# Consolidated Financial Statements, Supplementary Information and Report of Independent Certified Public Accountants

**Hunterdon Healthcare System, Inc. and Affiliates**

December 31, 2021 and 2020

Hunterdon Healthcare
Your full circle of care.

**Contents**

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## REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Trustees
Hunterdon Healthcare System, Inc. and Affiliates

**Opinion**

We have audited the consolidated financial statements of Hunterdon Healthcare System, Inc. and Affiliates (the System), which comprise the consolidated balance sheet as of December 31, 2021, and the related consolidated statements of operations and changes in net assets and cash flows for the year then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the System as of December 31, 2021, and the results of its operations, changes in its net assets, and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Basis for opinion**

We conducted our audit of the consolidated financial statements 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 Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the System 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 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 System's ability to continue as a going concern for one year after the date the consolidated financial statements are issued.

**Auditor's responsibilities for the audit of the 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 auditor's 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 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 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 System'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 System'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.

Grant Thornton

**Supplementary Information**

The accompanying consolidating balance sheets as of December 31, 2021 and the related consolidating statements of operations and changes in net assets without donor restrictions or changes in shareholders' equity for the year then ended are presented for purposes of additional analysis, rather than to present the financial position, results of operations, and cash flows of the individual entities, and are not a required part of the consolidated financial statements. Such supplementary 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 information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures. These additional procedures included 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 supplementary information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

**Other matter**

The consolidated financial statements of Hunterdon Healthcare System, Inc. and Affiliates as of and for the year ended December 31, 2020, were audited by other auditors. Those auditors expressed an unmodified opinion on those 2020 consolidated financial statements in their report dated May 28, 2021.

Grant Thornton LLP

Philadelphia, Pennsylvania
May 26, 2022

**Hunterdon Healthcare System, Inc. and Affiliates**

**CONSOLIDATED BALANCE SHEETS**

**December 31,**
**(In Thousands)**

| | 2021 | 2020 |
|---|---|---|
| **ASSETS** | | |
| **Current assets** | | |
| Cash and cash equivalents | $ 46,574 | $ 120,353 |
| Assets whose use is limited, bond funds | 1,016 | 3,801 |
| Patient accounts receivable | 46,244 | 46,005 |
| Other receivables | 10,164 | 5,749 |
| Due from unconsolidated joint ventures | 3,598 | 290 |
| Supplies | 5,656 | 5,623 |
| Prepaid expenses and other current assets | 8,224 | 7,692 |
| Total current assets | 121,476 | 189,513 |
| **Investments** | 185,900 | 110,082 |
| **Assets whose use is limited** | | |
| Board-designated funds | 14,413 | 14,689 |
| Donor-restricted assets | 30,916 | 26,683 |
| **Property and equipment, net** | 146,272 | 153,941 |
| **Right-of-use assets, operating leases** | 25,919 | 31,643 |
| **Other assets** | | |
| Investment in unconsolidated joint ventures | 3,002 | 981 |
| Goodwill and intangibles, net | 11,080 | 6,656 |
| Other | 9,921 | 9,032 |
| Beneficial interest in perpetual trusts | 3,727 | 3,671 |
| Total assets | $ 552,626 | $ 546,891 |
| **LIABILITIES AND NET ASSETS** | | |
| **Current liabilities** | | |
| Accounts payable and accrued expenses | $ 33,269 | $ 25,529 |
| Accrued payroll and payroll taxes | 22,433 | 24,734 |
| Third-party payor settlements and advances, current portion | 19,760 | 11,000 |
| Operating lease obligations, current portion | 5,818 | 6,237 |
| Long-term debt, current portion | 4,117 | 4,062 |
| Accrued interest payable | 2,486 | 1,038 |
| Total current liabilities | 87,883 | 72,600 |
| **Long-term debt, net of current portion** | 109,822 | 120,653 |
| **Operating lease obligations, net of current portion** | 21,501 | 25,836 |
| **Other liabilities** | | |
| Accrued retirement benefits | 29,454 | 56,212 |
| Deferred revenue | 6,241 | 3,314 |
| Third-party payor settlements and advances, net of current portion | - | 20,996 |
| Other | 17,063 | 14,040 |
| Total liabilities | 271,964 | 313,651 |
| **Net assets** | | |
| Without donor restrictions | | |
| Hunterdon Healthcare System, Inc. and affiliates | 244,458 | 198,963 |
| Noncontrolling interests | 1,804 | 1,748 |
| | 246,262 | 200,711 |
| With donor restrictions | 34,400 | 32,529 |
| Total net assets | 280,662 | 233,240 |
| Total liabilities and net assets | $ 552,626 | $ 546,891 |

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

**Hunterdon Healthcare Systems, Inc. and Affiliates**

**CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS**

**Years ended December 31,**
**(In Thousands)**

| | 2021 | 2020 |
|---|---|---|
| **NET ASSETS WITHOUT DONOR RESTRICTIONS** | | |
| **Revenues** | | |
| Patient service revenues | $ 388,008 | $ 319,039 |
| Other revenues | 30,902 | 47,025 |
| Net assets released from restrictions for operations | 848 | 1,714 |
| Total revenues | 419,758 | 367,778 |
| **Expenses** | | |
| Salaries, wages and benefits | 232,805 | 216,098 |
| Physician fees | 12,216 | 11,114 |
| Supplies and services | 144,241 | 118,064 |
| Depreciation and amortization | 17,713 | 19,448 |
| Interest | 3,590 | 2,737 |
| Total expenses | 410,565 | 367,461 |
| Operating income | 9,193 | 317 |
| **Other gains and losses** | | |
| Investment returns, net | 10,199 | 8,074 |
| Accrued retirement benefit credit | 7,843 | 6,127 |
| Change in fair value of interest rate swap agreements | (873) | (73) |
| Loss on defeasance of debt | - | (3,661) |
| Other gains and losses, net | 17,169 | 10,467 |
| Excess of revenues and gains over expenses and losses before noncontrolling interests | 26,362 | 10,784 |
| **Excess of revenues and gains over expenses and losses attributed to noncontrolling interests** | (724) | (1,264) |
| Excess of revenues and gains over expenses and losses attributed to Hunterdon Healthcare System, Inc. and affiliates | 25,638 | 9,520 |

*Continued on next page*

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

**Hunterdon Healthcare Systems, Inc. and Affiliates**

**CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS**

**Years ended December 31,**
**(In Thousands)**

| | 2021 | 2020 |
|---|---|---|
| **Excess of revenues and gains over expenses and losses attributed to Hunterdon Healthcare System, Inc. and Affiliates (previous page)** | $ 25,638 | $ 9,520 |
| **Changes in net assets without donor restrictions** | | |
| Other changes in accrued retirement benefits | 18,915 | (12,107) |
| Net assets released from restrictions for capital acquisitions | 1,889 | 1,510 |
| Change in noncontrolling interests | 56 | (1) |
| Other | (947) | (493) |
| Increase (decrease) in net assets without donor restrictions | 45,551 | (1,571) |
| **Changes in net assets with donor restrictions** | | |
| Contributions | 2,226 | 1,993 |
| Investment return | | |
| Interest and dividends | 25 | 150 |
| Realized gains and losses | 14 | 794 |
| Change in unrealized gains and losses | 2,287 | 200 |
| Change in value of beneficial interest in perpetual trusts | 56 | 735 |
| Net assets released from restrictions | (2,737) | (3,224) |
| Increase in net assets with donor restrictions | 1,871 | 648 |
| Increase (decrease) in net assets | 47,422 | (923) |
| **Net assets, beginning of year** | 233,240 | 234,163 |
| **Net assets, end of year** | $ 280,662 | $ 233,240 |

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

**Hunterdon Healthcare System, Inc. and Affiliates**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

**Years ended December 31,**
**(In Thousands)**

| | 2021 | 2020 |
|---|---|---|
| **Cash flows from operating activities:** | | |
| Increase (decrease) in net assets | $ 47,422 | $ (923) |
| Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities: | | |
| Other changes in accrued retirement benefits | (18,915) | 12,107 |
| Depreciation and amortization | 17,713 | 19,448 |
| Net realized and unrealized gains and losses on investments | (9,995) | (5,264) |
| Restricted contributions | (2,226) | (1,993) |
| Equity losses from unconsolidated joint ventures | 1,072 | 2,245 |
| Change in fair value of interest rate swap agreements | 873 | 73 |
| Gain on sale of assets | (206) | - |
| Other noncash items | 850 | - |
| Change in value of beneficial interest in perpetual trusts | (56) | (735) |
| Loss on defeasance of debt | - | 3,661 |
| Amortization of bond discount | - | (78) |
| Changes in operating assets and liabilities: | | |
| Patient accounts receivable | (239) | 533 |
| Other receivables | (4,415) | (3,663) |
| Due from unconsolidated joint ventures | (3,308) | (160) |
| Supplies | (33) | (1,713) |
| Prepaid expenses and other assets | (1,421) | 14,041 |
| Accounts payable and accrued expenses | 6,887 | 6,654 |
| Operating leases, net | 970 | (1,883) |
| Third-party payor settlements | 222 | (3,554) |
| Accrued retirement benefits | (7,843) | (6,127) |
| Other liabilities | 5,077 | (14,609) |
| Net cash provided by operating activities | 32,429 | 18,060 |
| **Cash flows from investing activities:** | | |
| Change in investments and assets whose use is limited | (68,837) | (10,021) |
| Acquisition of property and equipment | (13,458) | (11,540) |
| Cash paid for acquisitions, net | (4,424) | (1,305) |
| Investment in unconsolidated joint ventures | (471) | (1,384) |
| Proceeds from sale of assets | 206 | - |
| Net cash used in investing activities | (86,984) | (24,250) |
| **Cash flows from financing activities:** | | |
| (Repayment of) proceeds from third-party advances | (12,458) | 29,314 |
| Repayment of long-term debt | (11,799) | (36,535) |
| Proceeds from restricted contributions | 2,226 | 1,993 |
| Proceeds from issuance of long-term debt | 1,073 | 83,118 |
| Payment of financing costs | (108) | (825) |
| Net cash (used in) provided by financing activities | (21,066) | 77,065 |
| **Cash and cash equivalents and restricted cash and cash equivalents:** | | |
| Net (decrease) increase | (75,621) | 70,875 |
| Balances, beginning of year | 131,446 | 60,571 |
| Balances, end of year | $ 55,825 | $ 131,446 |
| **Supplemental disclosures of cash flow information:** | | |
| Interest paid | $ 2,142 | $ 2,802 |
| **Reconciliation of cash and cash equivalents and restricted cash and cash equivalents:** | | |
| Cash and cash equivalents | $ 46,574 | $ 120,353 |
| Assets whose use is limited, bond funds, cash | 1,016 | 3,801 |
| Assets whose use is limited, donor-restricted, cash | 8,235 | 7,292 |
| | $ 55,825 | $ 131,446 |

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

## NOTE 1 - ORGANIZATION

Hunterdon Healthcare System, Inc. (HHS) is a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code (the IRC) established to operate exclusively for charitable, scientific and educational purposes, as a regional health network serving Hunterdon, Warren, Somerset and Mercer Counties in New Jersey and Bucks County in Pennsylvania. The consolidated financial statements include the accounts of Hunterdon Healthcare System, Inc. and its affiliates.

Hunterdon Healthcare System, Inc. is composed of the following affiliates:

Hunterdon Medical Center (the Medical Center), a New Jersey not-for-profit acute care medical center and any other qualifying members, in the performance of charitable, educational, scientific and hospital purposes within the service area with a wide range of inpatient and outpatient services, including medical, surgical, obstetrical, gynecological, pediatric, emergency and ambulatory care.

The Medical Center controls the following not-for-profit professional corporations: Hunterdon Primary Care, P.C., Hunterdon Specialty Care, P.C. and Hunterdon Urgent Care, P.C. (collectively d/b/a Hunterdon Medical Group). Hunterdon Medical Group employs certain physicians, nurse practitioners and physician assistants and provide services at primary care and specialty practices owned by the Medical Center.

Midjersey Health Corporation (Midjersey), a for-profit entity that conducts various health related proprietary activities, is owned 100 percent by HHS. Midjersey has the following ownership interests:

- 51 percent ownership in Hunterdon Center for Surgery, LLC (HCS), an outpatient surgery center.
- 51 percent of Raritan Family Healthcare LLC (Raritan Family), a primary health care provider acquired on January 1, 2021.
- 100 percent interest in Delaware Valley Office Associates (DVO), a for-profit which owns rental properties.
- 67 percent interest in Hunterdon Imaging Associates (HIA), a for-profit which received service fees based on imaging services. HIA ceased operations on January 31, 2021 and is the process of liquidating.

Hunterdon Regional Community Health, Inc. (HRCH), a tax-exempt organization that is the sole corporate member or wholly owns:

- Hunterdon Hospice, Incorporated, a tax-exempt organization that provides hospice care.
- Visiting Health & Supportive Services, Inc., a tax-exempt organization that provides companion care services that ceased operations on September 30, 2020 and is the process of liquidating.
- Briteside Adult Day Centers, Inc., a tax-exempt organization that provides adult daycare services.
- Hunterdon Regional Pharmacy, Inc. (the Pharmacy), a for-profit retail pharmacy.

Hunterdon Healthcare Foundation, Inc. (the Foundation), a New Jersey not-for-profit that coordinates fund raising activities for the System.

## NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### *Principles of Consolidation*

The consolidated financial statements include the accounts of the Hunterdon Healthcare System, Inc. and affiliates as described in Note 1 (collectively, the System). The noncontrolling interests relate to the following: HCS, Raritan Family and HIA, which are reported as a component of net assets. Intercompany transactions and balances have been eliminated.

### *Basis of Accounting*

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 (US GAAP) consistent with the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 954, *Health Care Entities*, and other pronouncements applicable to health care organizations.

### *Use of Estimates*

The preparation of consolidated financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates are used in recording patient accounts receivable and patient service revenue, third-party payor settlements, useful lives of property and equipment, goodwill and intangibles, self-insurance program liabilities, imputed interest rates for leases, actuarial estimates for accrued retirement benefits, and the reported fair values of certain assets and liabilities. Actual results could differ from those estimates.

### *Cash and Cash Equivalents*

Cash and cash equivalents and restricted cash and cash equivalents include cash on hand and highly liquid investments with an original maturity of 12 months or less.

The System has balances with financial institutions that exceed federal depository insurance limits. Management does not believe the credit risk related to these deposits to be significant.

### *Patient Accounts Receivable*

Patient accounts receivable are recorded when there is an unconditional right to payment, subject only to the passage of time. Patient accounts receivable, including billed accounts and unbilled accounts, which have the unconditional right to payment, and estimated amounts due from third-party payors for retroactive adjustments, are recorded as receivables since the right to consideration is unconditional and only the passage of time is required before payment of that consideration is due. The estimated uncollectible amounts are generally considered implicit price concessions that are recorded as a direct reduction to patient accounts receivable rather than an allowance for doubtful accounts.

### *Supplies*

Supplies are stated at the lower of cost, determined using the first-in, first-out method or net realizable value.

### *Investments and Assets Whose Use is Limited and Investment Risk*

Assets whose use is limited primarily includes assets held by trustees under indenture agreements (bond funds); designated assets set aside by the Board of Trustees, over which the Board retains control, including deferred compensation plans with investments and assets under split dollar agreements for certain employees and physicians through an insurance company and donor-restricted assets. Amounts required to meet current liabilities have been reclassified as current assets in the consolidated balance sheets.

Investments in mutual funds with readily determinable fair values and all investments in bonds are measured at fair value. Investments in commingled funds are recorded at the net asset value (NAV) of the fund as estimated by the external investment managers and is based on the net asset value of the funds. NAVs are reviewed and evaluated based on information provided by the external investment managers for reasonableness. Investment income or loss (including realized gains and losses on investments, interest and dividends and unrealized gains and losses on investments) is included in excess of revenues and gains over expenses and losses unless donor stipulation or law restricts the income or loss. Gains and losses on the sale of investments are based on an identified cost basis. Donated investments are reported at fair value at the date of receipt.

The investments are comprised of a variety of financial instruments and are managed by investment advisors. The fair values reported in the consolidated balance sheets are subject to various risks, including changes in the equity markets, the interest rate environment and general economic conditions. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the fair value of investment securities, it is reasonably possible that the amounts reported in the accompanying consolidated financial statements could change materially in the near term.

### *Property and Equipment*

Property and equipment are carried at cost, except donated assets, which are recorded at fair value at date of donation. Finance lease arrangements are amortized using the straight-line method over the shorter period of the lease term or the estimated useful life of the asset and is included in depreciation and amortization. Depreciation expense is calculated on all depreciable assets, based on the straight-line method utilizing estimated useful lives ranging from 3 to 40 years.

Construction in progress represents amounts expended or incurred toward property and equipment projects that have not been completed. No depreciation or amortization has been recorded for these items. Interest cost incurred, net of investment income earned on borrowed funds during the period of construction, is capitalized as a component of the cost of acquiring those assets. In cases where internal cash reserves are used to fund construction, interest is capitalized based on average accumulated expenditures multiplied by the weighted-average interest rate on existing debt. There was no capitalized interest for the years ended December 31, 2021 and 2020.

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 restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when donated or acquired long-lived assets are placed in service.

### *Impairment of Long-Lived Assets and Long-Lived Assets to be Disposed of*

Long-lived assets, such as property and equipment and purchased intangibles subject to amortization, 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 an 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. Assets to be disposed of would be separately presented in the consolidated balance sheets and reported at the lower of the carrying amount or fair value less costs to sell and are no longer depreciated. The assets and liabilities of a disposed group classified as held-for-sale would be presented separately in the appropriate asset and liability sections of the consolidated balance sheets.

### *Leases and Right-of-Use Assets*

An arrangement is determined to be a lease at inception of the contract. Right-of-use (ROU) assets represent the underlying assets for the lease term and lease liabilities represent the obligation to make lease payments arising from the leases. ROU assets and lease liabilities are recognized at commencement date based on the present value of lease payments over the lease term. An estimated incremental borrowing rate is derived from information available at the lease commencement date, in determining the present value of lease payments. This rate is determined based on information obtained from bankers, the secured debt fair value and publicly available data for instruments with similar characteristics.

Operating leases are primarily for real estate, including off-campus outpatient facilities, medical office buildings, and corporate and other administrative offices, as well as medical and office equipment. Finance leases are for medical equipment and are included in property and equipment - moveable equipment. The real estate lease agreements typically have initial terms of five to ten years, and equipment lease agreements typically have initial terms of three to five years. Leases with an initial term of 12 months or less (short-term leases) are not recorded in the consolidated balance sheets.

Real estate leases may include one or more options to renew, with renewals that typically can extend the lease term from five to ten years. The exercise of lease renewal options is at the System’s sole discretion. In general, renewal options are not considered to be reasonably likely to be exercised; therefore, renewal options are generally not recognized as part of ROU assets and lease liabilities. The useful life of assets and leasehold improvements are limited by the expected lease term, unless there is a transfer of title or purchase option reasonably certain of exercise. The majority of the medical equipment leases have terms of three years with no renewal options or bargain purchase options, so these assets are depreciated over their lease term.

Certain lease agreements for real estate include payments based on actual common area maintenance expenses. These variable lease payments are recognized as other operating expenses in the consolidated statements of operations and changes in net assets and are not included in the ROU asset or liability balances. The current lease agreements do not contain any material residual value guarantees, restrictions or covenants.

### *Deferred Financing Costs and Original Issue Discounts*

Costs incurred in connection with the issuance of long-term debt have been deferred and the original issue discounts from certain issuances and are being amortized over the terms of the related debt using the effective interest method and is included in depreciation and amortization expense in the consolidated statements of operations and changes in net assets. Deferred financing costs and original issue discounts are reported as direct reductions of long-term debt.

(In thousands)

### *Other Assets*

Other assets at December 31, 2021 and 2020, are as follows:

| | 2021 | 2020 |
|---|---|---|
| Insurance recoveries | $ 3,736 | $ 2,865 |
| Land held for sale | 213 | 213 |
| Deferred tax assets | 1,435 | 1,412 |
| Contributions receivable, net | 2,558 | 1,796 |
| Other | 1,979 | 2,746 |
| | $ 9,921 | $ 9,032 |

### *Beneficial Interest in Perpetual Trusts*

Beneficial interest in perpetual trusts are arrangements whereby a donor establishes and funds a trust, and the assets are held in perpetuity or for a period of time, with the income earned distributed annually to the System for both restricted and unrestricted use. The System recognizes the contribution and receivable as net assets with donor restrictions, in the period the trust is established at its present value, which equals the fair value of the underlying assets. The fair value of these assets is based on the net asset value reported by the fund manager, which are reviewed by management for reasonableness. Adjustments to the trusts to reflect changes in fair value are recognized as changes to net assets with donor restrictions.

### *Goodwill*

Goodwill represents the excess of the purchase price over the fair value of net assets acquired. Goodwill is tested annually for impairment or earlier upon the occurrence of certain events or substantive changes in circumstances that indicate goodwill is more-likely-than-not impaired. There were no triggering events during 2021 or 2020.

### *Derivative Instruments and Hedging Activities*

Derivative financial instruments are employed to manage risks. The principal financial instruments used for cash flow hedging purposes are interest rate swaps. The interest rate swap agreements are entered into to manage exposure to interest rate changes. The financial instruments are recognized in the consolidated balance sheets at fair value. The interest rate swaps do not qualify for hedge accounting and as such the changes in the fair value of its interest rate swap is reported in other items as a component of excess of revenues over expenses in the consolidated statements of operations and changes in net assets.

Policies and procedures are established to limit the potential for counterparty risk, including establishing limits for credit exposure and continually assessing the creditworthiness or counterparties. The exposure to credit risk associated with its derivative financial instruments is measured on an individual counterparty basis, as well as by groups of counter parties that share similar attributes.

### *Self-Insured Health Benefits*

The System is self-insured for employee health benefits. The provision for estimated employee health benefits includes estimates for the ultimate cost for both reported claims and claims incurred but not reported and is included in accounts payable and accrued expenses in the accompanying consolidated balance sheets.

### *Estimated Malpractice Costs*

The liability for estimated medical malpractice claims, included in other liabilities includes estimates of the ultimate costs for both reported claims and claims incurred but not reported. Anticipated insurance recoveries associated with reported claims are reported separately as other assets in the consolidated balance sheets at net realizable value.

### *Net Assets*

Net assets, revenues, gains and other support are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

**Net Assets Without Donor Restrictions** - net assets available for use in general operations and not subject to donor restrictions. All revenues, gains and other support not restricted by donors and donor-restricted contributions whose restrictions are met in the same period in which they are received are accounted for in net assets without donor restrictions.

**Net Assets With Donor Restrictions** - net assets with donor restrictions are those whose use by the System have been limited by donors to a specific time period or purpose. 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 to net assets without donor restrictions. Certain net assets with donor restrictions are required to be maintained by the System in perpetuity.

### *Donor-Restricted Gifts*

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. In the absence of donor specification that income and gains on donated funds are restricted, such income and gains are reported in nonoperating revenues and gains. A number of unpaid volunteers contribute their time to the System. The value of this contributed time is not reflected in the consolidated financial statements.

### *Patient Service Revenues*

Patient service revenue is reported at the amounts that reflect the consideration to which the System is expected to be entitled to in exchange for providing patient care for both the hospital and any employed physicians. These amounts are due from patients, third-party payors (including managed care organizations and government programs, i.e., Medicare and Medicaid), and others and they include variable consideration for retroactive adjustments due to settlement of future audits, reviews, and investigations. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered, and such amounts are adjusted in future periods as adjustments become known or as years are no longer subject to such audits, reviews, and investigations. Generally, patients and third-party payors are billed several days after the services are performed or shortly after discharge. Patient service revenue is recognized in the period in which the performance obligations are satisfied under contracts by transferring services to patients.

(In thousands)

Performance obligations are determined based on the nature of the services provided. Revenue is recognized for performance obligations satisfied over time based on actual charges incurred in relation to total expected charges. The System believes that this method provides an appropriate depiction of the transfer of services over the term of performance obligations based on the inputs needed to satisfy the obligations. Generally, performance obligations are satisfied over time related to patients receiving inpatient acute care services. Performance obligations are measured from admission to the point when there are no further services required for the patient for the episode of care, which is generally the time of discharge. Revenue is recognized for performance obligations satisfied at a point in time, which generally relate to patients receiving physician and hospital outpatient services, when: (1) services are provided and (2) when it is believed the patient does not require additional services for the episode of care.

***Other Revenues***

The composition of other revenue for the years ended December 31, 2021 and 2020 is set forth in the following table:

| | 2021 | 2020 |
|---|---|---|
| Grant revenue: | | |
| Coronavirus Aid, Recovery and Economic Security (CARES) Act | $ 1,053 | $ 22,303 |
| Federal Emergency Management Agency (FEMA) | 1,118 | - |
| Other | 2,404 | 2,947 |
| | 4,575 | 25,250 |
| Value-based incentive payments | 9,434 | 10,176 |
| Services agreement - MRI | 203 | 3,441 |
| Rental income | 1,885 | 1,849 |
| Other | 14,805 | 6,309 |
| | $ 30,902 | $ 47,025 |

***Advertising Costs***

Advertising costs are expensed as incurred. For the years ended December 31, 2021 and 2020, advertising costs were $1,937 and $1,434, respectively, which are included in supplies and services expenses in the accompanying consolidated statements of operations and changes in net assets.

***Income Taxes***

HHS, the Medical Center, HRCH and the Foundation, except for the affiliates mentioned below, are tax-exempt not-for-profit organizations under Section 501(c)(3) of the IRC. Accordingly, these organizations are not subject to income taxes on income generating activities that are substantially related to their tax-exempt purposes or that are statutorily excluded from income tax for organizations exempt under Section 501(c)(3). Therefore, no provision for federal and state income taxes is required. The federal tax-exempt organization business income tax returns are no longer subject to examination by the Internal Revenue Service (IRS) for years before 2017. Midjersey and the Pharmacy are taxable for-profit entities. These entities use the asset and liability method of accounting for income taxes. Under this method, deferred tax assets and liabilities are recognized for future tax consequences attributable to differences between the consolidated financial statements carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled.

The System's taxable for-profit entities recorded a net benefit for income taxes for the years ended December 31, 2021 and 2020 of $20 and $332, respectively, is included in supplies and services in the consolidated statements of operations and changes in net assets. Deferred tax assets of $1,872 and $1,683 at December 31, 2021 and 2020, respectively, is included in other assets in the consolidated balance sheets. These amounts represent the deferred tax consequences attributable to temporary differences that will result in additional taxable income and a reduction of deductible expenses in future years. The temporary differences comprise lease payments, depreciation, and other temporary differences. At December 31, 2021, the Pharmacy had a federal and state operating loss carryforward of approximately $1,554, which is available to offset future taxable income and expires in 2026.

