AHS Hospital Corp.

Consolidated Financial Statements
As of and for the Years Ended
December 31, 2022 and 2021

AHS Hospital Corp.

Consolidated Balance Sheets
As of December 31, 2022 and 2021
(in thousands)

ASSETS	Unaudited December 31, 2022	Audited December 31, 2021
Current assets:		
Cash and cash equivalents	$ 680,644	$ 868,891
Assets limited as to use	67,025	61,552
Patient accounts receivable, net	327,370	305,147
Other current assets	239,548	167,291
Total current assets	1,314,587	1,402,881
Assets limited as to use, net of current portion	2,248,831	2,695,887
Long-term investments and other assets	365,877	278,427
Property, plant and equipment, net	1,305,439	1,334,767
Right of use assets, net	329,148	313,896
Total assets	$ 5,563,882	$ 6,025,858
LIABILITIES AND NET ASSETS		
Current liabilities:		
Current portion of long-term debt	$ 17,886	$ 13,967
Current portion of lease liability	41,641	29,922
Current portion of CARES Act Medicare advancements	6,418	219,472
Accounts payable and accrued expenses	544,533	528,299
Estimated amounts due to third party payers	58,106	59,257
Total current liabilities	668,584	850,917
Accrued employee benefits and other, net of current portion	289,298	322,691
CARES Act Medicare advancements, net of current portion	-	4,589
Long-term debt, net of unamortized bond premium, debt issuance costs, and current portion	1,404,518	1,324,071
Long-term lease liability, net of current portion	294,897	288,195
Total liabilities	2,657,297	2,790,463
Net assets:		
Without donor restrictions controlled by the Hospital	2,698,236	3,014,703
Without donor restrictions attributable to noncontrolling interest	4,640	4,871
Without donor restrictions	2,702,876	3,019,574
With donor restrictions	203,709	215,821
Total net assets	2,906,585	3,235,395
Total liabilities and net assets	$ 5,563,882	$ 6,025,858

AHS Hospital Corp.

Consolidated Statements of Operations
For the years ended December 31, 2022 and 2021
(in thousands)

	Unaudited December 31, 2022	Audited December 31, 2021
Revenues, gains and other support		
Net patient service revenue	3,141,766	3,020,388
Physician practice and other revenue	513,577	450,919
Legislative Funding - Provider Relief Funds and FEMA	50,922	6,280
Net assets released from restrictions	16,729	17,292
Total revenues, gains and other support	3,722,994	3,494,879
Expenses		
Salaries	1,654,237	1,411,884
Supplies and other expenses	1,359,974	1,282,003
Employee benefits	317,054	301,367
Depreciation and amortization	171,334	168,683
Interest	47,667	44,006
Total operating expenses	3,550,266	3,207,943
Operating income	172,728	286,936
Change in net unrealized gains	(488,466)	82,989
Investment income, net	42,776	154,530
Nonoperating gain, net	(2,084)	10,390
Excess (deficiency) of revenues over expenses	(275,046)	534,845
Other changes in net assets without donor restrictions		
Noncontrolling interest	(231)	470
Change in funded status of benefit plans	-	36,709
Net assets released from restrictions for capital purposes	22,018	11,153
Equity Transfer	(67,789)	-
Government grants used for capital purchases	4,350	2,131
Increase (decrease) in net assets without donor restrictions	$ (316,698)	$ 585,308

AHS Hospital Corp.

