AHS Hospital Corporation and Subsidiary

UNAUDITED

Consolidated Financial Statements
As of and for the Three Month Periods Ended
March 31, 2017 and 2016

AHS Hospital Corporation and Subsidiary

Consolidated Balance Sheets
As of March 31, 2017 and December 31, 2016

(in thousands)

ASSETS	Unaudited March 31, 2017	Audited December 31, 2016
Current assets:		
Cash and cash equivalents	$ 303,895	$ 312,198
Assets limited as to use	35,309	35,309
Patient accounts receivable, less allowance for doubtful accounts of $82,562 for Mar '17 and $80,457 for Dec '16 respectively	256,842	268,826
Other current assets	139,519	121,121
Total current assets	735,565	737,454
Assets limited as to use, net of current portion	956,256	912,547
Long-term investments and other assets	168,798	170,154
Property, plant and equipment, net	1,067,749	1,044,255
Total assets	$ 2,928,368	$ 2,864,410
LIABILITIES AND NET ASSETS		
Current liabilities:		
Current portion of long-term debt	$ 8,447	$ 8,447
Accounts payable and accrued expenses	255,850	262,053
Estimated amounts due to third party payers	65,277	63,398
Total current liabilities	329,574	333,898
Other liabilities, net of current portion	368,545	368,903
Long-term debt, net of unamortized bond premium (discount) and current portion	678,500	679,000
Total liabilities	1,376,619	1,381,801
Net assets:		
Unrestricted	1,414,850	1,347,193
Temporarily restricted	86,529	85,388
Permanently restricted	50,370	50,028
Total net assets	1,551,749	1,482,609
Total liabilities and net assets	$ 2,928,368	$ 2,864,410

AHS Hospital Corporation and Subsidiary

Consolidated Statements of Operations
For the three month periods ended March 31, 2017 and 2016
(Unaudited)

(in thousands)

	March 31, 2017	March 31, 2016
Unrestricted revenues, gains and other support		
Net patient service revenue (net of contractual allowances (and discounts)	576,623	536,625
Provision for bad debts (net of recoveries)	(19,811)	(22,862)
Net patient service revenue less provision for bad debts	556,812	513,763
Other revenue	69,125	65,088
Net assets released from restrictions	4,903	4,802
Total revenues, gains and other support	630,840	583,653
Expenses		
Salaries	256,529	238,496
Supplies and other expenses	255,475	234,372
Employee benefits	54,762	50,026
Depreciation and amortization	33,647	32,497
Interest	6,239	6,187
Total operating expenses	606,652	561,578
Operating income	24,188	22,075
Nonoperating gains, net	3,147	3,621
Excess of revenues over expenses	27,335	25,696
Other changes in unrestricted net assets		
Change in net unrealized gains (losses) on investments	40,023	4,173
Net assets released from capital restrictions	240	589
Government grants used for capital purchases	59	48
Increase in unrestricted net assets	67,657	30,506

AHS Hospital Corporation and Subsidiary

Consolidated Statements of Changes in Net Assets
For the three month periods ended March 31, 2017 and 2016
(Unaudited)

(in thousands)

	March 31, 2017	March 31, 2016
Unrestricted net assets		
Excess of revenues over expenses	$ 27,335	$ 25,696
Change in net unrealized gains on investments	40,023	4,173
Net assets released from capital restrictions	240	589
Government grants used for capital purchases	59	48
Increase in unrestricted net assets	67,657	30,506
Temporarily restricted net assets		
Contributions	4,368	4,747
Investment income (loss)	292	(368)
Change in unrealized gains on investments	1,683	619
Net assets released from restrictions for operations	(4,903)	(4,802)
Net assets released from capital restrictions	(299)	(633)
Increase (decrease) in temporarily restricted net assets	1,141	(437)
Permanently restricted net assets		
Donations	342	29
Change in net unrealized gains on investments	-	11
Increase in permanently restricted net assets	342	40
Increase in net assets	69,140	30,109
Net assets, beginning of year	1,482,609	1,347,922
Net assets, end of period	$ 1,551,749	$ 1,378,031

