The Valley Hospital

Consolidated Financial Statements
and Supplementary Information

December 31, 2023 and 2022

Independent Auditors' Report

To the Board of Trustees of
The Valley Hospital

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of The Valley Hospital and affiliated companies (collectively, the Organization), 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, based on our audits and the reports of the other auditors, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Organization as of December 31, 2023 and 2022, and the results of its operations, changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

We did not audit the financial statements of The Valley Medical Group, for which The Valley Hospital is the sole member, which statements reflect total assets constituting 7% and 5%, respectively, of consolidated total assets at December 31, 2023 and 2022, and total revenues constituting 18%, of consolidated total revenues for the years then ended. Those statements were audited by other auditors, whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for The Valley Medical Group, is based solely on the report of the other auditors.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the consolidated Financial Statements section of our report. We are required to be independent of the Organization 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 Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditors' Responsibilities for the Audit of the consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with 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 GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization’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 Organization’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.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying supplementary information included in the consolidating balance sheet as of December 31, 2023 and consolidating statement of operations and changes in net assets for the year then ended is presented for purposes of additional analysis rather than to present the financial position, results of operations and changes in net assets of the individual companies and is not a required part of the consolidated financial statements. Such 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, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Baker Tilly US, LLP

Iselin, New Jersey
April 9, 2024

The Valley Hospital

Consolidated Balance Sheets
December 31, 2023 and 2022
(In Thousands)

Assets	2023	2022
Current Assets		
Cash and cash equivalents	$ 10,439	$ 9,942
Assets whose use is limited, current	6,471	6,835
Accounts receivable	126,113	112,831
Prepaid expenses	11,507	10,046
Supplies and other current assets	23,194	17,545
Total current assets	177,724	157,199
Assets Whose Use is Limited		
Board designated	902,386	983,590
Donor-restricted investments	6,776	6,723
	909,162	990,313
Property and Equipment, Net	1,195,632	939,882
Finance Lease Right-of-Use Asset	46,927	49,273
Operating Lease Right-of-Use Asset	96,839	75,191
Other Assets	81,782	68,724
Assets Held by Related Organization	28,948	33,357
Total assets	$ 2,537,014	$ 2,313,939

Liabilities and Net Assets	2023	2022
Current Liabilities		
Accounts payable	$ 70,352	$ 61,367
Accrued salaries and related benefits	72,356	74,227
Current portion of long-term debt	11,880	11,880
Current portion of finance lease obligation	643	516
Current portion of operating lease liability	6,966	8,879
Other accrued expenses	88,104	82,857
Accrued bond interest payable	6,533	6,831
Total current liabilities	256,834	246,557
Operating Lease Liability, Noncurrent Portion	92,793	68,817
Long-Term Debt, Noncurrent Portion	321,382	341,801
Finance Lease, Noncurrent Portion	57,610	58,252
Estimated Professional Liability	36,445	35,927
Amounts Due to Third-Party Payors and Other Liabilities	88,941	79,689
Total liabilities	854,005	831,043
Net Assets		
Without donor restrictions	1,673,629	1,473,046
With donor restrictions	9,380	9,850
Total net assets	1,683,009	1,482,896
Total liabilities and net assets	$ 2,537,014	$ 2,313,939

See notes to consolidated financial statements

The Valley Hospital

Consolidated Statements of Operations and Changes in Net Assets
Years Ended December 31, 2023 and 2022
(In Thousands)

	2023	2022
Changes in Net Assets Without Donor Restrictions		
Net patient service revenues	$ 1,173,858	$ 1,116,331
COVID-19 funding grant revenues	29,536	8,969
Other revenues	48,613	29,005
Total operating revenues	1,252,007	1,154,305
Expenses		
Salaries and wages	514,047	481,698
Employee benefits	97,597	85,236
Medical fees	622	713
Other expenses	452,016	418,182
Interest expense	3,241	3,641
Depreciation	47,577	52,163
Total operating expenses	1,115,100	1,041,633
Operating income before other items and special projects	136,907	112,672
Other Items and Special Projects	(36,570)	(23,220)
Operating income	$ 100,337	$ 89,452

(In Thousands)

	2023	2022
Other Income (Loss)		
Income from operations	$ 100,337	$ 89,452
Investment income	6,950	18,763
Change in unrealized gains (losses) on investments	73,522	(95,468)
Revenues in excess of expenses	180,809	12,747
Other Changes in Net Assets Without Donor Restrictions		
Net changes in assets held by related organization and net assets transfers to/from affiliated entities	19,774	3,795
Increase in net assets without donor restrictions	200,583	16,542
Changes in Net Assets With Donor Restrictions		
Decrease in assets with donor restrictions	(470)	(287)
Increase in net assets	200,113	16,255
Net Assets, Beginning	1,482,896	1,466,641
Net Assets, Ending	$ 1,683,009	$ 1,482,896