Consolidated Statements of Changes in Net Assets
For the years ended December 31, 2022 and 2021
(in thousands)

	Unaudited December 31, 2022	Audited December 31, 2021
Net assets without donor restrictions		
Excess (deficiency) of revenues over expenses	$ (275,046)	$ 534,845
Equity Transfer	(67,789)	-
Noncontrolling interest	(231)	470
Change in funded status of benefit plans	-	36,709
Net assets released from restrictions for capital purposes	22,018	11,153
Government grants used for capital purchases	4,350	2,131
Increase (decrease) in net assets without donor restrictions	(316,698)	585,308
Net asset with donor restictions		
Contributions	33,683	57,040
Investment income	981	1,127
Change in net unrealized gain (loss)	(8,029)	4,592
Net assets released from restrictions for operations	(16,729)	(17,292)
Net assets released from restrictions for capital purposes	(22,018)	(11,153)
Increase in net assets with donor restrictions	(12,112)	34,314
Increase (decrease) in net assets	(328,810)	619,622
Net assets		
Beginning of year	3,235,395	2,615,773
End of period	$ 2,906,585	$ 3,235,395

AHS Hospital Corp.

Consolidated Statements of Cash Flows
For the years ended December 31, 2022 and 2021

(in thousands)	Unaudited December 31, 2022	Audited December 31, 2021
Cash flows from operating activities		
Change in net assets	$ (328,810)	$ 619,622
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Change in funded status of benefit plans	-	(36,709)
Depreciation and amortization	171,334	168,683
Gain on disposal of property, plant and equipment	71	-
Noncontrolling interest	(231)	470
Net realized and unrealized loss (gain) on investments	527,272	(102,440)
Change in value of swap agreements	1,571	(180)
Amortization of deferred financing costs and bond premium/discounts	(2,353)	(2,352)
Amortization of right of use assets	35,003	28,539
Transfer to Parent	(67,788)	-
Contributions restricted for capital	(9,083)	(36,765)
Contributions restricted for permanent investments	-	(342)
Changes in assets and liabilities		
Increase in net patient accounts receivable	(22,223)	(35,013)
Increase in other assets	159,629	(31,108)
Decrease in liability from Medicare Advance	(213,054)	(117,105)
(Decrease) increase in accounts payable, accrued expenses, est. amounts due from third party payers, lease liability, and other liabilities	(45,641)	129,538
Net cash provided by operating activities	205,697	584,838
Cash flows from investing activities		
Purchases of investments	(1,179,316)	(973,158)
Proceeds from sales of investments	964,132	74,986
Intercompany loan issued to AHSIC	(37,647)	-
Repayment of loan receivable due from AHSIC	2,243	-
Additions to property, plant and equipment	(152,765)	(220,606)
Loan to CentraState	(103,497)	-
Net cash used in investing activities	(506,850)	(1,118,778)
Cash flows from financing activities		
Principal payments on long-term debt	(13,280)	(61,154)
Proceeds from Series 2021 taxable bond issuance	-	450,000
Cost of issuance on Series 2021 taxable bond issuance	-	(2,589)
Proceeds from issuance of 2022 Commercial Loan	100,000	-
Contributions restricted for capital	26,186	12,882
Contributions restricted for permanent investments	-	558
Net cash provided by financing activities	112,906	399,697
Increase in cash and cash equivalents	(188,247)	(134,243)
Cash and cash equivalents, beginning of year	868,891	1,003,134
Cash and cash equivalents, end of the period	$ 680,644	$ 868,891

AHS Hospital Corp.
For the years ended December 31, 2022 and 2021

	Period Ended December 31,	
	2022	**2021**
Licensed Beds (1)		
MMC	735	735
OMC	513	504
NMC	148	148
CMC	260	260
HMC	111	111
Total Acute Care	1,767	1,758
Admissions		
MMC	43,078	42,814
OMC	22,244	22,536
NMC	8,047	8,307
CMC	7,987	7,953
HMC	3,727	3,859
Total Acute Care	85,083	85,469
Observations		
MMC	7,094	6,392
OMC	4,423	3,997
NMC	1,887	2,181
CMC	3,704	3,505
HMC	842	1,071
	17,950	17,146
Admissions + Observations		
MMC	50,172	49,206
OMC	26,667	26,533
NMC	9,934	10,488
CMC	11,691	11,458
HMC	4,569	4,930
	103,033	102,615

