AHS Hospital Corp.

Consolidated Financial Statements and Supplemental Information
December 31, 2023 and 2022

AHS Hospital Corp.
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December 31, 2023 and 2022

Report of Independent Auditors

To the Board of Trustees of Atlantic Health System, Inc.

Opinion

We have audited the accompanying consolidated financial statements of AHS Hospital Corp. and its subsidiaries (the "Company"), which comprise the consolidated balance sheets as of December 31, 2023 and 2022, and the related consolidated statements of operations, of changes in net assets and of cash flows for the years then ended, including the related notes (collectively referred to as the "consolidated financial statements").

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2023 and 2022, and the results of its operations, changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (US GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management 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, and for 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.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for one year after the date the consolidated financial statements are issued.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with US GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are

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considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with US GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Supplemental Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The accompanying consolidating statements of operations as of and for the years ended December 31, 2023 and 2022 (the "supplemental information") is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. The consolidating information is not intended to present, and we do not express an opinion on, the financial position, results of operations, changes in net assets and cash flows of the individual divisions of the Company. The supplemental information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The supplemental information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves and other additional procedures, in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplemental information is fairly stated, in all material respects, in relation to the consolidated financial statements taken as a whole.

PricewaterhouseCoopers LLP

New York, New York
April 25, 2024

AHS Hospital Corp.
Consolidated Balance Sheets
December 31, 2023 and 2022

(in thousands)	2023	2022
Assets		
Current assets		
Cash and cash equivalents	$ 516,839	$ 680,644
Assets limited as to use	68,070	117,073
Patient accounts receivable, net	386,450	345,622
Other current assets	231,841	161,590
Total current assets	1,203,200	1,304,929
Assets limited as to use, net of current portion	2,590,977	2,219,445
Long-term investments and other assets	532,377	421,320
Property, plant and equipment, net	1,406,676	1,305,439
Right of use assets, net	304,031	329,148
Total assets	$ 6,037,261	$ 5,580,281
Liabilities and Net Assets		
Current liabilities		
Current portion of long-term debt	$ 18,486	$ 67,886
Current portion of lease liability	42,107	41,641
Current portion of CARES Act Medicare advancements	-	6,418
Accounts payable and accrued expenses	529,614	548,246
Estimated amounts due to third party payers	67,193	58,106
Total current liabilities	657,400	722,297
Accrued employee benefits and other, net of current portion	299,337	341,965
Long-term debt, net of unamortized bond premium, debt issuance costs, and current portion	1,386,033	1,354,518
Long-term lease liability, net of current portion	270,571	294,897
Total liabilities	2,613,341	2,713,677
Net assets		
Without donor restrictions controlled by the Hospital	3,208,705	2,658,068
Without donor restrictions attributable to noncontrolling interests	4,244	4,640
Without donor restrictions	3,212,949	2,662,708
With donor restrictions	210,971	203,896
Total net assets	3,423,920	2,866,604
Total liabilities and net assets	$ 6,037,261	$ 5,580,281

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

AHS Hospital Corp.
Consolidated Statements of Operations
Years Ended December 31, 2023 and 2022

(in thousands)	2023	2022
Revenues, gains and other support		
Net patient service revenue	$ 3,913,906	$ 3,626,289
Other revenue	39,554	29,054
Legislative funding from CARES Act and FEMA	29,424	50,922
Net assets released from restrictions	15,283	16,729
Total revenues, gains and other support	3,998,167	3,722,994
Expenses		
Salaries	1,831,954	1,654,236
Supplies and other expenses	1,445,666	1,359,975
Employee benefits	344,650	317,054
Depreciation and amortization	178,965	171,334
Interest	51,355	47,667
Total operating expenses	3,852,590	3,550,266
Operating income	145,577	172,728
Change in net unrealized gains (losses)	289,748	(488,466)
Investment income, net	60,394	42,776
Nonoperating (loss) gain, net	(17,063)	10,942
Excess (deficiency) of revenues over expenses	478,656	(262,020)
Other changes in net assets without donor restrictions		
Noncontrolling interest	(396)	(231)
Equity transfers to related parties	(28,676)	(68,108)
Change in funded status of benefit plans	35,312	(52,875)
Net assets released from restrictions for capital purposes	18,266	22,018
Government grants used for capital purchases	47,079	4,350
Increase (decrease) in net assets without donor restrictions	$ 550,241	$ (356,866)

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, 2023 and 2022

(in thousands)	2023	2022
Net assets without donor restrictions		
Excess (deficiency) of revenues over expenses	$ 478,656	$ (262,020)
Noncontrolling interest	(396)	(231)
Equity transfers to related parties	(28,676)	(68,108)
Change in funded status of benefit plans	35,312	(52,875)
Net assets released from restrictions for capital purposes	18,266	22,018
Government grants used for capital purchases	47,079	4,350
Increase (decrease) in net assets without donor restrictions	550,241	(356,866)
Net assets with donor restrictions		
Contributions	33,837	33,870
Investment income	1,644	981
Change in net unrealized gain (loss)	5,143	(8,029)
Net assets released from restrictions for operations	(15,283)	(16,729)
Net assets released from restrictions for capital purposes	(18,266)	(22,018)
Increase (decrease) in net assets with donor restrictions	7,075	(11,925)
Increase (decrease) in net assets	557,316	(368,791)
Net assets		
Beginning of year	2,866,604	3,235,395
End of year	$ 3,423,920	$ 2,866,604

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

AHS Hospital Corp.
Consolidated Statements of Cash Flows
Years Ended December 31, 2023 and 2022