The Valley Hospital

Consolidated Statements of Cash Flows
Years Ended December 31, 2023 and 2022
(In Thousands)

	2023	2022
Cash Flows From Operating Activities		
Increase in net assets	$ 200,113	$ 16,255
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation	53,941	58,302
Finance lease right-to-use asset amortization	2,346	2,347
Operating lease right-to-use asset amortization	33,936	7,678
Amortization of bond premium, bond discount and deferred financing costs	(3,129)	(3,196)
Change in assets held by related organization	4,409	6,942
Net realized loss (gains) on investments	13,952	(1,958)
Change in unrealized (gains) losses on investments	(73,522)	95,468
Transfers to/from affiliated entities	(24,183)	(10,737)
Changes in assets and liabilities:		
Accounts receivable	(13,282)	(10,376)
Prepaid expenses, supplies and other current assets	(7,110)	(2,678)
Other assets	(13,058)	8,772
Accounts payable and other current liabilities	12,063	47,387
Medicare advance payments	-	(69,646)
Operating lease liabilities	(33,521)	(7,391)
Estimated professional liability	518	(2,278)
Amounts due to third-party payors and other liabilities	9,252	(1,468)
Net cash provided by operating activities	162,725	133,423
Cash Flows From Investing Activities		
Purchase of property and equipment, including capitalized interest	(309,691)	(299,711)
Purchases of assets whose use is limited	571,524	(353,314)
Sales of assets whose use is limited	(430,803)	341,766
Net cash used in investing activities	(168,970)	(311,259)
Cash Flows From Financing Activities		
Transfers to/from affiliated entities	24,183	10,737
Principal payments on long-term debt	(17,290)	(11,885)
Principal payments on capital lease obligation	(515)	(399)
Net cash provided by (used in) financing activities	6,378	(1,547)
Increase (decrease) in cash and cash equivalents and restricted cash	133	(179,383)
Cash and Cash Equivalents and Restricted Cash, Beginning	16,777	196,160
Cash and Cash Equivalents and Restricted Cash, Ending	$ 16,910	$ 16,777
Supplemental Disclosure of Cash Flow Information		
Cash paid during the year for interest	$ 16,752	$ 17,368
Supplemental Schedule of Noncash Investing and Financing Activities		
Right-of-use assets obtained in exchange for lease obligations	$ 55,584	$ 2,936
Reconciliation of Cash and Restricted Cash to Balance Sheets		
Cash and cash equivalents, operations	$ 10,439	$ 9,942
Assets whose use is limited, current	6,471	6,835
	$ 16,910	$ 16,777

See notes to consolidated financial statements

1. Organization and Summary of Significant Accounting Policies

Organization

The Valley Hospital, Inc. (the Hospital) is a 431-bed, not-for-profit acute care hospital located in Ridgewood, New Jersey and is a subsidiary corporation of Valley Health System, Inc. (the System).

The Hospital is the sole member of Valley Physician Services, Inc. (VPS). On January 1, 2017, VPS assigned its New Jersey physician contracts to Valley Physician Services, PC. Effective with the assignment of these contracts, VPS became a management services corporation providing service to both captive professional corporations: Valley Physician Services, P.C. and Valley Physician Services, NY, P.C.

All of VPS, Valley Physician Services, P.C. and Valley Physician Services NY, PC, trade under the name Valley Medical Group (VMG). All VMG operations are reflected in the 2023 and 2022 consolidated financial statements.

Other related corporations are Valley Home Care, Inc., The Valley Hospital Foundation, Inc., VHS Insurance Company, LTD., ColigoCare, LLC (a clinically integrated network) and several limited liability corporations created for real estate acquisitions.

Principles of Consolidation

As of December 31, 2023 and 2022 and for the years then ended, the consolidated financial statements include the accounts of the Hospital and VMG and the other companies created for real estate acquisitions (collectively, the Organization). All significant intercompany accounts and transactions have been eliminated.

Use of Estimates

The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. There is at least a reasonable possibility that certain estimates will change by material amounts in the near term. Actual results could differ from those estimates.

Cash, Cash Equivalents and Restricted Cash and Cash Equivalents

The Organization considers all highly liquid financial instruments purchased with a maturity of three months or less to be cash equivalents, except for amounts reported within limited use assets. Cash and cash equivalents and restricted cash and cash equivalents include cash and money market funds. Restricted cash has been restricted by debt agreements for a specific purpose.

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

Investments

All investments are classified as trading securities. Investments included in limited use assets in the accompanying consolidated balance sheets consist of cash and cash equivalents, equity securities, pooled equity funds, U.S. government obligations and government secured obligations, corporate bonds.

Investment income or loss (including realized gains and losses on investments, interest and dividends) and changes in unrealized gains and losses on investments are included in revenues in excess of expenses unless the income or loss is restricted by donor or law.