AHS Hospital Corp.
For the years ended December 31, 2022 and 2021

	Period Ended December 31,	
	2022	**2021**
Patient Days		
MMC	228,915	220,724
OMC	107,214	108,296
NMC	43,251	42,787
CMC	38,570	38,001
HMC	18,742	18,163
Total Acute Care	436,692	427,971
Average Length of Stay		
Acute Avg LOS	5.1	5.0
Inpatient Surgeries		
MMC	12,530	13,141
OMC	4,495	4,684
NMC	781	854
CMC	1,254	1,348
HMC	620	673
	19,680	20,700
Outpatient Surgeries		
MMC (2)	21,322	20,317
OMC	10,671	10,107
NMC	2,168	2,054
CMC	4,459	3,946
HMC	1,019	1,034
	39,639	37,458
Total Surgeries		
MMC	33,852	33,458
OMC	15,166	14,791
NMC	2,949	2,908
CMC	5,713	5,294
HMC	1,639	1,707
	59,319	58,158

AHS Hospital Corp.
For the years ended December 31, 2022 and 2021

	Period Ended December 31, 2022	2021
Outpatient Visits (3)		
MMC	767,497	1,187,912
OMC	302,755	354,899
NMC	97,002	115,712
CMC	122,475	147,904
HMC	72,022	84,169
	1,361,751	1,890,596
Emergency Room Visits (4)		
MMC	103,674	93,362
OMC (5)	98,017	87,496
NMC	36,663	36,514
CMC	45,330	40,487
HMC	22,033	20,779
	305,717	278,638
Deliveries (6)		
MMC	5,187	4,954
OMC	2,629	2,565
NMC	531	512
CMC	618	528
HMC	-	-
	8,965	8,559
HomeCare Visits	221,744	240,987
Full time equivalents (7) Hospital divisions, AVN, and AMG	15,265	14,531

Notes:
(1) Excludes newborn bassinets.
(2) Includes outpatient surgeries from 111 Madison Ave.
(3) 2021 volume includes 578,149 COVID vaccinations;
2022 volume includes 40,773 vaccinations
(4) Includes visits resulting in admission.
(5) Includes ER Visits from Union
(6) Includes multiple births.
(7) Calculation of FTE is as of period end and assumes 37.5-hour work week.

1. Organization

AHS Hospital Corp. and subsidiaries (the "Hospital") is a New Jersey not-for-profit entity comprised of five hospital facilities, the Morristown Medical Center ("Morristown Division" or "MMC"), the Overlook Medical Center ("Overlook Division" or "OMC"), the Newton Medical Center ("Newton Division" or "NMC"), the Chilton Medical Center ("Chilton Division" or "CMC"), and the Hackettstown Medical Center ("Hackettstown Division" or "HMC"), which operate as divisions within Hospital Corp. and not as separate corporations. Also, included in the Hospital is the Foundation for the Morristown Medical Center ("MMCF"), a wholly owned subsidiary and not-for-profit fundraising organization. The Hospital is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code.

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

Also included in the Hospital is Practice Associates Medical Group doing business as Atlantic Medical Group, P.A. ("AMG"), the captive physician practice serving all of the Hospital divisions. It is a non-profit 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 1,200 providers. AMG supports the Hospital by improving consistency, enhancing collaboration among those delivering care and optimizing care system operations.

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

The Hospital is a wholly controlled subsidiary of the Parent, a not-for-profit organization. The Parent wholly owns the following for-profit entities; Atlantic Health Management Corp., a for-profit holding company, which owns AHS Investment Corporation and Subsidiaries ("AHSIC"), AHS Insurance Company, Ltd. (the "Captive"), a for-profit insurance company licensed under the provisions of the Cayman Islands Insurance Law; AHS Health Network LLC, a for-profit established to provide a vehicle to report risk contracting under the requirements of the banking and insurance regulations; Primary Care Partners, LLC and Atlantic Health Partners, LLC, for-profit physician practice entities; and AHS ACO, LLC ("ACO"), 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; and Newton Medical Center Foundation, Inc.("NMCF") and the Chilton Medical Center Foundation, Inc. ("CMCF"), both not-for-profit fund-raising organizations for the benefit of their respective Hospital Divisions.