(in thousands)	2023	2022
Cash flows from operating activities		
Change in net assets	$ 557,316	$ (368,791)
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Change in funded status of benefit plans	(35,312)	52,875
Equity transfers to related parties	28,676	68,108
Depreciation and amortization	178,965	171,334
Loss on disposal of property, plant and equipment	12	71
Noncontrolling interest	(396)	(231)
Net realized and unrealized (gains) losses on investments	(287,496)	528,309
Change in value of swap agreements	(1,544)	1,571
Amortization of deferred financing costs and bond premiums	(2,352)	(2,352)
Amortization of right of use assets	37,718	35,003
Grants and contributions restricted for capital purposes and permanent investments	(65,180)	(20,186)
Changes in assets and liabilities		
Increase in net patient accounts receivable	(40,828)	(22,223)
Increase in other assets	(37,852)	(24,390)
Decrease in CARES Act Medicare advancements	(6,418)	(217,643)
Decrease in accounts payable, accrued expenses, estimated amounts due to third party payers, accrued employee benefits and other liabilities	(56,340)	(47,439)
Net cash provided by operating activities	268,969	154,016
Cash flows from investing activities		
Purchases of investments	(2,556,888)	(1,197,944)
Proceeds from sales of investments	2,501,800	1,103,297
Repayment of loan to AHSIC	5,146	1,578
Loan issued to AHSIC	(82,567)	(43,003)
Loan issued to CentraState	(10,000)	(103,497)
Contributions to venture capital private equity funds	(13,871)	-
Additions to property, plant and equipment	(275,653)	(189,073)
Net cash used in investing activities	(432,033)	(428,642)
Cash flows from financing activities		
Principal payments on long-term debt	(15,533)	(13,282)
Proceeds from $100M Taxable Term Loan	-	100,000
Equity transfers to related parties	(28,676)	(20,883)
Grants and contributions restricted for capital purposes and permanent investments	43,468	20,544
Net cash (used in) provided by financing activities	(741)	86,379
Decrease in cash, cash equivalents, and restricted cash	(163,805)	(188,247)
Cash, cash equivalents, and restricted cash		
Beginning of year	680,644	868,891
End of the year	$ 516,839	$ 680,644
Supplemental disclosure of cash flow information		
Cash paid for interest	$ 51,908	$ 47,944
(Increase) decrease in accruals for acquisition of property, plant, and equipment	(4,561)	9,675
Right of use assets obtained in exchange for operating lease obligations	20,910	50,995
Noncash equity transfers to related parties	-	47,225

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

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

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

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

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

(in thousands)

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, Healthcare Quality Partners LLC (ceased operations at December 21, 2021 and in September 2022, returned its full investment to the Parent including any earnings thereby inactivating the entity), and Care Better ACO LLC, for-profit limited liability companies established for the purpose of participating in the Medicare Shared Savings Program under the Patient Protection and Affordable and Accountable Care Act of 2010 as well as participating in shared savings programs with certain commercial carriers. AHSIC holds real estate interests and manages health care businesses including magnetic resonance imaging, durable medical equipment and private duty home care services. The Captive's principal activity is to provide for professional and commercial general liability insurance to the Parent and its subsidiaries beginning January 1, 2002. In addition, the Parent wholly owns the following not-for-profit entities: Atlantic Ambulance Corp., a not-for-profit company established to provide emergency and nonemergency medical transportation to the Parent and its subsidiaries; North Jersey Health Care Properties which owns commercial buildings; Prime Care, Inc. which provides various wellness, health education and other health services; and Newton Medical Center Foundation, Inc. and the Chilton Medical Center Foundation, Inc., both not-for-profit fund raising organizations for the benefit of their respective Hospital Divisions.

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

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.

(in thousands)

Adopted Authoritative Pronouncement
In June 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-13, *Financial Instruments – Credit Losses: Measurement of Credit Losses on Financial Instruments*. The previous standard delays the recognition of a credit loss on a financial asset until the loss is probable of occurring. The new standard removes the requirement that a credit loss be probable of occurring for it to be recognized, and requires entities to use historical experience, current conditions, and reasonable and supportable forecasts to estimate their future expected credit losses. The standard is required to be applied using the modified retrospective approach with a cumulative-effect adjustment to net assets, if any, upon adoption. This ASU is effective for the Hospital for fiscal years beginning after December 15, 2022. The Hospital has adopted this standard in 2023 and notes the adoption did not have a material impact on the consolidated financial statements.

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 for patient service revenue, 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 assets financial statement line items as investments, and therefore exclude them from cash and cash equivalents in the consolidated statements of cash flows.

At December 31, 2023 and 2022, 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, 2023 and 2022.

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, and unrealized gains and loss, is included within nonoperating activities within the consolidated statements of operations, unless the income or loss is restricted by donor or law.

(in thousands)

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 within nonoperating gains, net in the consolidated statements of operations.

Other Current Assets
Included within other current assets in the consolidated balance sheets are amounts due from related parties, obligated Federal Emergency Management Agency ("FEMA") reimbursement of qualifying expenses, 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.

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, 2023 and 2022, 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 restriction 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.

Leases
The Hospital leases certain office and distribution facilities ("real estate"), as well as medical and other equipment, which are all accounted for under FASB Accounting Standards Codification ("ASC") 842, *Leases*. The Hospital has made an accounting policy election to not apply recognition requirements of ASC 842 to short-term leases, which are those leases with a term of one year or less.

(in thousands)

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.

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's accounting policy election is 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's accounting policy election is to not 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.

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

(in thousands)

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-let restricted endowment fund that is not classified in net assets with donor restrictions in perpetuity is classified as net assets with donor restrictions until those amounts are appropriated for expenditure by the Hospital in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Hospital considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

(1) The duration and preservation of the fund.

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

(3) General economic conditions.

(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.

(in thousands)

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.

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 (including AMG and AVN) 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. Physician services are billed at professional rates tied to contracts for visits and procedures done in the physician office setting. 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 did not have a significant impact on the performance indicator for either of the years ended December 31, 2023 or 2022.

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 including physician practices, 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

(in thousands)

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, 2021 for the Hackettstown Division, 2020 for the Chilton Division, 2019 for the Overlook and Newton Divisions and 2018 for the Morristown Division; however, the 2012 Medicare cost report for the Morristown Division remains open.

Medicaid
Inpatient acute care services rendered to Medicaid program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. Outpatient services are paid based upon a cost reimbursement methodology and certain services are paid based on a Medicaid fee schedule. The Hospital is paid for reimbursable costs at a tentative rate with final settlement determined after submission of the annual cost report by the Hospital and audit thereof by the Medicaid fiscal intermediary. The Hospital's Medicaid cost reports have been audited and finalized by the Medicaid fiscal intermediary through December 31, 2020 for all of the Hospital Divisions.

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

(in thousands)

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 maintain compliance with various regulations.

Other Revenue
Included within other revenue in the consolidated statements of operations are those amounts the Hospital derives from cafeteria sales, parking lot revenue, purchase discounts and various other miscellaneous receipts.

Performance Indicator
The consolidated statements of operations include excess (deficiency) of revenues over expenses as the performance indicator. Changes in net assets without donor restrictions which are excluded from excess (deficiency) of revenues over expenses, consistent with industry practice, include noncontrolling interest, equity transfers to related parties, 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, net, changes in unrealized gains (losses) on investments, and other nonoperating items (which include changes in the value of swap agreements and other components of net periodic benefit costs), which the Hospital does not consider to be a component of its operating activities are excluded from the income from operations in 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 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 short-term investments, including money market funds and common stock, as they are traded in an active market with sufficient volume and frequency of transactions.