In assessing the realization of deferred tax assets, management is required to consider whether it is more-likely-than-not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible and must be supported by sufficient positive evidence. Management considers the scheduled reversal of deferred tax assets and liabilities, projected future taxable income and tax planning strategies in making this assessment. The Pharmacy has had two consecutive years of net operating losses. As a result, management has recorded a full valuation allowance against the deferred tax asset.

Certain items of income and expenses are recognized for income tax purposes in different periods from those periods in which such items are recognized for financial reporting purposes. These timing difference items include provisions for uncollectible fees and tax and book depreciation differences. Deferred tax assets and liabilities, if any, are provided for the tax effect of these differences.

The System recognizes income tax positions when it is more-likely-than-not that the position will be sustainable based on the merits of the position. Management has concluded that there are no material tax liabilities that need to be recorded.

### *Excess of Revenues and Gains Over Expenses and Losses*

The consolidated statements of operations and changes in net assets includes the determination of excess of revenues and gains over expenses and losses, which is the performance indicator. Changes in net assets without donor restrictions, which are excluded from the performance indicator consistent with industry practice, include other changes in accrued retirement benefits and contributions of long-lived assets including assets acquired using contributions, which by donor restriction were to be used for the purposes of acquiring such assets, change in noncontrolling interests, and other items.

### *Reclassifications*

Certain prior period consolidated financial statement amounts have been reclassified to conform to current period presentation.

### *Pending Accounting Standards*

Intangibles

In May 2019, the FASB issued Accounting Standards Update (ASU) 2019-06, *Intangibles*, which extends to all nonprofits accounting alternatives that reduce the cost and complexity associated with the subsequent accounting for goodwill and the measurement of certain identifiable intangible assets. Not-for-profits that adopt the accounting alternative may amortize goodwill on a straight-line basis over 10 years, or a shorter period if more appropriate and to test goodwill impairment based on a triggering event, instead of annually. ASU 2019-06 is effective upon issuance and not-for-profits may adopt its provisions at any time. The System is evaluating the impact of this guidance and potential adoption.

Reference Rate Reform

In January 2021, the FASB issued ASU 2021-01, *Reference Rate Reform*, in response to concerns about the structural risks of interbank offered rates, and particularly, the risk of cessation of the London Interbank Offered Rate (LIBOR). This guidance adds implementation guidance to clarify that the contract modification relief may be applied to certain derivative instruments that are affected by the discounting transition. This guidance will be required to be adopted when LIBOR is discontinued. The System is evaluating the impact of this guidance and potential adoption.

## NOTE 3 - IMPACT OF THE COVID-19 PANDEMIC

In March 2020, the World Health Organization declared COVID-19, the disease caused by the novel coronavirus, a pandemic, which started to and continues to spread throughout the United States of America. As a result of the COVID-19 pandemic, the System experienced a decline in patient visits, admissions, and medical procedures performed. Elective medical procedures were suspended by state and local governments at varying time periods beginning in mid-March through late May 2020, contributing to a significant decline in patient service revenue due to COVID-19 when compared to historic and forecasted results for the year ended December 31, 2020. Additionally, in response to the pandemic, the System incurred additional costs for testing, personal protective equipment, third-party contract services and other operating costs associated with ensuring employee and patient safety while operating during a pandemic. Since late May 2020, the System has begun to see increases in its patient visits, admissions, and medical procedures, however, volumes have not returned to pre-pandemic levels. Management is actively monitoring operating revenues, and expenses and based on the continuing uncertainties of COVID-19, it is unable to determine if it will have a material impact on its operations for the year ending December 31, 2022.

The System received grants, which are considered non-exchange transactions, from the federal government distributed under the Coronavirus Aid, Recovery and Economic Security (CARES) Act and from the Federal Emergency Management Agency (FEMA). For the years ended December 31, 2021 and 2020, recorded amounts from the CARES Act of $1,053 and $22,303 and FEMA of $1,118 and $0, respectively, which are included in other revenues in the consolidated statements of operations and changes in net assets. These CARES Act and FEMA grants are subject to audit and compliance with federal regulations. The System believes it has met the conditions to retain these funds, and no amounts are reserved for repayment at December 31, 2021 and 2020, future grant payments are uncertain at this time.

The CARES Act also provided for an expansion of the Medicare Accelerated and Advance Payment Program for patient services. Under the program, the System received $29,314 in April 2020, and recorded these payments in third-party payor settlements and advances in the consolidated balance sheet at December 31, 2020. The recoupment period began in April 2021 and amounts billed to Medicare for services provided are offset against the advanced payments received until the advance is fully recouped by the Medicare program. During the year ended December 31, 2021, Medicare recouped $12,458, which results in $16,856 included in third-party payor settlements and advances in the consolidated balance sheet at December 31, 2021. The System will have until September 2022 to offset future claims against the advance. If the advance has not been entirely offset by claims at the end of this period, the System will be required to repay the remaining amount.

The federal government through the CARES Act, started a program called the Paycheck Protection Program (PPP). This program was designed to help small business, with less than 500 employees, with funds to cover the costs associated with payroll, wages, health insurance and matching contributions on retirement plans. In addition, the funds can be used to cover costs of utilities and interest on outstanding mortgages. Companies receiving these funds can request the for the loan to be forgiven in its entirety assuming the proceeds have been used as outlined in the guidelines. The System, through HCS, a consolidated affiliate applied for and received loans of $576 and $619, in 2021 and 2020, respectively. The System determined it was not eligible for these loans and HCS repaid the loan for $576 in 2021 and has the $619 loan as a component of long-term debt in the consolidated balance sheets at December 31, 2021 and 2020, pending repayment (Note 12) to the Small Business Administration (SBA).

(In thousands)

Additionally, the IRS allowed the System to defer remittance of payroll taxes. Fifty percent of the deferred payroll taxes was paid by December 31, 2021, with the remaining balance due by December 31, 2022. The total deferred payroll tax liability is $3,039 and $6,021 at December 31, 2021 and 2020, respectively, and is included in accrued payroll and payroll taxes.

## NOTE 4 - ACQUISITIONS

At various dates during the year ended December 31, 2021, the System acquired physician practices and a controlling membership interest in a joint venture, which were consolidated at the respective dates of the acquisition. The total cash consideration paid by the System was $5,061, while noncontrolling interest holders made cash and non-cash contributions of $719. As a result of the acquisitions, net working capital and tangible assets of $827 and total goodwill and intangibles of $4,609 were recorded.

At various dates during the year ended December 31, 2020, the System acquired physician practices, which were consolidated at the respective dates of the acquisition. The total cash consideration paid by the System was $1,305 which was recorded as goodwill.

## NOTE 5 - LIQUIDITY AND AVAILABILITY OF RESOURCES

At December 31, 2021 and 2020, the System has adjusted working capital of $220,945 and $226,995, respectively, as well as adjusted days cash on hand of 216 and 242, respectively, both of which include investments.

Financial assets available for general expenditure within one year of the consolidated balance sheets at December 31, 2021 and 2020, consist of the following:

| | 2021 | 2020 |
|---|---|---|
| Cash and cash equivalents | $ 46,574 | $ 120,353 |
| Assets whose use is limited, bond funds | 1,016 | 3,801 |
| Patient accounts receivable | 46,244 | 46,005 |
| Investments | 185,900 | 110,082 |
| | 279,734 | 280,241 |
| Available lines of credit - Note 12 | 13,000 | 13,000 |
| | $ 292,734 | $ 293,241 |

The System has other assets whose use is limited that are for donor-restricted purposes. These assets are not available for general expenditure within the next year and are not reflected in the amounts above.

As part of the System's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities and other obligations come due.

(In thousands)

## NOTE 6 - CHARITY AND UNCOMPENSATED CARE

In furtherance of its charitable purpose, the System provides a wide variety of benefits to the community, including offering various community-based social service programs, such as health screenings, training for emergency service personnel, social service and support counseling for patients and families, pastoral care and crisis intervention. Additionally, a large number of health-related educational programs are provided for the benefit of the community, including health enhancements and wellness, classes on specific conditions, telephone information services and costs related to programs designed to improve the general standards of the health of the community.

The System provides medical care without charge or at reduced costs to residents of its community who meet the criteria under the state regulation for charity care. The definition of charity care includes services provided at no charge or at a reduced charge to patients who are uninsured or underinsured. The System maintain records to identify and monitor the level of charity care it provides. These records support the amount of charges foregone from services and supplies furnished under its charity care policy. Because the System does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenues. An overall cost to charge ratio was applied to arrive at the cost of charity care. As a result, the cost of providing charity care was $4,221 and $4,177 for the years ended December 31, 2021 and 2020, respectively.

The State of New Jersey provides certain subsidy payments to qualified hospitals to partially fund uncompensated care and certain other costs. Subsidy payments recognized as revenues amounted to $371 and $250 for the years ended December 31, 2021 and 2020, respectively, and are included in other revenue in the accompanying consolidated statements of operations and changes in net assets.

## NOTE 7 - PATIENT SERVICE REVENUE

The System disaggregates revenues from contracts with customers by type of service and payor source as this depicts the nature, amount, timing and uncertainty of its revenues and cash flows as affected by economic factors. Tables providing details of these factors are presented below.

The composition of patient care service revenues by primary payor for the years ended December 31, 2021 and 2020 is as follows:

| | 2021 | 2020 |
|---|---|---|
| Medicare and Medicare managed care | 31% | 33% |
| Medicaid and Medicaid managed care | 7 | 7 |
| Aetna | 15 | 14 |
| Blue Cross, all products except Medicare/Medicaid | 32 | 31 |
| Self-pay/uninsured | 1 | 1 |
| Other third-party commercial | 14 | 14 |
| | 100% | 100% |

**(In thousands)**

The composition of patient care service revenues by type of service for the years ended December 31, 2021 and 2020 is as follows:

| | 2021 | 2020 |
|---|---|---|
| Inpatient | 30% | 32% |
| Outpatient | 46 | 45 |
| Physician services | 24 | 23 |
| | 100% | 100% |

Agreements with third-party payors typically provide for payments at amounts less than established charges. A summary of payment arrangements with major third-party payors follows:

- **Medicare:** Inpatient acute care, psychiatric and rehabilitation services and outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates. These rates vary according to patient classification systems that are based on clinical, diagnostic and other factors. In addition, the System is reimbursed for certain cost reimbursable items at tentative interim rates, with final settlement determined after submission of annual costs reports and audits thereof by the Medicare fiscal intermediary. The System's Medicare cost reports have been settled through December 31, 2017.

- **Medicaid:** Inpatient acute care services rendered to Medicaid program beneficiaries are paid at prospectively determined rates per discharge based on severity of illness. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. Inpatient nonacute services are paid at prospectively determined per diem rates. Outpatient services are paid based on a published fee schedule. The System's Medicaid cost reports have been settled through December 31, 2018.

- **Blue Cross:** Inpatient acute care services rendered to Blue Cross subscribers are paid at prospectively determined rates. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. Inpatient nonacute services are paid at prospectively determined rates. Outpatient services are reimbursed based on ambulatory payment classifications.

- **Other Payors:** The System has also entered into payment arrangements with certain managed care and commercial insurance carriers, Medicare and Medicaid managed care insurance carriers, health maintenance organizations and preferred provider organizations. The basis for payment under these agreements includes prospectively determined rates per discharge, or per day, outpatient fee schedules, and discounts from established charges.

Laws and regulations concerning government programs, including Medicare and Medicaid, are complex and subject to varying interpretation. As a result of investigations by governmental agencies, various health care organizations have received requests for information and notices regarding alleged noncompliance with those laws and regulations, which, in some instances, have resulted in organizations entering into significant settlement agreements. Compliance with such laws and regulations may also be subject to future government review and interpretation as well as significant regulatory action, including fines, penalties and potential exclusion from the related programs. There can be no assurance that regulatory authorities will not challenge the System's compliance with these laws and regulations, and it is not possible to determine the impact (if any) such claims, or penalties would have upon the System. In addition, the contracts the System has with commercial payors also provide for retroactive audit and review of claims.

Settlements with third-party payors for retroactive adjustments due to audits, reviews or investigations are considered variable consideration and are included in the determination of the estimated transaction price for providing patient care. These settlements are estimated based on the terms of the payment agreement with the payor, correspondence with the payor and the System's historical settlement activity, including an assessment to ensure that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the retroactive adjustment is subsequently resolved. Estimated settlements are adjusted in future periods as adjustments become known (that is, new information becomes available), or as years are settled or no longer subject to such audits, reviews and investigations. Patient service revenues include favorable adjustments of $3,712 and $5,909 for the years ended December 31, 2021 and 2020, respectively, related to tentative and/or final settlements of prior year cost reports and other third-party payor adjustments.

Generally, patients who are covered by third-party payors are responsible for related deductibles and coinsurance, which vary in amount. The System also provides services to uninsured patients, and offers those uninsured or underinsured patients a discount, either by policy or law, from standard charges. The System estimates the transaction price for patients with deductibles and coinsurance and from those who are uninsured based on historical experience and current market conditions. The initial estimate of the transaction price is determined by reducing the standard charges by any contractual adjustment, discounts and implicit price concessions. Subsequent changes to the estimate of the transaction price are generally recorded as an adjustment to patient service revenues in the period of the change. The impact of prior year changes to the consolidated financial statements in estimates of implicit price concessions, discounts and contractual adjustments used to determine the transaction price for the year ended December 31, 2020 related to readjusted transaction price for prior year accounts receivable price concessions was a loss of $2,600. Subsequent changes that are determined to be the result of an adverse change in the patient's ability to pay are recorded as an implicit price concession as a component of patient service revenue.