Investment income on deferred compensation investments and on other limited use assets is reported as other income in the consolidated statements of operations and changes in net assets. Deferred compensation assets are included in other assets on the consolidated balance sheets.

Assets Whose Use is Limited

Assets whose use is limited primarily include assets held by trustee under indenture agreements; designated assets set aside by the Board of Trustees (Board) for future capital improvements, over which the Board retains control and may at its discretion subsequently use for other purposes; and donor-restricted assets.

Accounts Receivable

Accounts receivable are recorded at net realizable value at the transaction price based on standard charges for services provided, reduced by contractual adjustments provided to third-party payors, discounts provided to uninsured or underinsured patients in accordance with the Organization's policies and/or implicit price concessions provided to uninsured or underinsured patients and do not bear interest. Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to patient service revenues in the period of the change. Accounts are written off through the provision for credit loss when the Organization has exhausted all collection efforts and determines accounts are impaired based on changes in patient credit worthiness.

Supplies

Supplies are carried at the lower of cost (first-in, first-out method) or net realizable value. Supplies totaling approximately $12.7 million and $13.9 million are included in supplies and other current assets in the consolidated balance sheets at December 31, 2023 and 2022, respectively.

Property and Equipment

Property and equipment are recorded at cost. Annual provisions for depreciation of property and equipment are computed using the straight-line method. Additions are depreciated beginning with the month that the asset is placed in service.

Property and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If such assets are deemed to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell. There were no such impairment losses recorded in 2023 or 2022.

The Organization capitalizes interest costs as a component of construction in progress, based on interest costs of borrowing specifically for the project, net of interest earned on investments acquired with the proceeds of the borrowing.

Donor-Restricted Gifts

Unconditional promises to give cash and other assets to the Organization are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the gift is received. The gifts are reported as support 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 and changes in net assets as net assets released from restriction. Donor-restricted contributions whose restrictions are met within the same year as received are reported as contributions without donor restrictions in the accompanying consolidated financial statements.

Deferred Compensation

Certain Organization employees participate in deferred compensation plans. In connection with these plans, the Organization deposits amounts with trustees on behalf of the participating employees. The assets are restricted for payments under the plans, but may revert to the Organization in the event of a bankruptcy filing. At December 31, 2023 and 2022, amounts on deposit with trustees were equal to liabilities under the plans and aggregated $13.4 million and $12.1 million, respectively. Investments consist of mutual funds and are reported at fair value based upon quoted market price. Amounts on deposit are recorded in other assets and liability amounts are included in amounts due to third-party payors and other liabilities in the accompanying consolidated balance sheets.

The investments held by the trustees are classified as trading securities. For the years ended December 31, 2023 and 2022, the Organization recorded investment gains (losses) related to deferred compensation assets of $1.9 million and ($2.6) million respectively, as other revenues. Changes to the deferred compensation liability are recorded in employee benefits expense.

The Organization has a deferred compensation plan for certain executives which invests in life insurance policies for these executives. At December 31, 2023 and 2022, there is an insurance asset of $24.0 million and $23.3 million, respectively, which is included in other assets. Related benefit liabilities and expense of $8.7 million and $7.5 million in 2023 and 2022 are included in amounts due to third-party payors and other liabilities in the consolidated balance sheets and employee benefits expenses in the consolidated statements of operations and changes in net assets.

Deferred Financing Costs

Costs incurred in connection with the issuance of long-term debt have been deferred and are being amortized over the terms of the related debt using the effective interest method. Deferred financing costs are reported as a direct reduction of long-term debt.

Classification of Net Assets

The Organization separately accounts for and reports net assets with donor restrictions and net assets without donor restrictions. Net assets with donor restrictions are those whose use is restricted by the donor for a specified period of time or purpose or to be maintained by the Organization in perpetuity. The Organization recognizes its accumulated interest in the net assets of the Valley Hospital Foundation, Inc. (Foundation) as assets held by a related organization in the accompanying consolidated balance sheets. Changes in the Organization's interest in the net assets of the Foundation are reported in the accompanying consolidated statements of operations and changes in net assets. The net assets held by the Foundation on behalf of the Organization are for the benefit for the Organization for health care services and capital expenditures.

Self-Insured Health Benefits

The Organization maintains limited self-insured medical, dental and workers' compensation coverage for its employees. Claims under the plan are accrued as the incidents that give rise to them occur and an estimate of unpaid claims is included in other accrued expenses.

Medical Malpractice Insurance

The Organization participates in the VHS Insurance Company, LTD. (VHSIC) malpractice program. The provision for estimated medical malpractice claims includes estimates of the ultimate costs for both reported claims and claims incurred but not reported. The Organization records the actuarially determined liabilities for incurred but not reported professional and general liabilities. Anticipated insurance recoveries or claims receivable from VHSIC associated with reported claims are reported separately in the Organization's consolidated balance sheets at net realizable value in other assets.

