AHS Hospital Corp.

Consolidated Financial Statements
December 31, 2020 and 2019

AHS Hospital Corp.
Index
December 31, 2020 and 2019

pwc

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, 2020 and 2019, 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, 2020 and 2019, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

April 9, 2021

PricewaterhouseCoopers LLP, 400 Campus Drive, P.O. Box 988, Florham Park, NJ 07932
T: (973) 236 4000, www.pwc.com/us

AHS Hospital Corp.
Consolidated Balance Sheets
December 31, 2020 and 2019

(in thousands)	2020	2019
Assets		
Current assets		
Cash and cash equivalents	$ 1,003,134	$ 400,402
Assets limited as to use	48,671	48,681
Patient accounts receivable, net	270,134	314,669
Other current assets	155,438	132,952
Total current assets	1,477,377	896,704
Assets limited as to use, net of current portion	1,715,665	1,532,281
Long-term investments and other assets	228,466	207,202
Property, plant and equipment, net	1,279,343	1,257,476
Right of use assets, net	285,626	247,649
Total assets	$ 4,986,477	$ 4,141,312
Liabilities and Net Assets		
Current liabilities		
Current portion of long-term debt	$ 63,506	$ 12,976
Current portion of lease liability	33,851	30,738
Current portion of CARES Act Medicare advancements	71,498	-
Accounts payable and accrued expenses	407,500	333,341
Estimated amounts due to third party payers	63,776	53,970
Total current liabilities	640,131	431,025
Accrued employee benefits and other, net of current portion	319,365	298,632
CARES Act Medicare advancements, net of current portion	269,668	-
Long-term debt, net of unamortized bond premium, debt issuance costs, and current portion	890,627	904,133
Long-term lease liability, net of current portion	250,913	216,629
Total liabilities	2,370,704	1,850,419
Net assets		
Without donor restrictions controlled by the Hospital	2,429,865	2,119,953
Without donor restrictions attributable to noncontrolling interests	4,401	3,823
Without donor restrictions	2,434,266	2,123,776
With donor restrictions	181,507	167,117
Total net assets	2,615,773	2,290,893
Total liabilities and net assets	$ 4,986,477	$ 4,141,312

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

AHS Hospital Corp.
Consolidated Statements of Operations
Years Ended December 31, 2020 and 2019

(in thousands)	2020	2019
Revenues, gains and other support		
Net patient service revenue	$ 2,468,334	$ 2,626,184
Physician practice and other revenue	356,721	346,346
CARES Act Provider Relief Funds	222,968	-
Net assets released from restrictions	21,140	21,371
Total revenues, gains and other support	3,069,163	2,993,901
Expenses		
Salaries	1,299,434	1,215,112
Supplies and other expenses	1,179,770	1,205,309
Employee benefits	266,208	241,758
Depreciation and amortization	162,745	156,449
Interest	34,335	34,874
Total operating expenses	2,942,492	2,853,502
Operating income	126,671	140,399
Change in net unrealized gains	89,069	137,774
Nonoperating gains, net	103,606	113,104
Excess of revenues over expenses	319,346	391,277
Other changes in net assets without donor restrictions		
Noncontrolling interest	578	3,823
Change in funded status of benefit plans	(19,021)	27,413
Net assets released from restrictions for capital purposes	9,576	18,878
Government grants used for capital purchases	11	-
Increase in net assets without donor restrictions	$ 310,490	$ 441,391

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, 2020 and 2019

(in thousands)	2020	2019
Net assets without donor restrictions		
Excess of revenues over expenses	$ 319,346	$ 391,277
Noncontrolling interest	578	3,823
Change in funded status of benefit plans	(19,021)	27,413
Net assets released from restrictions for capital purposes	9,576	18,878
Government grants used for capital purchases	11	-
Increase in net assets without donor restrictions	310,490	441,391
Net assets with donor restrictions		
Contributions	39,206	51,594
Investment income	1,894	1,946
Change in net unrealized gain	4,006	4,204
Net assets released from restrictions for operations	(21,140)	(21,371)
Net assets released from restrictions for capital purposes	(9,576)	(18,878)
Increase in net assets with donor restrictions	14,390	17,495
Increase in net assets	324,880	458,886
Net assets		
Beginning of year	2,290,893	1,832,007
End of year	$ 2,615,773	$ 2,290,893

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

AHS Hospital Corp.
Consolidated Statements of Cash Flows
Years Ended December 31, 2020 and 2019