Consistent with the System's mission, care is provided to patients regardless of their ability to pay. Therefore, the System has determined it has provided implicit price concessions to uninsured patients and other patient balances (for example, copays and deductibles). The implicit price concessions included in estimating the transaction price represent the difference between amounts billed to patients and the amounts the System expects to collect based on its collection history with those patients.

(In thousands)

## NOTE 8 - INVESTMENTS AND ASSETS WHOSE USE IS LIMITED

The composition of investments and assets whose use is limited at December 31, 2021 and 2020 is set forth in the following table:

| | 2021 | 2020 |
|---|---|---|
| Investments: | | |
| Cash and cash equivalents | $ 5,234 | $ 3,452 |
| Government bonds | 2,438 | 2,450 |
| Corporate bonds | 31,199 | 34,797 |
| Mutual funds, fixed income | 54,389 | 28,141 |
| Mutual funds, domestic equity | 74,461 | 31,707 |
| Mutual funds, international equity | 18,179 | 9,500 |
| Accrued interest receivable | - | 35 |
| | $ 185,900 | $ 110,082 |
| Assets whose use is limited: | | |
| Board-designated funds: | | |
| Cash and cash equivalents | $ 855 | $ 1,441 |
| Commingled funds, equities and bonds | 3,131 | 2,496 |
| Mutual funds, fixed income | 1,344 | 1,379 |
| Mutual funds, domestic equity | 6,865 | 7,155 |
| Mutual funds, international equity | 331 | 331 |
| Split dollar life insurance | 1,887 | 1,887 |
| | 14,413 | 14,689 |
| Donor-restricted assets: | | |
| Cash and cash equivalents | 8,235 | 7,292 |
| Commingled funds, U.S. large cap equities | 8,842 | 6,777 |
| Commingled funds, U.S. bonds | 4,399 | 4,472 |
| Mutual funds, fixed income | 2,065 | 1,576 |
| Mutual funds, domestic equity | 4,074 | 3,489 |
| Mutual funds, international equity | 3,301 | 3,077 |
| | 30,916 | 26,683 |
| Funds held by trustee under bond indenture agreement: | | |
| Cash and cash equivalents | 1,016 | 3,801 |
| | 46,345 | 45,173 |
| Less current portion | (1,016) | (3,801) |
| | $ 45,329 | $ 41,372 |

Investment return consists of the following for the years ended December 31, 2021 and 2020:

| | 2021 | 2020 |
|---|---|---|
| Investment returns, net: | | |
| Interest and dividends, net | $ 2,505 | $ 3,804 |
| Net realized gains on the sale of investments | 13,325 | 268 |
| Change in net unrealized gains and losses on investments | (5,631) | 4,002 |
| | $ 10,199 | $ 8,074 |

## NOTE 9 - FAIR VALUE MEASUREMENTS AND FINANCIAL INSTRUMENTS

The System measures its investments, assets whose use is limited and interest rate swap agreements on a recurring basis in accordance with US GAAP.

Fair value is defined as the price that would be received to sell an asset or the price that would be paid to transfer a liability in an orderly transaction between market participants at the measurement date. The framework that the authoritative guidance establishes for measuring fair value includes a hierarchy used to classify the inputs used in measuring fair value. The hierarchy prioritizes the inputs used in determining valuations into three levels. The level in the fair value hierarchy within which the fair value measurement falls is determined based on the lowest level input that is significant to the fair value measurement.

The levels of the fair value hierarchy are as follows:

Level 1 - Fair value is based on unadjusted quoted prices in active markets that are accessible to the System for identical assets. These generally provide the most reliable evidence and are used to measure fair value whenever available.

Level 2 - Fair value is based on significant inputs, other than Level 1 inputs, that are observable either directly or indirectly for substantially the full term of the asset through corroboration with observable market data. Level 2 inputs include quoted market prices in active markets for similar assets, quoted market prices in markets that are not active for identical or similar assets and other observable inputs.

Level 3 - Fair value would be based on significant unobservable inputs. Examples of valuation methodologies that would result in Level 3 classification include option pricing models, discounted cash flows and other similar techniques.

***Transfers Between Levels***

The availability of observable market data is monitored to assess the appropriate classification of financial instruments within the fair value hierarchy. Changes in economic conditions or model-based valuation techniques may require the transfer of financial instruments from one fair value level to another. In such instances, the transfer is reported during the reporting period.

There were no transfers into or out of the levels per the tables below for the years ended December 31, 2021 and 2020.

(In thousands)

The following tables present financial instruments measured at fair value at December 31, 2021 and 2020:

| | Fair Value as of December 31, 2021 | | | |
|---|---|---|---|---|
| | Total | Level 1 | Level 2 | Level 3 |
| Assets: | | | | |
| Investments: | | | | |
| Government bonds | $ 2,438 | $ - | $ 2,438 | $ - |
| Investment-grade corporate bonds | 31,199 | - | 31,199 | - |
| Mutual funds, fixed income | 54,389 | 54,389 | - | - |
| Mutual funds, domestic equity | 74,461 | 74,461 | - | - |
| Mutual funds, international equity | 18,179 | 18,179 | - | - |
| Assets whose use is limited: | | | | |
| Mutual funds, fixed income | 3,409 | 3,409 | - | - |
| Mutual funds, domestic equity | 10,939 | 10,939 | - | - |
| Mutual funds, international equity | 3,632 | 3,632 | - | - |
| Split dollar life insurance | 1,887 | - | 1,887 | - |
| Beneficial interest in perpetual trusts | 3,727 | - | - | 3,727 |
| | 204,260 | $ 165,009 | $ 35,524 | $ 3,727 |
| Assets recorded at NAV [(a)] | 16,372 | | | |
| Cash and cash equivalents | 15,340 | | | |
| | $ 235,972 | | | |
| Liabilities: | | | | |
| Interest rate swaps | $ 1,192 | $ - | $ 1,192 | $ - |

| | Fair Value as of December 31, 2020 | | | |
|---|---|---|---|---|
| | Total | Level 1 | Level 2 | Level 3 |
| Assets: | | | | |
| Investments: | | | | |
| Government bonds | $ 2,450 | $ - | $ 2,450 | $ - |
| Investment-grade corporate bonds | 34,797 | - | 34,797 | - |
| Mutual funds, fixed income | 28,141 | 28,141 | - | - |
| Mutual funds, domestic equity | 31,707 | 31,707 | - | - |
| Mutual funds, international equity | 9,500 | 9,500 | - | - |
| Assets whose use is limited: | | | | |
| Mutual funds, fixed income | 2,955 | 2,955 | - | - |
| Mutual funds, domestic equity | 10,644 | 10,644 | - | - |
| Mutual funds, international equity | 3,408 | 3,408 | - | - |
| Split dollar life insurance | 1,887 | - | 1,887 | - |
| Beneficial interest in perpetual trusts | 3,671 | - | - | 3,671 |
| | 129,160 | $ 86,355 | $ 39,134 | $ 3,671 |
| Assets recorded at NAV [(a)] | 13,745 | | | |
| Cash and cash equivalents | 15,986 | | | |
| | $ 158,891 | | | |
| Liabilities: | | | | |
| Interest rate swap | $ 319 | $ - | $ 319 | $ - |

[(a)] Certain investments that are measured at NAV per share (or its equivalent) have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the line items presented in the consolidated balance sheets.

(In thousands)

### *Investments Measured Using NAV per Share Practical Expedient*

Commingled funds are valued at the quoted NAV of shares held at year-end. NAV is used as a practical expedient to estimate fair value. The NAV is based on the fair value of the underlying investments held by the fund less its liabilities. This practical expedient is not used when it is determined to be probable that the fund will sell the investment for an amount different than the reported NAV. Purchases and sales may occur daily.

The following table summarizes investments for which fair value is measured using NAV per share practical expedient as of December 31, 2021 and 2020, respectively.

| | Fair Value 2021 | Fair Value 2020 | Unfunded Commitments | Redemption Frequency (If Currently Eligible) | Redemption Notice Period |
|---|---|---|---|---|---|
| Vanguard Target Date Funds | $ 3,131 | $ 2,496 | N/A | Daily | 30 days |
| State Street Passive Bond Market Index Strategy | 4,399 | 4,472 | N/A | Daily | 30 days |
| S&P 500 Index Strategy | 3,185 | 2,475 | N/A | Daily | 30 days |
| State Street FTSE RAFI U.S. 1000 Index | 5,657 | 4,302 | N/A | Daily | 30 days |
| | $ 16,372 | $ 13,745 | | | |

### *Fair Value of Financial Instruments*

Mutual funds are valued at the quoted NAV of shares held at year-end.

Government bonds and corporate bonds are valued at fair value, which are the amounts reported in the consolidated balance sheets, based on quoted market prices, if available or estimated using quoted market process of similar securities.

Beneficial interest in perpetual trusts is valued using fair value of the underlying assets held in the trust at year-end.

The fair value of the interest rate swap is determined by an independent third-party valuation specialist based on proprietary models of discounted cash flow. The fair value takes into consideration the prevailing interest rate environment and the specific terms and conditions of the derivative financial instruments and the credit risk of the System. The value represents the estimated exit price the System would pay or receive upon termination of the agreements.

The valuation methods as described above may produce a fair value that may not be indicative of what management would realize upon disposition or reflective of future fair values. Furthermore, although management believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

(In thousands)

Change in the beneficial interest in perpetual trusts for the years ended December 31, 2021 and 2020 were as follows:

| | 2021 | 2020 |
|---|---|---|
| Balance, beginning of the year | $ 3,671 | $ 2,936 |
| Change in beneficial interest in perpetual trusts | 56 | 735 |
| Balance, ending of the year | $ 3,727 | $ 3,671 |

**NOTE 10 - INVESTMENT IN UNCONSOLIDATED JOINT VENTURES**

The System and physicians or other health systems located within the service area, have joined together, to expand surgical and certain other services within the local communities through jointly owned ventures. These ventures are for-profit limited liability companies (LLC).

A summary of the LLCs and ownership percentages is as follows:

HHS has a 50 percent interest in Hunterdon Health Care LLC d/b/a Hunterdon Healthcare Partners (HHP). HHP is a venture with Hunterdon Physician Practice Association (HPPA), an independent practice association. Approximately 90 percent of the Medical Center's medical staff members are members of HPPA. HHP provides improved access to care to the community through a clinically integrated health system. HHP also provides integrated electronic medical records for all of the professional members allowing physicians to collaborate to patient care. HHP is accounted for on the equity method.

HHS has a 50 percent interest in Health Alliance LLC (the Alliance). The Alliance is a venture with Atlantic Health System (AHS) to promote activities to foster collaboration, achieve cost savings opportunities and to clinically integrate services between HHS and its strategic alliance partner AHS. The Alliance is accounted of on the equity method.

The Medical Center has a 50 percent interest in Hunterdon Ambulatory Services LLC (HAS), an ambulatory nonprovider based diagnostic and therapeutic services provider. HAS is accounted for on the equity method.

Midjersey has a 50 percent interest in Bridgewater Ambulatory Surgery Center LLC (BAS). BAS is an outpatient surgery center. BAS is accounted for on the equity method.

Midjersey has a: a) 19.6 percent interest in Hunterdon Medical Office Associates, LLC (HMOA), b) 13.4 percent interest in HOI Reality, LLC, c) 10 percent interest in HCS Realty, LLC and d) 10 percent interest in HSTI Realty LLC, which are ventures in medical office buildings (MOBs). The MOBs are accounted for on the cost method.

> Midjersey has guaranteed the outstanding balance of two of HMOA's outstanding loans times an amount equal to 125 percent of their LLC membership percentage. At December 31, 2021, the guaranteed amount on the outstanding loans is $2,264.

The System provides rental space and management services to several of these ventures. The total revenue, included in other revenue, from these services was $773 and $692 for the years ended December 31, 2021 and 2020, respectively.

(In thousands)

## NOTE 11 - PROPERTY AND EQUIPMENT

Property and equipment at December 31, 2021 and 2020 consist of the following:

| | 2021 | 2020 |
|---|---|---|
| Land | $ 6,877 | $ 6,877 |
| Land improvements | 8,180 | 7,933 |
| Buildings | 167,272 | 165,619 |
| Leasehold improvements | 24,860 | 24,811 |
| Fixed equipment | 47,515 | 48,098 |
| Major moveable equipment | 198,197 | 188,608 |
| | 452,901 | 441,946 |
| Less accumulated depreciation and amortization | (318,576) | (297,621) |
| | 134,325 | 144,325 |
| Construction in progress | 11,947 | 9,616 |
| | $ 146,272 | $ 153,941 |

Depreciation and amortization expense related to property and equipment was $17,655 and $19,421 for the years ended December 31, 2021 and 2020, respectively.

The System has committed to several projects, which have $2,831 remaining on the commitments and are expected to be fully completed in 2022.