Revenue Recognition

Net patient service revenues are recognized at the amount that reflects the consideration to which the Organization expects to be entitled in exchange for providing patient care. These amounts are due from patients, third-party payors (including commercial and governmental programs) and others and includes variable consideration for retroactive revenue adjustments due to settlement of audits, reviews and investigations. Generally, the Organization bills the patients and third-party payors several days after the services are performed and/or the patient is discharged from the facility. Revenues are recognized as performance obligations are satisfied.

Performance obligations are determined based on the nature of the services provided by the Organization. Revenues for performance obligations satisfied over time is recognized based on actual services incurred in relation to total expected (or actual) payments. The Organization believes that this method provides a faithful depiction of the transfer of services over the term of the performance obligation based on the inputs needed to satisfy the obligation. Generally, performance obligations satisfied over time relate to patients in the Organization receiving inpatient acute care services. The Organization measures the performance obligation from admission into the facility to the point when it is no longer required to provide services to that patient, which is generally at the time of discharge. Revenues for performance obligations satisfied at a point in time are recognized when services are provided and the Organization does not believe it is required to provide additional services to the patient.

Generally, because all the Organization's performance obligations relate to contracts with a duration of less than one year, the Organization has elected to apply the optional exemption provided in Accounting Standard Codification (ASC) 606-10-50-14(a) and, therefore, the Organization is not required to disclose the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied or partially unsatisfied at the end of the reporting period. The unsatisfied or partially unsatisfied performance obligations referred to above are primarily related to inpatient acute care services at the end of the reporting period. The performance obligations for these contracts are generally completed when the patients are discharged, which generally occurs within days or weeks of the end of the reporting period.

The Organization determines the transaction price based on standard charges for services provided, reduced by contractual adjustments provided to third-party payors, discounts provided to uninsured patients in accordance with the Organization's policy and/or implicit price concessions provided to uninsured patients. The Organization determines its estimates of contractual adjustments and discounts based on contractual agreements, its discount policies and historical experience. The Organization determines its estimate of implicit price concessions based on its historical collection experience with this class of patients.

Other Expenses

The major categories included in other expenses are drugs, surgical supplies, cardiac cath supplies, other medical supplies, professional fees, contracted services, rent, repairs and maintenance.

Measure of Operations

The consolidated statements of operations and changes in net assets reflect all operating revenues and expenses that are an integral part of the Organization's healthcare services and supporting activities and net assets released from donor restrictions to support operating expenditures. Changes in revenues in excess of expenses that are excluded from operating income, consistent with industry practice, include investment income (including realized and unrealized gains and losses on investments, interest, dividends and investment expense).

Revenues in Excess of Expenses

The consolidated statements of operations and changes in net assets include the determination of revenues in excess of expenses. Changes in net assets without donor restrictions which are excluded from the determination of revenues in excess of expenses, consistent with industry practice, include permanent transfers of assets to and from subsidiaries for other than goods and services 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).

Income Taxes

As of December 31, 2023 and 2022 and for the years then ended, the Hospital and VMG are not-for-profit corporations as described in Section 501(c)(3) of the Internal Revenue Code (IRC) and are exempt from federal income taxes on related income pursuant to Section 501(a) of the IRC.

The Organization accounts for uncertainty in income taxes by prescribing a recognition threshold of more-likely-than-not to be sustained upon examination by the appropriate taxing authority. Measurement of the tax uncertainty occurs if the recognition threshold has been met. There were no tax uncertainties that met the recognition threshold in 2023 or 2022.

Adopted Accounting Pronouncement

In June 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standard Update (ASU) No. 2016-13, *Financial Instruments - Credit Losses (Topic 326)*. The ASU introduces a new credit loss methodology, Current Expected Credit Losses (CECL), which requires earlier recognition of credit losses, while also providing additional transparency about credit risk. Since its original issuance in 2016, the FASB has issued several updates to the original ASU. The CECL methodology utilizes a lifetime "expected credit loss" measurement objective for the recognition of credit losses at the time the financial asset is originated or acquired. The expected credit losses are adjusted each period for changes in expected lifetime credit losses. The methodology replaces the multiple existing impairment methods in current GAAP, which generally require that a loss be incurred before it is recognized. On January 1, 2023, the Organization adopted the ASU using the modified retrospective transition approach of the period of adoption. There was no adjustment to net assets upon adoption. Disclosures have been included within the consolidated financial statements have been included to meet the requirements of Topic 326.

Subsequent Events

The Organization has evaluated the impact of subsequent events through April 9, 2024, representing the date at which the consolidated financial statements were issued.

2. Liquidity and Availability

The Organization's financial assets available within one year of the consolidated balance sheets date for general expenditure such as operating expenses are as follows (in thousands):

	2023	2022
Financial assets at year-end:		
Cash and cash equivalents	$ 10,439	$ 9,942
Accounts receivable	126,113	112,831
Board designated investments	902,386	983,590
Total financial assets	$ 1,038,938	$ 1,106,363

As part of the Organization's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities and other obligations come due. In addition, the Organization invests cash in excess of daily requirements in short-term investments.

