

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

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

December 31, 2023 and 2022



Contents

	Page
Report of Independent Certified Public Accountants	3
Consolidated Financial Statements	
Consolidated balance sheets	6
Consolidated statements of operations and changes in net assets	7
Consolidated statements of cash flows	9
Notes to consolidated financial statements	10
Supplementary Information	
Hunterdon Healthcare System, Inc. and Affiliates - consolidating balance sheet, at December 31, 2023	42
Hunterdon Healthcare System, Inc. and Affiliates - consolidating statement of operations and changes in net assets without donor restrictions, year ended December 31, 2023	44
Hunterdon Medical Center and Affiliates - consolidating balance sheet, at December 31, 2023	45
Hunterdon Medical Center and Affiliates - consolidating statement of operations and changes in net assets without donor restrictions, year ended December 31, 2023	47
Midjersey Health Corporation - consolidating balance sheet, at December 31, 2023	48
Midjersey Health Corporation - consolidating statement of operations and changes in shareholders' equity, year ended December 31, 2023	49
Hunterdon Regional Community Health, Inc. - consolidating balance sheet, at December 31, 2023	50
Hunterdon Regional Community Health, Inc. - consolidating statement of operations and changes in net assets without donor restrictions, year ended December 31, 2023	51

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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 sheets as of December 31, 2023 and 2022, and the related consolidated statements of operations and changes in net assets and cash flows for the years 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, 2023 and 2022, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for opinion

We conducted our audits 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 audits. 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.

Supplementary information

The accompanying consolidating balance sheets as of December 31, 2023 and the related consolidating statements of operations and changes in net assets without donor restriction and statement of operations and 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.

Grant Thornton LLP

Philadelphia, Pennsylvania
May 28, 2024

Hunterdon Healthcare System, Inc. and Affiliates

CONSOLIDATED BALANCE SHEETS

December 31,
(In Thousands)

	<u>2023</u>	<u>2022</u>
ASSETS		
Current assets		
Cash and cash equivalents	\$ 53,077	\$ 53,091
Assets whose use is limited, bond funds	19	19
Patient accounts receivable	42,462	41,485
Other receivables	8,375	8,731
Due from unconsolidated joint ventures	503	592
Supplies	4,718	4,644
Prepaid expenses and other current assets	<u>6,932</u>	<u>7,556</u>
Total current assets	116,086	116,118
Investments	170,104	145,611
Assets whose use is limited		
Board-designated funds	14,089	12,575
Donor-restricted assets	29,711	28,642
Property and equipment, net	140,138	136,585
Right-of-use assets, operating leases	26,407	23,006
Other assets		
Investment in unconsolidated joint ventures	4,661	4,316
Goodwill and intangibles, net	11,330	11,080
Other	18,572	17,282
Beneficial interest in perpetual trusts	<u>3,404</u>	<u>2,927</u>
Total assets	<u>\$ 534,502</u>	<u>\$ 498,142</u>
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable and accrued expenses	\$ 36,692	\$ 30,335
Accrued payroll and payroll taxes	23,703	19,806
Third-party payor settlements	5,739	4,935
Operating lease obligations, current portion	6,746	5,439
Long-term debt, current portion	3,117	3,251
Accrued interest payable	<u>518</u>	<u>487</u>
Total current liabilities	76,515	64,253
Long-term debt, net of current portion	104,032	106,595
Operating lease obligations, net of current portion	20,827	18,900
Other liabilities		
Accrued retirement benefits	19,285	26,670
Deferred revenue	3,489	7,628
Other	<u>19,756</u>	<u>16,283</u>
Total liabilities	243,904	240,329
Net assets		
Without donor restrictions		
Hunterdon Healthcare System, Inc. and affiliates	256,691	224,800
Noncontrolling interests	<u>2,329</u>	<u>2,270</u>
	259,020	227,070
With donor restrictions	<u>31,578</u>	<u>30,743</u>
Total net assets	<u>290,598</u>	<u>257,813</u>
Total liabilities and net assets	<u>\$ 534,502</u>	<u>\$ 498,142</u>

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)

	2023	2022
NET ASSETS WITHOUT DONOR RESTRICTIONS		
Revenues		
Patient service revenues	\$ 415,858	\$ 379,568
Other revenues	38,085	28,561
Net assets released from restrictions for operations	2,305	1,180
Total revenues	456,248	409,309
Expenses		
Salaries and wages	223,064	200,784
Employee benefits	40,412	34,227
Physician fees	18,260	15,602
Supplies	59,356	57,741
Other	91,199	89,090
Depreciation and amortization	14,573	17,107
Interest	3,669	3,548
Total expenses	450,533	418,099
Operating income (loss)	5,715	(8,790)
Other gains and losses		
Investment returns, net	21,033	(23,915)
Accrued retirement benefit (cost) income	(2,443)	5,732
Change in fair value of interest rate swap agreements	(624)	5,516
Loss on sale of property and equipment	(47)	(311)
Other gains and losses, net	17,919	(12,978)
Revenues and gains over (under) expenses and losses before noncontrolling interests	23,634	(21,768)
Revenues and gains over expenses and losses attributed to noncontrolling interests		
	(1,269)	(400)
Revenues and gains over (under) expenses and losses attributed to Hunterdon Healthcare System, Inc. and affiliates	22,365	(22,168)

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)

	2023	2022
Revenues and gains over (under) expenses and losses attributed to Hunterdon Healthcare System, Inc. and Affiliates (previous page)	\$ 22,365	\$ (22,168)
Changes in net assets without donor restrictions		
Other changes in accrued retirement benefits	9,828	(2,948)
Net assets released from restrictions for capital acquisitions	1,386	-
Change in noncontrolling interests	59	(252)
Other	(1,688)	6,176
Increase (decrease) in net assets without donor restrictions	31,950	(19,192)
Changes in net assets with donor restrictions		
Contributions	1,695	1,010
Investment return		
Interest and dividends	98	105
Net realized gains and losses	-	405
Change in net unrealized gains and losses	2,256	(3,197)
Change in value of beneficial interest in perpetual trusts	477	(800)
Net assets released from restrictions	(3,691)	(1,180)
Increase (decrease) in net assets with donor restrictions	835	(3,657)
Increase (decrease) in net assets	32,785	(22,849)
Net assets, beginning of year	257,813	280,662
Net assets, end of year	\$ 290,598	\$ 257,813

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)