AHS Hospital Corporation and Subsidiary

Consolidated Statements of Cash Flows
For the three month periods ended March 31, 2017 and 2016
(Unaudited)

(in thousands)	March 31, 2017	March 31, 2016
Cash flows from operating activities		
Change in net assets	$ 69,140	$ 30,109
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Provision for bad debts	19,811	22,862
Depreciation and amortization	33,647	32,497
Net realized and unrealized gains on investments	(39,839)	(5,122)
Change in value of swap agreements	1,205	1,233
Amortization of deferred financing costs and bond premium/discounts	(242)	18
Contributions restricted for capital	(299)	(637)
Contributions restricted for permanent investments	(342)	(29)
Changes in assets and liabilities		
Increase in net patient accounts receivable	(7,827)	(32,510)
Increase in other assets	(25,184)	(11,522)
Decrease in accounts payable, accrued expenses, estimated amounts due from third party payers, and other liabilities	(5,887)	(3,449)
Net cash provided by operating activities	44,183	33,450
Cash flows from investing activities		
Purchases of Investments	(11,981)	(2,875)
Proceeds from sales of investments	16,209	1,796
Repayment of Loan to AHSIC	-	20,069
Additions to property, plant and equipment	(57,141)	(26,655)
Net cash used in investing activities	(52,913)	(7,665)
Cash flows from financing activities		
Principal payments on long-term debt	(214)	(214)
Contributions restricted for capital	299	637
Contributions restricted for permanent investments	342	29
Net cash provided by financing activities	427	452
(Decrease) increase in cash and cash equivalents	(8,303)	26,237
Cash and cash equivalents, beginning of year	312,198	209,482
Cash and cash equivalents, end of the period	$ 303,895	$ 235,719

AHS Hospital Corporation and Subsidiary
As of and for the three month periods ending March 31, 2017 and 2016

		3-months Ended March 31,	
		2017	**2016**
Licensed Beds (1)			
MMC		646	646
OMC		504	504
NMC		148	148
CMC		260	260
HMC (eff. 4/1/2016)		111	-
Total Acute Care		1,669	1,558
Rehabilitation		38	38
Skilled Nursing		40	40
	Total	1,747	1,636
Admissions			
MMC		9,879	9,926
OMC		6,221	6,055
NMC		2,137	1,987
CMC		2,322	2,609
HMC (eff. 4/1/2016)		826	-
Total Acute Care		21,385	20,577
Rehabilitation		172	231
Skilled Nursing		261	233
	Total	21,818	21,041
Observations			
MMC		1,880	1,747
OMC		1,156	1,134
NMC		472	462
CMC		904	819
HMC (eff. 4/1/2016)		223	-
	Total	4,635	4,162
Admissions + Observations (2)			
MMC		11,759	11,673
OMC		7,377	7,189
NMC		2,609	2,449
CMC		3,226	3,428
HMC (eff. 4/1/2016)		1,049	-
	Total	26,020	24,739
Rehabilitation		172	231
Skilled Nursing		261	233
	Total Adm. & Observ.	26,453	25,203
HomeCare Visits		53,454	53,095
Full time equivalents (8) MMC, OMC, NMC, CMC, HMC and HC		12,998	12,098

AHS Hospital Corporation and Subsidiary
As of and for the three month periods ending March 31, 2017 and 2016

		3-months Ended March 31,	
		2017	**2016**
Patient Days			
MMC		50,352	49,147
OMC		27,583	27,318
NMC		9,614	8,767
CMC		10,729	12,192
HMC (eff. 4/1/2016)		3,500	-
Total Acute Care		101,778	97,424
Rehabilitation		2,145	2,539
Skilled Nursing		2,990	3,112
	Total	106,913	103,075
Average Length of Stay			
MMC/OMC/NMC/CMC/HMC (3)		4.8	4.7
Rehabilitation		12.5	11.0
Skilled Nursing		11.5	13.4
Inpatient Surgeries			
MMC (6)		3,667	3,688
OMC		1,383	1,280
NMC		187	236
CMC		231	388
HMC (eff. 4/1/2016)		139	-
	Total	5,607	5,592
Outpatient Surgeries			
MMC (3)		4,233	4,186
OMC		2,398	2,419
NMC		630	677
CMC		759	633
HMC (eff. 4/1/2016)		290	-
	Total	8,310	7,915
Total Surgeries			
MMC		7,900	7,874
OMC		3,781	3,699
NMC		817	913
CMC		990	1,021
HMC (eff. 4/1/2016)		429	-
	Total	13,917	13,507