## NOTE 12 - LONG-TERM DEBT

Long-term debt at December 31, 2021 and 2020 consists of the following:

| | 2021 | 2020 |
|---|---|---|
| New Jersey Health Care Facilities Financing Authority (Authority) Revenue Bonds, Series 2020A, Serial Bonds payable annually through July 1, 2050, bearing interest at fixed rates ranging from 2.568% to 3.511% | $ 44,460 | $ 44,460 |
| Authority Refunding Bonds, Series 2020B, Serial Bonds payable annually through July 1, 2050, bearing interest at a variable rate based on LIBOR plus 1.26% (1.36% and 1.41% at December 31, 2021 and 2020, respectively) | 33,750 | 34,097 |
| Authority Revenue and Refunding Bonds, Series 2014A, Term Bonds, maturing July 1, 2036 and July 1, 2045, each bearing interest at a fixed rate of 4.00% | 14,305 | 14,305 |
| Authority Refunding Bonds, Series 2014B, payable monthly through December 1, 2029, bearing interest at a fixed rate of 2.44% | 13,316 | 14,806 |

(In thousands)

| | 2021 | 2020 |
|---|---|---|
| Authority Refunding Bonds, Series 2014D, payable monthly through December 1, 2034, bearing interest at a variable rate based on LIBOR (1.03% and 1.08% at December 31, 2021 and 2020, respectively) | $ 3,576 | $ 3,789 |
| New Jersey Economic Development Authority Energy Resilience Bank (ERB) loan promissory note payable upon completion of COGEN project with interest at a fixed rate of 2.00% and principal payments to beginning 7 months following the project completion date for 20 years | 2,937 | 1,864 |
| Term Loan by Midjersey and a bank with a fixed interest of 3.5%, guaranteed by the Medical Center, which was paid in full January 2021 | - | 8,847 |
| Notes payable with interest fixed at 4.00%, monthly principal and interest payable through December 2022 | 63 | 134 |
| PPP loan by HCS at a fixed rate of interest at 1.00%, monthly principal and interest payments beginning in 2022 | 619 | 619 |
| Finance lease obligations, with various interest rates, secured by leased equipment | 2,077 | 2,995 |
| | 115,103 | 125,916 |
| Less current portion due within one year | (4,117) | (4,062) |
| | 110,986 | 121,854 |
| Less deferred financing costs, net of amortization | (1,164) | (850) |
| Less bond original issue discount, net of amortization | - | (351) |
| | $ 109,822 | $ 120,653 |

***2020 Bonds***

On December 23, 2020, the Medical Center issued $44,460 of Revenue Bonds, Series 2020A (Series 2020A bonds) pursuant to a loan agreement between the Medical Center and the Authority. Proceeds from the Series 2020A bonds will be used to fund various capital improvements and equipment purchases related to the expansion of and renovations to various healthcare related facilities at the Medical Center and to pay costs incurred in connection with the issuance and sale of the Series 2020A bonds. The Series 2020A bonds have annual July 1st principal amounts ranging from $420 to $5,565 and includes $4,175 of Term Bonds maturing July 1, 2022 through 2030, $8,215 maturing July 1, 2031 through 2040 and $32,070 maturing July 1, 2041 through 2050 with interest ranging from 2.57 percent to 3.51 percent. Interest is payable semiannually on July 1 and January 1.

On December 23, 2020, the Medical Center also issued $34,097 of Refunding Bonds, Series 2020B (Series 2020B bonds) pursuant to a loan agreement between the Medical Center and the Authority. The Series 2020B bonds have annual July 1st principal amounts ranging from $185 to $2,513. Interest is payable semiannually on July 1 and January 1. $33,881 of the Series 2020B bonds were escrowed to legally defease certain 2014A Series bonds in the amount of $28,430, which created a call premium loss on defeasance of debt of $5,451. The Medical Center is no longer liable for those certain 2014A Series bonds and, therefore, have been removed from the 2020 consolidated financial statements. Unamortized deferred financing costs of $567 and unamortized original issue premium of $2,357 were written off as a component of the net loss on defeasance of debt of $3,661 for the year ended December 31, 2020, in other gains and losses on the consolidated statements of operations and changes in net assets.

***2014 Bonds***

On December 1, 2014, the Medical Center issued $42,735 of Revenue and Refunding Bonds, Series 2014A (Series 2014A bonds) pursuant to a loan agreement between the Medical Center and the Authority. Proceeds from the Series 2014A bonds were used to refund and redeem the Series 2006A bonds and to finance a portion of the costs of various capital improvements to the Medical Center's acute care facility; and to pay costs of issuance of the Series 2014A bonds. As noted above, $28,430 of Series 2014A bonds were legally defeased with the issuance of the Series 2020B bonds. The Series 2014A bonds include $10,205 of Serial Bonds maturing July 1, 2030 through 2034, bearing interest at 5 percent and $32,530 of Term Bonds maturing July 1, 2036 through 2045, with interest ranging from 4 percent to 5 percent. Interest is payable semiannually on July 1 and January 1.

On December 1, 2014, the Medical Center also issued $16,260, $6,360 and $4,935 of Refunding Bonds, Series 2014B, C and D, respectively (Series 2014B-D bonds), pursuant to a loan agreement between the Medical Center and the Authority. A bank purchased the Series 2014B-D bonds pursuant to a Direct Bond Purchase Agreement with an expiration date of December 23, 2024 and are subject to mandatory redemption. Proceeds from the Series 2014B and C bonds were used to refund and redeem the Series 2006B bonds and Series 2009 bonds, respectively, and the proceeds from the Series 2014D bonds were used to refinance an existing bank loan issued by Midjersey. The Series 2014C Bonds have been paid in full as scheduled. The Series 2014B-D bonds were special and limited obligations of the Authority, payable in monthly installments ranging from $29 to $153 through December 2034.

***Bond Covenants***

The Medical Center, as the only Obligated Group member, has a Master Trust Indenture and First Supplemental Indenture, both dated as of December 1, 2014, as amended (Master Trust Indenture), with a bank, as Master Trustee for the 2020 and 2014 bonds. As security for the repayment of the bonds, the Medical Center has granted a security interest in and a first lien on its gross revenues. The Master Trust Indenture requires the Medical Center to comply with certain covenants and ratios.

***ERB Loan***

In 2019, the Medical Center entered into a loan and forgiveness agreement with the ERB for the construction of a co-generation plant project. The agreement has a maximum amount of $9,528, which consists of a loan principal amount of up to $3,444 and an amount that is forgivable, as defined of $6,084. At December 31, 2021 and 2020, the loan amount outstanding is included in long-term debt and the forgivable amount of $5,222 and $3,314, respectively, is included in deferred revenue on the consolidated balance sheets. The project is expected to be completed in 2022 and the forgivable amount will be recognized as revenue when the project completion is obtained as evidenced by a certificate of completion as defined in the ERB Funding Agreement.

(In thousands)

### *Future Principal Payments*

Scheduled principal repayments on long-term debt at are as follows:

| Years Ending December 31: | | |
|---|---|---|
| 2022 | $ | 4,117 |
| 2023 | | 3,391 |
| 2024 | | 3,159 |
| 2025 | | 2,873 |
| 2026 | | 2,943 |
| Thereafter | | 98,620 |
| | $ | 115,103 |

### *Lines of Credit*

The Medical Center has a $6,000 Working Capital line of credit with a bank, which expires on June 30, 2022, with an interest rate that is based on the Wall Street Journal Prime Rate minus 1.90 percent with a rate floor of 1.35 percent (1.35 percent and 4.00 percent at December 31, 2021 and 2020, respectively).

The Medical Center also has with the same bank a $7,000 unsecured Advised Equipment Lease line of credit, which expires on December 31, 2022, and a fixed interest rate of 3.75%.

There are no amounts outstanding on these lines of credit as of December 31, 2021 and 2020.

## NOTE 13 - DERIVATIVE FINANCIAL INSTRUMENTS - INTEREST RATE SWAPS

In conjunction with the 2014D Bonds on December 23, 2014, the Medical Center entered into an interest rate swap agreement with a counterparty (the 2014 Swap). The notional amount declines annually until the termination of the agreement on December 2, 2024. The 2014 Swap has a notional amount of $3,594 and $3,807 at December 31, 2021 and 2020, respectively, and requires the Medical Center to pay a fixed rate of 1.5 percent to the counterparty in exchange for the counterparty agreeing to pay the Medical Center a variable rate equal to 69 percent of one-month LIBOR (0.09 percent and 0.15 percent at December 31, 2021 and 2020, respectively).

In conjunction with the 2020B Bonds on April 5, 2021, the Medical Center entered into an interest rate swap agreement with a counterparty (the 2020 Swap). The notional amount declines annually until the termination of the agreement on December 23, 2035. The 2020 Swap has a notional amount of $33,750 at December 31, 2021 and requires the Medical Center to pay a fixed rate of 1.521 percent to the counterparty in exchange for the counterparty agreeing to pay the Medical Center a variable rate equal to 81.5 percent of one-month LIBOR (0.09 percent at December 31, 2021).

(In thousands)

The reported fair value of the interest swap agreements are included in other liabilities in the consolidated balance sheets and represents the estimated amount that would be paid to terminate the interest rate swaps were they to be terminated at the consolidated balance sheet date.

| | 2014 Swap | 2020 Swap | Total |
|---|---|---|---|
| Fair value, December 31, 2019 | $ (246) | $ - | $ (246) |
| Change in fair value | (73) | - | (73) |
| Fair value, December 31, 2020 | (319) | - | (319) |
| Change in fair value | 147 | (1,020) | (873) |
| Fair value, December 31, 2021 | $ (172) | $ (1,020) | $ (1,192) |

## NOTE 14 - LEASES

The following table presents the components of the right of use assets and liabilities related to leases and their classification as of December 31, 2021 and 2020:

| Component of Lease Balances | Classification in Consolidated Balance Sheets | 2021 | 2020 |
|---|---|---|---|
| Assets | | | |
| Operating lease assets | Right of use assets, operating leases | $ 25,919 | $ 31,643 |
| Finance lease assets | Property and equipment, net | 2,437 | 3,151 |
| Total leased assets | | $ 28,356 | $ 34,794 |
| Liabilities | | | |
| Operating lease liabilities | | | |
| Current | Operating lease obligations, current portion | $ 5,818 | $ 6,237 |
| Long term | Operating lease obligations, net of current portion | 21,501 | 25,836 |
| Total operating lease liabilities | | 27,319 | 32,073 |
| Finance lease liabilities | | | |
| Current | Long-term debt, current portion | 975 | 953 |
| Long term | Long-term debt, net of current portion | 1,102 | 2,042 |
| Total finance lease liabilities | | 2,077 | 2,995 |
| Total lease liabilities | | $ 29,396 | $ 35,068 |

(In thousands)

The following table presents the components of lease expense and their classification in the consolidated statement of operations and changes in net assets for the years ended December 31, 2021 and 2020:

| Component of Lease Balances | Classification in Consolidated Statements of Operations and Changes in Net Assets | 2021 | 2020 |
|---|---|---|---|
| Operating lease expense | Supplies and services | $ 8,905 | $ 6,190 |
| Finance lease expense: | | | |
| Amortization of leased assets | Depreciation and amortization | 714 | 714 |
| Interest on lease liabilities | Interest | 43 | 63 |
| Total finance lease expense | | 757 | 777 |
| Total operating and finance lease expense | | 9,662 | 6,967 |
| Variable and short-term lease expense | Supplies and services | 1,093 | 277 |
| Total lease expense | | $ 10,755 | $ 7,244 |

The weighted-average lease terms and discount rates for operating and finance leases at December 31, 2021 and 2020 are as follows:

| | 2021 | 2020 |
|---|---|---|
| Weighted-average remaining lease term (years): | | |
| Operating leases | 6.85 years | 6.98 years |
| Finance leases | 2.26 years | 3.19 years |
| Weighted-average discount rate: | | |
| Operating leases | 3.8% | 3.8% |
| Finance leases | 1.2% | 1.3% |

Cash flow related to leases for the years ended December 31, 2021 and 2020 are as follows:

| | 2021 | 2020 |
|---|---|---|
| Cash paid for amounts included in the measurement of lease liabilities: | | |
| Operating cash related to operating leases | $ 9,131 | $ 8,160 |
| Operating cash related to finance leases | $ 939 | $ 687 |
| Financing cash related to finance leases | $ 43 | $ 63 |
| Right-of-use assets obtained in exchange for lease obligations: | | |
| Operating leases | $ 6,200 | $ 3,094 |
| Finance leases | $ - | $ - |

(In thousands)

The future minimum rental commitments for all noncancelable operating and finance leases as of December 31, 2021 are as follows:

| Years Ending December 31, | Operating Leases | Finance Leases | Total |
|---|---|---|---|
| 2022 | $ 5,850 | $ 996 | $ 6,846 |
| 2023 | 4,550 | 718 | 5,268 |
| 2024 | 4,518 | 386 | 4,904 |
| 2025 | 3,661 | - | 3,661 |
| 2026 | 2,767 | - | 2,767 |
| Thereafter | 9,669 | - | 9,667 |
| | 31,015 | 2,100 | 33,115 |
| Less: imputed interest | (3,696) | (23) | (3,719) |
| | 27,319 | 2,077 | 29,396 |
| Less: current portion | (5,818) | (975) | (6,793) |
| | $ 21,501 | $ 1,102 | $ 22,603 |

## NOTE 15 - RETIREMENT BENEFIT PLANS

### *Defined Contribution Pension Plan*

The System has the Hunterdon Healthcare 403(B) Retirement Savings Plan for certain System employees that are eligible for participation in the plan. The System will make a core annual contribution between 2 percent and 4 percent of each employee's annual compensation based on years of service and a 50 percent match of each employee's annual individual contribution to the plan to a maximum of 2 percent. Total expense recorded by the System for contributions into the plan for the years ended December 31, 2021 and 2020 was $6,200 and $5,764, respectively.