(in thousands)

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 (NAV) calculated by the funds' independent administrators which are calculated at least daily. These valuations are readily observable in the marketplace 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 no transferability, 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 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).

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 2022 consolidated financial statements have been reclassified in order to conform to fiscal year 2023 presentation.

(in thousands)

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, 2023 and 2022 amounted to approximately $114,481 and $110,164, 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 gross charges foregone for providing charity care (i.e. charity care discounts).

4. Net Patient Service Revenue

The components of net patient service revenue for the Hospital (including AVN and AMG) for the years ended December 31, 2023 and 2022 are as follows:

	2023	2022
Gross charges		
Inpatient	$ 8,666,258	$ 8,035,189
Outpatient	8,736,554	7,776,118
Physician practices	1,399,513	1,316,409
Total gross charges	18,802,325	17,127,716
Net additions (deductions) from gross charges		
Contractual discounts and implicit price concessions	(14,761,434)	(13,376,471)
Charity care discount	(140,280)	(136,862)
Charity care subsidy	12,935	11,546
Special mental health subsidy	360	360
	(14,888,419)	(13,501,427)
Net patient service revenue	$ 3,913,906	$ 3,626,289

The Hospital recorded $102,353 and $117,947 of implicit price concessions as a direct reduction of patient service revenues during the years ended December 31, 2023 and 2022, respectively.

(in thousands)

The mix of Hospital net patient service revenue (excluding net revenue recorded by AMG), net of contractual discounts and implicit price concessions by payer for the years ended December 31, 2023 and 2022 is as follows:

	2023	2022
Medicare	23.3 %	24.4 %
Medicaid	1.0	0.8
Managed care and other third party payers	75.4	73.8
Self pay	0.1	0.6
Charity	0.2	0.4
	100.0 %	100.0 %

Net patient service revenue recorded by AMG's physician practices amounted to $514,249 and $484,523 for the years ended December 31, 2023 and 2022, respectively. AMG's net patient service revenue by payer for the years ended December 31, 2023 and 2022, is as follows:

	2023	2022
Medicare	22.7 %	23.8 %
Medicaid	0.3	0.3
Managed care and other third party payers	76.8	75.8
Self pay	0.2	0.1
	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 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 reimbursement for patient care provided to the uninsured, the Provider Relief Fund and advances of Medicare payments from the Centers for Medicare and Medicaid Services.

Provider Relief Funds are intended to reimburse eligible healthcare providers for expenses attributable to COVID-19 and lost revenues. The Hospital recognized $8,710 of funds received under the Provider Relief Fund as operating revenues, based on information contained in laws and regulations and information issued by HHS, for the year ended December 31, 2022. The Hospital did not receive any new funding in 2023. 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 2022 in future financial statement periods.

In April 2020, the Hospital received $341,166 in Medicare advances. The recoupment period for the Hospital's Medicare advances commenced one year after receipt of the advances (April 2021) via offsets to Medicare payments. All advances were fully repaid by March 31, 2023.

(in thousands)

During 2023 and 2022, the Hospital applied for and received approval from FEMA for the reimbursement of qualifying capital and non-capital COVID-19 related expenses. The Hospital recognized $29,424 and $42,212 within operating revenue in the consolidated statements of operations for the years ended December 31, 2023 and 2022, respectively. In addition, the Hospital recognized $22,520 within government grants used for capital purposes in the consolidated statement of operations for the year ended December 31, 2023. FEMA can and does retrospectively adjust grant distribution formulas and may adjust funding already received which may impact the amount the Hospital has recorded for the years ended December 31, 2023 and 2022 in future financial statement periods.

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, 2023 and 2022, were as follows:

	2023	2022
Medicare	19.1 %	19.0 %
Medicaid	2.2	2.1
Managed care and other third party payers	69.1	68.8
Self pay	9.6	10.1
	100.0 %	100.0 %

(in thousands)

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

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

	2023	2022
Board designated for capital and program costs		
Short-term investments including money market funds	$ 287,566	$ 331,447
Equity securities	381,183	-
Fixed income funds	540,640	-
Mutual funds	1,438,758	1,975,789
Alternative investments - equity	127	163
	2,648,274	2,307,399
Under bond indenture agreements		
Short-term investments including money market funds		
Interest account	3,499	21,301
Principal account	6,602	7,153
Debt service reserve fund	672	665
	10,773	29,119
Total assets whose use is limited	2,659,047	2,336,518
Less: Assets limited as to use and are required for current liabilities	68,070	117,073
Noncurrent assets limited as to use	$ 2,590,977	$ 2,219,445

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

(in thousands)

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

	2023	2022
Long-term investments		
Short term investments including money market funds	$ 3,128	$ 2,744
Mutual funds	79,713	70,627
Alternative investments - equity	3,497	3,600
	86,338	76,971
Other assets		
AHSIC intercompany loans	117,147	39,045
Professional and general liability insurance recoveries	111,971	102,337
CentraState intercompany loans	113,497	103,497
Workers compensation liability insurance recoveries	7,200	4,500
Due from Overlook Foundation	42,864	49,263
Due from Newton Medical Center Foundation	3,897	3,093
Due from Chilton Medical Center Foundation	6,102	6,534
Due from the Foundation for Hackettstown Medical Center	2,242	2,308
Venture capital private equity funds	25,447	11,576
Equity method investments	3,712	6,749
Beneficial interest in trusts	2,209	2,042
Other	9,751	13,405
	446,039	344,349
Total long-term investments and other assets	$ 532,377	$ 421,320

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

On August 31, 2023, the Hospital entered into a revolving credit loan agreement with CentraState in the amount of $30,000, whereby drawdowns were utilized by CentraState to pay working capital requirements to meet its obligations. CentraState will pay interest to the Hospital monthly at a fixed annual rate of 5% with the full principal amount due to the Hospital on August 31, 2028. As of December 31, 2023, CentraState had drawn down $10,000 on the revolving credit loan.

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, 2023 and 2022, the Hospital has recorded a corresponding liability for professional and general liability insurance claims within accounts payable and accrued expenses in the consolidated balance sheets (Note 12). As of December 31, 2023 and 2022, the Hospital recorded liabilities related to estimated gross workers compensation claims totaling $22,700 and $21,700, respectively, within accounts payable and accrued expenses in the consolidated balance sheets.