		3-months Ended March 31,	
		2017	**2016**
Outpatient Visits			
MMC		136,257	119,063
OMC		63,743	69,433
NMC		21,563	27,808
CMC		26,859	29,125
HMC (eff. 4/1/2016)		12,844	-
	Total	261,266	245,429
Emergency Room Visits (5)			
MMC		23,371	23,402
OMC (7)		25,786	25,807
NMC		8,251	7,999
CMC		11,468	11,242
HMC (eff. 4/1/2016)		5,665	-
	Total	74,541	68,450
Deliveries (4)			
MMC		1,056	985
OMC		641	582
NMC		139	112
CMC		154	172
HMC (eff. 4/1/2016)		-	-
	Total	1,990	1,851

Notes:
(1) Excludes newborn bassinets.
(2) Includes skilled nursing and rehabilitation units.
(3) Includes outpatient surgeries from 111 Madison Ave.
(4) Includes multiple births.
(5) Includes visits resulting in admission.
(6) Includes open heart
(7) Includes ER Visits from Union
(8) Calculation of FTE based is as of period end and assumes 37.5-hour work week.

1. Organization

AHS Hospital Corporation and Subsidiary (the "Hospital") is a not-for-profit entity comprised of five hospitals, the Morristown Medical Center ("Morristown Division"), the Overlook Medical Center ("Overlook Division"), the Newton Medical Center ("Newton Division"), the Chilton Medical Center ("Chilton Division") and the Hackettstown Medical Center ("Hackettstown Division"). The Hospital is organized under the not-for-profit corporation law of the State of New Jersey and 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.

Effective April 1, 2016, the Hackettstown Division was acquired from Adventist Healthcare, Inc. ("Adventist"), with The Hospital being substituted as the sole corporate member of Hackettstown Community Hospital. The Hospital paid $47,000 to purchase the property plant and equipment, along with minimal amounts of long-term investments, inventories, and assumed liabilities of the Hackettstown Division from Adventist. The change in control of the Hackettstown Division was accounted for by The Hospital as an acquisition under the Merger and Acquisition guidance for Not-for-Profit Entities.

Included in the Hospital is the Foundation for the Morristown Medical Center ("MMCF"), a not-for-profit fundraising organization which solicits funds in its general appeal to support the Morristown Division and the community as MMCF's Board may deem appropriate. The by-laws of MMCF were amended on September 20, 2007, to provide that funds received by MMCF after the date of the amendment may be used for the benefit of the Overlook Division of the Hospital upon approval of the Executive Committee of the Board of MMCF.

The Hospital is a wholly controlled subsidiary of Atlantic Health System, Inc. (the "Parent"), a not-for-profit organization. The Parent wholly owns the following for-profit entities; Atlantic Health Management Corp., a for-profit holding company, which owns AHS Investment Corporation and Subsidiaries ("AHSIC"), AHS Insurance Company, Ltd. (the "Captive"), a for-profit insurance company licensed under the provisions of the Cayman Islands Insurance Law, Primary Care Partners, LLC, a for-profit physician practice entity, and AHS ACO, LLC ("ACO"), a for-profit limited liability company established for the purpose of participating in the Medicare Shared Savings Program under the Patient Protection and Affordable and Accountable Care Act of 2010. 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, a not-for-profit company established to provide emergency an 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 organization for the benefit of their respective Hospital Divisions.

The Overlook Foundation ("OF") and the Foundation for 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.

2. Basis of Presentation

The consolidated financial statements included herein are unaudited and include all adjustments (consisting of normal recurring adjustments), which are, in the opinion of management, necessary for a fair presentation of the financial position and results of operations. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been omitted. These financial statements should be read in conjunction with the Hospital's audited financial statements for the years ended December 31, 2016 and 2015.