	<u>2023</u>	<u>2022</u>
Cash flows from operating activities:		
Increase (decrease) in net assets	\$ 32,785	\$ (22,849)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:		
Net realized and unrealized gains and losses on investments	(19,199)	29,936
Depreciation and amortization	14,573	17,107
Change in fair value of interest rate swap agreements	624	(5,516)
Other changes in accrued retirement benefits	(9,828)	2,948
Equity in (income) losses from unconsolidated joint ventures	(82)	1,261
Restricted contributions	(1,695)	(1,010)
Loss on sale of assets	47	311
Other noncash items	1,157	-
Change in value of beneficial interest in perpetual trusts	(477)	800
Changes in operating assets and liabilities:		
Patient accounts receivable	(977)	4,759
Other receivables	356	1,433
Due from unconsolidated joint ventures	89	3,006
Supplies	(74)	1,012
Prepaid expenses and other assets	(1,290)	(6,693)
Accounts payable and accrued expenses	10,285	(7,560)
Right-of-use assets, operating leases, net	(167)	(67)
Third-party payor settlements	804	2,031
Accrued retirement benefits	2,443	(5,732)
Other liabilities	(666)	6,123
	<u>28,708</u>	<u>21,300</u>
Cash flows from investing activities:		
Acquisition of property and equipment	(19,264)	(7,706)
Change in investments and assets whose use is limited	(9,521)	15,231
Investment in unconsolidated joint ventures	(263)	(2,765)
Cash paid for acquisitions, net	(250)	-
Proceeds from sale of assets	7	49
Distributions from unconsolidated joint ventures	-	190
	<u>(29,291)</u>	<u>4,999</u>
Cash flows from financing activities:		
Repayment of long-term debt	(3,251)	(4,134)
Proceeds from restricted contributions	1,695	1,010
Proceeds from issuance of long-term debt	481	12
Repayment of third-party advances	-	(16,856)
Payment of financing costs	-	(45)
	<u>(1,075)</u>	<u>(20,013)</u>
Cash and cash equivalents and restricted cash and cash equivalents:		
Net (decrease) increase	(1,658)	6,286
Balances, beginning of year	<u>62,111</u>	<u>55,825</u>
Balances, end of year	<u>\$ 60,453</u>	<u>\$ 62,111</u>
Supplemental disclosures of cash flow information:		
Interest paid	<u>\$ 3,638</u>	<u>\$ 5,547</u>
Reconciliation of cash and cash equivalents and restricted cash and cash equivalents:		
Cash and cash equivalents	\$ 53,077	\$ 53,091
Assets whose use is limited, bond funds, cash	19	19
Assets whose use is limited, donor-restricted, cash	<u>7,357</u>	<u>9,001</u>
	<u>\$ 60,453</u>	<u>\$ 62,111</u>

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

Hunterdon Healthcare System, Inc. and Affiliates

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2023 and 2022
(in thousands)

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 as follows:

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.
- 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 that 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 provided companion care services that ceased operations on September 30, 2020 and is the process of liquidating.
- Brideside 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.

Hunterdon Healthcare System, Inc. and Affiliates

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2023 and 2022
(in thousands)

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, interest rate swaps, 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.

Supplies

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

Hunterdon Healthcare System, Inc. and Affiliates

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2023 and 2022
(in thousands)

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 returns, net (includes 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 (under) 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, 2023 and 2022.

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.

Hunterdon Healthcare System, Inc. and Affiliates

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2023 and 2022
(in thousands)

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, accordingly, 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

Costs incurred in connection with the issuance of long-term debt have been deferred 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 are reported as direct reductions of long-term debt.

Hunterdon Healthcare System, Inc. and Affiliates

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2023 and 2022
(in thousands)

Other Assets

Other assets at December 31, 2023 and 2022 are as follows:

	2023	2022
Insurance recoveries	\$ 8,650	\$ 6,685
Interest rate swaps	3,700	4,324
Land held for sale	213	213
Deferred tax assets	1,435	1,435
Contributions receivable, net	2,844	2,902
Other	1,730	1,723
	<u>\$ 18,572</u>	<u>\$ 17,282</u>

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 2023 or 2022.

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 swaps are reported in other gains and losses as a component of excess of revenues over (under) 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

Hunterdon Healthcare System, Inc. and Affiliates

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2023 and 2022
(in thousands)

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.

Hunterdon Healthcare System, Inc. and Affiliates

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2023 and 2022
(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, 2023 and 2022 is set forth in the following table:

	<u>2023</u>	<u>2022</u>
Grant revenue:		
Coronavirus Aid, Recovery and Economic Security (CARES) Act	\$ -	\$ 1,127
Federal Emergency Management Agency (FEMA)	2,388	-
New Jersey Economic Development Energy Resilience Bank - Note 11	6,058	-
Other	<u>3,487</u>	<u>3,233</u>
	11,933	4,360
Value-based incentive payments	12,343	11,653
Health and wellness centers	2,799	2,111
Contributions	1,338	1,556
Rental income	1,351	1,354
State of New Jersey subsidy payments	986	759
Other	<u>7,335</u>	<u>6,768</u>
	<u>\$ 38,085</u>	<u>\$ 28,561</u>

Advertising Costs

Advertising costs are expensed as incurred. For the years ended December 31, 2023 and 2022, advertising costs were \$1,467 and \$1,171, respectively, which are included in supplies 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 2019. Midjersey and the Pharmacy are taxable for-profit entities. These

Hunterdon Healthcare System, Inc. and Affiliates

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2023 and 2022
(in thousands)

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, 2023 and 2022 of \$16 and \$10, respectively, and these amounts are included in supplies in the consolidated statements of operations and changes in net assets. Deferred tax assets of \$1,435 at December 31, 2023 and 2022, are included in other assets in the consolidated balance sheets. These amounts represent the deferred tax consequences attributable to temporary differences. The temporary differences comprise lease payments, depreciation, and other temporary differences. Certain for-profit subsidiaries have federal net operating loss (NOL) carryforwards of approximately \$317 that expire through 2037 and State of New Jersey NOL carryforwards of approximately \$6,356 that also expire through 2042. Certain for-profit subsidiaries have federal NOL carryforwards of approximately \$3,900 that expire indefinitely.

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 (Under) Expenses and Losses

The consolidated statements of operations and changes in net assets includes the determination of excess of revenues and gains over (under) 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.

Hunterdon Healthcare System, Inc. and Affiliates

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2023 and 2022
(in thousands)

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 that period. 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, 2024.

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 year ended December 31, 2022, recorded amounts from the CARES Act of \$1,127, and for the year ended December 31, 2023 recorded amounts from FEMA of \$2,388, 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, 2023 and 2022. Also, 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. The recoupment period began in April 2021 as amounts billed to Medicare for services provided were offset against the advanced payments which were fully recouped by the Medicare program of \$16,856 during the year ended December 31, 2022.

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 could 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 the loans. Ultimately the System determined it was not eligible for these loans and HCS repaid \$619 the remaining amount these loans in 2022.

Additionally, the IRS in 2020, allowed the System to defer remittance of payroll taxes or \$6,021, which was included in accrued payroll and payroll taxes in the consolidated balance sheets. All of the deferred payroll taxes were paid by December 31, 2022.

Hunterdon Healthcare System, Inc. and Affiliates

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2023 and 2022
(in thousands)

NOTE 4 - LIQUIDITY AND AVAILABILITY OF RESOURCES

Financial assets available for general expenditure within one year of the consolidated balance sheets at December 31, 2023 and 2022, consist of the following:

	2023	2022
Cash and cash equivalents	\$ 53,077	\$ 53,091
Assets whose use is limited, bond funds	19	19
Patient accounts receivable	42,462	41,485
Investments	170,104	145,611
	265,662	240,206
Available lines of credit - Note 11	30,000	30,000
	\$ 295,662	\$ 270,206

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, the policy is to structure its financial assets to be available as its general expenditures, liabilities and other obligations come due.

NOTE 5 - 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 maintains 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 \$3,758 and \$4,749 for the years ended December 31, 2023 and 2022, 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 \$560 and \$330 for the years ended December 31, 2023 and 2022, respectively, and are included in other revenue in the accompanying consolidated statements of operations and changes in net assets.