(in thousands)

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.

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, 2023 and 2022 consist of the following:

	2023	2022
Interest and dividend income	$ 69,433	$ 74,534
Realized losses on sales of securities	(9,039)	(31,758)
Investment income	60,394	42,776
Change in net unrealized gains (losses)	289,748	(488,466)
Total investment return	$ 350,142	$ (445,690)

(in thousands)

The fair value of the Hospital's financial assets that are measured on a recurring basis at December 31, 2023 and 2022 are as follows:

2023	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, 2023	Valuation Technique[1]
Assets limited as to use					
Short-term investments including money market funds	$ 298,339	-	-	$ 298,339	M
Equity securities	381,183	-	-	381,183	M
Fixed income funds	-	540,640	-	540,640	M
Mutual funds	-	1,438,758	-	1,438,758	M
	$ 679,522	$ 1,979,398	$ -	$ 2,658,920	
Investments measured at net asset value				127	
				$ 2,659,047	
Long-term investments					
Short-term investments including money market funds	$ 3,128	$ -	$ -	$ 3,128	M
Mutual funds	-	79,713	-	79,713	M
	$ 3,128	$ 79,713	$ -	$ 82,841	
Investments measured at net asset value				3,497	
				$ 86,338	
Beneficial interests in perpetual and remainder trusts	$ -	$ -	$ 2,209	$ 2,209	M
Venture capital private equity funds	$ -	$ -	$ 25,447	$ 25,447	M

(in thousands)

2022	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, 2022	Valuation Technique[1]
Assets limited as to use					
Money market funds	$ -	$ 360,566	$ -	$ 360,566	M
Mutual funds	-	1,975,789	-	1,975,789	M
	$ -	$ 2,336,355	$ -	$ 2,336,355	
Investments measured at net asset value				163	
				$ 2,336,518	
Long-term investments					
Money market funds	$ 106	$ 2,638	$ -	$ 2,744	M
Mutual funds	-	70,627	-	70,627	M
	$ 106	$ 73,265	$ -	$ 73,371	
Investments measured at net asset value				3,600	
				$ 76,971	
Beneficial interests in perpetual and remainder trusts	$ -	$ -	$ 2,042	$ 2,042	M
Venture capital private equity funds	$ -	$ -	$ 11,576	$ 11,576	M

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

There was no significant Level 3 investment activity for the years ended December 31, 2023 and 2022.

8. Property, Plant and Equipment

Property, plant and equipment at December 31, 2023 and 2022 are as follows:

	2023	2022	Depreciable Life *(in Years)*
Land	$ 74,772	$ 74,772	
Buildings and improvements	1,865,268	1,791,697	10–50
Equipment and fixed equipment	1,797,208	1,636,258	3–25
Construction in progress	114,826	69,552	
	3,852,074	3,572,279	
Less: Accumulated depreciation	2,445,398	2,266,840	
Property, plant and equipment, net	$ 1,406,676	$ 1,305,439	

Depreciation and amortization expense for the years ended December 31, 2023 and 2022 was $178,965 and $171,334, respectively.

(in thousands)

9. Long-Term Debt

Long-term debt at December 31, 2023 and 2022 consists of the following:

	2023	2022
$100,000 JP Morgan Chase Taxable Term Loan maturing on May 31, 2037. Principal is payable quarterly as is interest at an annual interest rate of 3.21%. The loan is collateralized by the Hospital's gross receipts.	$ 95,000	$ 98,333
$450,000 Series 2021 Taxable Bonds (Fixed Rate) maturing on July 1, 2051. Interest is payable each January 1 and July 1 at an annual interest rate of 2.78%. The bonds are collateralized by the Hospital's gross receipts.	450,000	450,000
$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, 2023, the average interest rate on the bonds was 4.42%. The bonds are collateralized by the Hospital's gross receipts.	159,170	170,840
$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, 2028. Interest is payable monthly at an annual interest rate of 5.6%. The loan is collateralized by the Hospital's gross receipts under the Master Trust Indenture.	50,000	50,000
$177,110 NJHCFFA AHS Hospital Corporation, Series 2008A Revenue Bonds (Fixed Rate), in varying maturities through 2027 at annual interest rates varying between 4.88% and 5.00%. Interest is payable each January 1 and July 1 and principal is payable each July 1 commencing in 2009. As of December 31, 2023, the average interest rate on the bonds was 5.00%. The bonds are collateralized by the Hospital's gross receipts.	2,070	2,600
$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 3.08%. The interest on the bonds is payable monthly and principal will be payable each July 1. As of December, 31, 2023, the average interest rate on the bonds was 3.27%. The bonds are collateralized by the Hospital's gross receipts.	177,110	177,110
Total long-term debt	1,358,350	1,373,883
Unamortized bond premium	51,824	54,430
Deferred financing fees	(5,655)	(5,909)
	1,404,519	1,422,404
Less: Current portion of long-term debt	18,486	67,886
Long-term debt, net of unamortized bond premium, debt issuance costs, and current portion	$ 1,386,033	$ 1,354,518

(in thousands)

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

On May 31, 2022, the Hospital entered into a $100,000 taxable loan agreement with a commercial bank. The loan proceeds are to be used for general corporate purposes. Principal and interest, at a fixed rate of 3.21% on the outstanding balance, are due quarterly commencing September 1, 2022, with the remaining unpaid principal in the amount of approximately $50,833 due and payable on May 31, 2037. The agreement contains provisions whereby certain financial ratios are to be maintained which mirror those of the Hospital's outstanding tax-exempt bond covenants. Subsequently, the Hospital entered into a secured loan agreement with CentraState to enable CentraState to pay off or legally defease all if its financed obligations as of that date (Note 7).

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

On April 21, 2020, the Hospital entered into a $200,000 revolving credit agreement with a commercial bank to provide for additional liquidity. The line incurs interest at a rate of SOFR adjusted by 0.65% per annum on the amount drawn. Additionally, the line incurs a monthly fee of 0.10% on the unused portion of the line of credit. There were no amounts drawn on the line as of either December 31, 2023 or 2022, however, the Hospital drew down $200,000 on April 4, 2024 to address temporary liquidity delays caused by third-party cyber issues. The line of credit contains provisions whereby certain financial ratios are to be maintained which mirror those of the Hospital's outstanding tax-exempt bond covenants. In addition, the Hospital renewed the revolving credit agreement effective April 19, 2024 for an additional one year term. Under the renewal, the line will incur interest at a rate of SOFR adjusted by 0.75% per annum on the amount drawn and a monthly fee of 0.15% on the unused portion of the line of credit. All other terms remain the same.

