and may, at its discretion, subsequently use for other purposes. Amounts required to meet current debt service payments of the Hospital have been classified as current in the consolidated balance sheets at December 31, 2019 and 2018.

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the consolidated balance sheets. Fair value is generally determined by sales prices or bid-and-asked quotations that are available on a securities exchange

registered with the Securities and Exchange Commission or in the over-the-counter market. For investments in mutual funds, the fair value per share, or unit, is the value that is determined and published and the basis for current transactions. For investments in alternative investments, upon the adoption of ASU 2016-01 fair value is measured at net asset value. Investment income or loss, including realized gains and losses on investments, interest and dividends, is included in other revenue or nonoperating gains unless the income or loss is restricted by donor or law. Unrealized gains and losses on equity securities which include investment in mutual funds are included within the performance indicator in the consolidated statement of operation upon the adoption of ASU 2016-01 on January 1, 2019. Prior to adoption, unrealized gains on investments considered other than trading were reflected outside of the performance indicator within "other adjustments in net assets without donor restrictions."

Beneficial Interest in Perpetual Trusts
The Hospital has been designated the beneficiary under certain perpetual trusts. The Hospital recognizes contribution revenue at the time an irrevocable trust is created at the fair value of the trust's assets. The contribution revenue is classified as net assets with donor restrictions. The Hospital revalues its interest in the perpetual trusts annually and reports any gain or loss as a change to net assets with donor restrictions. The underlying investments held in trust are held primarily in equity securities with readily determinable fair value. Income earned on the trust assets is included in nonoperating gains.

Other Current Assets
Included within other current assets in the consolidated balance sheets are receivables derived from physician practice revenue, amounts due from related parties, prepaid expenses and inventory.

Inventories
Inventories, primarily supplies, are included in other current assets and are stated at the lower of cost or market using the first-in, first-out method.

Property, Plant and Equipment
Property, plant and equipment are stated at cost. The Hospital provides for depreciation of land improvements, buildings and improvements, and equipment on a straight-line basis over the asset's estimated useful life. When assets are retired or otherwise disposed of, the cost and the related depreciation are reversed from the accounts, and any gain or loss is reflected in current operations. Repairs and maintenance expenditures are expensed as incurred.

Long-lived assets, such as property and equipment, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future net cash flows expected to be generated by the asset. If the carrying amount of the asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset. For the years ended December 31, 2019 and 2018, there were no events that would indicate an impairment of long-lived assets.

Gifts of long-lived assets such as property, plant and equipment are recorded at the fair value at the date of the gift and reported as an increase to net assets without donor restrictions unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets

(in thousands)

with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

Net Assets
In August 2016, the FASB issued ASU 2016-14, *Presentation of Financial Statements for Not-for-Profit Entities*. The Hospital adopted this standard in 2018 retrospectively. Under the new guidance, the existing three categories of net assets were replaced with a model that combined temporarily restricted and permanently restricted net assets into a single category called "net assets with donor restrictions." The guidance also enhances disclosures about liquidity and expense by both natural and functional classification (See Notes 14 and 16).

Net assets without donor restrictions are derived from gifts that are not subject to explicit donor-imposed restrictions. Resources arising from the results of operations or assets set aside by the Board of Trustees are classified as without donor restrictions for external reporting purposes.

Net assets with donor restrictions are those funds whose use by the Hospital has been limited by donors to a specific time period and/or purpose. Once the restrictions are satisfied, or have been deemed to have been satisfied, those assets with donor restrictions are released from restrictions. Certain donor restrictions are perpetual in nature and the income from those funds is expendable to support various healthcare services or projects.Net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions. Management of the Hospital has interpreted the State of New Jersey's enacted version of the Uniform Prudent Management of Institutional Funds Act ("UPMIFA") as requiring the preservation of the historic dollar value of donor-restricted endowment funds (absent explicit donor stipulations to the contrary). Historic dollar value is defined as the aggregate fair value in dollars of (i) an endowment fund at the time it became an endowment, (ii) each subsequent donation to the fund at the time it is made, and (iii) each accumulation made pursuant to a direction in the applicable gift instrument at the time the accumulation is added to the fund. Based on this interpretation, the Hospital classifies net assets with donor restrictions (a) the original value gifts donated to the restricted net assets (b) the original value of subsequent gifts to the permanent endowment (c) the net realizable value of future payments to restricted net assets in accordance with the donor's gift instrument (outstanding endowment pledges net of applicable discount) and (d) appreciation (depreciation), gains (losses) and income earned on the fund when the donor states that such increases or decreases are to be treated as changes in net assets with donor restrictions. The remaining portions of the donor-restricted endowment fund that is not classified in net assets with donor restrictions in perpetuity is classified as net assets with donor restrictions until those amounts are appropriated for expenditure by the Hospital in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Hospital considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

(1) The duration and preservation of the fund;

(2) The purpose of the organization and the donor-restricted endowment fund;

(3) General economic conditions;

(in thousands)

(4) The possible effect of inflation and deflation;

(5) The expected total return from income and the appreciation of investments;

(6) Other resources of the Hospital; and

(7) The investment policies of the Hospital.

The Hospital has a policy of appropriating for distribution each year up to 4% of its endowment fund's average fair value over the prior 12 quarters through the calendar year end preceding the fiscal year in which the distribution is planned. In establishing this policy, the Hospital considered the long-term expected return on its endowment. This is consistent with the Hospital's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return. This method also compensates for any volatile year-to-year fluctuation in investment returns.

Management further understands that expenditures from a donor-restricted fund is limited to the uses and purposes for which the endowment fund is established and the use of net appreciation, realized gains (with respect to all assets) and unrealized gains (with respect only to readily marketable assets) is limited to the extent that the fair value of a donor-restricted fund exceeds the historic dollar value of the fund (unless the applicable gift instrument indicates that net appreciation shall not be expended), to the extent that such expenditure is prudent, considering the long and short term needs of the Hospital in carrying out its purposes, its present and anticipated financial requirements, expected total return on its investments and general economic conditions. Under the policies established and approved by the Hospital's Investment Committee, donor-restricted endowment funds are invested in income-generating investment vehicles to generate appreciation and preserve capital.

Unconditional promises to give cash and other assets are reported at fair value at the date the promise is received. The gifts are reported as net assets with donor restrictions if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified as net assets without donor restrictions and reported in the consolidated statements of operations as net assets released from restrictions. The Hospital's policy is to exclude from excess of revenues over expenses, net assets released from capital restrictions. Net assets released from restrictions for noncapital purposes are included within operating income. Donor-restricted contributions whose restrictions are met within the same year as received are reflected as net assets without donor restrictions.

Net Patient Service Revenue and Patient Accounts Receivable
Net patient service revenue is reported at the amount that reflects the consideration to which the Hospital expects to be entitled in exchange for providing patient care. These amounts are net of appropriate discounts to give recognition to differences between the Hospital's charges and reimbursement rates from third party payers. The Hospital is reimbursed from third party payers under various methodologies based on the level of care provided. Certain net revenues received are subject to audit and retroactive adjustment for which amounts are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. The net amounts recorded related to prior years and changes in estimates, decreased the performance indicator by approximately ($217) for the year ended

(in thousands)

December 31, 2019 and increased the performance indicator by approximately $6,513 for the year ended December 31, 2018.