Hunterdon Healthcare System, Inc. and Affiliates

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2023 and 2022
(in thousands)

NOTE 6 - 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, 2023 and 2022 is as follows:

	2023	2022
Medicare and Medicare managed care	32%	32%
Medicaid and Medicaid managed care	7	7
Aetna	15	14
Blue cross, all products except Medicare/Medicaid	30	32
Self-pay/uninsured	1	1
Other third-party commercial	15	14
	<u>100%</u>	<u>100%</u>

The composition of patient care service revenues by type of service for the years ended December 31, 2023 and 2022 is as follows:

	2022	2021
Inpatient	26%	27%
Outpatient	50	49
Physician services	24	24
	<u>100%</u>	<u>100%</u>

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, 2018.
- 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, 2020.

Hunterdon Healthcare System, Inc. and Affiliates

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2023 and 2022
(in thousands)

- **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 net favorable adjustments of \$1,529 and \$1,672 for the years ended December 31, 2023 and 2022, 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. 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.

Hunterdon Healthcare System, Inc. and Affiliates

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2023 and 2022
(in thousands)

NOTE 7 - INVESTMENTS AND ASSETS WHOSE USE IS LIMITED

The composition of investments and assets whose use is limited at December 31, 2023 and 2022 is set forth in the following table:

	2023	2022
Investments:		
Cash and cash equivalents	\$ 5,244	\$ 775
Government bonds	2,426	1,990
Corporate bonds	23,024	22,150
Mutual funds, fixed income	36,744	34,828
Mutual funds, domestic equity	82,118	68,014
Mutual funds, international equity	20,548	17,854
	<u>\$ 170,104</u>	<u>\$ 145,611</u>
Assets whose use is limited:		
Board-designated funds:		
Cash and cash equivalents	\$ 1,105	\$ 1,013
Commingled funds, equities and bonds	2,971	2,595
Mutual funds, fixed income	1,682	1,565
Mutual funds, domestic equity	6,128	5,270
Mutual funds, international equity	316	245
Split dollar life insurance	1,887	1,887
	14,089	12,575
Donor-restricted assets:		
Cash and cash equivalents	7,357	9,001
Commingled funds, U.S. large cap equities	8,460	7,092
Commingled funds, U.S. bonds	4,796	4,541
Mutual funds, fixed income	1,907	1,810
Mutual funds, domestic equity	3,974	3,413
Mutual funds, international equity	3,217	2,785
	29,711	28,642
Funds held by trustee under bond indenture agreement:		
Cash and cash equivalents	19	19
	43,819	41,236
Less current portion	<u>(19)</u>	<u>(19)</u>
	<u>\$ 43,800</u>	<u>\$ 41,217</u>

Hunterdon Healthcare System, Inc. and Affiliates

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2023 and 2022
(in thousands)

Investment return consists of the following for the years ended December 31, 2023 and 2022:

	2023	2022
Investment returns, net:		
Interest and dividends, net	\$ 4,090	\$ 3,229
Net realized (losses) gains on the sale of investments	(198)	8,230
Change in net unrealized gains and losses on investments	17,141	(35,374)
	<u>\$ 21,033</u>	<u>\$ (23,915)</u>

NOTE 8 - 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, 2023 and 2022.

Hunterdon Healthcare System, Inc. and Affiliates

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2023 and 2022
(in thousands)

The following tables present financial instruments measured at fair value at December 31, 2023 and 2022:

	Fair Value as of December 31, 2023			
	Total	Level 1	Level 2	Level 3
Assets				
Investments:				
Government bonds	\$ 2,426	\$ -	\$ 2,426	\$ -
Corporate bonds	23,024	-	23,024	-
Mutual funds, fixed income	36,744	36,744	-	-
Mutual funds, domestic equity	82,118	82,118	-	-
Mutual funds, international equity	20,548	20,548	-	-
Assets whose use is limited:				
Mutual funds, fixed income	3,589	3,589	-	-
Mutual funds, domestic equity	10,102	10,102	-	-
Mutual funds, international equity	3,533	3,533	-	-
Split dollar life insurance	1,887	-	1,887	-
Beneficial interest in perpetual trusts	3,404	-	-	3,404
Interest rate swaps	3,700	-	3,700	-
	<u>191,075</u>	<u>\$ 156,634</u>	<u>\$ 31,037</u>	<u>\$ 3,404</u>
Assets recorded at NAV ^(a)	16,227			
Cash and cash equivalents	<u>13,725</u>			
	<u>\$ 221,027</u>			

	Fair Value as of December 31, 2022			
	Total	Level 1	Level 2	Level 3
Assets				
Investments:				
Government bonds	\$ 1,990	\$ -	\$ 1,990	\$ -
Corporate bonds	22,150	-	22,150	-
Mutual funds, fixed income	34,828	34,828	-	-
Mutual funds, domestic equity	68,014	68,014	-	-
Mutual funds, international equity	17,854	17,854	-	-
Assets whose use is limited:				
Mutual funds, fixed income	3,375	3,375	-	-
Mutual funds, domestic equity	8,683	8,683	-	-
Mutual funds, international equity	3,030	3,030	-	-
Split dollar life insurance	1,887	-	1,887	-
Beneficial interest in perpetual trusts	2,927	-	-	2,927
Interest rate swaps	4,324	-	4,324	-
	<u>169,062</u>	<u>\$ 135,784</u>	<u>\$ 30,351</u>	<u>\$ 2,927</u>
Assets recorded at NAV ^(a)	14,228			
Cash and cash equivalents	<u>10,808</u>			
	<u>\$ 194,098</u>			

^(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.

Hunterdon Healthcare System, Inc. and Affiliates

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2023 and 2022
(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, 2023 and 2022, respectively.

	Fair Value 2023	Fair Value 2022	Unfunded Commitments	Redemption Frequency (If Currently Eligible)	Redemption Notice Period
Vanguard Target Date Funds	\$ 2,971	\$ 2,595	N/A	Daily	30 days
State Street Passive Bond Market Index Strategy	4,796	4,541	N/A	Daily	30 days
S&P 500 Index Strategy	2,893	2,292	N/A	Daily	30 days
State Street FTSE RAFI U.S. 1000 Index	5,567	4,800	N/A	Daily	30 days
	<u>\$ 16,227</u>	<u>\$ 14,228</u>			

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.

Hunterdon Healthcare System, Inc. and Affiliates

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2023 and 2022
(in thousands)

Change in the beneficial interest in perpetual trusts for the years ended December 31, 2023 and 2022 were as follows:

	2023	2022
Balance, beginning of the year	\$ 2,927	\$ 3,727
Change in beneficial interest in perpetual trusts	477	(800)
Balance, ending of the year	\$ 3,404	\$ 2,927

NOTE 9 - 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:

At December 31, 2023 and 2022, 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.

At December 31, 2023 and 2022, HHS has a 50 percent interest in Midjersey 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.

At December 31, 2023 and 2022, the Medical Center has a 50 percent interest in Hunterdon Ambulatory Services LLC (HAS), an ambulatory non-provider based diagnostic and therapeutic services provider. HAS is accounted for on the equity method.

At December 31, 2023 and 2022, 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), and b) 13.4 percent interest in HOI Reality, LLC, which are ventures in medical office buildings (MOBs). The MOBs are accounted for on the cost method at December 31, 2023 and 2022 as follows:

- 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, 2023, the guaranteed amount on the outstanding loans is \$2,049.

The System provides rental space and management services to several of these ventures. The total revenue, included in other revenue, from these services was \$1,853 and \$1,749 for the years ended December 31, 2023 and 2022, respectively.