(in thousands)	2020	2019
Cash flows from operating activities		
Change in net assets	$ 324,880	$ 458,886
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Contribution income in donation of VNASH	(757)	-
Change in funded status of benefit plans	19,021	(27,413)
Depreciation and amortization	162,745	156,449
Loss on disposal of property, plant and equipment	1,630	3,061
Noncontrolling interest	578	3,823
Net realized and unrealized gain on investments	(152,635)	(200,372)
Change in value of swap agreements	(261)	(1,810)
Amortization of deferred financing costs and bond premiums	(2,442)	(2,442)
Amortization of right of use assets	32,464	40,071
Contributions restricted for capital purposes	(12,055)	(18,533)
Contributions restricted for permanent investments	(572)	(171)
Changes in assets and liabilities		
Decrease (increase) in net patient accounts receivable	44,535	(655)
Decrease (increase) in other assets	25,382	(16,996)
Increase in CARES Act Medicare advancements	341,166	-
Increase (decrease) in accounts payable, accrued expenses, estimated amounts due to third party payers, and other liabilities	59,133	(3,253)
Net cash provided by operating activities	842,812	390,645
Cash flows from investing activities		
Purchases of investments	(416,586)	(192,503)
Proceeds from sales of investments	317,645	106,768
Additions to property, plant and equipment	(192,150)	(198,150)
Net cash used in investing activities	(291,091)	(283,885)
Cash flows from financing activities		
Principal payments on long-term debt	(10,534)	(11,085)
Proceeds from the line of credit	50,000	-
Payments of line of credit issuance costs	(331)	-
Contributions restricted for capital purposes	10,834	16,552
Contributions restricted for permanent investments	1,042	438
Net cash provided by financing activities	51,011	5,905
Increase in cash, cash equivalents, and restricted cash	602,732	112,665
Cash, cash equivalents, and restricted cash		
Beginning of year	400,402	287,737
End of the year	$ 1,003,134	$ 400,402
Supplemental disclosure of cash flow information		
Cash paid for interest	$ 34,597	$ 35,151
Change in accruals for acquisition of property, plant, and equipment	5,908	(1,771)
Right of use assets obtained in exchange for operating lease obligations	70,446	37,911

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. 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

(in thousands)

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.

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 is accounted for as an acquisition under Financial Accounting Standards Board's ("FASB") Accounting Standards Codification ("ASC") Topic 958-805*, Not-for-profit Entities: Business Combinations*, whereby the assets and liabilities of each of the acquired entities will be reported at fair value at the effective date of the merger. The net assets without donor restrictions acquired from VNASH on January 1, 2020 totaled $757 and was recorded within nonoperating gains, net within the consolidated statement of operations for the year ended December 31, 2020. No consideration was exchanged for the acquisition.

(in thousands)

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. Under the Definitive Agreement, the Parent will become the majority corporate member in CentraState and CentraState will join the Parent's network of care upon receipt of Federal and State approval. 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. It is not currently anticipated that CentraState would become part of the Hospital.

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 ("GAAP"). The consolidated financial statements include the accounts of its controlled subsidiaries MMCF and AMG. All significant intercompany balances and transactions are eliminated in consolidation.

Adopted Authoritative Pronouncements

In January 2016, the 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 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 standard was effective for fiscal years beginning after December 15, 2018, and the Hospital adopted this standard effective January 1, 2019. As a result of adoption, unrealized gains and losses are 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. 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 consolidated statement of operations. Operating leases result in straight-line expense, over the term of the lease, in the consolidated 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 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. To determine the measurement of the lease liability for operating leases with variable payments based on consumer price indices that commenced prior to January 1, 2019, 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 consolidated balance sheet. There was no impact to the opening net assets (as of January 1, 2019). The adoption of ASU 2016-02 did not have a material impact on the Hospital's consolidated statement of operations or consolidated statement of 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. Adoption of the standard did not have a material impact to the Hospital's consolidated financial statements.

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.

Use of Estimates

The preparation of consolidated financial statements in conformity with GAAP 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. The Hospital elected to treat highly liquid short-term investments held within its assets limited as to use and long-term investments and other

(in thousands)

assets financial statement line items as investments, and are therefore excluded from cash and cash equivalents in the consolidated statements of cash flows.

At December 31, 2020 and 2019, 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, 2020 and 2019.

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. 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 statements of operation.

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 change in net unrealized gain (loss) from net asset with donor restrictions in the consolidated statement of changes in net assets.. 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 in the consolidated statements of operations.

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 net realizable value 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 accumulated depreciation are reversed from the accounts, and any gain or loss is recorded in operations. Repairs and maintenance expenditures are expensed as incurred.

(in thousands)

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, 2020 and 2019, 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 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 contributions with donor restrictions in the consolidated statements of changes in net assets. 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

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 as net assets with donor restrictions: (a) the original value of 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:

(in thousands)

(1) The duration and preservation of the fund;

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

(3) General economic conditions;

(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 5% 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 Finance and 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 in the consolidated statements of operations.