3. Charity Care

The Organization provides care to patients who meet certain criteria defined by the New Jersey Department of Health (DOH) without charge or at amounts less than its established rates. Because the Organization does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. Charges for charity care rendered were approximately $29.9 million and $27.5 million for the years ended December 31, 2023 and 2022, respectively. Total charity care costs were approximately $7.2 million and $6.7 million for the years ended December 31, 2023 and 2022, respectively.

Additionally, the Organization sponsors other charitable programs, which provide substantial benefit to the broader community. Such programs include services to the needy and elderly population that require special support, various clinical outreach programs, as well as health promotion and education for the general community welfare. Health care and other services are also provided to those covered by Medicaid and Medicare for which the Organization is not reimbursed at its full cost.

The Organization receives revenue through the State of New Jersey Charity Care Subsidy Fund. The amount received totaled $0.7 million for each of the years ended December 31, 2023 and 2022 and is included in other revenues.

4. COVID-19

COVID-19 grant revenues consist of amounts received from federal funding sources related to the COVID-19 pandemic. The Organization accounts for this funding in accordance with the FASB Accounting Standards Codification (ASC) 958-605 guidance for conditional contributions and accordingly, revenues are recognized when barriers are substantially met, which occurs when the Organization complies with the terms and conditions related to the purpose of the grant rather than those that are administrative in nature. The Organization measures the amounts recognized in accordance with FASB ASC 606 for variable consideration, including constraints of variable consideration, and accordingly, revenue is measured at amounts for which it is probable that there will not be a significant reversal in a future period.

The Medicare Accelerated and Advance Payment Program, which existed before the pandemic, was designed to help hospitals and other healthcare providers facing cash flow disruptions during an emergency. These loans must be paid back with timelines and terms for repayment. The CARES Act significantly expanded the program during the COVID-19 public health emergency. In 2020, the Organization received $110.6 million in Medicare Advanced Payments.

The Coronavirus Response and Relief Supplemental Appropriations Act of 2021, which was signed into law on December 27, 2020, gave providers that received Medicare Advanced payments one year from the first loan payment to begin making repayments, which delayed the start of repayments for the Organization to the spring of 2021. Once repayments began, the Organization continued to submit Medicare claims but a portion of those new claims are offset to repay the Organization's loan. The repayment terms are 25% of claims made during the first 11 months of repayment and 50% of claims made during the next 6 months of repayment. Providers were required to have paid back the loans in full 29 months after the first payment is made, which was expected to be in September 2022. During 2022, approximately $69.6 million of the remaining advance was repaid in full to Medicare.

In 2023 and 2022, the Federal Emergency Management Agency (FEMA) obligated $28.5 million and $37.4 million, respectively, for COVID-19 emergency protective measures. The Organization accounted for such grants in accordance with ASU 2018-08 and considered to be conditional until the barriers of certain of the projects are overcome. During the year ended December 31, 2023 and 2022 grant amounts of $28.5 million and $9.0 million, respectively, were recognized as eligible costs were incurred and included in COVID-19 funding grant revenues in the accompanying consolidated statements of operations and changes in net assets. In addition, during the year ended December 31, 2023, VMG recorded approximately $1.0 million in Employee Retention Credits which is also recorded in COVID-19 funding grant revenues.

5. Net Patient Service Revenues

The composition of the Organization's net patient care service revenues by payor for the years ended December 31 is as follows:

	2023	2022
Medicare	$ 314,898	$ 283,871
Horizon	254,866	253,230
United/Oxford	151,825	159,744
Self-pay/charity	9,196	8,563
Other	443,073	410,923
Total	$ 1,173,858	$ 1,116,331

The composition of patient care service revenues based on the Organization's lines of business for years ended December 31 is as follows:

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	2023	2022
Hospital	$ 998,315	$ 942,851
Physicians practice	175,543	173,480
Total	$ 1,173,858	$ 1,116,331

The Organization has agreements with third-party payors that provide for payment for services rendered at amounts different from its established rates. A summary of the payment arrangements with major third-party payors follows:

Medicare: The Organization is paid for most Medicare inpatient and outpatient services under the national prospective payment system and other methodologies of the Medicare program for certain other services. Federal regulations provide for certain adjustments to current and prior years' payment rates, based on industry-wide and hospital-specific data. Medicare cost reports of the Organization have been audited and settled for years through 2019 at December 31, 2023. Medicare informed hospitals of their intent to reopen cost report years 2006-2009 and 2011-2013. The Organization has filed appeals for 2010-2014 with the Provider Reimbursement Review Board.