Revenue is recognized as performance obligations are satisfied. The Hospital determines performance obligations based on the nature of the services provided. The Hospital recognizes revenues for performance obligations satisfied over time based on actual charges incurred in relation to total expected charges. Generally, performance obligations satisfied over time relate to patients in the Hospital receiving inpatient acute care services. The Hospital measures performance obligations from admission to the point when there are no further services required for the patient, which is generally the time of discharge. The Hospital recognizes revenues for performance obligations satisfied at a point in time, which generally relate to patients receiving outpatient services, when: (1) services are provided; and (2) when there is no expectation that the patient requires additional services.

Because the Hospital's patient service performance obligations related to contracts with a duration of less than one year, the Hospital has elected to apply the optional exemption provided in FASB ASC 606, *Revenue from Contracts with Customers* 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 unsatisfied or partially unsatisfied performance obligations referred to above are primarily related to inpatient acute care services 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.

The Hospital determines the transaction price based on gross charges for services provided, reduced by the contractual adjustments provided to third party payers, discounts provided to uninsured patients in accordance with the Hospital's policy, and implicit price concessions provided to uninsured patients. The Hospital determines its estimates of contractual adjustments and discounts based on contractual agreements, its discount policies, and historical experience. The Hospital determines its estimate of implicit price concessions based on its historical collection experience with these classes of patients using a portfolio approach as a practical expedient to account for patient contracts as collective groups rather than individually. The consolidated financial statement effects of using this practical expedient are not materially different from an individual contract approach.

In general, patients who are covered by third party payers are responsible for related co-pays, co-insurance and deductibles, which vary in amount. The Hospital also provides services to uninsured patients and offers uninsured patients a discount from standard charges. Then the Hospital 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 Hospital'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.

(in thousands)

A summary of the payment arrangements with major third-party payers is as follows:

Medicare
Inpatient acute care, behavioral care and rehabilitation services and most outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. Inpatient subacute services ("SNF"), for which the Hospital stopped accepting new patients for during May 2018, are paid to Medicare beneficiaries at prospectively determined rates per-diem and medical education costs related to Medicare beneficiaries are paid based on a cost reimbursement methodology. The Hospital is reimbursed for certain reimbursable items at a tentative rate with final settlement determined after submission of the annual cost report by the Hospital and audits thereof by the Medicare administrative contractor. The Hospital's classification of patients under the Medicare program and the appropriateness of their admission are subject to an independent review by a peer review organization under contract with the Hospital. The Hospital's Medicare cost reports have been audited and finalized by the Medicare administrative contractor through December 31, 2016 for the Chilton Division and Newton, 2015 for the Morristown, Overlook and Hackettstown Divisions; however, the 2012 Medicare cost report for Morristown remains open.

Medicaid
Inpatient acute care services rendered to Medicaid program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. Outpatient services are paid based upon a cost reimbursement methodology and certain services are paid based on a Medicaid fee schedule. The Hospital is paid for reimbursable costs at a tentative rate with final settlement determined after submission of the annual cost report by the Hospital and audit thereof by the Medicaid fiscal intermediary. The Hospital's Medicaid cost reports have been audited and finalized by the Medicaid fiscal intermediary through December 31, 2017 for Morristown and Chilton Divisions and December 31, 2016 for all other Divisions.

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

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. Noncompliance includes fines, penalties and exclusion from the Medicare and Medicaid programs. The Hospital has established a Corporate Compliance Program to monitor and ensure compliance with various regulations.

Physician Practice and Other Revenue
Included within 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* (Note 4), based on its historical collection experience with every class of

(in thousands)

patients/payers, including runrates for denials, as well as instances where self-pay patients in process of being screened for Medicaid (which has lower reimbursement rates). During the year ended December 31, 2019, the impact of changes to the inputs used to determine the transaction price for Physician practice and other revenue was considered immaterial to the current period. Physician practice revenues amounted to $338,431 and $310,544 for the years ended December 31, 2019 and 2018, respectively. Physician practice revenue by payer for the years ended December 31, 2019 and 2018, respectively, is as follows:

	2019	2018
Medicare	27.5 %	30.0 %
Medicaid	0.3	0.4
Managed Care and other third party payers	70.8	68.3
Self Pay	1.4	1.3
	100.0 %	100.0 %

Performance Indicator
The consolidated statements of operations include excess of revenues over expenses as the performance indicator. Changes in net assets without donor restrictions which are excluded from excess of revenues over expenses, consistent with industry practice, include noncontrolling interest, changes in net unrealized loss in 2018, net assets released from capital restrictions, government grants used for capital purchases, adjustments to net assets without donor restrictions related to the Hospital's pension and post retirement liabilities.

The Hospital differentiates its operating activities through the use of income from operations as an intermediate measure of operations. For the purposes of display, investment income, which management does not consider to be a component of the Hospital's operating activities, unrealized gains on equity securities in 2019, and changes in the value of swap agreements are excluded from the income from operations and reported as nonoperating gains (losses) and change in net unrealized gains in the consolidated statements of operations.

Fair Value
The Hospital follows guidance related to fair value accounting that establishes a framework for measuring fair value under generally accepted accounting principles and enhances disclosures about fair value measurements. Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Fair value requires an organization to determine the unit of account, the mechanism of hypothetical transfer, and the appropriate markets for the asset or liability being measured.

The guidance establishes a hierarchy of valuation inputs based on the extent to which the inputs are observable in the marketplace. Observable inputs reflect market data obtained from sources independent of the reporting entity and unobservable inputs reflect the entities own assumptions about how market participants would value an asset or liability based on the best information available. Valuation techniques used to measure fair value must maximize the use of observable inputs and minimize the use of unobservable inputs. The standard describes a fair value hierarchy based on three levels of inputs, of which the first two are considered observable and the last unobservable, that may be used to measure fair value.

(in thousands)

The following describes the hierarchy of inputs used to measure fair value and the primary valuation methodologies used by the Hospital for financial instruments measured at fair value on a recurring basis. The three levels of inputs are as follows:

Level 1 — Quoted market prices in active markets for identical assets or liabilities. Level 1 assets consist of common stock as they are traded in an active market with sufficient volume and frequency of transactions.

Level 2 — Quoted prices in active markets for similar assets or liabilities, unadjusted quoted prices for identical or similar assets or liabilities in markets that are not active, or inputs other than quoted prices that are observable for the asset or liability. Level 2 assets consist of money market funds and mutual funds that are nonexchange traded and valued based on Net Asset Values (NAVs) calculated by the funds' independent administrators which are calculated at least daily. These valuations are readily observable in the market place or are supported by observable levels at which transactions are executed in the marketplace. As Level 2 investments include positions that are not traded in active markets and/or are subject to transfer restrictions, valuations may be adjusted to reflect illiquidity and /or nontransferability, which are generally based on available market information. Redemptions from each of the funds can be made at least daily on the latest reported NAV.

Level 3 — Unobservable inputs for the asset or liability that are supported by little or no market activity and that are significant to the fair value. Level 3 assets consist of beneficial interests in perpetual trusts held by third parties, primarily invested in equities and fixed income securities.

NAV — For investments in alternative investments, fair value is measured based on unobservable inputs that cannot be corroborated by observable market data where the Hospital does not exert significant influence to cover the waterfall concern. The Hospital accounts for these investments within its long-term investment portfolio using the net asset value (NAV) as a practical expedient, as such these investments are excluded from the fair value hierarchy.