Hunterdon Healthcare System, Inc. and Affiliates

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2023 and 2022
(in thousands)

NOTE 10 - PROPERTY AND EQUIPMENT

Property and equipment at December 31, 2023 and 2022 consist of the following:

	<u>2023</u>	<u>2022</u>
Land	\$ 6,877	\$ 6,877
Land improvements	9,102	8,180
Buildings	181,318	166,803
Leasehold improvements	25,980	25,628
Fixed equipment	43,114	40,689
Major moveable equipment	<u>174,961</u>	<u>166,019</u>
	441,352	414,196
Less: accumulated depreciation and amortization	<u>(309,588)</u>	<u>(293,868)</u>
	131,764	120,328
Construction in progress	<u>8,374</u>	<u>16,257</u>
	<u>\$ 140,138</u>	<u>\$ 136,585</u>

Depreciation and amortization expense related to property and equipment was \$14,500 and \$17,033 for the years ended December 31, 2023 and 2022, respectively.

The System has committed to several projects, which have \$8,114 remaining on the commitments and are expected to be fully completed in 2024.

Hunterdon Healthcare System, Inc. and Affiliates

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2023 and 2022
(in thousands)

NOTE 11 - LONG-TERM DEBT

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

	<u>2023</u>	<u>2022</u>
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%	\$ 43,610	\$ 44,040
Authority Refunding Bonds, Series 2020B, Serial Bonds payable annually through July 1, 2050, bearing interest at a variable rate based on SOFR plus 1.37% (6.72% at December 31, 2023) and LIBOR plus 1.26% (5.39% at December 31, 2022)	33,127	33,442
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%	10,227	11,791
Authority Refunding Bonds, Series 2014D, payable monthly through December 1, 2034, bearing interest at a variable rate based on 69 percent of SOFR plus 1.55% (4.73% at December 31, 2023) and LIBOR (3.81% at December 31, 2022)	3,126	3,355
New Jersey Economic Development Authority Energy Resilience Bank (ERB) loan promissory note payable for the COGEN plant with interest fixed at 2.00%, monthly principal and interest payments beginning June 1, 2024 through May 1, 2044	3,430	2,949
Finance lease obligations, with various interest rates, secured by leased equipment	<u>386</u>	<u>1,099</u>
	108,211	110,981
Less: current portion due within one year	<u>(3,117)</u>	<u>(3,251)</u>
	105,094	107,730
Less: deferred financing costs, net of amortization	<u>(1,062)</u>	<u>(1,135)</u>
	<u>\$ 104,032</u>	<u>\$ 106,595</u>

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 \$440 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. Interest is payable semiannually on July 1 and January 1.

Hunterdon Healthcare System, Inc. and Affiliates

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2023 and 2022
(in thousands)

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. Proceeds from the Series 2020B bonds were used to defease certain 2014A Series bonds and to pay costs incurred in connection with the issuance of the sale of the Series 2020B bonds. The Series 2020B bonds have annual July 1st principal amounts through 2045 ranging from \$185 to \$2,513. Interest is payable semiannually on July 1 and January 1.

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. The Series 2014A bonds include \$14,305 of Term Bonds maturing on July 1, 2036 and July 1, 2045. 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, 2034 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 a 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 \$19 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 financial covenants. The Medical Center was in compliance with these requirements at December 31, 2023 and 2022.

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 loan amount, which consists of a loan principal amount and a forgivable amount, as defined. At December 31, 2023 and 2022, the loan amount outstanding is included in long-term debt. At December 31, 2022, the forgivable amount of \$5,209, is included in deferred revenue on the consolidated balance sheet. The project completed in 2023 and the forgivable amount of \$6,058 was recognized as other revenue in the consolidated statement of operations and changes in net assets.

Hunterdon Healthcare System, Inc. and Affiliates

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2023 and 2022
(in thousands)

Future Principal Payments

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

Years Ending December 31:

2024	\$	3,117
2025		2,890
2026		2,960
2027		3,032
2028		3,105
Thereafter		<u>93,107</u>
	\$	<u>108,211</u>

Lines of Credit

At December 31, 2023 and 2022, the Medical Center has a \$30,000 Working Capital line of credit agreement with a bank, which expires on June 29, 2024. The agreement allows borrowings of CB Floating Rate (CBFR) Loans and/or Secured Overnight Financing Rate (SOFR) Loans. CBFR loans bear interest at the CB Floating rate, higher of the Wall Street Journal Prime Rate and 2.50 percent (8.50 percent and 7.50 percent at December 31, 2023 and 2022, respectively), while SOFR loans bear interest at an adjusted term SOFR rate, as defined and adjusted by 0.10 percent plus margin of 0.45 percent with a rate floor of 0.00 percent (5.91 percent and 4.88 percent at December 31, 2023 and 2022, respectively). There are no amounts outstanding on the line of credit as of December 31, 2023 and 2022.

NOTE 12 - 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 \$3,145 and \$3,373 at December 31, 2023 and 2022, respectively, and requires the Medical Center to pay a fixed rate of 2.5 percent at December 31, 2023 and 1.5 percent at December 31, 2022, to the counterparty in exchange for the counterparty agreeing to pay the Medical Center a variable rate equal to 69 percent of the sum of (i) daily compounded SOFR, plus (ii) 0.11448 percent (3.77 percent at December 31, 2023) and one-month LIBOR (4.14 percent at December 31, 2022).

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 \$33,127 and \$33,442 at December 31, 2023 and 2022, respectively, 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 the sum of (i) daily compounded SOFR, plus (ii) 0.11448 percent (5.46 percent at December 31, 2023) and to 81.5 percent of one-month LIBOR (4.14 percent at December 31, 2022).

Hunterdon Healthcare System, Inc. and Affiliates

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2023 and 2022
(in thousands)

The reported fair value of the interest swap agreements are included in other assets at December 31, 2023 and 2022 in the consolidated balance sheets and represents the estimated amount that would be (paid)/received 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, 2021	\$ (172)	\$ (1,020)	\$ (1,192)
Change in fair value	209	5,307	5,516
Fair value, December 31, 2022	37	4,287	4,324
Change in fair value	(13)	(611)	(624)
Fair value, December 31, 2023	\$ 24	\$ 3,676	\$ 3,700

NOTE 13 - 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, 2023 and 2022:

Component of Lease Balances	Classification in Consolidated Balance Sheets	2023	2022
Assets			
Operating lease assets	Right of use assets, operating leases	\$ 26,407	\$ 23,006
Finance lease assets	Property and equipment, net	193	1,723
		<u>\$ 26,600</u>	<u>\$ 24,729</u>
Liabilities			
Operating lease liabilities			
Current	Operating lease obligations, current portion	\$ 6,746	\$ 5,439
Long term	Operating lease obligations, net of current portion	20,827	18,900
		27,573	24,339
Finance lease liabilities			
Current	Long-term debt, current portion	386	713
Long term	Long-term debt, net of current portion	-	386
		386	1,099
		<u>\$ 27,959</u>	<u>\$ 25,438</u>

Hunterdon Healthcare System, Inc. and Affiliates

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2023 and 2022
(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, 2023 and 2022:

Component of Lease Balances	Classification in Consolidated Statements of Operations and Changes in Net Assets	2023	2022
Operating lease expense	Other	\$ 8,960	\$ 9,058
Finance lease expense:			
Amortization of leased assets	Depreciation and amortization	373	714
Interest on lease liabilities	Interest	6	21
		<hr/>	<hr/>
Total finance lease expense		379	735
Total operating and finance lease expense		9,339	9,793
Variable and short-term lease expense	Other	1,372	1,553
		<hr/>	<hr/>
		\$ 10,711	\$ 11,346
		<hr/>	<hr/>

The weighted-average lease terms and discount rates for operating and finance leases at December 31, 2023 and 2022 are as follows:

	2023	2022
Weighted-average remaining lease term (years):		
Operating leases	6.59 years	6.27 years
Finance leases	1.00 year	1.46 years
Weighted-average discount rate:		
Operating leases	3.8%	3.8%
Finance leases	0.0%	0.8%

Cash flow related to leases for the years ended December 31, 2023 and 2022 are as follows:

	2023	2022
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash related to operating leases	\$ 9,127	\$ 9,126
Operating cash related to finance leases	756	973
Financing cash related to finance leases	6	21
Right-of-use assets obtained in exchange for lease obligations		
Operating leases	7,634	185

Hunterdon Healthcare System, Inc. and Affiliates

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2023 and 2022
(in thousands)

The future minimum rental commitments for all noncancelable operating and finance leases as of December 31, 2023 are as follows:

Years Ending December 31,	Operating Leases	Finance Leases	Total
2024	\$ 7,060	\$ 386	\$ 7,446
2025	6,188	-	6,188
2026	5,117	-	5,117
2027	3,901	-	3,901
2028	3,137	-	3,137
Thereafter	8,556	-	8,556
	<u>33,959</u>	<u>386</u>	<u>34,345</u>
Less: imputed interest	<u>(6,386)</u>	<u>-</u>	<u>(6,386)</u>
	27,573	386	27,959
Less: current portion	<u>(6,746)</u>	<u>(386)</u>	<u>(7,132)</u>
	<u>\$ 20,827</u>	<u>\$ -</u>	<u>\$ 20,827</u>

NOTE 14 - 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, 2023 and 2022 was \$6,720 and \$6,110, respectively.

Defined Benefit Pension Plan

The Medical Center sponsors a noncontributory defined benefit pension plan (the Plan), which covered all eligible employees, as defined 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, 2023 and 2022.

Hunterdon Healthcare System, Inc. and Affiliates

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2023 and 2022
(in thousands)

The following table summarizes information about the defined benefit plan:

	December 31,	
	<u>2023</u>	<u>2022</u>
Accumulated benefit obligation	\$ 210,251	\$ 205,253
Changes in projected benefit obligation		
Projected benefit obligation, beginning of year	\$ 205,253	\$ 275,641
Interest cost	10,101	6,209
Actuarial loss (gain)	6,437	(59,235)
Benefits paid	<u>(11,540)</u>	<u>(17,362)</u>
Projected benefit obligation, end of year	210,251	205,253
Changes in plan assets		
Fair value of plan assets, beginning of year	178,583	246,187
Actual return on plan assets	23,923	(50,242)
Contributions by the Medical Center	-	-
Benefits and expenses paid	<u>(11,540)</u>	<u>(17,362)</u>
Fair value of plan assets, end of year	<u>190,966</u>	<u>178,583</u>
Funded status of the plan - accrued retirement benefits	<u>\$ (19,285)</u>	<u>\$ (26,670)</u>
Amounts recognized in accumulated net assets without donor restrictions		
Net loss	<u>\$ 76,462</u>	<u>\$ 86,290</u>

Hunterdon Healthcare System, Inc. and Affiliates

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2023 and 2022
(in thousands)

	Year ended December 31,	
	2023	2022
Components of net periodic benefit cost (income) recognized in other gains and losses:		
Interest cost	\$ 10,101	\$ 6,209
Expected return on plan assets	(10,340)	(14,387)
Amortization of net actuarial loss	2,682	2,446
Net pension benefit cost (income)	2,443	(5,732)
Other changes in accrued retirement benefits recognized in net assets without donor restrictions:		
Net actuarial (gain) loss	(9,828)	2,948
Total recognized in net benefit cost (income) and net assets without donor restrictions	\$ (7,385)	\$ (2,784)
Amounts expected to be recognized in net periodic benefit cost in the following year - 2024		
Net loss	\$ 2,310	
Weighted-average assumptions used to determine benefit obligations at:		
Discount rate	4.99%	5.21%
Rate of compensation increase	N/A	N/A
Measurement date	December 31	December 31
Weighted-average assumptions used to determine net periodic benefit cost (income) for the period and years ended:		
Discount rate	5.21%	2.75%
Expected long-term return on plan assets	6.00%	6.00%
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.

Hunterdon Healthcare System, Inc. and Affiliates

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2023 and 2022
(in thousands)

The fair value hierarchy for the pension plan assets at December 31, 2023 are as follows:

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Pension assets:				
U.S. government bonds	\$ 12,140	\$ 12,140	\$ -	\$ -
Mutual funds, domestic fixed income	78,106	78,106	-	-
Mutual funds, domestic equity	59,135	59,135	-	-
Mutual funds, international equity	40,290	40,290	-	-
	<u>189,671</u>	<u>\$ 189,671</u>	<u>\$ -</u>	<u>\$ -</u>
Cash and cash equivalents	<u>1,295</u>			
	<u>\$ 190,966</u>			

The fair value hierarchy for the pension plan assets at December 31, 2022 are as follows:

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Pension assets:				
U.S. government bonds	\$ 20,334	\$ 20,334	\$ -	\$ -
Mutual funds, domestic fixed income	63,895	63,895	-	-
Mutual funds, domestic equity	54,689	54,689	-	-
Mutual funds, international equity	38,508	38,508	-	-
	<u>177,426</u>	<u>\$ 177,426</u>	<u>\$ -</u>	<u>\$ -</u>
Cash and cash equivalents	<u>1,157</u>			
	<u>\$ 178,583</u>			

The pension plan's weighted-average asset allocations at December 31, 2023 and 2022, by asset category, are as follows:

<u>Asset Category</u>	<u>Target Allocations</u>	<u>2023</u>	<u>2022</u>
U.S. government bonds	12%	7%	11%
Mutual funds invested in equity securities	50%	52	52
Mutual funds invested in debt securities	38%	41	37
		<u>100%</u>	<u>100%</u>

Hunterdon Healthcare System, Inc. and Affiliates

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2023 and 2022
(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 2024.

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

Years Ending December 31:

2024	\$	13,143
2025		13,702
2026		14,201
2027		14,594
2028		14,838
2029-2033		74,367

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, 2023 and 2022 was \$274 and \$278, respectively.

NOTE 15 - 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 \$10,000. The System's professional liability insurance policy includes a deductible of \$100 per occurrence and a \$500 annual aggregate. Each individual employed physician is provided individual coverage in the amount of \$1,000 per occurrence and \$3,000 annual aggregate through a group purchased policy. Employed physicians are covered by the System's policy or additional layer of insurance. The System has estimated losses and recorded an undiscounted liability of approximately \$1,008 and \$544 at December 31, 2023 and 2022, 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 \$8,650 and \$6,685 at December 31, 2023 and 2022, 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.