### *Defined Benefit Pension Plan*

The Medical Center sponsors a noncontributory defined benefit pension plan (the Plan), which covered all eligible employees and was frozen on January 15, 2014. The plan provides for benefits to be paid to eligible employees at retirement, based primarily upon years of service and compensation. Contributions are intended to provide not only for benefits attributed to service to date but also for benefits expected to be earned in the future. The Medical Center's funding policy is to contribute annually an amount equal to or greater than the minimum funding requirements of the Employee Retirement Income Security Act of 1974 (ERISA). The mortality table used for projecting the benefit obligation is the Pri-2012 private plans mortality tables projected with the current years' mortality improvement scale at December 31, 2021 and 2020.

**(In thousands)**

The following table summarizes information about the defined benefit plan:

| | December 31, 2021 | December 31, 2020 |
|---|---|---|
| Accumulated benefit obligation | $ 275,641 | $ 290,558 |
| Changes in benefit obligation | | |
| Projected benefit obligation, beginning of year | $ 290,558 | $ 269,866 |
| Interest cost | 5,136 | 7,455 |
| Actuarial (gain) loss | (9,318) | 28,166 |
| Benefits paid | (10,735) | (14,929) |
| Projected benefit obligation, end of year | 275,641 | 290,558 |
| Changes in plan assets | | |
| Fair value of plan assets, beginning of year | 234,346 | 219,634 |
| Actual return on plan assets | 22,576 | 29,641 |
| Contributions by the Medical Center | - | - |
| Benefits and expenses paid | (10,735) | (14,929) |
| Fair value of plan assets, end of year | 246,187 | 234,346 |
| Funded status of the plan - accrued retirement benefits | $ (29,454) | $ (56,212) |
| Amounts recognized in accumulated net assets without donor restrictions | | |
| Net loss | $ 83,342 | $ 102,257 |

(In thousands)

| | December 31, 2021 | December 31, 2020 |
|---|---|---|
| Components of net periodic benefit credit recognized in other gains and losses: | | |
| Interest cost | $ 5,136 | $ 7,455 |
| Expected return on plan assets | (15,991) | (16,060) |
| Amortization of net actuarial loss | 3,012 | 2,478 |
| Net pension benefit credit | (7,843) | (6,127) |
| Other changes in accrued retirement benefits recognized in net assets without donor restrictions: | | |
| Net actuarial loss | (18,915) | 12,107 |
| Total recognized in net benefit credit and net assets without donor restrictions | $ (26,758) | $ 5,980 |
| Amounts expected to be recognized in net periodic benefit cost in the following year - 2022 | | |
| Net loss | $ 2,384 | |
| Weighted-average assumptions used to determine benefit obligations at: | | |
| Discount rate | 2.75% | 2.41% |
| Rate of compensation increase | N/A | N/A |
| Measurement date | December 31 | December 31 |
| Weighted-average assumptions used to determine net periodic benefit credit for the period and years ended: | | |
| Discount rate | 2.41% | 3.19% |
| Expected long-term return on plan assets | 7.00% | 7.50% |
| Rate of compensation increase | N/A | N/A |

The expected long-term rate of return on pension assets is selected by considering the expected duration of the projected benefit obligation (PBO) for the plan and the asset mix of the plan. The rate of return is expected to be the rate earned over the period until the benefits represented by the current PBO are paid. The expected return on plan assets is based on the expectations of historical long-term average rates of return on the different asset classes held in the pension fund. This is reflective of the current and projected asset mix of the funds and considers the historical returns earned on the asset allocation and the duration of the plan liabilities. Thus, a historical approach has been taken to development the expected return on asset assumption. The Medical Center believes the fundamental changes in the markets cannot be predicted over the long term. Rather, historical returns, realized across numerous economic cycles, should be representative of the market return expectations applicable to the funding of a long-term benefit obligation.

Actual year-by-year returns can deviate substantially from the long-term expected return assumption. However, over time it is expected that the amount of over-performance will equal the amount of under-performance.

(In thousands)

The fair value hierarchy for the pension plan assets at December 31, 2021 are as follows:

| | Total | Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|
| Pension assets: | | | | |
| U.S. government bonds | $ 19,898 | $ 19,898 | $ - | $ - |
| Mutual funds, domestic fixed income | 97,139 | 97,139 | - | - |
| Mutual funds, domestic equity | 76,804 | 76,804 | - | - |
| Mutual funds, international equity | 51,190 | 51,190 | - | - |
| | 245,031 | $ 245,031 | $ - | $ - |
| Cash and cash equivalents | 1,156 | | | |
| | $ 246,187 | | | |

The fair value hierarchy for the pension plan assets at December 31, 2020 are as follows:

| | Total | Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|
| Pension assets: | | | | |
| Mutual funds, domestic fixed income | $ 80,902 | $ 80,902 | $ - | $ - |
| Mutual funds, domestic equity | 91,933 | 91,933 | - | - |
| Mutual funds, international equity | 60,497 | 60,497 | - | - |
| | 233,332 | $ 233,332 | $ - | $ - |
| Cash and cash equivalents | 1,014 | | | |
| | $ 234,346 | | | |

The pension plan’s weighted-average asset allocations at December 31, 2021 and 2020, by asset category, are as follows:

| Asset Category | Target Allocations | 2021 | 2020 |
|---|---|---|---|
| U.S. government bonds | 8% | 8% | -% |
| Mutual funds invested in equity securities | 52% | 52 | 65 |
| Mutual funds invested in debt securities | 40% | 40 | 35 |
| | | 100% | 100% |

(In thousands)

In determining the asset allocation, the investment managers recognize its desire for funding and expense stability, the long-term nature of the pension obligation and current and projected cash needs for retiree benefit payments. An asset allocation analysis is performed to determine the long-term targets for the major asset classes of equity, debt and cash using an efficient frontier model. The asset allocation is reviewed quarterly and rebalanced if the variance to the targets exceeds 2.5 percent.

The Medical Center does not expect to contribute to the Plan during 2022.

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid as follows:

| Years Ending December 31: | | |
|---|---|---|
| 2022 | $ | 12,968 |
| 2023 | | 13,557 |
| 2024 | | 13,875 |
| 2025 | | 14,325 |
| 2026 | | 14,681 |
| 2027-2031 | | 74,871 |

***Deferred Compensation Plans***

The System also provides deferred compensation plans for certain employees and physicians. Total expense recorded for these plans for the years ended December 31, 2021 and 2020 was $321 and $285, respectively.

## NOTE 16 - CONTINGENCIES AND COMMITMENTS

***Professional and Patient Care Liability Insurance***

The System has annually purchased a claims-made professional liability insurance policy, which provides coverage of $1,000 per occurrence and $3,000 annual aggregate. In addition, the System has purchased an additional layer of insurance above the base policy of $20,000. The System's professional liability insurance policy includes a deductible of $100 per occurrence and a $300 annual aggregate. Each individual employed physician is provided individual coverage in the amount of $3,000 per occurrence and $5,000 annual aggregate through a group purchased policy. Employed physicians are not covered by the System's policy or additional layer of insurance. The System has estimated losses and recorded an undiscounted liability of approximately $372 and $362 at December 31, 2021 and 2020, respectively, relating to unasserted claims and incidents not yet reported to the insurance carrier, which are included in other liabilities in the accompanying consolidated balance sheets. In addition, the System has recorded a receivable (included in other assets) and related claim liability (included in other liabilities) for anticipated insurance recoveries of approximately $3,736 and $2,865 at December 31, 2021 and 2020, respectively.

HCS has purchased annually a claims-made professional liability insurance policy. The policy currently provides coverage of $1,000 per occurrence and $3,000 annual aggregate. In addition, HCS has purchased an additional layer of insurance above the base policy of $2,000. HCS has no knowledge of any material claims or reportable events under this insurance policy.

HIA is separately insured under the providers' professional liability policy.

(In thousands)

## NOTE 17 - NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions at December 31, 2021 and 2020 are restricted for the following programs:

| | 2021 | 2020 |
|---|---|---|
| Temporarily - Subject to expenditure for specific purpose: | | |
| Property and equipment and research and education | $ 6,089 | $ 6,375 |
| Permanently - Investment in perpetuity whose income is expendable to support patient care or specified by donor: | | |
| Beneficial interest in perpetual trusts | 3,727 | 3,671 |
| Donor-restricted endowments | 24,584 | 22,483 |
| | 28,311 | 26,154 |
| | $ 34,400 | $ 32,529 |

Realized gains and losses are retained in either net assets without donor restrictions or net assets with donor restrictions in accordance with donors' wishes.

The System's endowment consists of eight funds that have been established by the Medical Center and seven funds that have been established by the Foundation to support the Medical Center and HRCH, in providing health care services. These funds are invested by the Medical Center and Foundation. As required by GAAP, net assets associated with endowment funds are classified and reported based upon the existence or absence of donor-imposed restrictions.

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor requires the System to retain as a fund of perpetual duration. In accordance with US GAAP, deficiencies of this nature are to be reported in net assets without donor restrictions as of year end. These deficiencies result from unfavorable market fluctuations. There were no such deficiencies as of December 31, 2021 and 2020.

### *Interpretation of Relevant Law*

The Boards of Trustees of the Medical Center and the Foundation have interpreted the New Jersey Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. The Medical Center and the Foundation classify as net assets with donor restrictions (a) the original value of gifts donated to the permanent endowment; (b) the original value of subsequent gifts to the permanent endowment and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The interest and dividend income earned on the accumulations to the donor-restricted endowment funds is classified as net assets with donor restrictions until the donor-imposed restrictions have been met and the amounts have been appropriated for expenditure.

### *Spending Policy*

The Foundation distributes funds from its endowment account to the Medical Center when donor-imposed restrictions have been met. The Medical Center spends earnings on donor-restricted endowment funds when expenses have been incurred that satisfy the donor-imposed restrictions.

(In thousands)

### *Return Objectives and Risk Parameters*

The Foundation and Medical Center have adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of income and growth, while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Medical Center and Foundation must hold in perpetuity. Under this policy, as approved by the Medical Center's and Foundation's Boards of Trustees, the endowment assets are invested in a manner that is intended to produce moderate to high rates of return while assuming a moderate to low level of investment risk.

The following represents the net asset classes of the donor-restricted endowment funds at December 31, 2021 and 2020:

| | 2021 | 2020 |
|---|---|---|
| Donor-restricted endowment funds | $ 24,584 | $ 22,483 |

The following table presents changes in endowments for the years ended December 31, 2021 and 2020:

| | |
|---|---|
| Endowment net assets, December 31, 2019 | $ 22,490 |
| Contributions, net asset transfers and other changes | (1,152) |
| Interest income | 6 |
| Net realized gains on investments | 2 |
| Change in unrealized gains and losses on investments | 1,137 |
| Endowment net assets, December 31, 2020 | 22,843 |
| Contributions, net asset transfers and other changes | (147) |
| Interest income | 14 |
| Net realized gains on investments | 3 |
| Change in unrealized gains and losses on investments | 2,231 |
| Endowment net assets, December 31, 2021 | $ 24,584 |

(In thousands)

## NOTE 18 - CONCENTRATION OF CREDIT RISK

The System grants credit without collateral to its patients, most of whom are local residents and are insured under third-party arrangements. The significant concentrations of accounts receivable for services to patients include the following at December 31, 2021 and 2020:

| | 2021 | 2020 |
|---|---|---|
| Medicare and Medicare managed care | 33% | 32% |
| Medicaid and Medicaid managed care | 9 | 10 |
| Aetna | 11 | 12 |
| Blue Cross, all products except Medicare/Medicaid | 21 | 20 |
| Self-pay/uninsured | 7 | 6 |
| Other third-party commercial | 19 | 20 |
| | 100% | 100% |

## NOTE 19 - FUNCTIONAL EXPENSES

The System provides general healthcare services to residents within its geographic location. Expenses related to providing these services for the years ended December 31, 2021 and 2020 included in the consolidated statements of operations are as follows:

| 2021 | Healthcare Services | General and Administrative | Fundraising Expenses | Total |
|---|---|---|---|---|
| Salaries, wages and benefits | $ 208,589 | $ 23,390 | $ 826 | $ 232,805 |
| Physician fees | 12,088 | 128 | - | 12,216 |
| Supplies and services | 103,753 | 40,256 | 232 | 144,241 |
| Depreciation and amortization | 7,681 | 10,032 | - | 17,713 |
| Interest | 3,279 | 311 | - | 3,590 |
| | $ 335,390 | $ 74,117 | $ 1,058 | $ 410,565 |

| 2020 | Healthcare Services | General and Administrative | Fundraising Expenses | Total |
|---|---|---|---|---|
| Salaries, wages and benefits | $ 195,679 | $ 19,576 | $ 843 | $ 216,098 |
| Physician fees | 11,114 | - | - | 11,114 |
| Supplies and services | 95,208 | 22,601 | 255 | 118,064 |
| Depreciation and amortization | 10,399 | 9,049 | - | 19,448 |
| Interest | 2,584 | 153 | - | 2,737 |
| | $ 314,984 | $ 51,379 | $ 1,098 | $ 367,461 |

The consolidated financial statements report certain expense categories that are attributable to more than one health care service or support function. Therefore, these expenses require an allocation on a reasonable basis that is consistently applied. Certain costs not directly attributable to a function, including depreciation and amortization, are allocated to a function based on a square footage basis.

## NOTE 20 - SUBSEQUENT EVENTS

The System evaluated its December 31, 2021 consolidated financial statements for subsequent events through May 26, 2022, the date the consolidated financial statements were available to be issued. The System is not aware of any subsequent events which would require recognition or disclosure in the consolidated financial statements.