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 net patient service revenue by approximately ($335) and ($217) for the years ended December 31, 2020 and 2019, respectively.

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 patient service revenue 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.

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. 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, 2018 for the Chilton and Hackettstown Divisions, 2016 for the Overlook and Newton Divisions, and 2014 for the Morristown Division; however, the 2012 Medicare cost report for the Morristown Division, the 2014 Medicare cost report for the Overlook Division, and the 2016 Medicare cost report for the Hackettstown Division remain 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 the Morristown, Overlook, Newton and Hackettstown Divisions and December 31, 2016 for the Chilton Division.

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 physician practice and 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

(in thousands)

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 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, 2020, 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 $330,798 and $338,431 for the years ended December 31, 2020 and 2019, respectively.

Physician practice revenue by payer for the years ended December 31, 2020 and 2019, respectively, is as follows:

	2020	2019
Medicare	25.5 %	27.5 %
Medicaid	0.3	0.3
Managed Care and other third party payers	72.5	70.8
Self Pay	1.7	1.4
	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 funded status of benefit plans, net assets released from restrictions for capital purposes, and government grants used for capital purchases.

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, and changes in the value of swap agreements are excluded from the income from operations and reported as nonoperating gains, net in the consolidated statements of operations. Changes in net unrealized gains are also reported outside of operating income within the consolidated statements of operations.

Fair Value
FASB ASC 820, *Fair Value Measurements*, establishes a framework for measuring fair value under GAAP 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

(in thousands)

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.

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.

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, and 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).

(in thousands)

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 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 (Notes 7 and 11).

Reclassifications
Certain previously reported amounts in the fiscal 2019 consolidated financial statements have been reclassified in order to conform to fiscal year 2020 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, 2020 and 2019 amounted to approximately $115,915 and $112,759, 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. Net Patient Service Revenue

The components of net patient service revenue for the years ended December 31, 2020 and 2019 are as follows:

	2020	2019
Gross charges		
Inpatient	$ 6,696,225	$ 6,589,765
Outpatient	5,457,144	5,930,768
Total gross charges	12,153,369	12,520,533
Net additions (deductions) from gross charges		
Contractual discounts and implicit price concessions	(9,549,383)	(9,764,309)
Charity care discount	(145,497)	(139,950)
Charity care subsidy	9,485	9,550
Special mental health subsidy	360	360
	(9,685,035)	(9,894,349)
Net patient service revenue	$ 2,468,334	$ 2,626,184

The Hospital recorded $109,580 and $111,371 of implicit price concessions as a direct reduction of patient service revenues during the years ended December 31, 2020 and 2019, respectively.

(in thousands)

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, 2020 and 2019 is as follows:

	2020	2019
Medicare	24.1 %	25.4 %
Medicaid	1.5	1.4
Managed Care and other third party payers	73.7	72.0
Self Pay	0.3	0.8
Charity	0.4	0.4
	100.0 %	100.0 %

5. Federal Legislative Relief Funds

Congress has appropriated funds to reimburse eligible health care providers for healthcare expenses incurred and/or loss in revenue due to COVID-19. The Health Resources and Services Administration ("HRSA") of the U.S. Department of Health and Human Services ("HHS") is administering the distribution of the payments which are funded through the Coronavirus Aid, Relief and Economic Security ("CARES") Act. The CARES Act provided the Hospital with financial relief under several programs including the Provider Relief Fund, reimbursement for patient care provided to the uninsured, and advances of Medicare payments from the Center for Medicare and Medicaid Services ("CMS").

For the year ended December 31, 2020, the Hospital received and recorded $233,304 of CARES Act relief funding in the consolidated statement of operations, which consisted of:

CARES Act Relief Funding	**2020**
General	$ 56,134
Hot Spot Targeted	166,834
Provider Relief Funds	222,968
Uninsured Program	10,336
Total CARES Act Relief Funding	$ 233,304

Provider Relief Funds are intended to reimburse eligible healthcare providers for expenses attributable to COVID-19 and lost revenues. The Hospital recognized $222,968 of the general and hot spot funds received under the Provider Relief Fund within operations, based on information contained in laws and regulations and information issued by HHS, which was publicly available at December 31, 2020. HHS can and does retrospectively adjust grant distribution formulas and may adjust funding already received which may impact the amount the Hospital has recorded for the year ended December 31, 2020 in future financial statement periods.

The Hospital recorded $10,336 of reimbursement received for providing services to uninsured COVID patients within net patient service revenue for the year ended December 31, 2020.