Medicaid: Inpatient acute care services rendered to Medicaid program beneficiaries are paid at prospectively determined rates per discharge. Outpatient services rendered to Medicaid program beneficiaries are reimbursed under cost-based and fee schedule methodologies. The Organization is reimbursed for outpatient services at a tentative rate with final settlement determined after submission of annual cost reports and audits thereof by the Medicaid fiscal intermediary. The Medicaid cost reports of the Organization for years through 2020 have been audited and settled.

Other third-party payors: The Organization also has entered into payment agreements with certain commercial insurance carriers and health maintenance organizations. The basis for payment to the Organization under these agreements includes prospectively determined rates per discharge or days of hospitalization and discounts from established charges.

There are various proposals at the federal and state levels that could, among other things, significantly reduce payment rates or modify payment methods. The ultimate outcome of these proposals and other market changes, including the potential effects of health care reform that has been enacted by the federal government, cannot presently be determined. Future changes in the Medicare and Medicaid programs and any reduction of funding could have an adverse impact on the Organization.

Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. The Organization believes that it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing that could have a material adverse effect on its consolidated financial statements. Noncompliance with such laws and regulations could result in fines, penalties and exclusion from such programs.

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 from the payor and the Organization'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 are no longer subject to such audits, reviews and investigations. Revenues received under third-party arrangements are subject to audit and retroactive adjustments. There were no favorable transaction price adjustments related to successful settlements and favorable changes to estimated third-party payor settlement estimates in 2023 or 2022.

Generally, patients who are covered by third-party payors are responsible for related deductibles and coinsurance, which vary in amount. The Organization also provides services to uninsured patients, and offers those uninsured or underinsured patients a discount, either by policy or law, from standard charges. The Organization 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 adjustment to net patient service revenues in the period of the change. For the year ended December 31, 2023 and 2022, the impact of changes in the estimates of discounts and contractual adjustments for performance obligations satisfied in prior years was insignificant to the consolidated financial statements.

Consistent with the Organization's mission, care is provided to patients regardless of their ability to pay. Therefore, the Organization 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 Organization expects to collect based on its collection history with those patients.

6. Assets Whose Use is Limited

The components of assets whose use is limited are set forth in the following table (in thousands):

	2023	2022
Cash and cash equivalents	$ 31,212	$ 26,640
Equity securities	37,422	21,950
Pooled equity funds	192,960	159,250
U.S. government obligations and government secured obligations	422,032	506,541
Corporate bonds	147,950	204,747
Loomis Sayles Mutual Fund	80,029	73,963
	911,605	993,091
Accrued interest receivable	4,028	4,057
Total	915,633	997,148
Less assets whose use is limited, current	6,471	6,835
Assets whose use is limited, noncurrent portion	$ 909,162	$ 990,313

Unrealized gains and losses represent the change in the difference between cost and fair value of the limited use assets. For the years ended December 31, 2023 and 2022, the change in net unrealized gains (losses) was approximately $73.5 million and ($95.0) million, respectively.

Investment income consists of the following (in thousands):

	2023	2022
Interest and dividend income	$ 20,902	$ 16,805
Realized (losses) gains on sales of securities	(13,952)	1,958
Total investment income	$ 6,950	$ 18,763

7. Property and Equipment

A summary of property and equipment as follows (in thousands):

	2023	2022
Land	$ 92,686	$ 92,686
Land improvements	17,148	17,055
Building	605,804	594,543
Equipment and furnishings	512,139	581,968
	1,227,777	1,286,252
Less accumulated depreciation	919,471	959,193
	308,306	327,059
Construction in progress	887,326	612,823
Property and equipment, net	$ 1,195,632	$ 939,882

Depreciation expense for the years ended December 31, 2023 and 2022 totaled $53.9 million and $58.3 million, respectively. Included in these amounts are $6.4 million and $6.1 million in 2023 and 2022, respectively, which are included in other items and special projects (see Note 12).

The Organization has begun the process of replacing the acute care facility, with a new acute care hospital and medical center facility to be located in Paramus, New Jersey. At December 31, 2023, the Organization had commitments outstanding of approximately $76.8 million related to current construction projects. The Organization has obtained financing through the issuance of bonds in 2019 (Note 18).

8. Net Assets With Donor Restrictions

Net assets with donor restrictions are available for the following purposes (in thousands):

	2023	2022
Health care services	$ 1,580	$ 1,586
VMG services	2,604	3,127
Health education	767	708
Endowment funds	4,429	4,429
Total	$ 9,380	$ 9,850

Endowment funds have been restricted by donors to be maintained in perpetuity and are held by the Organization. The Organization follows the requirements of the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as they relate to its donor-restricted contributions and net assets, effective upon the State of New Jersey's enactment of the legislation in March 2009.