SUPPLEMENTARY INFORMATION

**Hunterdon Healthcare System, Inc. and Affiliates**

**CONSOLIDATING SCHEDULE, BALANCE SHEET**

**December 31, 2021**
**(In Thousands)**

| | Hunterdon Healthcare System, Inc. | Consolidated Hunterdon Medical Center | Consolidated Midjersey Health Corporation | Consolidated Hunterdon Regional Community Health, Inc. | Hunterdon Medical Center Foundation, Inc. | Eliminations | Consolidated Total |
|---|---|---|---|---|---|---|---|
| **ASSETS** | | | | | | | |
| **Current assets** | | | | | | | |
| Cash and cash equivalents | $ 76 | $ 39,799 | $ 3,230 | $ 3,118 | $ 351 | $ - | $ 46,574 |
| Assets whose use is limited, bond funds | - | 1,016 | - | - | - | - | 1,016 |
| Patient accounts receivable | - | 43,649 | 1,634 | 961 | - | - | 46,244 |
| Other receivables | - | 9,883 | 281 | - | - | - | 10,164 |
| Due from unconsolidated joint ventures | 239 | - | 434 | - | - | 2,925 | 3,598 |
| Supplies | - | 4,652 | 599 | 405 | - | - | 5,656 |
| Prepaid expenses and other current assets | - | 7,840 | 202 | 168 | 14 | - | 8,224 |
| Total current assets | 315 | 106,839 | 6,380 | 4,652 | 365 | 2,925 | 121,476 |
| **Investments** | - | 182,072 | - | 452 | 3,376 | - | 185,900 |
| **Assets whose use is limited** | | | | | | | |
| Board-designated funds | - | 14,413 | - | - | - | - | 14,413 |
| Donor-restricted assets | - | 19,465 | - | - | 11,451 | - | 30,916 |
| **Property and equipment, net** | - | 142,077 | 3,581 | 588 | 26 | - | 146,272 |
| **Right-of-use assets, operating leases** | - | 16,259 | 9,660 | - | - | - | 25,919 |
| **Other assets** | | | | | | | |
| Investment in unconsolidated joint ventures | 1,452 | 175 | 1,375 | - | - | - | 3,002 |
| Goodwill and intangibles, net | - | 7,617 | 3,463 | - | - | - | 11,080 |
| Other | - | 5,908 | 1,455 | - | 2,558 | - | 9,921 |
| Beneficial interest in perpetual trusts | - | 2,763 | - | - | 964 | - | 3,727 |
| Due from related parties | - | 17,448 | - | - | - | (17,448) | - |
| Investment in controlled affiliates | 2,185 | - | - | - | - | (2,185) | - |
| Beneficial interest in net assets of the Foundation | - | 9,595 | - | 1,593 | - | (11,188) | - |
| Total assets | $ 3,952 | $ 524,631 | $ 25,914 | $ 7,285 | $ 18,740 | $ (27,896) | $ 552,626 |

**Hunterdon Healthcare System, Inc. and Affiliates**

**CONSOLIDATING SCHEDULE, BALANCE SHEET - CONTINUED**

**December 31, 2021**
**(In Thousands)**

| | Hunterdon Healthcare System, Inc. | Consolidated Hunterdon Medical Center | Consolidated Midjersey Health Corporation | Consolidated Hunterdon Regional Community Health, Inc. | Hunterdon Medical Center Foundation, Inc. | Eliminations | Consolidated Total |
|---|---|---|---|---|---|---|---|
| **LIABILITIES AND NET ASSETS** | | | | | | | |
| **Current liabilities** | | | | | | | |
| Accounts payable and accrued expenses | $ 21 | $ 31,219 | $ 1,073 | $ 719 | $ 237 | $ - | $ 33,269 |
| Accrued payroll and payroll taxes | - | 22,433 | - | - | - | - | 22,433 |
| Third-party payor settlements and advances, current portion | - | 19,760 | - | - | - | - | 19,760 |
| Operating lease obligations, current portion | - | 4,239 | 1,579 | - | - | - | 5,818 |
| Long-term debt, current portion | - | 3,410 | 707 | - | - | - | 4,117 |
| Accrued interest payable | - | 2,486 | - | - | - | - | 2,486 |
| Due to related parties | - | - | 1,035 | 1,917 | 339 | (3,291) | - |
| Total current liabilities | 21 | 83,547 | 4,394 | 2,636 | 576 | (3,291) | 87,883 |
| **Long-term debt, net of current portion** | - | 109,668 | 154 | - | - | - | 109,822 |
| **Operating lease obligations, net of current portion** | - | 12,715 | 8,786 | - | - | - | 21,501 |
| **Other liabilities** | | | | | | | |
| Accrued retirement benefits | - | 29,454 | - | - | - | - | 29,454 |
| Deferred revenue | - | 6,241 | - | - | - | - | 6,241 |
| Due to related parties | 2,520 | - | 8,713 | - | - | (11,233) | - |
| Other | - | 17,063 | - | - | - | - | 17,063 |
| Total liabilities | 2,541 | 258,688 | 22,047 | 2,636 | 576 | (14,524) | 271,964 |
| **Net assets and shareholders' equity** | | | | | | | |
| Without donor restrictions | 1,411 | 237,191 | - | 3,056 | 2,921 | (121) | 244,458 |
| Shareholders' equity | | | | | | | |
| Common stock | - | - | 588 | - | - | (588) | - |
| Additional paid-in capital | - | - | 1,448 | - | - | (1,448) | - |
| Retained earnings | | | | | | | |
| Midjersey Health Corporation | - | - | 27 | - | - | (27) | - |
| Noncontrolling interests | - | - | 1,804 | - | - | - | 1,804 |
| | 1,411 | 237,191 | 3,867 | 3,056 | 2,921 | (2,184) | 246,262 |
| With donor restrictions | - | 28,752 | - | 1,593 | 15,243 | (11,188) | 34,400 |
| Total net assets and shareholders' equity | 1,411 | 265,943 | 3,867 | 4,649 | 18,164 | (13,372) | 280,662 |
| Total liabilities and net assets | $ 3,952 | $ 524,631 | $ 25,914 | $ 7,285 | $ 18,740 | $ (27,896) | $ 552,626 |

**Hunterdon Healthcare System, Inc. and Affiliates**

**CONSOLIDATING STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS WITHOUT DONOR RESTRICTIONS**

**Year ended December 31, 2021**
**(In Thousands)**

| | Hunterdon Healthcare System, Inc. | Consolidated Hunterdon Medical Center | Consolidated Midjersey Health Corporation | Consolidated Hunterdon Regional Community Health, Inc. | Hunterdon Medical Center Foundation, Inc. | Eliminations | Consolidated Total |
|---|---|---|---|---|---|---|---|
| **Revenues** | | | | | | | |
| Patient service revenues | $ - | $ 367,989 | $ 13,896 | $ 6,123 | $ - | $ - | $ 388,008 |
| Other revenues | 7,984 | 27,923 | 2,529 | 38 | 1,831 | (9,403) | 30,902 |
| Net assets released from restrictions for operations | - | 697 | - | 151 | - | - | 848 |
| Total revenues | 7,984 | 396,609 | 16,425 | 6,312 | 1,831 | (9,403) | 419,758 |
| **Expenses** | | | | | | | |
| Salaries, wages and benefits | 4,070 | 222,852 | 5,697 | 2,988 | 1,032 | (3,834) | 232,805 |
| Physician fees | 1 | 12,128 | 88 | - | - | (1) | 12,216 |
| Supplies and services | 3,983 | 131,722 | 9,557 | 3,542 | 1,005 | (5,568) | 144,241 |
| Depreciation and amortization | - | 16,022 | 1,613 | 34 | 44 | - | 17,713 |
| Interest | - | 3,582 | 319 | - | - | (311) | 3,590 |
| Total expenses | 8,054 | 386,306 | 17,274 | 6,564 | 2,081 | (9,714) | 410,565 |
| Operating income (loss) | (70) | 10,303 | (849) | (252) | (250) | 311 | 9,193 |
| **Other gains and losses** | | | | | | | |
| Investment returns, net | - | 10,169 | - | 5 | 336 | (311) | 10,199 |
| Accrued retirement benefit credit | - | 7,843 | - | - | - | - | 7,843 |
| Change in fair value of interest rate swap agreements | - | (873) | - | - | - | - | (873) |
| Other gains and losses, net | - | 17,139 | - | 5 | 336 | (311) | 17,169 |
| Excess of revenues and gains over (under) expenses and losses before noncontrolling interests | (70) | 27,442 | (849) | (247) | 86 | - | 26,362 |
| **Excess of revenues and gains over expenses and losses attributed to noncontrolling interests** | - | - | (724) | - | - | - | (724) |
| Excess of revenues and gains over (under) expenses and losses attributed to Hunterdon Healthcare System, Inc. and affiliates | (70) | 27,442 | (1,573) | (247) | 86 | - | 25,638 |
| **Other changes in net assets** | | | | | | | |
| Other changes in accrued retirement benefits | - | 18,915 | - | - | - | - | 18,915 |
| Net assets released from restrictions for capital acquisitions | - | 1,889 | - | - | - | - | 1,889 |
| Change in noncontrolling interests | - | - | 56 | - | - | - | 56 |
| Other | - | 487 | (754) | - | (680) | - | (947) |
| (Decrease) increase in net assets without donor restrictions | $ (70) | $ 48,733 | $ (2,271) | $ (247) | $ (594) | $ - | $ 45,551 |

**Hunterdon Healthcare System, Inc. and Affiliates**

## HUNTERDON MEDICAL CENTER AND AFFILIATES - CONSOLIDATING BALANCE SHEET

**December 31, 2021**
**(In Thousands)**

| | Hunterdon Medical Center | Hunterdon Primary Care, P.C. | Hunterdon Specialty Care, P.C. | Hunterdon Urgent Care, P.C. | Eliminations | Consolidated Total |
|---|---|---|---|---|---|---|
| **ASSETS** | | | | | | |
| **Current assets** | | | | | | |
| Cash and cash equivalents | $ 29,227 | $ 7,676 | $ 2,250 | $ 646 | $ - | $ 39,799 |
| Assets whose use is limited, bond funds | 1,016 | - | - | - | - | 1,016 |
| Patient accounts receivable | 39,061 | 2,484 | 1,697 | 407 | - | 43,649 |
| Other receivables | 9,883 | - | - | - | - | 9,883 |
| Supplies | 4,652 | - | - | - | - | 4,652 |
| Prepaid expenses and other current assets | 7,840 | - | - | - | - | 7,840 |
| Total current assets | 91,679 | 10,160 | 3,947 | 1,053 | - | 106,839 |
| **Investments** | 182,072 | - | - | - | - | 182,072 |
| **Assets whose use is limited** | | | | | | |
| Board-designated funds | 14,413 | - | - | - | - | 14,413 |
| Donor-restricted assets | 19,465 | - | - | - | - | 19,465 |
| **Property and equipment, net** | 142,077 | - | - | - | - | 142,077 |
| **Right-of-use assets, operating leases** | 16,259 | - | - | - | - | 16,259 |
| **Other assets** | | | | | | |
| Investment in unconsolidated joint ventures | 175 | - | - | - | - | 175 |
| Goodwill and intangibles, net | 7,617 | - | - | - | - | 7,617 |
| Other | 5,908 | - | - | - | - | 5,908 |
| Beneficial interest in perpetual trusts | 2,763 | - | - | - | - | 2,763 |
| Due from related parties | 40,544 | (2,491) | (20,383) | (222) | - | 17,448 |
| Beneficial interest in net assets of the Foundation | 9,595 | - | - | - | - | 9,595 |
| Total assets | $ 532,567 | $ 7,669 | $ (16,436) | $ 831 | $ - | $ 524,631 |

Hunterdon Healthcare System, Inc. and Affiliates

## HUNTERDON MEDICAL CENTER AND AFFILIATES - CONSOLIDATING BALANCE SHEET - CONTINUED

December 31, 2021
(In Thousands)

| | Hunterdon Medical Center | Hunterdon Primary Care, P.C. | Hunterdon Specialty Care, P.C. | Hunterdon Urgent Care, P.C. | Eliminations | Consolidated Total |
|---|---|---|---|---|---|---|
| **LIABILITIES AND NET ASSETS (DEFICIT)** | | | | | | |
| **Current liabilities** | | | | | | |
| Accounts payable and accrued expenses | $ 31,211 | $ - | $ 8 | $ - | $ - | $ 31,219 |
| Accrued payroll and payroll taxes | 17,396 | 2,977 | 2,060 | - | - | 22,433 |
| Third-party payor settlements and advances, current portion | 19,247 | 128 | 384 | 1 | - | 19,760 |
| Operating lease obligations, current portion | 4,239 | - | - | - | - | 4,239 |
| Long-term debt, current portion | 3,410 | - | - | - | - | 3,410 |
| Accrued interest payable | 2,486 | - | - | - | - | 2,486 |
| Total current liabilities | 77,989 | 3,105 | 2,452 | 1 | - | 83,547 |
| **Long-term debt, net of current portion** | 109,668 | - | - | - | - | 109,668 |
| **Operating lease obligations, net of current portion** | 12,715 | - | - | - | - | 12,715 |
| **Other liabilities** | | | | | | |
| Accrued retirement benefits | 29,454 | - | - | - | - | 29,454 |
| Deferred revenue | 6,241 | - | - | - | - | 6,241 |
| Other | 16,205 | 858 | - | - | - | 17,063 |
| Total liabilities | 252,272 | 3,963 | 2,452 | 1 | - | 258,688 |
| **Net assets (deficit)** | | | | | | |
| Without donor restrictions | 251,543 | 3,706 | (18,888) | 830 | - | 237,191 |
| With donor restrictions | 28,752 | - | - | - | - | 28,752 |
| Total net assets (deficit) | 280,295 | 3,706 | (18,888) | 830 | - | 265,943 |
| Total liabilities and net assets (deficit) | $ 532,567 | $ 7,669 | $ (16,436) | $ 831 | $ - | $ 524,631 |