Assets and liabilities measured at fair value are based on one or more of three valuation techniques. The three valuation techniques are as follows:

Market Approach (M) - Prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities;

Cost Approach (C) - Amount that would be required to replace the service capacity of an asset (i.e., replacement cost); and

Income Approach (I) - Techniques to convert future amounts to a single present amount based on market expectations (including present value techniques, option-pricing models, and lattice models).

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. Inputs are used in applying the various valuation techniques and broadly refer to the assumptions the market participants use to make

(in thousands)

valuation decisions. Inputs may include price information, credit data, liquidity statistics and other factors. The Hospital utilized the best available information in measuring fair value (Note 6 and 10).

Reclassifications
Certain previously reported amounts in the fiscal 2018 consolidated financial statements have been reclassified in order to conform to fiscal year 2019 presentation.

3. Charity Care

The Hospital provides care to patients who meet certain criteria defined by the New Jersey Department of Health and Senior Services ("DOHSS") without charge or at amounts less than its established rates. The Hospital maintains records to identify and monitor the level of charity care it provides. These records include the amount of charges foregone for services and supplies furnished. The Hospital receives partial reimbursement for the uncompensated care it provides (Note 4). The estimated amount of charity care provided at cost under DOHSS guidelines during the years ended December 31, 2019 and 2018 amounted to approximately $112,759 and $103,071, respectively.

The estimated charity care cost is based on the calculation of a ratio of cost to gross charges, and then multiplying that ratio by the charity care discounts.

4. Patient Service Revenue and Related Adjustments

Effective January 1, 2018, the Hospital adopted FASB ASU 2014-09, *Revenue from Contracts with Customers* (Topic 606), using a modified retrospective method of adoption. The adoption of ASU 2014-09 resulted in changes to the Hospital's presentation and disclosure of revenue primarily related to uninsured or underinsured patients. Under ASU 2014-09, the estimated uncollectible amounts due from these patients are generally considered implicit price concessions that are a direct reduction to patient service revenues. For the years ended December 31, 2019 and December 31, 2018, the Hospital recorded $111,371 and $91,563, respectively, of implicit price concessions as a direct reduction of patient service revenues that would have been recorded as provision for bad debts prior to the adoption of ASU 2014-09.

(in thousands)

The components of net patient service revenue for the years ended December 31, 2019 and 2018 are as follows:

	2019	2018
Gross charges		
Inpatient	$ 6,589,765	$ 6,331,461
Outpatient	5,930,768	5,355,329
Total gross charges	12,520,533	11,686,790
Net additions (deductions) from gross charges		
Contractual discounts and implicit price concessions	(9,764,309)	(9,131,958)
Charity care discount	(139,950)	(128,039)
Charity care subsidy	9,550	9,059
Special mental health subsidy	360	360
	(9,894,349)	(9,250,578)
Net patient service revenue	$ 2,626,184	$ 2,436,212

The mix of patient service revenue, net of contractual discounts and implicit price concessions from patients and third party payers for the years ended December 31, 2019 and 2018 is as follows:

	2019	2018
Medicare	25.4 %	29.6 %
Medicaid	1.4	1.2
Managed Care and other third party payers	72.0	68.6
Self Pay	0.8	0.2
Charity	0.4	0.4
	100.0 %	100.0 %

(in thousands)

5. Concentration of Credit Risk

The Hospital extends credit without collateral to its patients, most of whom are local residents and are insured under third-party payer agreements. Accounts receivable net of contractual discounts and implicit price concessions from patients and third-party payers, as of December 31, 2019 and 2018, were as follows:

	2019	2018
Medicare and Medicaid	15.8 %	27.1 %
Commercial and other third party payers	45.7	35.4
Self pay	19.8	24.4
Blue Cross	18.7	13.1
	100.0 %	100.0 %

6. Assets Limited as to Use, Long-Term Investments and Other Assets

Assets limited as to use at December 31, 2019 and 2018 consist of the following:

	2019	2018
Board designated for capital and program costs		
Short-term investments including money market funds	$ 156,203	$ 128,206
Mutual funds	1,413,879	1,169,027
Alternative investments - equity	281	357
	1,570,363	1,297,590
Under bond indenture agreements		
Short-term investments including money market funds		
Interest account	4,585	4,860
Principal account	5,349	5,590
Debt service reserve fund	665	665
	10,599	11,115
Total assets whose use is limited	1,580,962	1,308,705
Less: Assets limited as to use and are required for current liabilities	48,681	49,777
Noncurrent assets limited as to use	$ 1,532,281	$ 1,258,928

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.

(in thousands)

Long-term investments and other assets, at December 31, 2019 and 2018, are as follows:

	2019	2018
Long-term investments		
Money market funds	$ 2,301	$ 2,019
Mutual funds	71,273	61,451
Alternative investments - equity	3,132	4,430
	76,706	67,900
Other assets		
Professional and general liability insurance recoveries	52,328	49,738
Workers compensation liability insurance recoveries	6,709	8,945
Due from Overlook Foundation	28,599	12,399
Due from Newton Medical Center Foundation	1,143	1,647
Due from Chilton Medical Center Foundation	8,781	9,450
Due from the Foundation for Hackettstown Medical Center	1,771	1,652
Beneficial interest in trusts	5,497	4,897
Other	25,668	25,804
	130,496	114,532
Total long-term investments and other assets	$ 207,202	$ 182,432

Under current accounting guidance it is the Hospital's policy to accrue an estimate of the ultimate cost of claims under all insurance policies whether the policy is fully insured or a self-insurance policy. In addition, any insurance recoverable under such policies is recorded as a receivable. As of December 31, 2019 and 2018, the Hospital has recorded approximately $52,328 and $49,738, respectively, 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 $6,709 and $8,945 for workers compensation liability insurance recoveries at December 31, 2019 and 2018, respectively. The Hospital also recorded incurred but not reported claims related to workers compensation in the amount of $18,768 and $16,311 to accounts payable and accrued expenses as of December 31, 2019 and 2018, respectively, 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 Foundation's 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.

(in thousands)

Investment income relating to long-term investments and assets limited as to use, excluding those held under bond indenture agreements and restricted funds, for the years ended December 31, 2019 and 2018 consist of the following:

	2019	2018
Interest and dividend income	$ 57,973	$ 47,190
Realized gains on sales of securities	58,872	2,696
Investment income, included in nonoperating gains, net	116,845	49,886
Change in net unrealized gains	137,774	-
Change in net unrealized losses on other than trading securities	-	(110,459)
Investment results	$ 254,619	$ (60,573)

The fair value of the Hospital's financial assets that are measured on a recurring basis at December 31, 2019 are as follows:

	Assets (Level 1)	Inputs (Level 2)	Inputs (Level 3)	December 31, 2019	Valuation Technique[(1)]
Assets limited as to use					
Money market funds	$ -	$ 166,802	$ -	$ 166,802	M
Mutual funds	-	1,413,879	-	1,413,879	M
	$ -	$ 1,580,681	$ -	$ 1,580,681	
Investments measured at net asset value				$ 281	M
Long-term investments					
Money market funds	$ 106	$ 2,195	$ -	$ 2,301	M
Mutual funds	-	71,273	-	71,273	M
	$ 106	$ 73,468	$ -	$ 73,574	
Investments measured at net asset value				$ 3,132	M
Beneficial interests in perpetual and remainder trusts	$ -	$ -	$ 5,497	$ 5,497	M