Included within other revenue in the consolidated statements of operations are those amounts the Hospital derives from services other than providing health care services to patients, residents and the like such as physician practice revenue, cafeteria sales, parking lot revenue, purchase discounts and various other miscellaneous receipts. Physician practice revenues amounted to $66,076 and $60,033 for the periods ending March 31, 2017 and 2016, respectively.

3. Patient Service Revenue and Patient Accounts Receivable

The Hospital records gross patient service revenue on an accrual basis at established rates, with contractual and other allowances added to or deducted from such amounts to determine net patient service revenue. The Hospital maintains policies and records to identify and monitor these contractual allowances and its level of charity care. These records include the amount of deductions from gross revenue due to qualified services provided under the State's charity care guidelines.

The process for estimating the ultimate collection of receivables involves significant assumptions and judgments. The Hospital has implemented a monthly standardized approach to estimate and review the collectability of receivables based on the payer classification and the period from which the receivables have been outstanding. Account balances are written off against the allowance when management feels it is probable the receivable will not be recovered. Historical collection and payer reimbursement experience is an integral part of the estimation process related to reserves for doubtful accounts. In addition, the Hospital assesses the current state of its billing functions in order to

identify any known collection or reimbursement issues and assess the impact, if any, on reserve estimates. The Hospital believes that the collectability of its receivables is directly linked to the quality of its billing processes, most notably those related to obtaining the correct information in order to bill effectively for the services it provides. Revisions in reserve for doubtful accounts estimates are recorded as an adjustment to bad debt expense.

The components of net patient service revenue for the periods ended March 31, 2017 and 2016 are as follows:

	March 31, 2017	March 31, 2016
Gross patient service revenue		
Inpatient	$ 1,530,954	$ 1,366,127
Outpatient	1,142,818	995,074
Total gross patient service revenue	2,673,772	2,361,201
Net additions (deductions) from gross patient service revenue		
Contractual and other allowances	(2,064,387)	(1,792,367)
Charity care allowances	(33,949)	(33,332)
Charity care subsidy	1,097	1,033
Special mental health subsidy	90	90
	(2,097,149)	(1,824,576)
Net patient service revenue before provision for bad debts	576,623	536,625
Provision for bad debts (net of recoveries)	(19,811)	(22,862)
Net patient service revenue less provision for bad debts	$ 556,812	$ 513,763

4. Pension Plan Contribution

The Hospital contributed $12,000 to the cash balance pension plan in each of the periods ended March 31, 2017 and 2016, respectively. Annual pension expense for the year ended December 31, 2017 is expected to be $42,261, as compared to $37,728 for the year ended December 31, 2016.

5. Assets Limited as to Use

Assets limited as to use at March 31, 2017 and December 31, 2016 consist of the following:

	March 31, 2017	December 31, 2016
Board designated		
Mutual funds - equity securities	$ 617,441	$ 578,835
Mutual funds - debt securities	365,898	363,054
Alternative investments	472	500
	983,811	942,389
Under bond indenture agreements		
Cash and short term investments		
Interest account	2,633	2,620
Principal account	4,348	2,074
Debt service reserve fund	660	660
Cost of Issuance Account	113	113
	7,754	5,467
Total assets whose use is limited	991,565	947,856
Less, assets limited as to use and are required for current liabilities	35,309	35,309
Noncurrent assets limited as to use	$ 956,256	$ 912,547

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 a bank trustee who administers the trusts as required under the bond indenture agreements.

6. Long-Term Investments and Other Assets

Long-term investments and other assets at March 31, 2017 and December 31, 2016 are as follows:

	March 31, 2017	December 31, 2016
Long-term investments		
Money market funds	$ 356	$ 2,259
Mutual funds - equity securities	29,531	27,714
Mutual funds - debt securities	23,704	23,419
Alternative investments	9,755	9,810
	63,346	63,202
Other assets		
Professional and general liability insurance recoveries	51,009	51,009
Workers compensation liability insurance recoveries	11,630	11,630
Due from Overlook Medical Center Foundation	6,451	6,451
Due from Newton Medical Center Foundation	1,861	1,861
Due from Chilton Medical Center Foundation	8,024	8,142
Due from Hackettstown Medical Center Foundation	4,098	4,098
Beneficial interest in trusts	4,989	4,989
Other	17,390	18,772
	105,452	106,952
Total long-term investments and other assets	$ 168,798	$ 170,154