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

(in thousands)

$225,000. The Hospital received total proceeds of $268,023, which included a premium of $43,023. The agreement contains provisions whereby certain financial ratios are to be maintained which mirror those of the Hospital's outstanding tax-exempt bond covenants.

In December 2013, the Hospital entered into a $50,000 taxable loan agreement with a commercial bank. The majority of the proceeds were used to legally defease Chilton Division's NJHCFFA Series 2009 Revenue Bonds, which were assumed by the Hospital in 2014, concurrent with the merger. The agreement contains provisions whereby certain financial ratios are to be maintained which mirror those of the Hospital's outstanding tax-exempt bond covenants.

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

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

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

2024	$ 16,133
2025	16,783
2026	188,243
2027	6,038
2028	55,668
Thereafter	1,075,485
	$ 1,358,350

Interest Swaps

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

The 2008 Swap was resissued in place of the 2006A Swap when the Series 2006A Revenue Bonds were redeemed. This was a noncash transaction. The original notional amount of the swap was $91,550 subject to reduction in the principal amortization of a portion of the Hospital's Series 2008 variable rate debt and will expire on July 1, 2036, with an annual fee of 0.51%. The notional amount of the swap was $87,400 at December 31, 2023 and 2022. 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

(in thousands)

will pay a fixed rate of 4.00% in addition to the annual fee of 0.51%. The Hospital will then receive 68% of SOFR and pay the counterparty 4.00%. Currently the swap is treated as an ineffective swap for accounting purposes until SIFMA exceeds 4.05% for 90 days, at that time the swap will be tested to determine if it qualifies as a cash flow hedge.

The 2004 Swap was reissued in place of the 2004 Swap when the Series 2003 and 2004 Revenue Bonds were redeemed. This was a noncash transaction and there were no changes to the terms of the swap. The notional amount of the swap was $97,525, subject to reduction in the principal amortization of a portion of the Hospital's Series 2008 variable rate debt and will expire on July 1, 2025, with an annual fee of 0.52%. The notional amount of the swap at December 31, 2023 and 2022 was $10,025 and $14,550, 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 SOFR and pay the counterparty 4.00%. Currently the swap is treated as an ineffective swap for accounting purposes until SIFMA exceeds 4.05% for 90 days, at that time the swap will be tested to determine if it qualifies as a cash flow hedge.

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

	2023	2022
2008 interest rate swap	$ 5,763	$ 7,240
2004 interest rate swap	58	125

The following table sets forth the effect of the interest rate swap agreements on the consolidated statements of operations for the years ended December 31, 2023 and 2022:

	Amount of Gain (Loss) Recognized in the Performance Indicator	
	2023	**2022**
Derivative in nonhedging relationship		
Nonoperating gains (loss), net		
2008 interest rate swap	$ 1,477	$ (1,657)
2004 interest rate swap	67	86

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, 2023 and 2022, the combined market value of the swaps was below the trigger and as such, no collateral was required by the counterparty.

(in thousands)

10. Leases

Lease expense recognized within supplies and other expenses in the consolidated statements of operations for the years ended December 31, 2023 and 2022 are as follows:

	2023	2022
Fixed operating lease expense	$ 50,458	$ 40,585
Short-term lease expense	5,662	5,922
Sublease income	(3,597)	(3,435)
Net lease expense	$ 52,523	$ 43,072

The weighted average lease terms and discount rates for the Hospital's operating leases for the years ended December 31, 2023 and 2022 are as follows:

	2023	2022
Weighted average remaining lease term (in years)		
Real estate leases	9.9	10.6
Equipment leases	2.2	2.5
Weighted average discount rate for operating leases	4.13 %	2.78 %

The following table provides supplemental cash flow information related to the Hospital's operating leases for the years ended December 31, 2023 and 2022:

	2023	2022
Cash paid for amounts included in the measurement of lease liabilities operating cash flows for operating leases	$ 55,737	$ 49,473
Right of use assets obtained in exchange for operating lease liabilities	16,192	46,701

(in thousands)

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, 2023:

2024	$ 51,754
2025	47,561
2026	37,981
2027	35,455
2028	31,999
Thereafter	147,496
Total minimum lease commitments	352,246
Less: Imputed interest	39,568
Present value of lease liabilities	312,678
Less: Current portion of lease liabilities	42,107
Long-term lease liabilities	$ 270,571

Minimum lease commitments after 2028 include $14,129 associated with renewal options that are reasonably certain to be exercised. Refer also to Note 13 for lease arrangements with related parties, which are included above.

11. Pension and Other Postretirement Benefit Plans

Defined 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.
The 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 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.

(in thousands)

- 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 July 1996, at which time the plan was amended to exclude all active employees who had not retired as of that date.

Both the Morristown Division and Overlook Division postretirement plans were amended in May 1996 to exclude new employees from participation.

(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, 2023 and 2022, a statement of the funded status of the plans and, the amounts recognized in the consolidated balance sheets as of December 31, 2023 and 2022.

	Pension Benefits		Other Postretirement Benefits	
	2023	2022	2023	2022
Accumulated benefit obligation	$ 892,329	$ 836,167	$ 161,095	131,023
Change in benefit obligation				
Benefit obligation at beginning of year	$ 859,439	980,414	$ 131,023	161,095
Service cost	32,173	37,296	262	564
Interest cost	45,792	29,269	7,048	5,924
Plan participants' contributions	-	-	622	686
Actuarial loss (gain)	45,139	(126,702)	2,760	(30,439)
Plan amendments	(3,886)	2,855	-	-
Settlements	(43)	-	-	-
Benefits paid	(56,964)	(63,693)	(7,118)	(6,807)
Benefit obligation at end of year	921,650	859,439	134,597	131,023
Change in plan assets				
Fair value of plan assets at beginning of year	804,664	950,120	78,390	99,415
Actual return on plan assets	108,175	(143,639)	13,911	(15,325)
Medicare Part D subsidy	-	-	189	267
Employer contributions	68,452	61,876	253	154
Plan participants' contributions	-	-	622	686
Benefits paid	(56,964)	(63,693)	(7,118)	(6,807)
Fair value of plan assets at end of year	924,327	804,664	86,247	78,390
Funded status	$ 2,677	$ (54,775)	$ (48,350)	$ (52,633)
Amounts recognized in the consolidated balance sheets consist of				
Current liabilities	$ -	$ (3,507)	$ (1,179)	$ (1,150)
Long-term assets (liabilities)	2,677	(51,268)	(47,171)	(51,483)
Accrued employee benefit asset (liabilities)	$ 2,677	$ (54,775)	$ (48,350)	$ (52,633)
Amounts recognized in net assets without donor restrictions consist of				
Actuarial net loss	$ 233,998	$ 263,117	$ 5,738	$ 11,573
Prior service cost	1,691	2,049	-	-
	$ 235,689	$ 265,166	$ 5,738	$ 11,573