Hunterdon Healthcare System, Inc. and Affiliates

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2023 and 2022
(in thousands)

NOTE 16 - NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions at December 31, 2023 and 2022 are restricted for the following programs:

	2023	2022
Temporarily - Subject to expenditure for specific purpose:		
Property and equipment and research and education	\$ 9,691	\$ 11,398
Permanently - Investment in perpetuity whose income is expendable to support patient care or specified by donor:		
Beneficial interest in perpetual trusts	3,404	2,927
Donor-restricted endowments	18,483	16,418
	21,887	19,345
	\$ 31,578	\$ 30,743

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, 2023 and 2022.

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.

Hunterdon Healthcare System, Inc. and Affiliates

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2023 and 2022
(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 table presents changes in endowments for the years ended December 31, 2023 and 2022:

Endowment net assets, December 31, 2021	\$ 19,744
Contributions, net asset transfers and other changes	423
Interest income	270
Net realized gains on investments	405
Change in unrealized gains and losses on investments	<u>(4,424)</u>
Endowment net assets, December 31, 2022	16,418
Contributions, net asset transfers and other changes	
Interest income	(2,131)
Net realized gains on investments	11
Change in unrealized gains and losses on investments	<u>1,954</u>
Endowment net assets, December 31, 2023	<u>\$ 16,352</u>

NOTE 17 - 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, 2023 and 2022:

	<u>2023</u>	<u>2022</u>
Medicare and Medicare managed care	34%	34%
Medicaid and Medicaid managed care	9	10
Aetna	14	12
Blue Cross, all products except Medicare/Medicaid	21	20
Self-pay/uninsured	4	4
Other third-party commercial	<u>18</u>	<u>20</u>
	<u>100%</u>	<u>100%</u>

Hunterdon Healthcare System, Inc. and Affiliates

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2023 and 2022
(in thousands)

NOTE 18 - 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, 2023 and 2022 included in the consolidated statements of operations are as follows:

<u>2023</u>	<u>Healthcare Services</u>	<u>General and Administrative</u>	<u>Fundraising Expenses</u>	<u>Total</u>
Salaries and wages	\$ 200,457	\$ 21,894	\$ 713	\$ 223,064
Employee benefits	36,894	3,388	130	40,412
Physician fees	18,120	140	-	18,260
Supplies	58,360	996	-	59,356
Other	54,088	36,799	312	91,199
Depreciation and amortization	6,956	7,617	-	14,573
Interest	3,042	627	-	3,669
	<u>\$ 377,917</u>	<u>\$ 71,461</u>	<u>\$ 1,155</u>	<u>\$ 450,533</u>
<u>2022</u>	<u>Healthcare Services</u>	<u>General and Administrative</u>	<u>Fundraising Expenses</u>	<u>Total</u>
Salaries and wages	\$ 180,007	\$ 20,056	\$ 721	\$ 200,784
Employee benefits	31,203	2,895	129	34,227
Physician fees	15,483	119	-	15,602
Supplies	56,758	983	-	57,741
Other	48,203	40,595	292	89,090
Depreciation and amortization	8,014	9,093	-	17,107
Interest	3,203	345	-	3,548
	<u>\$ 342,871</u>	<u>\$ 74,086</u>	<u>\$ 1,142</u>	<u>\$ 418,099</u>

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 19 - SUBSEQUENT EVENTS

The System evaluated its December 31, 2023 consolidated financial statements for subsequent events through May 28, 2024, 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 BALANCE SHEET

December 31, 2023
(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	\$ 44	\$ 46,587	\$ 2,810	\$ 3,281	\$ 355	\$ -	\$ 53,077
Assets whose use is limited, bond funds	-	19	-	-	-	-	19
Patient accounts receivable	-	39,925	1,691	846	-	-	42,462
Other receivables	-	8,283	92	-	-	-	8,375
Due from unconsolidated joint ventures	-	-	7	-	-	496	503
Supplies	-	3,732	636	350	-	-	4,718
Prepaid expenses and other current assets	-	6,458	252	166	56	-	6,932
Total current assets	44	105,004	5,488	4,643	411	496	116,086
Investments	-	167,429	-	451	2,224	-	170,104
Assets whose use is limited							
Board-designated funds	-	14,089	-	-	-	-	14,089
Donor-restricted assets	-	19,834	-	-	9,877	-	29,711
Property and equipment, net	-	137,059	2,541	538	-	-	140,138
Right-of-use assets, operating leases	-	17,857	8,550	-	-	-	26,407
Other assets							
Investment in unconsolidated joint ventures	2,336	748	1,577	-	-	-	4,661
Goodwill and intangibles, net	-	7,867	3,463	-	-	-	11,330
Other	-	14,273	1,455	-	2,844	-	18,572
Beneficial interest in perpetual trusts	-	2,551	-	-	853	-	3,404
Due from related parties	226	15,492	-	-	-	(15,718)	-
Investment in controlled affiliates	2,185	-	-	-	-	(2,185)	-
Beneficial interest in net assets of the Foundation	-	9,595	-	1,593	-	(11,188)	-
Total assets	\$ 4,791	\$ 511,798	\$ 23,074	\$ 7,225	\$ 16,209	\$ (28,595)	\$ 534,502

Hunterdon Healthcare System, Inc. and Affiliates

CONSOLIDATING BALANCE SHEET - CONTINUED

December 31, 2023
(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	\$ 13	\$ 33,656	\$ 1,928	\$ 791	\$ 304	\$ -	\$ 36,692
Accrued payroll and payroll taxes	-	23,703	-	-	-	-	23,703
Third-party payor settlements	-	5,739	-	-	-	-	5,739
Operating lease obligations, current portion	-	5,084	1,662	-	-	-	6,746
Long-term debt, current portion	-	3,117	-	-	-	-	3,117
Accrued interest payable	-	518	-	-	-	-	518
Due to related parties	-	-	1,053	1,625	918	(3,596)	-
Total current liabilities	13	71,817	4,643	2,416	1,222	(3,596)	76,515
Long-term debt, net of current portion	-	104,032	-	-	-	-	104,032
Operating lease obligations, net of current portion	-	13,329	7,498	-	-	-	20,827
Other liabilities							
Accrued retirement benefits	-	19,285	-	-	-	-	19,285
Deferred revenue	-	3,489	-	-	-	-	3,489
Due to related parties	2,912	-	8,713	-	-	(11,625)	-
Other	-	19,756	-	-	-	-	19,756
Total liabilities	2,925	231,708	20,854	2,416	1,222	(15,221)	243,904
Net assets and shareholders' equity							
Without donor restrictions	1,866	252,243	-	3,216	1,661	(2,295)	256,691
Shareholders' equity							
Common stock	-	-	742	-	-	(742)	-
Additional paid-in capital	-	-	1,448	-	-	(1,448)	-
Retained earnings							
Midjersey Health Corporation	-	-	(2,299)	-	-	2,299	-
Noncontrolling interests	-	-	2,329	-	-	-	2,329
With donor restrictions	-	27,847	-	1,593	13,326	(11,188)	31,578
Total net assets and shareholders' equity	1,866	280,090	2,220	4,809	14,987	(13,374)	290,598
Total liabilities and net assets	\$ 4,791	\$ 511,798	\$ 23,074	\$ 7,225	\$ 16,209	\$ (28,595)	\$ 534,502