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

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

On October 21, 2020, the Parent and CentraState Healthcare System ("CentraState"), a nonprofit health system with a continuum of care operating one acute care hospital in Freehold, New Jersey in Monmouth County, reached a Definitive Agreement (the "Definitive Agreement") to expand their partnership to create a co-membership model for the Parent and CentraState. The partnership is structured to deliver benefits to patients, physicians, and caregivers in CentraState's communities by strengthening its integrated clinical services, physician network and infrastructure through capital investments.

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, 2021 and 2020.

In August 2018, the FASB issued ASU 2018-13, *Fair Value Measurement: Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement (Topic 820)*. The ASU eliminates, adds and modifies certain disclosure requirements related to fair value measurement. This ASU is effective for fiscal years beginning after December 15, 2019, and the Hospital's adoption of the standard did not have a material impact on its consolidated financial statements or disclosures.

In August 2018, the FASB issued ASU 2018-14, *Compensation—retirement benefits—Defined benefit plans—General (Subtopic 715-20)—Disclosure framework—Changes to the disclosure requirements for defined benefit plans Restricted Cash*, which amends (and removes) certain disclosure requirements for employers that sponsor defined benefit pension and other postretirement plans. The new standard was effective for fiscal years ending after December 15, 2020 and required to be adopted on a retrospective basis. The Hospital's adoption of this standard did not have a material impact to its disclosures, and certain disclosures are no longer required under the new standard.

In August 2018, the FASB issued ASU 2018-15, *Intangibles – Goodwill and Other – Internal Use Software (350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract*, which aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal use software (and hosting arrangements that include an internal use software license). The accounting for the service element of a hosting arrangement that is a service contract is not affected by this standard. This ASU is effective for fiscal years beginning after December 15, 2020. The Hospital's adoption of the standard during the year ended December 31, 2021 did not have a material impact on its consolidated financial statements or disclosures.

In January 2021, the FASB issued ASU 2021-01, *Reference Rate Reform (Topic 848)*, which provides temporary optional guidance to ease the potential burden in accounting for reference rate reform due to the risk of cessation of the London Interbank Offered Rate ("LIBOR"). The amendments in this update are optional and apply to all entities that have derivative instruments that use an interest rate for margining, discounting or contract price alignment that is modified as a result of reference rate reform. This ASU is effective immediately and the Hospital elected to apply the pronouncement on a prospective basis to new modifications subsequent to the issuance of the ASU. The adoption of the standard during the year ended December 31, 2021 did not have a material impact on its consolidated financial statements or disclosures.

(Dollar amounts in thousands) (Unaudited)

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

Included within physician practice other revenue in the consolidated statements of operations are those amounts the Hospital derives from physician practice revenue, cafeteria sales, parking lot revenue, purchase discounts and various other miscellaneous receipts. Physician services are billed at professional rates tied to contracts for visits and procedures done in the physician office setting. The Hospital determines estimates for implicit price concessions, in accordance with ASC 606 *Revenue from Contracts with Customers,* based on its historical collection experience with every class of patients/payers, including run rates for denials, as well as instances where self-pay patients in process of being screened for Medicaid (which has lower reimbursement rates). Physician practice revenues amounted to $484,523 and $419,155 for the years ended December 31, 2022 and 2021, respectively. Physician practice revenue by payer for years ended December 31, 2022 and 2021, respectively, is as follows:

	December 31, 2022	December 31, 2021
Medicare	23.8 %	24.2 %
Medicaid	0.3	0.6
Managed Care and other third party payers	75.8	74.5
Self Pay	0.1	0.7
	100.0 %	100.0 %