(1) *The three valuation techniques are Market Value (M), Cost approach (C) and Income Approach (I), as discussed in Note 2.*

(in thousands)

Changes in Level 3 investments for the year ended December 31, 2019 was as follows:

	Level 3 Investments
Beginning of year	$ 4,897
Contributions	600
Liquidation	-
Change in unrealized gain	-
End of year	$ 5,497

The fair value of the Hospital's financial assets that are measured on a recurring basis at December 31, 2018 are as follows:

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Fair Value December 31, 2018	Valuation Technique[(1)]
Assets limited as to use					
Money market funds	$ -	$ 139,321	$ -	$ 139,321	M
Mutual funds	-	1,169,027	-	1,169,027	M
	$ -	$ 1,308,348	$ -	$ 1,308,348	
Long-term investments					
Money market funds	$ 106	$ 1,913	$ -	$ 2,019	M
Mutual funds	-	61,451	-	61,451	M
	$ 106	$ 63,364	$ -	$ 63,470	
Beneficial interests in perpetual and remainder trusts	$ -	$ -	$ 4,897	$ 4,897	M

[(1)] *The three valuation techniques are Market Value (M), Cost approach (C) and Income Approach (I), as discussed in Note 2.*

(in thousands)

Changes in Level 3 investments for the year ended December 31, 2018 was as follows:

	Level 3 Investments
Beginning of year	$ 5,693
Contributions	5
Liquidation	(246)
Change in unrealized gain	(555)
End of year	$ 4,897

There were no transfers between levels during the years ended December 31, 2019 and 2018.

7. Property, Plant and Equipment

Property, plant and equipment at December 31, 2019 and 2018 are as follows:

	2019	2018	Depreciable Life (in Years)
Land and land improvements	$ 74,772	$ 65,325	10–50
Buildings and improvements	1,581,585	1,438,744	10–50
Equipment and equipment deposits	1,328,664	1,325,929	3–25
Construction in progress	46,873	79,599	
	3,031,894	2,909,597	
Less: Accumulated depreciation	1,774,418	1,692,532	
Property, plant and equipment, net	$ 1,257,476	$ 1,217,065	

Depreciation and amortization expense for the years ended December 31, 2019 and 2018 was $156,449 and $142,609, respectively.

(in thousands)

8. Long-Term Debt

Long-term debt at December 31, 2019 and 2018 consists of the following:

	2019	2018
$224,800 New Jersey Health Care Facilities Financing Authority ("NJHCFFA"), AHS Hospital Corporation, Series 2016 Refunding Bonds (Fixed Rate), in varying maturities through 2041 at annual interest rates varying between 3.00% and 5.00%. Interest is payable each January 1 and July 1 and principal is payable each July 1 commencing in 2017. As of December 31, 2019, the average interest rate on the bonds was 4.41%. The bonds are collateralized by the Hospital's gross receipts.	$ 201,820	$ 211,055
$425,000 Series 2015 Taxable Bonds (Fixed Rate) maturing on July 1, 2045. Interest is payable each January 1 and July 1 at an annual interest rate of 5.02%. The bonds are collateralized by the Hospital's gross receipts.	425,000	425,000
$50,000 Bank of America Taxable Term Loan maturing on December 1, 2023. Interest is payable monthly at an annual interest rate of 3.85%. The loan is collateralized by the Hospital's gross receipts under the Master Trust Indenture.	50,000	50,000
$130,545 NJHCFFA AHS Hospital Corporation, Series 2011 Revenue Bonds (Fixed Rate), in varying maturities through 2021 at annual interest rates varying between 4.30% and 5.00%. Interest is payable each January 1 and July 1 and principal is payable each July 1 commencing in 2012. As of December 31, 2019, the average interest rate on the bonds was 4.67%. The bonds are collateralized by the Hospital's gross receipts.	800	2,220
$177,110 NJHCFFA AHS Hospital Corporation, Series 2008A Revenue Bonds (Fixed Rate), in varying maturities through 2027 at annual interest rates varying between 5.00% and 5.20%. Interest is payable each January 1 and July 1 and principal is payable each July 1 commencing in 2009. As of December 31, 2019, the average interest rate on the bonds was 5.04%. The bonds are collateralized by the Hospital's gross receipts.	4,035	4,465
$177,110 NJHCFFA AHS Hospital Corporation, Series 2008B and 2008C Revenue Bonds (Variable Rate), in varying maturities commencing in 2027 through 2036 at annual interest rate of 4.50%. The interest on the bonds is payable monthly and principal will be payable each July 1. As of December, 31, 2019, the average interest rate on the bonds was 1.38%. The bonds are collateralized by the Hospital's gross receipts.	177,110	177,110
Total long-term debt	858,765	869,850
Unamortized bond premium	62,243	64,849
Deferred financing fees	(3,899)	(4,063)
	917,109	930,636
Less: Current portion of long-term debt	12,976	13,526
Long-term debt, net of unamortized bond premium, debt issuance costs, and current portion	$ 904,133	$ 917,110

(in thousands)

Under the terms of the revenue bonds, the Hospital is required to maintain certain deposits with a trustee. Such deposits are included with assets limited as to use in the consolidated balance sheets. The bond agreements 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 December 31, 2019 and 2018.

Deferred financing costs representing costs of bond issuances, are being amortized over the life of the bonds.

In October 2016, the Hospital issued $224,800 Series 2016 Fixed Rate Tax-exempt Revenue Bonds through the NJHCFFA. The proceeds were used for the following purposes: (i) refunding a portion of the principal of the Authority's outstanding Series 2008A Revenue Bonds in the amount of $114,255; (ii) refunding a portion of the principal of the Authority's outstanding Series 2011 Revenue Bonds in the amount of and $120,115; 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 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. 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 combined principal on both the original issuance and the tap are due in their entirety on July 1, 2045 and interest is payable monthly at an annual interest rate of 5.02%. 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 $50,000 of loan proceeds were used on January 2, 2014 to legally defease Chilton Division's NJHCFFA Series 2009 Revenue Bonds, which were assumed by the Hospital on the effective date of the merger. The principal on the bank loan is due in its entirety on December 1, 2023 and interest is payable monthly at an annual interest rate of 3.85%. 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 2011, the Hospital issued $130,545 Series 2011 Fixed Rate Revenue Bonds, the proceeds of which will be used to pay for the costs or to reimburse the Hospital for certain capital expenditures related to (a) the renovation and equipping of the Hospital's existing hospital facilities and (b) the acquisition and installation of equipment to be located at the Hospital's facilities. In addition, the proceeds were used to pay the costs of issuance of the 2011 Bonds and to refund the NJHCFFA Newton Memorial Hospital Issue, Series 1997 Revenue and Refunding Bonds. In addition, upon acquisition of the Newton Division on April 1, 2011, the Hospital assumed the Newton Memorial Hospital 2001 Revenue Bond Issue. The Newton Division Master Trust Indenture was discharged and the 2001 Revenue Bonds included within the AHS Hospital Corp. Master Trust Indenture. In connection with the issuance of the Series 2016 Refunding Bonds noted above, $120,115 of the outstanding principal was refunded in October 2016.