The Cash Balance Plan discount rate decreased by 24 basis points in the current year and increased by 250 basis points in the prior year, resulting in an approximate ($18,100) loss and $218,300 gain in 2023 and 2022, 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, 2023 and 2022:

	Pension Benefits		Other Postretirement Benefits	
	2023	**2022**	**2023**	**2022**
Net periodic benefit cost				
Service cost	$ 32,173	$ 37,296	$ 262	$ 564
Interest cost	45,792	29,269	7,048	5,924
Expected return on plan assets	(51,499)	(61,071)	(4,673)	(5,984)
Settlement (credit) charge	(43)	5,202	-	-
Actuarial loss (gain)	17,581	9,838	(664)	3,437
Amortization of prior service cost	359	359	-	-
Net periodic benefit cost	44,363	20,893	1,973	3,941
Amounts recognized in changes in net assets without donor restrictions				
Net (gain) loss	(29,118)	68,169	(5,835)	(12,588)
Recognition due to settlement	-	(5,202)	-	-
Plan amendments	-	2,855	-	-
Prior service cost	(359)	(359)	-	-
	(29,477)	65,463	(5,835)	(12,588)
Total recognized in net periodic benefit cost and change in net assets without donor restrictions	$ 14,886	$ 86,356	$ (3,862)	$ (8,647)

The Hospital recorded the nonservice cost (income) cost components of the net periodic benefit costs for its pension and postretirement benefit plans of $13,901 and ($13,027) within nonoperating gains, net in the consolidated statements of operations for the years ended December 31, 2023 and 2022, respectively.

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

	Pension Benefits		Other Postretirement Benefits	
	2023	**2022**	**2023**	**2022**
Benefit obligations				
Discount rate	5.38 %	5.62 %	5.57 %	5.77 %
Rate of compensation increase	4.00	3.00	4.00	3.00
Net periodic benefit cost				
Discount rate	5.62 %	3.12 %	5.77 %	3.45 %
Expected return on plan assets	6.50	6.50	6.20	6.20
Rate of compensation increase	3.00	3.00	3.00	3.00

(in thousands)

The postretirement plans assumed an annual rate of increase in the per capita cost of covered health care benefits of 7.75% for the years ended December 31, 2023 and 2022. The rate was assumed to decrease gradually to 4.04% for 2075 and remain at that level thereafter.

The Cash Balance Plan's weighted average interest crediting rate assumption is 6.32% and 4.22% for all account balances for 2023 and 2022, respectively.

Expected Benefit Payments
The benefits expected to be paid in each year from 2024 to 2033 are:

		Other Postretirement Benefits	
	Pension Benefits	Without Medicare Subsidy	With Medicare Subsidy
2024	$ 95,229	$ 8,016	$ 7,641
2025	61,624	7,713	7,305
2026	67,677	8,213	7,771
2027	68,625	8,714	8,241
2028	72,232	9,169	8,666
2029-2033	390,514	50,764	47,894

The aggregate benefits expected to be paid are based on the same assumptions used to measure the benefit obligation at December 31, 2023 and include estimated future employee service.

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

The 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).

(in thousands)

The Plans' weighted average asset allocations are as follows:

	Percentage of Plan Assets					
	Pension Benefits			Other Postretirement Benefits		
Asset Category	**Target Allocation**	**2023**	**2022**	**Target Allocation**	**2023**	**2022**
Equity securities	35–85%	29 %	51 %	55–80%	70 %	76 %
Debt securities	20–50%	26	41	10–30%	26	20
Other	0–25%	45	8	0–10%	4	4
		100 %	100 %		100 %	100 %

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, 2023 and 2022:

2023	**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, 2023**	**Valuation Technique(1)**
Plan assets					
Money market funds	$ 16,306	$ -	$ -	$ 16,306	M
Mutual funds	-	271,363	-	271,363	M
Fixed income funds	-	238,108	-	238,108	M
	$ 16,306	$ 509,471	$ -	$ 525,777	
Investments measured at net asset value				398,550	
				$ 924,327	

2022	**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, 2022**	**Valuation Technique(1)**
Plan assets					
Money market funds	$ -	$ 62,749	$ -	$ 62,749	M
Mutual funds	-	739,188	-	739,188	M
	$ -	$ 801,937	$ -	$ 801,937	
Investments measured at net asset value				2,727	
				$ 804,664	

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

The Overlook Division and General Division postretirement plans are unfunded. The Overlook Division plan has an aggregate benefit obligation of $6,283 and $6,507 at December 31, 2023 and 2022, respectively. The General Division plan has an aggregate benefit obligation of $710 and $693 at December 31, 2023 and 2022, 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, 2023 and 2022:

2023	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, 2022	Valuation Technique(1)
Postretirement plan assets					
Money market funds	$ 3,104	$ -	$ -	$ 3,104	M
Mutual funds	-	83,143	-	83,143	M
Investments measured at net asset value	$ 3,104	$ 83,143	$ -	$ 86,247	

2022	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, 2022	Valuation Technique(1)
Postretirement plan assets					
Money market funds	$ -	$ 3,471	$ -	$ 3,471	M
Mutual funds	-	74,919	-	74,919	M
Investments measured at net asset value	$ -	$ 78,390	$ -	$ 78,390	

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

Expected Contributions
Based on the funded status of the Cash Balance Plan as of December 31, 2023, the Hospital expects to contribute $60,000 during fiscal year 2024. This will be evaluated on a quarterly basis. There are no required contributions to be made to the Hospital's other postretirement plans.

Defined Contribution Plan
Effective January 1, 2014, new employees hired are eligible to participate in the Atlantic Health System 403(b) Retirement Savings Plan ("the 403(b) Plan"). For those eligible for matching contributions in the 403(b) Plan, the Hospital matches up to a percentage of compensation dependent on an employee's compensation, contribution and length of service. In addition, the Hospital provides a fixed non-elective contribution to the participants equal to 2 percent of compensation to participants employed at the end of the fiscal year. The Hospital contributed $39,658 and $25,319 to the 403(b) Plan for the years ended December 31, 2023 and 2022, respectively. Employees may contribute up to Internal Revenue code limits.