The Organization has interpreted UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment fund absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization classifies as net assets with donor restrictions the original value of the gifts donated to the permanent endowment and the original value of subsequent gifts to the permanent endowment. Accumulations to the permanent endowment are used in accordance with the direction of the applicable donor gift. The remaining portion of the donor-restricted endowment fund that is classified as net assets with donor restrictions in perpetuity until the amounts are appropriated for expenditure in accordance with a manner consistent with the standard of prudence proscribed by UPMIFA. In accordance with UPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the fund; (2) the purposes of the Organization and the donor-restricted endowment fund; (3) general economic conditions; (4) the possible effect of inflation and deflation; (5) the expected total return from income and the appreciation of investments; (6) other resources of the Organization; and (7) the investment and spending policies of the Organization.

The Organization has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to the endowment funds while seeking to maintain the purchasing power of the funds. To satisfy long-term return objectives, the Organization relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Organization employs a long-term equity oriented strategy of investing in both traditional and alternative asset classes.

9. Related-Party Transactions

The Organization has amounts due (to) and from related parties as follows (in thousands):

	2023	2022
Valley Health System, Inc.	$ 776	$ (9,793)
Valley Hospital Foundation, Inc.	938	1,167
Total	$ 1,714	$ (8,626)

These amounts are reported within supplies and other current assets and other accrued expenses and primarily represent services provided and expenses paid on behalf of affiliates and are noninterest bearing.

The Organization had net asset transfers (to) and from related parties as follows (in thousands):

	2023	2022
Contributions from Foundation	$ 12,614	$ 11,696
Change in assets held by related organization	(4,409)	(6,942)
Transfer from Hospital to VMG	(99,471)	(72,543)
VMG net transfers	98,977	72,965
Transfer from Valley Health System	13,313	119
Acquisition companies net transfers	(1,250)	(1,500)
Total	$ 19,774	$ 3,795

These amounts are recorded as net changes in assets held by related organization and net transfers to/from affiliated entities on the consolidated statements of operations and changes in net assets. For the years ended December 31, 2023 and 2022, the Organization reported approximately $12.6 million and $11.7 million, respectively, of contributions received from the Foundation, which include both equipment reimbursements and other funds without donor restrictions. The Hospital and VMG reported $28.9 million and $33.4 million at December 31, 2023 and 2022, respectively, for its accumulated interest in Net Assets of the Foundation as assets held by related organization in the accompanying consolidated balance sheets. Changes in the Organization's interest in the net assets were $(3.9) million and $(6.9) million for the years ended December 31, 2023 and 2022, respectively.

Effective January 1, 2017, certain administrative department cost centers were transferred to The Valley Health System. For the years ended December 31, 2023 and 2022, total costs, consisting of salaries and operating expenses, of $109.5 million and $100.9 million, respectively, were charged to individual entities based upon pre-determined allocation methods. These amounts are included in operating expenses on the consolidating statements of operations and changes in net assets.

10. Pension Plans

401(k) Retirement Savings Plan

In April 2004, the Organization introduced a 401(k) Retirement Savings Plan. All employees of the Organization who have attained the age of 21, completed one year of service and have at least 1,000 hours of service are eligible to participate. Employees may contribute 1% to 25% of their salary on a pretax basis, not to exceed the Internal Revenue Service limitation of $22,500 in 2023 and $20,500 in 2022. All employee pretax contributions are 100% vested. Prior to January 1, 2010, the Organization contributed 2% of the employee's base compensation and it matched up to 2% of the employee's contribution.

Effective January 1, 2010, the Organization introduced a new formula under the 401(k) plan to determine the basic contribution percentage that will be provided to each employee in the Organization. Using a points scale system, every employee will be credited with one point for each full year of credited service (a calendar year with 1,000 hours of service), as well as one point for each full year of employee's age. Basic contributions range from 1% to 6% based on points. Additionally, the Organization will match 100% of the first 3.5% employee contribution on top of the basic contribution.

Effective January 1, 2019, changes have been made to the basic and matching contributions. The basic contribution will now include only years of service and will range between 1.5% and 4%. Additionally, the Organization will match 100% of the first 1% employee contribution and 50% of the next 5% employee contribution on top of the basic contribution. The Organization contributed $16.0 million and $14.4 million to the 401(k) Retirement Savings Plan in 2023 and 2022, respectively

11. Concentrations of Credit Risk

The Organization grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The concentrations of gross accounts receivable from patients and third-party payors were as follows:

	2023	2022
Blue Cross	30 %	32 %
Medicare and Medicaid, including Managed Care	20	16
Commercial	5	7
United/Oxford	17	15
Managed care	21	21
Self-pay	7	9
	100 %	100 %

12. Other Items and Special Projects

The components of other items and special projects are included in operating income, as follows (in thousands):

	2023	2022
Offsite properties	$ (9,614)	$ (9,207)
Strategic initiatives and other nonrecurring items	(26,956)	(14,013)
Total	$ (36,570)	$ (23,220)

13. Fair Value Measurements

For assets and liabilities required to be measured at fair value, the Organization measures fair value based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements are applied based on the unit of account from the Organization's perspective. The unit of account determines what is being measured by reference to the level at which the asset or liability is aggregated (or disaggregated) for purposes of applying other accounting pronouncements.