(in thousands)

In May 2008, the Hospital issued $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 2023.

Upon acquisition of the Chilton Division, effective January 1, 2014, the Hospital assumed the capital asset loan entered in to with the NJHCFFA in November 2011 in the original amount of $6,000 for the purpose of installing certain information system technology. The debt was paid off as of November 30, 2018.

The future principal payments on long-term debt are as follows:

2020	$	10,535
2021		11,065
2022		11,615
2023		239,310
2024		12,800
Thereafter		573,440
	$	858,765

Interest Swaps

On April 9, 2008, the Hospital unwound and reissued a new barrier swap ("2008 Swap") 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 December 31, 2019 and 2018 was $91,550. 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.

(in thousands)

The following table presents the liability, recorded in accrued employee benefits and other, net of current portion, as of December 31, 2019 and 2018:

	2019	2018
2008 interest rate swap	$ 5,773	$ 7,454

The following table sets forth the effect of the 2008 interest rate swap agreement on the consolidated statements of operations for the years ended December 31, 2019 and 2018:

	Amount of Gain Recognized in the Performance Indicator	
	2019	2018
Derivative in nonhedging relationship		
Nonoperating gains, net	$ 1,681	$ 154

On April 9, 2008, the Hospital unwound and reissued a new barrier swap ("2004 Swap") 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 December 31, 2019 and 2018 was $26,625 and $30,175, respectively. 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 liability, recorded in accrued employee benefits and other, net of current portion, as of December 31, 2019 and 2018:

	2019	2018
2004 interest rate swap	$ 462	$ 591

The following table sets forth the effect of the 2004 interest rate swap agreement on the consolidated statements of operations for the years ended December 31, 2019 and 2018:

	Amount of Gain Recognized in the Performance Indicator	
	2019	2018
Derivative in nonhedging relationship		
Nonoperating gains, net	$ 129	$ 151

(in thousands)

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 December 31, 2019 and 2018, the combined market value of the swaps was below the trigger and as such, no collateral was required by the counterparty.

9. Leases

The Hospital leases certain office and distribution facilities ("real estate"), as well as medical and other equipment. The Hospital considers various factors such as market conditions and the terms of any renewal options that may exist to determine whether we may renew or replace a real estate lease. Real estate agreements, which expire at various dates through 2037, often include renewal options, either at fixed rents or subject to a fair value assessment at the time of exercise. Real estate renewal options are included in the measurement of right of use asset and lease liabilities when the exercise of such options is reasonably certain. Equipment renewal options are excluded from the lease term because they are not reasonably certain to be renewed due to rapid technology changes. There is generally no readily determinable discount rate implicit in the Hospital's leases. Accordingly, the Hospital uses its incremental borrowing rate throughout the terms of the lease, unless there is a modification, at which time, the rate may be updated with a more current incremental borrowing rate.

The Hospital includes the following as lease components when determining its real estate lease payments: fixed rent, predetermined rent escalations, rent-free periods, and certain incentives for leasehold improvements. The Hospital recognizes rent expense on a straight-line basis over the related terms of such leases, beginning from when the Hospital takes possession of the asset. Variable rents resulting from adjustments to consumer price indices are recorded in the periods such amounts are adjusted and determined. Variable expenses are considered non-lease components and are expensed as incurred.

Equipment lease agreements, including medical equipment, contain one fixed payment amount associated with the lease of the equipment, as well as maintenance, repairs, customer support, and training. Certain medical equipment leases also contain minimum purchases of consumables, which are considered in-substance fixed lease payments. The Hospital bundles its equipment lease payments. Expense is recognized on a straight-line basis over the related terms of such agreements.

Amounts recognized within supplies and other expenses in the consolidated statement of operations for the year ended December 31, 2019 are as follows:

Fixed operating lease expense	$ 38,232
Short-term lease expense	2,753
Sublease income	(3,183)
Net lease cost	$ 37,802

Prior to adoption of ASC 842, operating lease rent expense was $43,092 for the year ended December 31, 2018 and was included within Supplies and other expenses in the consolidated statement of operations.

(in thousands)

The weighted average remaining lease term was 12.4 years for real estate leases and 3.5 years for equipment leases. The weighted average discount rate was 4.08% for all of the Hospital's operating leases as of December 31, 2019. The following table provides supplemental cash flow information related to the Hospital's operating leases as of December 31, 2019:

Cash paid for amounts included in the measurement of lease liabilities		
Operating cash flows for operating leases	$	41,267
Right of use assets obtained in exchange for operating lease liabilities	$	287,749

The following table reconciles the undiscounted cash flows expected to be paid in each of the next five years and thereafter to the operating lease liability recorded on the consolidated balance sheet for operating leases existing as of December 31, 2019:

2020	$	39,814
2021		35,996
2022		29,507
2023		24,523
2024		22,826
Thereafter		154,554
Total minimum lease commitments		307,220
Less: imputed interest		(59,853)
Present value of lease liabilities		247,367
Less: current portion of lease liabilities		(30,738)
Long-term lease liabilities	$	216,629

Minimum lease commitments after 2024 include $39,942 associated with renewal options that are reasonably certain to be exercised.

As of December 31, 2018, prior to the adoption of ASC 842, the minimum aggregate lease commitments under noncancelable operating leases were as follows:

2019	$	40,357
2020		36,267
2021		34,076
2022		27,420
2023		22,837
Thereafter		84,694
Total minimum lease commitments	$	245,651

(in thousands)

10. Pension and Other Postretirement Benefit Plans

The Hospital maintains a defined benefit cash balance pension plan covering substantially all full-time employees, as well as various supplemental retirement plans, which provide pension benefits to certain key executives. The Hospital's funding policy provides that payments to the pension plan shall at least be equal to the minimum funding requirement of the Employee Retirement Income Security Act of 1974 ("ERISA") plus additional amounts, which may be approved by the Hospital from time to time. Effective January 1, 2014, the cash balance pension plan has been frozen to new employees hired after December 31, 2013.

During 2019 the Plan offered a Lump Sum Window for terminated vested participants resulting in lump sums of approximately $17,600 being paid out under this program in 2019. In 2019, these payouts, along with routine lump sum benefits paid from the Plan of $34,300, were not above the settlement threshold of $69,800 and therefore did not trigger settlement accounting.

During 2018 the Plan offered a Lump Sum Window for terminated vested participants resulting in lump sums of approximately $31,000 being paid out under this program in 2018. In 2018, these payouts, along with routine lump sum benefits paid from the Plan of $30,000, were not above the settlement threshold of $70,000 and therefore did not trigger settlement accounting.

Chilton Division had a noncontributory defined benefit retirement plan ("Chilton Plan") covering substantially all of its full-time employees. The Chilton Division's funding policy provided that payments to the pension plan shall at least be equal to the minimum funding requirement of the Employee Retirement Income Security Act of 1974 ("ERISA") plus additional amounts, which may be approved by the Hospital from time to time. Effective June 20, 2012, the Chilton Plan was frozen to all future benefits while preserving all benefits that had accrued as of June 30, 2012. Chilton Division was required to fund the Chilton Plan for benefit obligations. As of December 31, 2014, the Chilton Plan merged its assets and liabilities with the Cash Balance Plan.