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 March 31, 2017 and December 31, 2016, the Hospital has recorded approximately $51,009 in other long-term assets for professional and general liability insurance recoveries, respectively. The Hospital also recorded $11,630 for workers compensation liability insurance recoveries as of March 31, 2017 and December 31, 2016, respectively. A corresponding liability for the above is recorded within long-term liabilities. The Hospital also recorded incurred but not reported claims related to workers compensation in the amounts of $13,834, and $13,575 to accounts payable and accrued expenses as of March 31, 2017 and December 31, 2016, respectively.

Due from Foundations - the amounts due from foundations relate to contributions received by the Overlook, Newton, Chilton and Hackettstown 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 individual Board of Trustees may deem appropriate. In the absence of donor restrictions, the foundations have discretionary control over the amounts to be distributed to the providers of health care services, the timing of such distributions, and the purposes for which such funds are used. The assets held at the affiliated foundations are comprised primarily of cash and cash equivalents, marketable equity securities and debt securities.

7. Long-Term Debt and Interest Rate Swaps

The Hospital's divisions, Morristown Medical Center, Overlook Medical Center, Newton Medical Center, Chilton Medical Center, and Hackettstown Medical Center are not separately incorporated entities. The Obligated Group related to the New Jersey Health Care Facilities Financing Authority

("NJHCFFA") revenue bonds, as well as its taxable debt, issued and outstanding is AHS Hospital Corp. as defined under the Master Trust Indenture and Loan Agreement. The Parent and its remaining subsidiaries are not obligated parties to the aforementioned bonds.

Under the terms of the revenue bond indenture, 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 agreement also contains 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 1.25 times the debt service requirement on all long-term debt in that year. The Hospital is compliant with its bond covenants at March 31, 2017 and December 31, 2016.

In October 2016, the Hospital issued $224,800 Series 2016 fixed rate tax-exempt refunding bonds through the NJHCFFA. The proceeds of which 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 2011Revenue Bonds in the amount of $120,115; and (iii) 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. The Hospital recorded a loss on refunding of $33,482, which included the write off of the bond discount / premium and all deferred financing costs related to the refunded debt.

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 of the 2015 Bonds. The principal is due in its entirely on July 1, 2045 and interest is payable monthly at an annual interest rate of 5.024%. 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 taxable loan proceeds were used on January 2, 2014 to legally defease Chilton's NJHCFFA Series 2009 Revenue Bonds, which were assumed by the Hospital on the effective date of the merger on January 1, 2014. With regards to the defeasance, the Hospital recorded a loss on redemption of $7,073 within the consolidated statement of operations in net nonoperating gains. The principal on the bank loan is due in its entirely 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 bond covenants.

In May 2011, the Hospital issued $130,545 Series 2011 Fixed Rate Revenue Bonds, the proceeds of which were 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 Corporation Master Trust Indenture. The Newton Series 2001 Revenue Bonds were subsequently refunded in December 2014 at a minimal loss of $34 which had been recorded within the consolidated statements of operations as a loss within net nonoperating gains. 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 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 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 September 2018.

In addition, upon acquisition of the Chilton Hospital on January 1, 2014, the Hospital assumed the 2011 NJHCFFA capital asset loan in the outstanding principal amount of $4,143. The outstanding balance at March 31, 2017 and December 31, 2016 was $1,428 and $1,643, respectively. The loan bears interest at variable rates and is payable through November 2018. The Chilton division Master Trust Indenture was discharged and the Capital Asset Loan included within the AHS Hospital Corporation Master Trust Indenture.