In April 2020, the Hospital received $341,166 in Medicare advances. The recoupment period for the Hospital's Medicare advances is set to commence one year after receipt of the advances (April 2021) and shall occur via offsets to Medicare payments. The offset shall commence at 25% of

(in thousands)

Medicare payments for the first eleven months of the recoupment period, and then increase to 50% of Medicare payments for the next six months. The Hospital has presented its total Medicare advances within current and non-current liabilities on the consolidated balance sheet as of December 31, 2020, based on the timing of the expected recoupment in 2021 and 2022.

6. 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, 2020 and 2019, were as follows:

	2020	2019
Medicare	19.1 %	16.1 %
Medicaid	3.5	2.7
Managed Care and other third party payers	67.8	66.7
Self pay	9.6	14.5
	100.0 %	100.0 %

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

Assets limited as to use at December 31, 2020 and 2019 consist of the following:

	2020	2019
Board designated for capital and program costs		
Short-term investments including money market funds	$ 264,979	$ 156,203
Mutual funds	1,488,576	1,413,879
Alternative investments - equity	259	281
	1,753,814	1,570,363
Under bond indenture agreements		
Short-term investments including money market funds		
Interest account	4,300	4,585
Principal account	5,562	5,349
Debt service reserve fund	660	665
	10,522	10,599
Total assets whose use is limited	1,764,336	1,580,962
Less: Assets limited as to use and are required for current liabilities	48,671	48,681
Noncurrent assets limited as to use	$ 1,715,665	$ 1,532,281

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

(in thousands)

interest income, are held by bank trustees who administer the trusts as required under the bond indenture agreements.

Long-term investments and other assets, at December 31, 2020 and 2019, are as follows:

	2020	2019
Long-term investments		
Money market funds	$ 3,471	$ 2,301
Mutual funds	76,816	71,273
Alternative investments - equity	3,215	3,132
	83,502	76,706
Other assets		
Professional and general liability insurance recoveries	63,669	52,328
Workers compensation liability insurance recoveries	5,810	6,709
Due from Overlook Foundation	36,718	28,599
Due from Newton Medical Center Foundation	1,715	1,143
Due from Chilton Medical Center Foundation	8,707	8,781
Due from the Foundation for Hackettstown Medical Center	1,997	1,771
Beneficial interest in trusts	5,733	5,497
Goodwill	3,695	6,779
Other	16,920	18,889
	144,964	130,496
Total long-term investments and other assets	$ 228,466	$ 207,202

The Hospital accrues an estimate of the ultimate cost of claims under all insurance policies whether the policy is fully insured or a self-insurance policy, with any insurance recoverable under such policies recorded as a receivable. As of December 31, 2020 and 2019, the Hospital has recorded approximately $63,669 and $52,328, 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 (Note 12). The Hospital also recorded $5,810 and $6,709 for workers compensation liability insurance recoveries at December 31, 2020 and 2019, respectively. The Hospital also recorded incurred but not reported claims related to workers compensation in the amount of $22,256 and $18,768 within accounts payable and accrued expenses as of December 31, 2020 and 2019, 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 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.

(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, 2020 and 2019 consist of the following:

	2020	2019
Interest and dividend income	$ 40,065	$ 57,973
Realized gains on sales of securities	57,137	58,872
Investment income, included in nonoperating gains, net	97,202	116,845
Change in net unrealized gains	89,069	137,774
Total investment return	$ 186,271	$ 254,619

The fair value of the Hospital's financial assets that are measured on a recurring basis at December 31, 2020 and 2019 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, 2020	Valuation Technique[1]
Assets limited as to use					
Money market funds	$ -	$ 275,501	$ -	$ 275,501	M
Mutual funds	-	1,488,576	-	1,488,576	M
	$ -	$ 1,764,077	$ -	$ 1,764,077	
Investments measured at net asset value				$ 259	M
Long-term investments					
Money market funds	$ 106	$ 3,365	$ -	$ 3,471	M
Mutual funds	-	76,816	-	76,816	M
	$ 106	$ 80,181	$ -	$ 80,287	
Investments measured at net asset value				$ 3,215	M
Beneficial interests in perpetual and remainder trusts	$ -	$ -	$ 5,733	$ 5,733	M

(in thousands)

	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]
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

Changes in Level 3 investments for the years ended December 31, 2020 and 2019 are as follows:

Level 3 Investments	**2020**	**2019**
Beginning of year	$ 5,497	$ 4,897
Contributions	-	600
Change in unrealized gain	236	-
End of year	$ 5,733	$ 5,497

There were no transfers between levels during the years ended December 31, 2020 and 2019.