Hunterdon Healthcare System, Inc. and Affiliates

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

Year ended December 31, 2023
(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	\$ -	\$ 392,338	\$ 16,290	\$ 7,230	\$ -	\$ -	\$ 415,858
Other revenues	6,882	34,917	2,612	56	1,339	(7,721)	38,085
Net assets released from restrictions for operations	-	2,057	-	248	-	-	2,305
Total revenues	6,882	429,312	18,902	7,534	1,339	(7,721)	456,248
Expenses							
Salaries and wages	3,225	214,943	5,182	2,636	891	(3,813)	223,064
Employee benefits	681	38,252	869	447	163	-	40,412
Physician fees	-	18,260	-	-	-	-	18,260
Supplies	17	50,738	4,791	3,809	17	(16)	59,356
Other	2,446	84,888	6,165	642	950	(3,892)	91,199
Depreciation and amortization	-	14,067	316	190	-	-	14,573
Interest	-	3,663	369	-	-	(363)	3,669
Total expenses	6,369	424,811	17,692	7,724	2,021	(8,084)	450,533
Operating income (loss)	513	4,501	1,210	(190)	(682)	363	5,715
Other gains and losses							
Investment returns, net	-	20,951	-	64	381	(363)	21,033
Accrued retirement benefit income	-	(2,443)	-	-	-	-	(2,443)
Change in fair value of interest rate swap agreements	-	(624)	-	-	-	-	(624)
Loss on sale of property and equipment	-	(47)	-	-	-	-	(47)
Other gains and losses, net	-	17,837	-	64	381	(363)	17,919
Revenues and gains over (under) expenses and losses before noncontrolling interests	513	22,338	1,210	(126)	(301)	-	23,634
Revenues and gains over expenses and losses attributed to noncontrolling interests	-	-	(1,269)	-	-	-	(1,269)
Revenues and gains over (under) expenses and losses attributed to Hunterdon Healthcare System, Inc. and affiliates	513	22,338	(59)	(126)	(301)	-	22,365
Other changes in net assets							
Other changes in accrued retirement benefits	-	9,828	-	-	-	-	9,828
Net assets released from restrictions for capital acquisitions	-	1,352	-	34	-	-	1,386
Change in noncontrolling interests	-	-	59	-	-	-	59
Other	-	(1,688)	-	-	-	-	(1,688)
Net asset transfers	-	74	-	-	(74)	-	-
Increase (decrease) in net assets without donor restrictions	\$ 513	\$ 31,904	\$ -	\$ (92)	\$ (375)	\$ -	\$ 31,950

Hunterdon Healthcare System, Inc. and Affiliates

CONSOLIDATING BALANCE SHEET - HUNTERDON MEDICAL CENTER AND AFFILIATES

December 31, 2023

(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	\$ 40,349	\$ 3,294	\$ 2,272	\$ 672	\$ -	\$ 46,587
Assets whose use is limited, bond funds	19	-	-	-	-	19
Patient accounts receivable	34,948	2,428	2,261	288	-	39,925
Other receivables	8,175	108	-	-	-	8,283
Supplies	3,732	-	-	-	-	3,732
Prepaid expenses and other current assets	6,458	-	-	-	-	6,458
Total current assets	93,681	5,830	4,533	960	-	105,004
Investments	167,429	-	-	-	-	167,429
Assets whose use is limited						
Board-designated funds	14,089	-	-	-	-	14,089
Donor-restricted assets	19,834	-	-	-	-	19,834
Property and equipment, net	137,059	-	-	-	-	137,059
Right-of-use assets, operating leases	17,857	-	-	-	-	17,857
Other assets						
Investment in unconsolidated joint ventures	748	-	-	-	-	748
Goodwill and intangibles, net	7,867	-	-	-	-	7,867
Other	14,273	-	-	-	-	14,273
Beneficial interest in perpetual trusts	2,551	-	-	-	-	2,551
Due from (to) related parties	15,687	(94)	(90)	(11)	-	15,492
Beneficial interest in net assets of the Foundation	9,595	-	-	-	-	9,595
Total assets	<u>\$ 500,670</u>	<u>\$ 5,736</u>	<u>\$ 4,443</u>	<u>\$ 949</u>	<u>\$ -</u>	<u>\$ 511,798</u>

Hunterdon Healthcare System, Inc. and Affiliates

CONSOLIDATING BALANCE SHEET - CONTINUED - HUNTERDON MEDICAL CENTER AND AFFILIATES

December 31, 2023

(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						
Current liabilities						
Accounts payable and accrued expenses	\$ 33,620	\$ 27	\$ 9	\$ -	\$ -	\$ 33,656
Accrued payroll and payroll taxes	17,165	3,109	3,429	-	-	23,703
Third-party payor settlements	5,739	-	-	-	-	5,739
Operating lease obligations, current portion	5,084	-	-	-	-	5,084
Long-term debt, current portion	3,117	-	-	-	-	3,117
Accrued interest payable	518	-	-	-	-	518
Total current liabilities	65,243	3,136	3,438	-	-	71,817
Long-term debt, net of current portion	104,032	-	-	-	-	104,032
Operating lease obligations, net of current portion	13,329	-	-	-	-	13,329
Other liabilities						
Accrued retirement benefits	19,285	-	-	-	-	19,285
Deferred revenue	3,489	-	-	-	-	3,489
Other	19,756	-	-	-	-	19,756
Total liabilities	225,134	3,136	3,438	-	-	231,708
Net assets						
Without donor restrictions	247,689	2,600	1,005	949	-	252,243
With donor restrictions	27,847	-	-	-	-	27,847
Total net assets	275,536	2,600	1,005	949	-	280,090
Total liabilities and net assets	\$ 500,670	\$ 5,736	\$ 4,443	\$ 949	\$ -	\$ 511,798

Hunterdon Healthcare System, Inc. and Affiliates

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

Year ended December 31, 2023
(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	\$ 320,961	\$ 36,886	\$ 28,451	\$ 6,040	\$ -	\$ 392,338
Other revenues	31,873	2,779	259	6	-	34,917
Net assets released from restrictions for operations	2,057	-	-	-	-	2,057
Total revenues	354,891	39,665	28,710	6,046	-	429,312
Expenses						
Salaries and wages	175,574	16,200	23,169	-	-	214,943
Employee benefits	36,456	867	929	-	-	38,252
Physician fees	18,260	-	-	-	-	18,260
Supplies	50,733	1	4	-	-	50,738
Other	49,970	18,618	12,216	4,084	-	84,888
Depreciation and amortization	14,067	-	-	-	-	14,067
Interest	3,663	-	-	-	-	3,663
Total expenses	348,723	35,686	36,318	4,084	-	424,811
Operating income (loss)	6,168	3,979	(7,608)	1,962	-	4,501
Other gains and losses						
Investment returns, net	20,951	-	-	-	-	20,951
Accrued retirement benefit cost	(2,443)	-	-	-	-	(2,443)
Change in fair value of interest rate swap agreements	(624)	-	-	-	-	(624)
Loss on sale of property and equipment	(47)	-	-	-	-	(47)
Other gains and losses, net	17,837	-	-	-	-	17,837
Revenues and gains over (under) expenses and losses	24,005	3,979	(7,608)	1,962	-	22,338
Other changes in net assets without donor restrictions						
Other changes in accrued retirement benefits	9,828	-	-	-	-	9,828
Net assets released from restrictions for capital acquisitions	1,352	-	-	-	-	1,352
Other	(719)	(107)	(862)	-	-	(1,688)
Transfers with affiliates	(5,063)	(1,964)	8,588	(1,487)	-	74
Increase (decrease) in net assets without donor restrictions	\$ 29,403	\$ 1,908	\$ 118	\$ 475	\$ -	\$ 31,904