The Hospital uses derivative financial instruments principally to manage interest rate risk. 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 Hospitals' Series 2008 variable rate debt and will expire on July 1, 2036, with an annual fee of .5143%. The notional amount of the swap at March 31, 2017 and December 31, 2016 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% in addition to the annual fee of .5143%. The Hospital will then receive 68% of LIBOR and pay the counterparty 4%. 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, which has been accounted for at fair value, at Level 2, as of March 31, 2017 and December 31, 2016:

	March 31, 2017	December 31, 2016
2008 interest rate swap	9,444	$ 8,269

The following table sets forth the effect of the 2008 interest rate swap agreement on the consolidated statements of operations for the periods ended March 31, 2017 and 2016:

	Amount of (loss) recognized in the performance indicator	
	March 31, 2017	March 31, 2016
Derivative in Non-Hedging Relationship		
Non operating gains(losses), net	$ (1,175)	$ (1,196)

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 original notional amount of the swap was $97,525, subject to reduction in the principal amortization of a portion of the Hospitals' Series 2008 variable rate debt and will expire on July 1, 2025, with an annual fee of .524%. The notional amount of the swap at March 31, 2017 and December 31, 2016 was $36,650, 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% in addition to the annual fee of .524%. The Hospital will then receive 68% of LIBOR and pay the counterparty 4%. 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, which has been accounted for at fair value, at Level 2, as of March 31, 2017 and December 31, 2016:

	March 31, 2017	December 31, 2016
2004 interest rate swap	$ 950	$ 920

The following table sets for the effect of the 2004 interest rate swap agreement on the consolidated statements of operations for the periods ended March 31, 2017 and 2016:

	Amount of (loss) recognized in the performance indicator	
	March 31, 2017	March 31, 2016
Derivative in Non-Hedging Relationship		
Non operating gains (losses), net	$ (30)	$ (37)

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 March 31, 2017 and December 31, 2016, the counterparty held collateral in the amount of $0, respectively.

8. Commitments and Contingencies

The Hospital is subject to complaints, claims and litigation which have risen in the normal course of business. In addition, the Hospital is subject to reviews by various federal and state government agencies to assure compliance with applicable laws, some of which are subject to different interpretations. While the outcome of these suits cannot be determined 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.

On June 25, 2015, the New Jersey State Tax Court ruled in favor of the Town of Morristown and its claim that Morristown Medical Center did not substantially meet the property tax-exemption requirements for certain portions of the hospital, and should be subject to local property tax for the years 2006 through 2008, the years at issue in the case. On November 11, 2015, the Hospital and the Town of Morristown announced that they had reached a settlement of the dispute.

The agreement resolves outstanding property tax disputes relating to the Morristown Division for the years 2006 through 2008 and provides for future property tax payments through 2025. Under the agreement, the Morristown Division will pay the Town $15,500 related to those case years with a $10,000 payment up front and the remaining $5,500 of penalties and interest over 10 years. The Hospital paid the $10,000 in December 2015. The Hospital will continue to pay its allocated penalty and interest payment of $550 annually, which commenced in February 2016. In addition, beginning in 2016 and through 2025, the Hospital also agreed to making an annual tax payment in the amount of $1,050. The ruling relates solely to the Morristown Division's eligibility for property tax exemption under New Jersey law, and has no impact on the not-for-profit status of the Hospital or its federal tax-exempt status under Internal Revenue Code Section 501(c)(3).

During 2012, the Hospital settled a lawsuit relating to inpatient Medicare claim classifications at Overlook Medical Center. The lawsuit alleged that, between 2002 and 2009, the Overlook Division submitted inpatient claims to Medicare for patients who allegedly did not meet inpatient criteria and

should have been submitted as outpatients. The Hospital admits no wrongdoing and paid approximately $9,000 to settle. As part of the settlement, the Hospital has entered into a five-year Corporate Integrity Agreement with the Office of the Inspector General of the US Department of Health and Human Services under which the Overlook Division and the Hospital has implemented and maintains a set of internal processes intended to ensure compliance.

9. Subsequent Events

The Hospital performed an evaluation of subsequent events through May 12, 2017, the date that these unaudited consolidated financial statements were issued. Except as is disclosed in Note 1, the Hospital has determined that all other events or transactions, including estimates, required to be recognized in accordance with generally accepted accounting principles, are included in the consolidated financial statements.