8. Property, Plant and Equipment

Property, plant and equipment at December 31, 2020 and 2019 are as follows:

	2020	2019	Depreciable Life (in Years)
Land and land improvements	$ 74,772	$ 74,772	10–50
Buildings and improvements	1,611,894	1,581,585	10–50
Equipment and equipment deposits	1,410,110	1,328,664	3–25
Construction in progress	113,264	46,873	
	3,210,040	3,031,894	
Less: Accumulated depreciation	1,930,697	1,774,418	
Property, plant and equipment, net	$ 1,279,343	$ 1,257,476	

Depreciation and amortization expense for the years ended December 31, 2020 and 2019 was $162,745 and $156,449, respectively.

(in thousands)

9. Long-Term Debt

Long-term debt at December 31, 2020 and 2019 consists of the following:

	2020	2019
$200,000 revolving line of credit with commercial bank entered into on April 21, 2020. The line incurs interest at a rate of 1-month LIBOR, plus 1.00% on the amount drawn. Additionally, the line incurs a monthly fee of 0.30% on the unused portion of the line of credit. The line of credit is set to mature on April 20, 2021.	$ 50,000	$ -
$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, 2020, the average interest rate on the bonds was 4.39%. The bonds are collateralized by the Hospital's gross receipts.	192,130	201,820
$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, 2020, the average interest rate on the bonds was 2.66%. The bonds are collateralized by the Hospital's gross receipts.	410	800
$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, 2020, the average interest rate on the bonds was 5.35%. The bonds are collateralized by the Hospital's gross receipts.	3,580	4,035
$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, 2020, the average interest rate on the bonds was 0.58%. The bonds are collateralized by the Hospital's gross receipts.	177,110	177,110
Total long-term debt	898,230	858,765
Unamortized bond premium	59,639	62,243
Deferred financing fees	(3,736)	(3,899)
	954,133	917,109
Less: Current portion of long-term debt	63,506	12,976
Long-term debt, net of unamortized bond premium, debt issuance costs, and current portion	$ 890,627	$ 904,133

(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, 2020 and 2019.

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

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. The line of credit expires on April 20, 2021 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 to refund a portion of the principal of its outstanding Revenue Bonds issued through the NJHCFFA in the amount of $114,255 (Series 2008A) and $120,115 (Series 2011), and to pay all of the cost of issuance in the amount of $1,782. In addition, the NJHCFFA released $14,260 of the Hospital's debt service reserve fund in connection with the bond refunding to pay down a portion of the aforementioned outstanding principal on the Series' 2008A and 2011 bonds.

In May 2015, the Hospital issued $200,000 Series 2015 Fixed Rate Taxable Bonds, the proceeds of which are to be used for eligible corporate purposes of the Hospital and its affiliates. In addition, a portion of the proceeds were used to pay the costs of issuance. Effective August 2017, the Hospital executed a "tap" on the Series 2015 Fixed Rate Taxable Issuance for an additional $225,000. The Hospital received total proceeds of $268,023, which included a premium of $43,023. The 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 January 1, 2014, 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 through the NJHCFFA, the proceeds of which are to 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

(in thousands)

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

The 2008 Variable Rate Bonds bear interest at weekly rates as determined by the remarketing agent. In the event that the purchase price of the corresponding Series of the Variable Bonds are not remarketed at the corresponding principal amount of such Series, the Variable Bonds are backed by a separate, irrevocable direct pay letters of credit by two banks, each expiring January 2023.

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

2021	$ 61,065
2022	11,615
2023	239,310
2024	12,800
2025	13,450
Thereafter	559,990
	$ 898,230

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, 2020 and 2019 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, 2020 and 2019:

	2020	2019
2008 interest rate swap	$ 5,650	$ 5,773

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, 2020 and 2019:

	Amount of Gain Recognized in the Performance Indicator	
	2020	2019
Derivative in nonhedging relationship		
Nonoperating gains, net	$ 123	$ 1,681

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, 2020 and 2019 was $22,850 and $26,625, 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, 2020 and 2019:

	2020	2019
2004 interest rate swap	$ 324	$ 462

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, 2020 and 2019:

	Amount of Gain Recognized in the Performance Indicator	
	2020	2019
Derivative in nonhedging relationship		
Nonoperating gains, net	$ 138	$ 129

(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, 2020 and 2019, the combined market value of the swaps was below the trigger and as such, no collateral was required by the counterparty.

10. 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 to renew or replace a real estate lease. Real estate agreements, which expire at various dates through 2040, 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. Additionally, the Hospital has made an accounting policy election to not apply recognition requirements of the guidance to short-term leases. 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.

For real estate leases, the Hospital elected to separate lease and nonlease components. 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 nonlease components and are expensed as incurred.