Hunterdon Healthcare System, Inc. and Affiliates

**HUNTERDON MEDICAL CENTER AND AFFILIATES -**
**CONSOLIDATING STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS WITHOUT DONOR RESTRICTIONS**

**Year ended December 31, 2021**
**(In Thousands)**

| | Hunterdon Medical Center | Hunterdon Primary Care, P.C. | Hunterdon Specialty Care, P.C. | Hunterdon Urgent Care, P.C. | Eliminations | Consolidated Total |
|---|---|---|---|---|---|---|
| **Revenues** | | | | | | |
| Patient services revenues | $ 300,333 | $ 38,317 | $ 24,669 | $ 4,670 | $ - | $ 367,989 |
| Other revenues | 25,287 | 2,262 | 371 | 3 | - | 27,923 |
| Net assets released from restrictions for operations | 697 | - | - | - | - | 697 |
| Total revenues | 326,317 | 40,579 | 25,040 | 4,673 | - | 396,609 |
| **Expenses** | | | | | | |
| Salaries, wages and benefits | 188,532 | 16,125 | 18,195 | - | - | 222,852 |
| Physician fees | 12,247 | | (119) | - | - | 12,128 |
| Supplies and services | 100,556 | 18,874 | 8,889 | 3,403 | - | 131,722 |
| Depreciation and amortization | 16,022 | - | - | - | - | 16,022 |
| Interest | 3,582 | - | - | - | - | 3,582 |
| Total expenses | 320,939 | 34,999 | 26,965 | 3,403 | - | 386,306 |
| Operating income (loss) | 5,378 | 5,580 | (1,925) | 1,270 | - | 10,303 |
| **Other gains and losses** | | | | | | |
| Investment returns, net | 10,169 | - | - | - | - | 10,169 |
| Accrued retirement benefit credit | 7,843 | - | - | - | - | 7,843 |
| Change in fair value of interest rate swap agreements | (873) | - | - | - | - | (873) |
| Other gains and losses, net | 17,139 | - | - | - | - | 17,139 |
| Excess of revenues and gains over (under) expenses and losses | 22,517 | 5,580 | (1,925) | 1,270 | - | 27,442 |
| **Other changes in net assets** | | | | | | |
| Other changes in accrued retirement benefits | 18,915 | - | - | - | - | 18,915 |
| Net assets released from restrictions for capital acquisitions | 1,889 | - | - | - | - | 1,889 |
| Other | 487 | - | - | - | - | 487 |
| Increase (decrease) in net assets without donor restrictions | $ 43,808 | $ 5,580 | $ (1,925) | $ 1,270 | $ - | $ 48,733 |

Hunterdon Healthcare System, Inc. and Affiliates

**MIDJERSEY HEALTH CORPORATION -**
**CONSOLIDATING BALANCE SHEET**

**December 31, 2021**
**(In Thousands)**

| | Midjersey Health Corporation | Hunterdon Center for Surgery, LLC | Raritan Family Healthcare, LLC | Delaware Valley Office Associates | Hunterdon Imaging Associates | Eliminations | Consolidated Total |
|---|---|---|---|---|---|---|---|
| **ASSETS** | | | | | | | |
| **Current assets** | | | | | | | |
| Cash and cash equivalents | $ 285 | $ 1,811 | $ 679 | $ 444 | $ 11 | $ - | $ 3,230 |
| Patient accounts receivable | - | 1,111 | 523 | - | - | - | 1,634 |
| Other receivables | 11 | 3 | - | - | 267 | - | 281 |
| Due from unconsolidated joint venture | 434 | - | - | - | - | - | 434 |
| Supplies | - | 519 | 80 | - | - | - | 599 |
| Prepaid expenses and other current assets | 78 | 95 | 14 | 1 | 14 | - | 202 |
| Total current assets | 808 | 3,539 | 1,296 | 445 | 292 | - | 6,380 |
| **Property and equipment, net** | 2,668 | 432 | 459 | 22 | - | - | 3,581 |
| **Right-of-use assets, operating leases** | 7,309 | 2,351 | | | | - | 9,660 |
| **Other assets** | | | | | | | |
| Investment in unconsolidated joint ventures | 1,375 | - | - | - | - | - | 1,375 |
| Goodwill and intangibles, net | - | 414 | 3,049 | - | - | - | 3,463 |
| Investments in controlled affiliates | 5,824 | - | - | - | - | (5,824) | - |
| Other | 1,435 | - | 20 | - | - | - | 1,455 |
| Total assets | $ 19,419 | $ 6,736 | $ 4,824 | $ 467 | $ 292 | $ (5,824) | $ 25,914 |
| **LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIT)** | | | | | | | |
| **Current liabilities** | | | | | | | |
| Accounts payable and accrued expenses | $ 43 | $ 1,025 | $ - | $ 3 | $ 2 | $ - | $ 1,073 |
| Operating lease obligations, current portion | 1,090 | 489 | - | - | - | - | 1,579 |
| Long-term debt, current portion | 62 | 645 | - | - | - | - | 707 |
| Due to related parties | 805 | 22 | - | 2 | 206 | - | 1,035 |
| Total current liabilities | 2,000 | 2,181 | - | 5 | 208 | - | 4,394 |
| **Long-term debt, net of current portion** | 154 | - | - | - | - | - | 154 |
| **Operating lease obligations, net of current portion** | 6,618 | 2,168 | - | - | - | - | 8,786 |
| **Other liabilities** | | | | | | | |
| Due to related parties | 8,713 | - | - | - | - | - | 8,713 |
| Total liabilities | 17,485 | 4,349 | - | 5 | 208 | - | 22,047 |
| **Shareholders' equity (deficit)** | | | | | | | |
| Common stock | 985 | 1,020 | 4,092 | 15 | 300 | (5,824) | 588 |
| Additional paid-in capital | 1,448 | - | - | - | - | - | 1,448 |
| Retained earnings (deficit) | | | | | | | |
| Midjersey Health Corporation | (499) | (204) | 527 | 447 | (244) | - | 27 |
| Noncontrolling interests | - | 1,571 | 205 | - | 28 | - | 1,804 |
| Total | (499) | 1,367 | 732 | 447 | (216) | - | 1,831 |
| Total shareholders' equity (deficit) | 1,934 | 2,387 | 4,824 | 462 | 84 | (5,824) | 3,867 |
| Total liabilities and shareholders' equity (deficit) | $ 19,419 | $ 6,736 | $ 4,824 | $ 467 | $ 292 | $ (5,824) | $ 25,914 |

Hunterdon Healthcare System, Inc. and Affiliates

**MIDJERSEY HEALTH CORPORATION -**
**CONSOLIDATING STATEMENT OF OPERATIONS AND CHANGES IN SHAREHOLDERS' EQUITY**

**Year ended December 31, 2021**
**(In Thousands)**

| | Midjersey Health Corporation | Hunterdon Center for Surgery, LLC | Raritan Family Healthcare, LLC | Delaware Valley Office Associates | Hunterdon Imaging Associates | Eliminations | Consolidated Total |
|---|---|---|---|---|---|---|---|
| **Revenues** | | | | | | | |
| Patient service revenues | $ 22 | $ 10,047 | $ 3,827 | $ - | $ - | $ - | $ 13,896 |
| Other revenues | 1,467 | 7 | 501 | 145 | 409 | - | 2,529 |
| Total revenues | 1,489 | 10,054 | 4,328 | 145 | 409 | - | 16,425 |
| **Expenses** | | | | | | | |
| Salaries, wages and benefits | 230 | 3,206 | 2,261 | - | - | - | 5,697 |
| Physician fees | - | 88 | - | - | - | - | 88 |
| Supplies and services | 2,198 | 5,563 | 1,573 | 74 | 149 | - | 9,557 |
| Depreciation and amortization | 1,179 | 254 | 73 | 8 | 99 | - | 1,613 |
| Interest | 311 | 6 | 2 | - | - | - | 319 |
| Total expenses | 3,918 | 9,117 | 3,909 | 82 | 248 | - | 17,274 |
| Operating (loss) income before noncontrolling interests | (2,429) | 937 | 419 | 63 | 161 | - | (849) |
| **Operating (loss) income attributed to noncontrolling interests** | - | (534) | (205) | - | 15 | - | (724) |
| Operating (loss) income attributed to Midjersey Health Corporation | (2,429) | 403 | 214 | 63 | 176 | - | (1,573) |
| **Other changes in shareholders' equity** | | | | | | | |
| Change in noncontrolling interests | - | 169 | 205 | - | (318) | - | 56 |
| Other | (389) | (365) | - | - | - | - | (754) |
| (Decrease) increase in shareholders' equity (deficit) | $ (2,818) | $ 207 | $ 419 | $ 63 | $ (142) | $ - | $ (2,271) |

**Hunterdon Healthcare System, Inc. and Affiliates**

**HUNTERDON REGIONAL COMMUNITY HEALTH, INC. -**
**CONSOLIDATING BALANCE SHEET**

**December 31, 2021**
**(In Thousands)**

| | Hunterdon Regional Community Health, Inc. | Hunterdon Hospice, Inc. | Visiting Health and Supportive Services, Inc. | Briteside Adult Day Centers, Inc. | Hunterdon Regional Pharmacy, Inc. | Eliminations | Consolidated Total |
|---|---|---|---|---|---|---|---|
| **ASSETS** | | | | | | | |
| **Current assets** | | | | | | | |
| Cash and cash equivalents | $ 228 | $ 2,299 | $ 30 | $ 387 | $ 174 | $ - | $ 3,118 |
| Patient accounts receivable | - | 704 | - | - | 257 | - | 961 |
| Supplies | - | - | - | - | 405 | - | 405 |
| Due from related parties | - | - | - | - | 100 | (100) | - |
| Prepaid expenses and other current assets | - | - | - | 2 | 166 | - | 168 |
| Total current assets | 228 | 3,003 | 30 | 389 | 1,102 | (100) | 4,652 |
| **Investments** | - | - | - | 452 | - | - | 452 |
| **Property and equipment, net** | - | - | - | 564 | 24 | - | 588 |
| **Other assets** | | | | | | | |
| Beneficial interest in net assets of the Foundation | 1,034 | 308 | 146 | 105 | - | - | 1,593 |
| Total assets | $ 1,262 | $ 3,311 | $ 176 | $ 1,510 | $ 1,126 | $ (100) | $ 7,285 |
| **LIABILITIES AND NET ASSETS** | | | | | | | |
| **Liabilities** | | | | | | | |
| Accounts payable and accrued expenses | $ - | $ 590 | $ 7 | $ 24 | $ 98 | $ - | $ 719 |
| Due to related parties | - | 1,070 | 298 | 104 | 545 | (100) | 1,917 |
| Total liabilities | - | 1,660 | 305 | 128 | 643 | (100) | 2,636 |
| **Net assets** | | | | | | | |
| Without donor restrictions | 228 | 1,343 | (275) | 1,277 | 483 | - | 3,056 |
| With donor restrictions | 1,034 | 308 | 146 | 105 | - | - | 1,593 |
| Total net assets | 1,262 | 1,651 | (129) | 1,382 | 483 | - | 4,649 |
| Total liabilities and net assets | $ 1,262 | $ 3,311 | $ 176 | $ 1,510 | $ 1,126 | $ (100) | $ 7,285 |

Hunterdon Healthcare System, Inc. and Affiliates

**HUNTERDON REGIONAL COMMUNITY HEALTH, INC. -**
**CONSOLIDATING STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS WITHOUT DONOR RESTRICTIONS**

**Year ended December 31, 2021**
**(In Thousands)**

| | Hunterdon Regional Community Health, Inc. | Hunterdon Hospice, Inc. | Visiting Health and Supportive Services, Inc. | Briteside Adult Day Centers, Inc. | Hunterdon Regional Pharmacy, Inc. | Eliminations | Consolidated Total |
|---|---|---|---|---|---|---|---|
| **Revenues** | | | | | | | |
| Patient service revenues | $ - | $ 3,570 | $ 1 | $ - | $ 2,552 | $ - | $ 6,123 |
| Other revenues | - | - | - | 5 | 33 | - | 38 |
| Net assets released from restrictions for operations | - | 95 | - | 56 | - | - | 151 |
| Total revenue | - | 3,665 | 1 | 61 | 2,585 | - | 6,312 |
| **Expenses** | | | | | | | |
| Salaries, wages and benefits | - | 2,567 | - | 34 | 387 | - | 2,988 |
| Supplies and services | - | 1,054 | - | 79 | 2,409 | | 3,542 |
| Depreciation | - | - | - | 24 | 10 | - | 34 |
| Total expenses | - | 3,621 | - | 137 | 2,806 | - | 6,564 |
| Operating (loss) income | - | 44 | 1 | (76) | (221) | - | (252) |
| **Other gains** | | | | | | | |
| Investment returns, net | - | - | - | 5 | - | - | 5 |
| Excess of expenses (over) under revenues and gains and change in net assets | $ - | $ 44 | $ 1 | $ (71) | $ (221) | $ - | $ (247) |