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 Hospital 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

(in thousands)

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 $70,000 per occurrence and annual aggregate for professional liability and $70,000 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, 2023 and 2022, no amounts are outstanding under the letters of credit.

As of December 31, 2023 and 2022, the undiscounted claims liability recognized by the Captive has been actuarially determined to approximate $121,447 and $107,868, respectively. The Captive has investments held for general and professional liability coverage of approximately $156,498 and $132,171 at December 31, 2023 and 2022, respectively.

The Hospital has recorded the claims liability recognized by the Captive, net of amounts related to affiliated Parent entities, in the amount of $111,971 and $102,337 in accrued employee benefits and other long-term liabilities and a corresponding long-term other asset for the amount recoverable from the Captive (Note 7) as of December 31, 2023 and 2022, 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, 2023 and 2022, 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:

	2023	2022
Other current assets		
Due from Parent	$ 44,765	$ 28,097
Due from Atlantic Ambulance	44,053	61,144
Due from AHSIC	25,404	15,395
Due from CentraState	9,715	3,081
Due from Accountable Care Organizations	2,878	2,895
Due from affiliated foundations	256	917
Due from Primary Care Partners	329	114
Due from Atlantic Health Partners	363	507
Due from North Jersey Healthcare Properties, Inc.	-	195
	127,763	112,345
Less: Allowance for doubtful accounts	(19,424)	(31,232)
	108,339	81,113
Long-term investments and other assets (Note 7)		
CentraState intercompany loans	113,497	103,497
AHSIC intercompany loans	117,147	39,045
Due from affiliated foundations	55,105	61,198
	285,749	203,740
Accrued employee benefits and other, net of current portion		
Due to AHSIC	(1,889)	(2,193)
Due from related parties, net	$ 392,199	$ 282,660

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.

(in thousands)

As of December 31, 2023 and December 31, 2022, the Hospital owes $1,889 and $2,193 to AHSIC for leasehold improvements, respectively. In addition, 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, 2023 and 2022:

	2023	2022
Medical office buildings, apartments, houses and office space for hospital employees	$ 7,898	$ 6,792

As of December 31, 2023, the future minimum commitments under these leases are as follows:

2024	$ 7,969
2025	8,062
2026	8,045
2027	7,624
2028	7,001
Thereafter	55,156
Total minimum lease commitments	93,857
Less: Imputed interest	(20,696)
Present value of lease liabilities	73,161
Less: Current portion of lease liabilities	(5,123)
Long-term lease liabilities	$ 68,038

Minimum lease commitments with related parties after 2028 include $13,756 associated with renewal options that are reasonably certain to be exercised.

14. Commitments and Contingencies

At December 31, 2023 and 2022, information technology contracts of $8,359 and $7,126, respectively, and construction contracts and purchases of equipment of $73,730 and $102,550, 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.

(in thousands)

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.

Total expenses related to providing both health care services and general and administrative functions for the years ended December 31, 2023 and 2022 are as follows:

	2023		
	Program Services	**General and Administrative**	**Total**
Salaries	$ 1,546,139	$ 285,815	$ 1,831,954
Supplies and other expenses	1,220,119	225,547	1,445,666
Employee benefits	290,879	53,771	344,650
Depreciation and amortization	151,044	27,921	178,965
Interest	43,343	8,012	51,355
Total expenses	3,251,524	601,066	3,852,590
Other components of net periodic benefit costs	13,901	-	13,901
	$ 3,265,425	$ 601,066	$ 3,866,491

	2022		
	Program Services	**General and Administrative**	**Total**
Salaries	$ 1,391,951	$ 262,285	$ 1,654,236
Supplies and other expenses	1,144,346	215,629	1,359,975
Employee benefits	266,784	50,270	317,054
Depreciation and amortization	144,168	27,166	171,334
Interest	40,109	7,558	47,667
Total expenses	2,987,358	562,908	3,550,266
Other components of net periodic benefit (gain)	(13,027)	-	(13,027)
	$ 2,974,331	$ 562,908	$ 3,537,239

(in thousands)

16. Net Assets With Donor Restrictions

Net assets with donor restrictions are as follows:

	December 31, 2023	December 31, 2022
Research	$ 9,788	$ 8,406
Construction projects	73,773	70,825
Purchase of plant and equipment	8,884	7,539
Scholarships and education	4,946	4,515
Program services	60,880	60,776
Net assets with donor restrictions for specified purposes	158,271	152,061
Permanent endowment funds	52,700	51,835
Net assets with donor restrictions for permanent endowment	52,700	51,835
	$ 210,971	$ 203,896

The original gift amounts of permanent endowment investments funds are $42,582 and $40,364 as of December 31, 2023 and 2022, respectively.

During 2023 and 2022, net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose of purchasing capital equipment in the amounts of $18,266 and $22,018, respectively, and other noncapital purposes in the amounts of $15,283 and $16,729, 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:

	2023	2022
Financial assets		
Cash and cash equivalents	$ 516,839	$ 680,644
Patient accounts receivable, net	386,450	345,622
Other current assets	92,476	44,558
	995,765	1,070,824
Liquidity resources		
Available line of credit	200,000	200,000
	$ 1,195,765	$ 1,270,824

(in thousands)

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, including disclosures related to the revolving credit agreement as noted in Note 9, through April 25, 2024, which is the date the consolidated financial statements were issued.

In January 2024, the Parent and Saint Peter's Healthcare System ("SPHS") have signed a Letter of Intent ("LOI") to establish a strategic partnership, putting the institutions on a path toward reaching a Definitive Agreement within the coming months to fully integrate the two organizations. The LOI is a step in a detailed process of evaluating and designing a new relationship that will benefit both organizations and enhance healthcare services. The LOI contemplates that the Parent will become the sole member of SPHS. Approvals from state and federal officials, and the Bishop of the Diocese of Metuchen, currently the sole member of SPHS, will also be required.

SPHS is a private, not-for-profit health system sponsored by the Roman Catholic Diocese of Metuchen. A major clinical affiliate of Rutgers Biomedical Health and Sciences, it includes Saint Peter's University Hospital in New Brunswick, ambulatory facilities, Saint Peter's Physician Associates, and a charitable foundation.

Under the terms of the LOI, the Parent would invest in Saint Peter's University Hospital and the surrounding region, expanding service and access to greater Middlesex County. The two systems would work collaboratively to create significant synergies between the two organizations including transitioning SPHS onto the Parent's electronic medical record system. Additionally, SPHS would continue to carry on its Catholic mission and abide by the Ethical and Religious Directives for Catholic Health Care Services.