The Hospital sponsors three defined benefit postretirement plans at the Morristown and Overlook Divisions and formerly owned General Hospital Center at Passaic (the "General"). A description of the individual site plans are as follows:

The Morristown Division plan pays the cost of providing medical and life insurance postretirement benefits to employees and qualifying dependents (spouse or child) of the Hospital who retire under the retirement plan and meet the specified age and service requirements. Contributions were introduced beginning in 2003 for all current and future retirees.

The Overlook Division plan provides postretirement medical benefits to eligible employees and their qualifying dependents (spouse or child). The benefits for services provided outside the Hospital are subject to deductibles and co-payments. There is no charge for services provided in the Hospital except for prescription drugs, which are charged at cost. In addition, the Hospital provides postretirement life insurance coverage for employees hired prior to July 2, 1995.

The General plan provides for life insurance and medical benefits for certain employees retired as of the July 1996 amendment date.

(in thousands)

In May 1996, the Morristown Division and Overlook Division postretirement plans were amended to exclude new employees from participation in either plan. In July 1996, the General's postretirement plan was amended to exclude all active employees from the plan who had not retired as of the amendment date.

The following tables provide a reconciliation of the changes in the plans' benefit obligation and fair value of assets for the years ended December 31, 2019 and 2018, a statement of the funded status of the plans and, the amounts recognized in the consolidated balance sheets as of December 31, 2019 and 2018.

	Pension Benefits		Other Postretirement Benefits	
	2019	2018	2019	2018
Accumulated benefit obligation	$ 893,708	$ 822,498	$ 123,935	$ 131,896
Change in benefit obligation				
Benefit obligation at beginning of year	$ 834,206	$ 893,945	$ 131,896	$ 144,189
Service cost	34,596	37,572	608	1,002
Interest cost	36,005	33,571	5,437	6,284
Plan participant's contributions	-	-	745	747
Plan amendments	(960)	-	-	-
Actuarial loss (gain)	84,692	(52,138)	(8,132)	(15,544)
Settlements	-	(474)	-	-
Benefits paid	(69,531)	(78,270)	(6,619)	(4,782)
Benefit obligation at end of year	919,008	834,206	123,935	131,896
Change in plan assets				
Fair value of plan assets at beginning of year	671,692	730,963	74,938	86,128
Actual return on plan assets	117,928	(41,635)	18,438	(7,761)
Medicare Part D subsidy	-	-	345	315
Employer contributions	61,046	61,108	488	291
Plan participant's contributions	-	-	745	747
Settlements	-	(474)	-	-
Benefits paid	(69,531)	(78,270)	(6,619)	(4,782)
	781,135	671,692	88,335	74,938
	$ (137,873)	$ (162,514)	$ (35,600)	$ (56,958)
Amounts recognized in the consolidated balance sheets consist of				
Current liabilities	$ (468)	$ (389)	$ (660)	$ (681)
Long-term liabilities	(137,405)	(162,125)	(34,940)	(56,277)
Net amount recognized	$ (137,873)	$ (162,514)	$ (35,600)	$ (56,958)
Amounts recognized in net assets without donor restrictions consist of				
Actuarial net loss	$ 238,703	$ 243,943	$ (326)	$ 20,588
Prior service cost	3,175	4,435	-	-
	$ 241,878	$ 248,378	$ (326)	$ 20,588

For measurement purposes, the postretirement plans assumed a 6.75% annual rate of increase in the per capita cost of covered health care benefits for 2019. The rate was assumed to decrease gradually to 3.78% for 2075 and remain at that level thereafter.

(in thousands)

The combined effect of a 1% change in these assumed cost trend rates would increase or (decrease) the benefit obligation by approximately $18,802 or ($15,442), respectively. In addition, a 1% change would increase or (decrease) the aggregate service and interest cost components of net periodic postretirement health-care cost by approximately $975 or ($790), respectively.

The following tables provide the components of the net periodic pension and other postretirement benefit costs as of December 31, 2019 and 2018 and the total amount recognized in net periodic benefit cost and changes in net assets without donor restrictions for the years ended December 31, 2019 and 2018:

	Pension Benefits		Other Postretirement Benefits	
	2019	2018	2019	2018
Net periodic benefit cost				
Service cost	$ 34,596	$ 37,572	$ 608	$ 1,002
Interest cost	36,005	33,571	5,437	6,284
Expected return on plan assets	(43,495)	(47,394)	(5,110)	(5,893)
Settlement	-	271	-	-
Actuarial loss (gain)	15,498	12,197	(561)	2,742
Amortization of prior service cost (credit)	300	(1,871)	-	-
Net periodic benefit cost	42,904	34,346	374	4,135
Amounts recognized in changes in net assets without donor restrictions				
Net (gain) loss	(6,199)	24,423	(20,914)	(4,678)
Prior service cost	(300)	1,871	-	-
	(6,499)	26,294	(20,914)	(4,678)
Total recognized in net periodic benefit cost and change in net assets without donor restrictions	$ 36,405	$ 60,640	$ (20,540)	$ (543)

The actuarial net loss and prior service credit for the pension plans that will be amortized from net assets without donor restrictions into net periodic benefit cost in 2020 are $14,609 and $407, respectively.

The actuarial net loss and prior service credit for other postretirement benefits that will be amortized from net assets without donor restriction into net periodic benefit cost in 2020 are $(315) and $0, respectively.

The Hospital recorded the non-service cost components of the net periodic benefit costs for its pension and postretirement benefit plans of $(8,074) and $93 within nonoperating gains, net of the consolidated statements of operations for the years ended December 31, 2019 and 2018, respectively.

(in thousands)

Assumptions used in determining the net periodic benefit cost and the benefit obligations are as follows:

	Pension Benefits		Other Postretirement Benefits	
	2019	**2018**	**2019**	**2018**
Benefit obligations				
Discount rate	3.54 %	4.50 %	3.84 %	4.81 %
Rate of compensation increase	3.00	3.00	3.00	3.00
Net periodic benefit cost				
Discount rate	4.50 %	3.90 %	4.81 %	4.19 %
Expected return on plan assets	6.50	6.50	7.00	7.00
Rate of compensation increase	3.00	3.00	3.00	3.00

The Hospital considers multiple factors in establishing a multi-year projected return assumption for its benefit programs. These include, but are not limited to: its current asset allocation policy and target ranges by asset class; asset valuations; historical and projected rates of return by asset class; historical and projected correlations among asset classes; the opportunity to exceed passive index returns via active management through a combination of manager selection and alternative weightings among and within asset classes; and the Hospital's historical performance experience.

The Overlook Division and General Division postretirement plans are unfunded. The Overlook Division plan has an aggregate benefit obligation of $8,114 and $7,672 for 2019 and 2018, respectively. The General Division plan has an aggregate benefit obligation of $1,244 and $1,457 for 2019 and 2018, respectively.

Expected Benefit Payments
The benefits expected to be paid in each year from 2020 to 2029 are:

		Other Postretirement Benefits	
	Pension Benefits	**Without Medicare Subsidy**	**With Medicare Subsidy**
2020	$ 75,670	$ 5,135	$ 4,765
2021	58,842	5,514	5,097
2022	64,477	5,848	5,388
2023	65,242	6,176	5,670
2024	69,599	6,458	5,903
2025-2029	341,032	36,523	33,044

The aggregate benefits expected to be paid are based on the same assumptions used to measure the benefit obligation at December 31, 2019 and include estimated future employee service.