For equipment leases, the Hospital did not elect to separate lease and nonlease components. 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. Lease 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 statements of operations for the years ended December 31, 2020 and 2019 are as follows:

	2020	2019
Fixed operating lease expense	$ 42,132	$ 38,232
Short-term lease expense	386	2,753
Sublease income	(3,456)	(3,183)
Net lease cost	$ 39,062	$ 37,802

(in thousands)

The weighted average lease terms and discount rates for the Hospital's operating leases for the years ended December 31, 2020 and 2019 are as follows:

	2020	2019
Weighted average remaining lease term (in years)		
Real estate leases	11.2	12.4
Equipment leases	3.1	3.5
Weighted average discount rate for operating leases	4.06%	4.08%

The following table provides supplemental cash flow information related to the Hospital's operating leases for the years ended December 31, 2020 and 2019:

	2020	2019
Cash paid for amounts included in the measurement of lease liabilities		
Operating cash flows for operating leases	$ 43,378	$ 41,267
Right of use assets obtained in exchange for operating lease liabilities	70,446	37,911

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, 2020:

2021	$ 43,025
2022	36,328
2023	31,149
2024	28,042
2025	26,057
Thereafter	166,841
Total minimum lease commitments	331,442
Less: imputed interest	(46,678)
Present value of lease liabilities	284,764
Less: current portion of lease liabilities	(33,851)
Long-term lease liabilities	$ 250,913

Minimum lease commitments after 2025 include $41,913 associated with renewal options that are reasonably certain to be exercised.

(in thousands)

11. Pension and Other Postretirement Benefit Plans

The Hospital maintains a defined benefit cash balance pension plan ("Cash Balance Plan") covering substantially all full-time employees, as well as various supplemental retirement plans, which provide pension benefits to certain key executives. Effective January 1, 2014, the Cash Balance Plan was frozen to new employees hired after December 31, 2013.

Chilton Division had a noncontributory defined benefit retirement plan ("Chilton Plan") covering substantially all of its full-time employees. 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's funding policy provides that payments to the Cash Balance 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.

The Cash Balance Plan offered a Lump Sum Window for terminated vested participants in both 2020 and 2019, which resulted in lump sums of approximately $14,700 and $17,600 being paid out under this program for the years ended December 31, 2020 and 2019, respectively. These payouts, along with routine lump sum benefits paid from the Cash Balance Plan, totaled $45,900 and $34,400, respectively, for the years ended December 31, 2020 and 2019. These totals were not above the settlement thresholds of $67,300 for 2020 and $69,800 for 2019 and therefore did not trigger settlement accounting in either year.

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 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.

(in thousands)

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, 2020 and 2019, a statement of the funded status of the plans and, the amounts recognized in the consolidated balance sheets as of December 31, 2020 and 2019.

	Pension Benefits		Other Postretirement Benefits	
	2020	2019	2020	2019
Accumulated benefit obligation	$ 945,956	$ 893,708	$ 149,979	$ 123,935
Change in benefit obligation				
Benefit obligation at beginning of year	$ 919,008	$ 834,206	$ 123,935	$ 131,896
Service cost	37,169	34,596	651	608
Interest cost	31,195	36,005	5,062	5,437
Plan participants' contributions	-	-	766	745
Plan amendments	-	(960)	-	-
Actuarial loss (gain)	70,402	84,692	26,256	(8,132)
Benefits paid	(79,019)	(69,531)	(6,691)	(6,619)
Benefit obligation at end of year	978,755	919,008	149,979	123,935
Change in plan assets				
Fair value of plan assets at beginning of year	781,135	671,692	88,335	74,938
Actual return on plan assets	109,263	117,928	9,770	18,438
Medicare Part D subsidy	-	-	225	345
Employer contributions	66,204	61,046	319	488
Plan participants' contributions	-	-	766	745
Benefits paid	(79,019)	(69,531)	(6,691)	(6,619)
Fair value of plan assets at end of year	877,583	781,135	92,724	88,335
	$ (101,172)	$ (137,873)	$ (57,255)	$ (35,600)
Amounts recognized in the consolidated balance sheets consist of				
Current liabilities	$ (528)	$ (468)	$ (963)	$ (660)
Long-term liabilities	(100,644)	(137,405)	(56,292)	(34,940)
Net amount recognized	$ (101,172)	$ (137,873)	$ (57,255)	$ (35,600)
Amounts recognized in net assets without donor restrictions consist of				
Actuarial net loss	$ 235,588	$ 238,703	$ 22,218	$ (326)
Prior service cost	2,767	3,175	-	-
	$ 238,355	$ 241,878	$ 22,218	$ (326)

For measurement purposes, the postretirement plans assumed an annual rate of increase in the per capita cost of covered health care benefits of 7.00% and 6.75% for 2020 and 2019, respectively. The rate was assumed to decrease gradually to 3.78% for 2075 and remain at that level thereafter. The Cash Balance Plan discount rate decreased by 60 basis points in the current year and 96 basis points in the prior year, resulting in $55.9 million and $79.6 million losses in 2020 and 2019, respectively. The weighted average interest crediting rate assumption is 4.00% for all account balances for 2020 and 2019, respectively.