Consolidating Supplemental Information

AHS Hospital Corp.
Consolidating Statement of Operations
Year Ended December 31, 2023

(in thousands)

	Morristown Division	Overlook Division	Newton Division	Chilton Division	Hackettstown Division	AVN	Total AHS Hospital Corp.
Revenues, gains and other support							
Net patient service revenue	$ 2,154,582	$ 1,022,159	$ 218,894	$ 318,969	$ 137,197	$ 62,105	$ 3,913,906
Other revenue	37,844	106	(238)	62	(131)	1,911	39,554
Legislative funding from CARES Act and FEMA	16,134	7,668	1,699	2,368	1,038	517	29,424
Net assets released from restrictions	8,155	6,547	199	309	73	-	15,283
Total revenues, gains and other support	2,216,715	1,036,480	220,554	321,708	138,177	64,533	3,998,167
Expenses							
Salaries	968,821	471,334	122,526	161,863	60,687	46,723	1,831,954
Supplies and other expenses	822,825	375,465	78,426	108,465	52,462	8,023	1,445,666
Employee benefits	177,959	87,581	24,845	30,997	12,251	11,017	344,650
Depreciation and amortization	103,550	42,115	11,881	13,938	6,554	927	178,965
Interest	28,370	12,932	2,435	4,405	3,213	-	51,355
Total operating expenses	2,101,525	989,427	240,113	319,668	135,167	66,690	3,852,590
Operating income (loss)	115,190	47,053	(19,559)	2,040	3,010	(2,157)	145,577
Change in net unrealized gains	158,298	75,121	16,630	23,252	11,123	5,324	289,748
Investment income, net	32,995	15,658	3,466	4,847	2,318	1,110	60,394
Nonoperating losses, net	(9,322)	(4,424)	(979)	(1,369)	(655)	(314)	(17,063)
Excess (deficiency) of revenues over expenses	$ 297,161	$ 133,408	$ (442)	$ 28,770	$ 15,796	$ 3,963	$ 478,656

The accompanying note is an integral part of the consolidating supplemental information.

AHS Hospital Corp.
Consolidating Statement of Operations
Year Ended December 31, 2022

(in thousands)

Revenues, gains and other support	Morristown Division	Overlook Division	Newton Division	Chilton Division	Hackettstown Division	AVN	Total AHS Hospital Corp.
Net patient service revenue	$ 1,989,224	$ 959,115	$ 210,464	$ 282,533	$ 125,655	$ 59,298	$ 3,626,289
Other revenue	28,293	(533)	112	(92)	(196)	1,470	29,054
Legislative funding from CARES Act and FEMA	27,600	13,203	3,372	3,946	2,059	742	50,922
Net assets released from restrictions	11,585	4,498	234	412	-	-	16,729
Total revenues, gains and other support	2,056,702	976,283	214,182	286,799	127,518	61,510	3,722,994
Expenses							
Salaries	866,218	435,876	112,540	138,286	57,561	43,755	1,654,236
Supplies and other expenses	773,323	357,314	75,925	99,192	46,553	7,668	1,359,975
Employee benefits	162,102	82,242	23,706	27,528	11,915	9,561	317,054
Depreciation and amortization	99,054	41,982	11,123	12,722	5,744	709	171,334
Interest	25,141	12,464	2,467	4,389	3,206	-	47,667
Total operating expenses	1,925,838	929,878	225,761	282,117	124,979	61,693	3,550,266
Operating income (loss)	130,864	46,405	(11,579)	4,682	2,539	(183)	172,728
Change in net unrealized losses	(266,305)	(126,475)	(29,572)	(38,700)	(18,168)	(9,246)	(488,466)
Investment income, net	23,320	11,076	2,590	3,389	1,591	810	42,776
Nonoperating gains, net	5,966	2,833	662	867	407	207	10,942
Deficiency of revenues over expenses	$ (106,155)	$ (66,161)	$ (37,899)	$ (29,762)	$ (13,631)	$ (8,412)	$ (262,020)

The accompanying note is an integral part of the consolidating supplemental information.

1. Basis of Presentation – Consolidating Supplemental Information

The accompanying consolidating supplemental schedules ("Supplemental Information") for the years ended December 31, 2023 and 2022 presented on pages 43-44 are prepared to satisfy reporting requirements for acute care hospitals operating in the State of New Jersey under regulation N.J.A.C. 8.96-1.1 et seq. and are derived from the underlying accounting records used to prepare the consolidated financial statements of the Hospital. Each of the individual columns of the Supplemental Information includes the operations of the five individual acute care hospital facilities within the Hospital which operate as divisions and not as separate corporations (the "Divisions") as further disclosed within Note 1 to the Hospital's consolidated financial statements. In addition to the five hospital Divisions, is AVN, as also disclosed in Note 1 of the Hospital's consolidated financial statements.

Included within the Hospital's Morristown Division column in the Supplemental Information is its wholly owned subsidiary and not-for-profit fundraising organization, MMCF (as disclosed in Note 1). Accordingly, for operational purposes, management incorporates the operations of MMCF to be part of the Morristown Division.

Within each Division presented on the Supplemental Information are allocations of certain operating expenses and nonoperating revenues, relating to the Hospital's corporate activities, which allow for elimination amounts to be excluded from the consolidating schedules, and are generally based on the budgeted monthly salary and non-salary expenses. Employee benefits expense is allocated based on actual salary expenditures incurred on a monthly basis, interest expense is based on the actual projects at the respective Division, which were or are being funded through long-term debt facilities, and the changes in net unrealized gains, net and nonoperating gains, net are allocated based on the actual annual total operating revenue for each Division. Also allocated to each Division are the results of operations of AMG, the physician practice plan serving all of the Hospital Divisions. AMG's results of operations are allocated across the Divisions based primarily on the geographic location of the physician practices in relation to each Division.

Other than as described above, the Supplemental Information is prepared in accordance with accounting policies described in the accompanying notes to the consolidated financial statements. This Supplemental Information is not intended to be a presentation in accordance with accounting principles generally accepted in the United States of America as a result of the exclusion of all required disclosures and the Supplemental Information only includes activity reported through the performance indicator (excess (deficiency) of revenues over expenses), and excludes other changes in net assets without donor restrictions. The Supplemental Information is presented for purposes of additional analysis of the results of operations and is not a required part of the consolidated financial statements.