(in thousands)

Plan Assets

The Plans' weighted average asset allocation is as follows:

	Percentage of Plan Assets					
	Defined Benefit Plans			Other Postretirement Benefits		
Asset Category	Target Allocation	2019	2018	Target Allocation	2019	2018
Equity securities	60–70%	65 %	59 %	60–85%	81 %	80 %
Debt securities	20–30%	34	38	20–30%	12	19
Other	0–10%	1	3	0–5%	7	1
		100 %	100 %		100 %	100 %

The following table summarizes the Cash Balance Plan's financial instruments, not included with the Hospital's consolidated balance sheets, measured at fair value on a recurring basis by caption and by level within the valuation hierarchy as of December 31, 2019:

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Fair Value December 31, 2019	Valuation Technique[(1)]
Plan assets					
Money market funds	$ -	$ 2,285	$ -	$ 2,285	M
Mutual funds	-	774,010	-	774,010	M
	$ -	$ 776,295	$ -	$ 776,295	

(1) *The three valuation techniques are market approach (M), cost approach (C), and income approach (I), as discussed in Note 2.*

(in thousands)

The following table summarizes the Cash Balance Plan's financial instruments, not included with the Hospital's consolidated balance sheets, measured at fair value on a recurring basis by caption and by level within the valuation hierarchy as of December 31, 2018:

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Fair Value December 31, 2018	Valuation Technique[1]
Plan assets					
Money market funds	$ -	$ 14,482	$ -	$ 14,482	M
Mutual funds	-	651,575	-	651,575	M
	$ -	$ 666,057	$ -	$ 666,057	

[1] *The three valuation techniques are market approach (M), cost approach (C), and income approach (I), as discussed in Note 2.*

The following table summarizes the Postretirement Plan's financial instruments, not included with the Hospital's consolidated balance sheets, measured at fair value on a recurring basis by caption and by level within the valuation hierarchy as of December 31, 2019:

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Fair Value December 31, 2019	Valuation Technique[1]
Postretirement plan assets					
Money market funds	$ -	$ 6,044	$ -	$ 6,044	M
Mutual funds	-	82,291	-	82,291	M
	$ -	$ 88,335	$ -	$ 88,335	

[1] *The three valuation techniques are market approach (M), cost approach (C), and income approach (I), as discussed at Note 2.*

(in thousands)

The following table summarizes the Postretirement Plan's financial instruments, not included with the Hospital's consolidated balance sheets, measured at fair value on a recurring basis by caption and by level within the valuation hierarchy as of December 31, 2018:

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Fair Value December 31, 2018	Valuation Technique[1]
Postretirement plan assets					
Money market funds	$ -	$ 518	$ -	$ 518	M
Mutual funds	-	74,420	-	74,420	M
	$ -	$ 74,938	$ -	$ 74,938	

[1] *The three valuation techniques are market approach (M), cost approach (C), and income approach (I), as discussed at Note 2.*

Investment Strategy
The Hospital's investment objective is to achieve the highest reasonable total return after considering (i) plan liabilities, (ii) funding status and projected cash flows, (iii) projected market returns, valuations and correlations for various asset classes, and (iv) the Hospital's ability and willingness to incur market risk. The Hospital actively manages plan assets in order to add incremental returns by manager selection and asset allocation (increasing/decreasing allocations within allowable ranges based on current and projected valuations).

Expected Contributions
Based on the funded status of the cash balance plan as of December 31, 2019, the Hospital expects to contribute $60,000 to this pension plan during fiscal year 2020. This will be evaluated on a quarterly basis. There are no required contributions to be made to the various supplemental plans.

11. Professional and General Liability Self Insurance

The Morristown, Overlook, Newton, Chilton (effective June 1, 2016) and Hackettstown (effective April 1, 2016) Divisions and the Mountainside Division (up through the date of the sale of the Mountainside Division in May 2007) are covered by the Parent for general and professional liability through a captive insurance company, AHS Insurance Company, Ltd. (the "Captive").

Under this plan, for the time period January 1, 2002 to December 31, 2002 primary insurance coverage was provided for the above five divisions and its employees at $5,000 per occurrence and $12,000 annual aggregate. For the time period January 1, 2003 to February 1, 2004 primary insurance coverage was provided at $7,000 per occurrence and $21,700 annual aggregate. For the time period February 1, 2004 to March 1, 2008 primary insurance coverage was provided at $10,000 for each and every occurrence. Subsequent to March 1, 2008, the per occurrence loss limits are $2,000 for each medical incident in respect of insured individuals, except for OBGYN

(in thousands)

medical professionals where are provided with $3,000 for each medical incident, $2,000 each general liability loss, and $250 per incident with a $16,250 aggregate limit in respect of all other covered entities where charitable immunity in accordance with the provisions of the New Jersey statutory cap applies. The coverage for all other covered entities is limited to $10,000 without aggregate where these provisions do not apply. These policies were written on a claims-made basis. In addition to these claims-made coverages, the Hospital has obtained tail coverages from the Captive.

Prior to September 1, 2004, claims relating to before January 1, 2002, were covered by the Parent under a self-insurance plan. Under this plan, primary insurance coverage is provided at $5,000 per occurrence and $12,000 annual aggregate. Insurance in excess of primary coverage has been purchased from commercial insurance carriers which provide general and professional liability coverage of $60,000 per occurrence and annual aggregate for professional liability and $60,000 per occurrence and annual aggregate for general liability. Effective September 1, 2004, the Parent's self-insurance assets and liabilities were transferred to the Captive. In conjunction with this transfer the Hospital obtained two, three-year renewable bank letters of credit for a total of $10,000 to support the Parent's payable. The Captive is the beneficiary of the letters of credit and can only draw down on the letter of credit, after the Captive's other assets are exhausted. As of December 31, 2019 and 2018, no amounts are outstanding under the letters of credit.

As of December 31, 2019 and 2018, the claims liability recognized by the Captive has been actuarially determined to approximate $52,837 and $50,308, respectively. The Captive has recorded approximately $100,038 and $62,059 at December 31, 2019 and 2018, of investments held at the Captive for general and professional liability coverage, respectively.

The Hospital has recorded the claims liability recognized by the Captive, net of amounts related to affiliated Parent entities, in the amount of $52,904 and $50,446 in accrued employee benefits and other long-term liabilities and a corresponding long-term other asset for the amount recoverable from the Captive as of December 31, 2019 and 2018, respectively.

The Hospital is subject to claims in the ordinary course of its business. Management and its legal counsel do not believe these claims will be in excess of the recorded liability.

(in thousands)

12. Related Party Transactions

Due from affiliates, net, as of December 31, 2019 and 2018, consists of the following and are recorded in other current assets and long-term investments and other assets in the consolidated balance sheets:

	2019	2018
Other current assets		
Parent	$ 40,766	$ 36,994
Atlantic Ambulance	25,794	23,096
AHSIC	3,570	4,006
Due from affiliated foundations	600	938
Accountable Care Organizations	538	424
Primary Care Partners	156	362
Atlantic Health Partners	241	151
	71,665	65,971
Long-term investments and other assets		
Due from affiliated foundations	40,294	25,149
Amounts due from related parties, net	111,959	91,120
Less: Allowance for doubtful accounts	(20,081)	(16,602)
	91,878	74,518
Accrued employee benefits and other, net of current portion		
AHSIC	(3,046)	(3,312)
Due from related parties, net	$ 88,832	$ 71,206

The Hospital is reimbursed by the above related parties for operating costs paid by the Hospital on their behalf. These costs include but are not limited to payroll and employee benefits, office charges and supplies and other expenses of the related party as warranted. In addition, the due from affiliated foundations include amounts donated to the affiliated foundations for the benefit of the Hospital. The amounts are held by the affiliated foundations until the purpose and/or time restriction has been met.