(Dollar amounts in thousands) (Unaudited)

3. Patient Service Revenue and Related Adjustments

The components of net patient service revenue for the years ended December 31, 2022 and 2021 are as follows:

	December 31, 2022	December 31, 2021
Gross charges		
Inpatient	$ 8,035,189	$ 7,742,849
Outpatient	7,776,118	6,978,578
Total gross charges	15,811,307	14,721,427
Net additions (deductions) from gross charges		
Contractual discounts and implicit price concessions	(12,544,585)	(11,578,345)
Charity care discount	(136,862)	(133,044)
Charity care subsidy	11,546	9,990
Special mental health subsidy	360	360
	(12,669,541)	(11,701,039)
Net patient service revenue	$ 3,141,766	$ 3,020,388

The Hospital recorded $96,914 and $103,349 of implicit price concessions as a direct reduction of patient service revenues during the years ended December 31, 2022 and 2021, respectively.

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, 2022 and 2021 is as follows:

	December 31, 2022	December 31, 2021
Medicare	24.4 %	23.9 %
Medicaid	0.8	1.1
Managed Care and other third party payers	73.8	74.3
Self Pay	0.6	0.4
Charity	0.4	0.3
	100.0 %	100.0 %

4. Pension Plan Contribution

The Hospital contributed $60,000 and $55,000 to the cash balance pension plan during the years ended December 31, 2022 and 2021, respectively. The service cost component of annual pension expense for the year ended December 31, 2022 is equal to $37,297, as compared to actual expense incurred of $39,126 for the year ended December 31, 2021.

(Dollar amounts in thousands) (Unaudited)

5. Assets Limited as to Use

Assets limited as to use at December 31, 2022 and 2021 consist of the following:

	December 31, 2022	December 31, 2021
Board designated		
Short-term investments including money market funds	$ 331,447	$ 337,532
Mutual funds	1,975,789	2,409,194
Alternative investments - equity	163	223
	2,307,399	2,746,949
Under bond indenture agreements		
Short-term investments including money market funds		
Interest account	639	4,022
Principal account	7,153	5,808
Debt service reserve fund	665	660
	8,457	10,490
Total assets whose use is limited	2,315,856	2,757,439
Less, assets limited as to use and are required for current liabilities	67,025	61,552
Noncurrent assets limited as to use	$ 2,248,831	$ 2,695,887

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.

(Dollar amounts in thousands) (Unaudited)

6. Long-Term Investments and Other Assets

Long-term investments and other assets at December 31, 2022 and December 31, 2021 are as follows:

	December 31, 2022	December 31, 2021
Long-term investments		
Money market funds	$ 2,744	$ 2,741
Mutual funds	70,627	84,762
Alternative investments - equity	3,600	3,508
	76,971	91,011
Other assets		
Due from CentraState	103,497	-
Professional and general liability insurance recoveries	84,140	84,140
Workers compensation liability insurance recoveries	6,300	6,300
Due from Overlook Medical Center Foundation	49,263	56,110
Due from Newton Medical Center Foundation	3,093	2,120
Due from Chilton Medical Center Foundation	6,534	9,077
Due from Hackettstown Medical Center Foundation	2,308	2,211
Venture capital private equity funds	16,565	8,362
Beneficial interest in trusts	2,042	6,208
Goodwill	5,039	-
Other	10,125	12,888
	288,906	187,416
Total long-term investments and other assets	$ 365,877	$ 278,427

On August 17, 2022, the Hospital entered into a secured loan agreement with CentraState in the amount of $103,497, whereby the proceeds were utilized by CentraState to pay off or legally defease all of its financed obligations as of that date. CentraState will pay interest to the Hospital monthly at a fixed rate of 3.21% with the full principal amount due to the Hospital on May 31, 2037. The loan is collateralized by the gross receipts of CentraState as well as its owned properties. In addition, certain financial covenants must be maintained.