(in thousands)

The following tables provide the components of the net periodic pension and other postretirement benefit costs and the total amount recognized in net periodic benefit cost and changes in net assets without donor restrictions for the years ended December 31, 2020 and 2019:

	Pension Benefits		Other Postretirement Benefits	
	2020	2019	2020	2019
Net periodic benefit cost				
Service cost	$ 37,169	$ 34,596	$ 651	$ 608
Interest cost	31,195	36,005	5,062	5,437
Expected return on plan assets	(50,354)	(43,495)	(6,026)	(5,110)
Actuarial loss (gain)	14,609	15,498	(86)	(561)
Amortization of prior service cost	407	300	-	-
Net periodic benefit cost (benefit)	33,026	42,904	(399)	374
Amounts recognized in changes in net assets without donor restrictions				
Net (gain) loss	(3,116)	(6,199)	22,544	(20,914)
Prior service cost	(407)	(300)	-	-
	(3,523)	(6,499)	22,544	(20,914)
Total recognized in net periodic benefit cost and change in net assets without donor restrictions	$ 29,503	$ 36,405	$ 22,145	$ (20,540)

The actuarial net gain and prior service cost for the pension plans that will be amortized from net assets without donor restrictions into net periodic benefit cost in 2021 are $13,686 and $359, respectively.

The actuarial net loss for other postretirement benefits that will be amortized from net assets without donor restriction into net periodic benefit cost in 2021 is $1,401.

The Hospital recorded the nonservice cost components of the net periodic benefit costs for its pension and postretirement benefit plans of $5,193 and ($8,074) within nonoperating gains, net in the consolidated statements of operations for the years ended December 31, 2020 and 2019, respectively.

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

	Pension Benefits		Other Postretirement Benefits	
	2020	2019	2020	2019
Benefit obligations				
Discount rate	2.94 %	3.54 %	3.10 %	3.84 %
Rate of compensation increase	3.00	3.00	3.00	3.00
Net periodic benefit cost				
Discount rate	3.54 %	4.50 %	3.84 %	4.81 %
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

(in thousands)

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.

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
2021	$ 75,710	$ 6,120	$ 5,708
2022	56,636	6,198	5,742
2023	56,239	6,558	6,058
2024	59,917	6,907	6,359
2025	65,747	7,287	6,695
2026-2030	339,457	40,851	37,246

The aggregate benefits expected to be paid are based on the same assumptions used to measure the benefit obligation at December 31, 2020 and include estimated future employee service.

Plan Assets
The Plans' weighted average asset allocation is as follows:

	Percentage of Plan Assets					
	Pension Benefits			Other Postretirement Benefits		
Asset Category	Target Allocation	2020	2019	Target Allocation	2020	2019
Equity securities	35–85%	59 %	65 %	55–80%	79 %	81 %
Debt securities	20–50%	35	34	10–30%	7	12
Other	0–25%	6	1	0–10%	14	7
		100 %	100 %		100 %	100 %

(in thousands)

The following tables summarize the Cash Balance Plan's financial instruments, which are measured at fair value on a recurring basis by caption and by level within the valuation hierarchy as of December 31, 2020 and 2019:

2020	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, 2020	Valuation Technique[1]
Plan assets					
Money market funds	$ -	$ 53,977	$ -	$ 53,977	M
Mutual funds	-	818,689	-	818,689	M
	$ -	$ 872,666	$ -	$ 872,666	

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 addition to the investments above, the Cash Balance Plan's assets include financial instruments, which are measured at NAV of $4,197 and $4,810 as of December 31, 2020 and 2019, respectively.

The Overlook Division and General Division postretirement plans are unfunded. The Overlook Division plan has an aggregate benefit obligation of $9,926 and $8,114 at December 31, 2020 and 2019, respectively. The General Division plan has an aggregate benefit obligation of $1,151 and $1,244 at December 31, 2020 and 2019, respectively.

(in thousands)

The following tables summarize the Morristown Division's postretirement plan's financial instruments, which are measured at fair value on a recurring basis by caption and by level within the valuation hierarchy as of December 31, 2020:

2020	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, 2020	Valuation Technique[1]
Postretirement plan assets					
Money market funds	$ -	$ 12,536	$ -	$ 12,536	M
Mutual funds	-	80,188	-	80,188	M
	$ -	$ 92,724	$ -	$ 92,724	

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.*

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, 2020, the Hospital expects to contribute $55,000 during fiscal year 2021. This will be evaluated on a quarterly basis. There are no required contributions to be made to the Hospital's other defined benefit pension or postretirement plans.