Hunterdon Healthcare System, Inc. and Affiliates

CONSOLIDATING BALANCE SHEET - MIDJERSEY HEALTH CORPORATION

December 31, 2023
(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	\$ 459	\$ 1,513	\$ 711	\$ 116	\$ 11	\$ -	\$ 2,810
Patient accounts receivable	-	1,359	332	-	-	-	1,691
Other receivables	31	-	-	-	61	-	92
Due from unconsolidated joint venture	7	-	-	-	-	-	7
Supplies	-	529	107	-	-	-	636
Prepaid expenses and other current assets	78	106	54	-	14	-	252
Total current assets	575	3,507	1,204	116	86	-	5,488
Property and equipment, net	1,887	219	426	9	-	-	2,541
Right-of-use assets, operating leases	6,965	1,585	-	-	-	-	8,550
Other assets							
Investment in unconsolidated joint ventures	1,577	-	-	-	-	-	1,577
Goodwill and intangibles, net	-	414	3,049	-	-	-	3,463
Investments in controlled affiliates	5,267	-	-	-	-	(5,267)	-
Other	1,435	-	20	-	-	-	1,455
Total assets	\$ 17,706	\$ 5,725	\$ 4,699	\$ 125	\$ 86	\$ (5,267)	\$ 23,074
LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIT)							
Current liabilities							
Accounts payable and accrued expenses	\$ 98	\$ 1,461	\$ 359	\$ 8	\$ 2	\$ -	\$ 1,928
Operating lease obligations, current portion	1,195	467	-	-	-	-	1,662
Due to related parties	1,053	-	-	-	-	-	1,053
Total current liabilities	2,346	1,928	359	8	2	-	4,643
Operating lease obligations, net of current portion	6,165	1,333	-	-	-	-	7,498
Other liabilities							
Due to related parties	8,713	-	-	-	-	-	8,713
Total liabilities	17,224	3,261	359	8	2	-	20,854
Shareholders' equity (deficit)							
Common stock	985	1,020	3,686	15	300	(5,264)	742
Additional paid-in capital	1,448	-	-	-	-	-	1,448
Retained earnings (deficit)							
Midjersey Health Corporation	(1,951)	(171)	(32)	102	(244)	(3)	(2,299)
Noncontrolling interests	-	1,615	686	-	28	-	2,329
Total	(1,951)	1,444	654	102	(216)	(3)	30
Total shareholders' equity (deficit)	482	2,464	4,340	117	84	(5,267)	2,220
Total liabilities and shareholders' equity (deficit)	\$ 17,706	\$ 5,725	\$ 4,699	\$ 125	\$ 86	\$ (5,267)	\$ 23,074

Hunterdon Healthcare System, Inc. and Affiliates

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

Year ended December 31, 2023
(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	\$ -	\$ 12,934	\$ 3,356	\$ -	\$ -	\$ -	\$ 16,290
Other revenues	3,230	5	379	149	-	(1,151)	2,612
Total revenues	3,230	12,939	3,735	149	-	(1,151)	18,902
Expenses							
Salaries and wages	230	3,016	1,936	-	-	-	5,182
Employee benefits	-	580	289	-	-	-	869
Supplies	55	4,182	554	-	-	-	4,791
Other	2,519	2,929	742	77	-	(102)	6,165
Depreciation and amortization	121	144	47	4	-	-	316
Interest	364	-	5	-	-	-	369
Total expenses	3,289	10,851	3,573	81	-	(102)	17,692
Operating income (loss) before noncontrolling interests	(59)	2,088	162	68	-	(1,049)	1,210
Operating income attributed to noncontrolling interests	-	(1,190)	(79)	-	-	-	(1,269)
Operating (loss) income attributed to Midjersey Health Corporation	(59)	898	83	68	-	(1,049)	(59)
Other changes in shareholders' equity							
Change in noncontrolling interests	-	168	(109)	-	-	-	59
Increase (decrease) in shareholders' equity (deficit)	\$ (59)	\$ 1,066	\$ (26)	\$ 68	\$ -	\$ (1,049)	\$ -

Hunterdon Healthcare System, Inc. and Affiliates

CONSOLIDATING BALANCE SHEET - HUNTERDON REGIONAL COMMUNITY HEALTH, INC.

December 31, 2023
(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	\$ 2,571	\$ 30	\$ 135	\$ 317	\$ -	\$ 3,281
Patient accounts receivable	-	538	-	-	308	-	846
Supplies	-	-	-	-	350	-	350
Due from related parties	-	-	-	-	380	(380)	-
Prepaid expenses and other current assets	-	-	-	-	166	-	166
Total current assets	228	3,109	30	135	1,521	(380)	4,643
Investments	-	-	-	451	-	-	451
Property and equipment, net	-	-	-	535	3	-	538
Other assets							
Beneficial interest in net assets of the Foundation	1,034	308	146	105	-	-	1,593
Total assets	<u>\$ 1,262</u>	<u>\$ 3,417</u>	<u>\$ 176</u>	<u>\$ 1,226</u>	<u>\$ 1,524</u>	<u>\$ (380)</u>	<u>\$ 7,225</u>
LIABILITIES AND NET ASSETS (DEFICIT)							
Liabilities							
Accounts payable and accrued expenses	\$ -	\$ 701	\$ 7	\$ 20	\$ 63	\$ -	\$ 791
Due to related parties	-	419	298	17	1,271	(380)	1,625
Total liabilities	-	1,120	305	37	1,334	(380)	2,416
Net assets (deficit)							
Without donor restrictions	228	1,989	(275)	1,084	190	-	3,216
With donor restrictions	1,034	308	146	105	-	-	1,593
Total net assets (deficit)	<u>1,262</u>	<u>2,297</u>	<u>(129)</u>	<u>1,189</u>	<u>190</u>	<u>-</u>	<u>4,809</u>
Total liabilities and net assets (deficit)	<u>\$ 1,262</u>	<u>\$ 3,417</u>	<u>\$ 176</u>	<u>\$ 1,226</u>	<u>\$ 1,524</u>	<u>\$ (380)</u>	<u>\$ 7,225</u>

Hunterdon Healthcare System, Inc. and Affiliates

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

Year ended December 31, 2023
(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	\$ -	\$ 3,968	\$ -	\$ -	\$ 3,393	\$ (131)	\$ 7,230
Other revenues	-	-	-	23	33	-	56
Net assets released from restrictions for operations	-	189	-	59	-	-	248
Total revenue	-	4,157	-	82	3,426	(131)	7,534
Expenses							
Salaries and wages	-	2,275	-	-	361	-	2,636
Employee benefits	-	380	-	-	67	-	447
Supplies	-	943	-	5	2,992	(131)	3,809
Other	-	453	-	62	127	-	642
Depreciation	-	-	-	180	10	-	190
Total expenses	-	4,051	-	247	3,557	(131)	7,724
Operating (loss) income	-	106	-	(165)	(131)	-	(190)
Other gains							
Investment returns, net	-	-	-	64	-	-	64
Revenues and gains (under) over expenses	-	106	-	(101)	(131)	-	(126)
Other changes in net assets							
Net assets released from restrictions for capital acquisitions	-	-	-	34	-	-	34
(Decrease) increase in net assets without donor restrictions	\$ -	\$ 106	\$ -	\$ (67)	\$ (131)	\$ -	\$ (92)