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, 2022 and 2021, the Hospital has recorded $84,140, in other long-term assets for professional and general liability insurance recoveries, respectively. The Hospital also recorded $6,300 for workers' compensation liability insurance recoveries as of December 31, 2022 and

2021, 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 $24,000, and $22,2000 to accounts payable and accrued expenses as of December 31, 2022 and 2021, 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, and mutual funds invested in equity 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, Hackettstown Medical Center, Atlantic Visiting Nurse, and Atlantic Medical Group are part of the Obligated Group either through common incorporation under AHS Hospital Corp. or have been covenanted by the AHS Board of Trustees to act as members of the Obligated Group as part of the Master Trust Indenture. 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 1.2 times the debt service requirement on all long-term debt in that year. The Hospital is compliant with its bond covenants at December 31, 2022 and 2021.

On May 31, 2022 the Hospital entered into a $100,000 taxable loan agreement with a commercial bank. The loan proceeds are to be used for general corporate purposes. The principal payments on the bank loan are due quarterly and ultimately incorporate a final balloon payment of approximately $50,833 on the May 31, 2037 maturity date. Interest is also payable quarterly at a fixed annual interest rate of 3.21%. The agreement contains provisions whereby certain financial ratios are to be maintained which mirror those of the Hospital's outstanding tax-exempt bond covenants.

On January 27, 2021, the Hospital issued $450,000 Series 2021 Fixed Rate Taxable Bonds, the proceeds of which will be used for eligible corporate purposes of the Hospital and its affiliates. In addition, a portion of the proceeds were used to pay the costs of issuance. The Hospital also utilized the proceeds of the bonds to repay $50,000 that was outstanding on its $200,000 revolving line of credit. The principal on the Series 2021 bond issuance is due on July 1, 2051 and interest is payable monthly at a fixed annual interest rate of 2.78%. The agreement contains provisions whereby certain financial ratios are to be maintained which mirror those of the Hospital's outstanding tax-exempt bond covenants.

On April 21, 2020, the Hospital entered into a $200,000 revolving credit agreement with a commercial bank to provide for additional liquidity due the uncertainties created by the COVID-19 pandemic and drew down on the line of credit in the amount of $50,000 on that same day. As noted above, in January 2021, the Hospital repaid the outstanding balance on its revolving line of credit. The line of credit expires on April 20, 2023 and contains provisions whereby certain financial ratios are to be maintained which mirror those of the Hospital's outstanding tax-exempt bond covenant.

In October 2016, the Hospital issued $224,800 Series 2016 Fixed Rate Tax-exempt Revenue Bonds through the NJHCFFA. The proceeds were used 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 $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.

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 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 2026.

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 December 31, 2022 and 2021 was $87,400 and $89,500 respectively. 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.

(Dollar amounts in thousands) (Unaudited)

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 December 31, 2022 and 2021:

	December 31, 2022	December 31, 2021
2008 interest rate swap	$ 7,240	$ 5,583

The following table sets forth the effect of the 2008 interest rate swap agreement on the consolidated statements of operations for the periods ended of December 31, 2022 and 2021:

	Amount of (loss) gain recognized in the performance indicator	
	December 31, 2022	December 31, 2021
Derivative in Non-Hedging Relationship		
Non operating gains, net	$ (1,657)	$ 67

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 December 31, 2022 and 2021, was $14,550 and $18,850, 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 December 31, 2022 and 2021:

	December 31, 2022	December 31, 2021
2004 interest rate swap	$ 125	$ 211

(Dollar amounts in thousands) (Unaudited)

The following table sets for the effect of the 2004 interest rate swap agreement on the consolidated statements of operations for the periods ended December 31, 2022 and 2021:

	Amount of gain recognized in the performance indicator	
	December 31, 2022	December 31, 2021
Derivative in Non-Hedging Relationship		
Non operating gains, net	$ 86	$ 113

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, 2022 and 2021, 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.

9. Subsequent Events

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