(in thousands)

12. 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 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 medical professionals where are provided with $3,000 for each medical incident, $2,000 each general liability loss, and $250 per incident with a $25,000 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, 2020 and 2019, no amounts are outstanding under the letters of credit.

As of December 31, 2020 and 2019, the undiscounted claims liability recognized by the Captive has been actuarially determined to approximate $64,163 and $52,837, respectively. The Captive has recorded approximately $120,380 and $100,038 at December 31, 2020 and 2019, 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 $63,912 and $52,904 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, 2020 and 2019, 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)

13. Related Party Transactions

Due from affiliates, net, as of December 31, 2020 and 2019, consists of the following and are recorded in other current assets, long-term investments and other assets, and accrued employee benefits and other, net of current portion in the consolidated balance sheets:

	2020	2019
Other current assets		
Parent	$ 38,490	$ 40,766
Atlantic Ambulance	37,458	25,794
AHSIC	1,705	3,570
Due from affiliated foundations	867	600
Accountable Care Organizations	990	538
Primary Care Partners	5	156
Atlantic Health Partners	292	241
	79,807	71,665
Long-term investments and other assets		
Due from affiliated foundations (Note 7)	49,137	40,294
Amounts due from related parties, net	128,944	111,959
Less: Allowance for doubtful accounts	(27,068)	(20,081)
	101,876	91,878
Accrued employee benefits and other, net of current portion		
AHSIC	(2,772)	(3,046)
Due from related parties, net	$ 99,104	$ 88,832

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, 2020 and December 31, 2019, the Hospital owes $2,772 and $3,046 to AHSIC for leasehold improvements, respectively.

The Hospital, as lessee, contracts for operating leases with AHSIC. The description of leases and payments under the leases are as follows for the years ended December 31, 2020 and 2019:

	2020	2019
Medical office buildings, apartments, houses and office space for hospital employees	$ 7,038	$ 7,032

(in thousands)

As of December 31, 2020, the future minimum commitments under these leases are as follows:

2021	$ 7,278
2022	6,604
2023	6,664
2024	6,726
2025	6,789
Thereafter	74,909
Total minimum lease commitments	108,970
Less: imputed interest	(30,061)
Present value of lease liabilities	78,909
Less: current portion of lease liabilities	(4,137)
Long-term lease liabilities	$ 74,772

Minimum lease commitments with related parties after 2025 include $16,711 associated with renewal options that are reasonably certain to be exercised.

14. Commitments and Contingencies

At December 31, 2020 and 2019, information technology contracts of $4,848 and $4,757, respectively, and construction contracts and purchases of equipment of $70,315 and $45,188, 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 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.

15. 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.

(in thousands)

Total expenses related to providing both health care services and general and administrative functions for the years ended December 31, 2020 and 2019 are as follows:

	2020		
	Program Services	General and Administrative	Total
Salaries	$ 1,104,420	$ 195,014	$ 1,299,434
Supplies and other expenses	1,002,715	177,055	1,179,770
Employee benefits	226,257	39,951	266,208
Depreciation and amortization	138,321	24,424	162,745
Interest	29,182	5,153	34,335
Total expenses	2,500,895	441,597	2,942,492
Other components of net periodic benefit costs	(5,193)	-	(5,193)
Total	$ 2,495,702	$ 441,597	$ 2,937,299

	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

16. Net assets with donor restrictions

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

	December 31,	
	2020	2019
Research	$ 4,592	$ 5,278
Construction projects	39,639	35,361
Purchase of plant and equipment	12,660	12,345
Scholarships and education	5,453	5,111
Program services	65,524	56,660
	$ 127,868	$ 114,755

(in thousands)

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 $38,176 and $37,105 as of December 31, 2020 and 2019, respectively, which, once appropriated, is expendable:

	December 31, 2020	December 31, 2019
Donor-restricted endowment funds	$ 53,639	$ 52,362

During 2020 and 2019, net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose of purchasing capital equipment in the amounts of $9,576 and $18,878, respectively, and other noncapital purposes in the amounts of $21,140 and $21,371, respectively.

17. Liquidity and availability of resources

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

	2020	2019
Financial assets:		
Cash and cash equivalents	$ 1,003,134	$ 400,402
Patient accounts receivable, net	270,134	314,669
Other current assets	29,486	30,202
	1,302,754	745,273
Liquidity resources:		
Available line of credit	150,000	-
	$ 1,452,754	$ 745,273

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 7, 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 9.

18. Subsequent Events

Subsequent events have been evaluated through April 9, 2021, 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 thousands)

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 (Note 9). 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.