As of December 31, 2019 and December 31, 2018, the Hospital owes $3,046 and $3,312 to AHSIC for leasehold improvements, respectively.

(in thousands)

The Hospital, as lessee, contracts for operating leases with AHSIC, a related party. The description of leases and payments under the leases are as follows:

	December 31, 2019	December 31, 2018
Medical office buildings, apartments, houses and office space for hospital employees	$ 7,032	$ 6,683

As of December 31, 2019, The future minimum commitments under these leases are as follows:

2020	$ 7,151
2021	7,357
2022	6,681
2023	6,738
2024	6,798
Thereafter	80,128
Total minimum lease commitments	$ 114,853
Less: imputed interest	(29,642)
Present value of lease liabilities	85,211
Less: current portion of lease liabilities	(3,708)
Long-term lease liabilities	$ 81,503

Minimum lease commitments with related parties after 2024 include $15,708 associated with renewal options that are reasonably certain to be exercised.

As of December 31, 2018, prior to the adoption of ASC 842, the minimum aggregate lease commitments under these leases were as follows:

2019	$ 6,940
2020	7,151
2021	7,368
2022	6,700
2023	6,766
Thereafter	31,200
Total minimum lease commitments	$ 66,125

13. Commitments and Contingencies

At December 31, 2019 and 2018, information technology contracts of $4,757 and $8,885, respectively, and construction contracts and purchases of equipment of $45,188 and $40,023, respectively, exist for on-going capital projects at the various Hospital divisions.

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

(in thousands)

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.

14. Functional Expenses

The consolidated financial statements report certain expense categories that are attributable to both health care services and general and administrative functions. Therefore, the natural expenses require allocation on a reasonable basis, that is consistently applied, across functional expense category. Salaries are allocated based on a percent-to-total of program salaries and general and administrative salaries to the applicable total expense categories. Costs not directly attributable to a function, including depreciation, amortization and interest, are allocated to a function based on the same allocation rates as salaries. Total expenses related to providing both health care services and general and administrative functions at December 31, 2019 are as follows:

	2019		
	Program Services	General and Administrative	Total
Salaries	$ 1,032,753	$ 182,359	$ 1,215,112
Supplies and other expenses	1,024,421	180,888	1,205,309
Employee benefits	205,476	36,282	241,758
Depreciation and amortization	132,970	23,479	156,449
Interest	29,640	5,234	34,874
Total expenses	2,425,260	428,242	2,853,502
Other components of net periodic benefit costs	8,074	-	8,074
Total	$ 2,433,334	$ 428,242	$ 2,861,576

(in thousands)

Total expenses related to providing both health care services and general and administrative functions at December 31, 2018 are as follows:

	2018		
	Program Services	General and Administrative	Total
Salaries	$ 981,541	$ 173,316	$ 1,154,857
Supplies and other expenses	951,968	168,094	1,120,062
Employee benefits	189,669	33,382	223,051
Depreciation and amortization	121,207	21,402	142,609
Interest	30,143	5,322	35,465
Total expenses	2,274,528	401,516	2,676,044
Other components of net periodic benefit costs	(93)	-	(93)
Total	$ 2,274,435	$ 401,516	$ 2,675,951

15. Net assets with donor restrictions

Net assets with donor restrictions, subject to restriction for a specified purpose are as follows:

	December 31,	
	2019	2018
Research	$ 5,278	$ 9,350
Construction projects	35,361	19,953
Purchase of plant and equipment	12,345	16,105
Scholarships and education	5,111	5,516
Program services	56,660	45,448
	$ 114,755	$ 96,372

Net assets with donor restrictions, subject to the Hospital's spending policy and appropriation are listed in the table below. Such investments are in held perpetuity, including amounts above original gift amounts of $37,105 and $22,642 as of December 31, 2019 and 2018, respectively, which, once appropriated, is expendable:

	December 31,	
	2019	2018
Donor-restricted endowment funds	$ 52,362	$ 53,250

During 2019 and 2018, net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose of purchasing equipment in the amounts of $18,878 and $13,482, respectively, and other noncapital purposes in the amounts of $21,371 and $22,072, respectively.

(in thousands)

16. Liquidity and availability of resources

Financial assets available for general expenditures within one year of the balance sheet date consist of the following:

	December 31, 2019	December 31, 2018
Cash and Cash Equivalents	$ 400,402	$ 287,737
Patient Accounts Receivable, net	314,669	314,014
Other Current Assets	30,202	54,174
	$ 745,273	$ 655,925

As part of the liquidity management strategy, the Hospital structures its financial assets to be available as its general expenditures, liabilities and other obligations come due. As part of the Hospital's liquidity management plan, cash in excess of daily requirements are invested in money market funds and mutual funds.

The Hospital has current assets limited to use for debt service and thus are not reflected above. Additionally, the Hospital has board designated assets, more fully described in Note 6, which are not available for general expenditure within the next year and are also not reflected in the amounts above. However, board designated amounts could be made available, if necessary, with board approval.

The Hospital also maintains letters of credit as discussed in Note 8 and Note 11.

17. Subsequent Events

Subsequent events have been evaluated through April 13, 2020, which is the date the consolidated financial statements were issued. No subsequent events have occurred that require disclosure in or adjustment to the consolidated financial statements.

In connection with the outbreak of the COVID-19, the Hospital is monitoring developments and the directives of federal, state and local officials to determine what precautions and procedures may need to be implemented by the Hospital in the event of the continued spread of COVID-19. The continued spread of COVID-19 and the continued impact on social interaction, travel, economies and financial markets has, and may continue to, materially impact the Hospital's finances and operations. Due to these uncertainties, the full impact of COVID-19 and the scope of any adverse impact on the Hospital's finances and operations cannot be fully determined at this time. Other adverse consequences of COVID-19 may include, but are not limited to, a decline in revenues, an increase in operating costs, declines in the fair value of the Hospital's assets limited to use and long-term investments, and/or declines in future liquidity.

As of the date of issuance, due to the issues noted previously, the Hospital's assets limited as to use and long term investments (collectively "Investments") have experienced a significant decrease in fair value from December 31, 2019. However, the Hospital is expecting the value of these

(in thousands)

investments to recover over time and the Hospital has not, nor is expected to be, dependent on using these Investments to fund its operations based on its current analysis.

The Hospital has, as a result of the impacts already realized and due to the uncertainty of the overall ultimate impact of this disruption to its business, updated its forecasted overall financial results, at this time, based on its best estimates. The Hospital believes it will maintain compliance with debt covenants and meet its obligations as they become due as a result of the initiatives implemented and the strong cash and investment position the Hospital is in at this time. However, due to the uncertainty and difficulty in predicting the ultimate duration and severity of the impact of the COVID-19 on the Hospital, the economy and the financial markets, the ultimate impact of these uncertainties may be material to the Hospital's results and financial position.