The Organization follows a valuation hierarchy that prioritizes observable and unobservable inputs used to measure fair value into three broad levels, which are described below:

Level 1 - Quoted prices (unadjusted) in active markets that are accessible at the measurement date for identical assets or liabilities. The fair value hierarchy gives the highest priority to Level 1 inputs.

Level 2 - Observable inputs that are based on inputs not quoted in active markets, but corroborated by market data.

Level 3 - Unobservable inputs are used when little or no market data is available. The fair value hierarchy gives the lowest priority to Level 3 inputs.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. In determining fair value, the Organization uses valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible and considers nonperformance risk in its assessment of fair value. Financial instruments (included in cash and cash equivalents, limited use assets and deferred compensation assets carried at fair value as of December 31, 2023 and 2022 are classified in the tables below in one of the three categories described above (in thousands):

	2023			
	Level 1	**Level 2**	**Level 3**	**Total**
Equity securities	$ 37,422	$ -	$ -	$ 37,422
Fixed income:				
Mortgage-backed securities		84,969	-	84,969
U.S. Treasuries	337,063	-	-	337,063
Corporate bonds	-	147,950	-	147,950
Loomis Sayles Mutual Fund	80,029	-	-	80,029
Equity mutual funds:				
Deferred Comp Mutual Funds	13,372	-	-	13,372
Pooled equity funds:				
MSCI ACWI EX-US Non-Lendable Fund	-	55,905	-	55,905
Equity Index Non-Lendable Fund	-	97,495	-	97,495
Russell 2000 Index Fund	-	39,560	-	39,560
Total assets in the fair value hierarchy	$ 467,886	$ 425,879	$ -	893,765
Cash and cash equivalents				31,212
Assets at fair value				$ 924,977

The table above includes $13,372 of deferred compensation mutual funds as of December 31, 2023 which are recorded to other assets on the consolidated balances sheets. The table above does not include $4,028 of accrued investment income which is included in assets whose use is limited on the consolidated balance sheet.

	2022			
	Level 1	Level 2	Level 3	Total
Equity securities	$ 21,950	$ -	$ -	$ 21,950
Fixed income:				
Mortgage-backed securities	-	644	-	644
U.S. Treasuries	505,897	-	-	505,897
Corporate bonds	-	204,747	-	204,747
Loomis Sayles Mutual Fund	73,963	-	-	73,963
Equity mutual funds:				
Deferred Comp Mutual Funds	12,128	-	-	12,128
Pooled equity funds:				
MSCI ACWI EX-US Non-Lendable Fund	-	47,991	-	47,991
Equity Index Non-Lendable Fund	-	79,132	-	79,132
Russell 2000 Index Fund	-	32,127	-	32,127
Total assets in the fair value hierarchy	$ 613,938	$ 364,641	$ -	978,579
Cash and cash equivalents				26,640
Assets at fair value				$ 1,005,219

The table above includes $12,128 of deferred compensation mutual funds as of December 31, 2022 which are recorded to other assets on the consolidated balances sheets. The table above does not include $4,057 of accrued investment income which is included in assets whose use is limited on the consolidated balance sheet.

Financial Instruments

The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in methodologies used at December 31, 2023 and 2022.

Equity securities: Valued at closing price reported on the active market on which the individual securities are traded.

Fixed income and equity mutual funds, U.S. government obligations, bonds and commercial mortgage-backed securities: Valued based on quoted market prices, estimated quoted market prices of similar securities and model-based valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of the assets.

The pooled equity funds are valued based on the underlying investments which are determined to have readily determinable fair value. The following represents the funds' objectives, restrictions and unfunded commitments:

Blackrock Equity Index Non-Lendable Fund: The fund's objective is to seek results that correspond to the price and yield performance of the S&P 500 Index. The Organization is required to provide notice for redemption of this fund by the 15th day of the month prior to redemption. There were no unfunded commitments related to this fund at December 31, 2023 and 2022.

Blackrock MSCI ACWI EX-US Non-Lendable Fund: The fund's objective is to seek investment results that correspond generally to the price and yield performance of the MSCI ACWI ex-U.S. Net Dividend Return Index. The Organization is required to provide notice for redemption of this fund by the 15th day of the month prior to redemption. There were no unfunded commitments related to this fund at December 31, 2023 and 2022.

Blackrock Russell 2000 Index Fund: The fund's objective is to seek investment results that correspond generally to the price and yield performance of the Russell 2000 Index. The Organization is required to provide notice for redemption of this fund by the 15th day of the month prior to redemption. There were no unfunded commitments related to this fund at December 31, 2023 and 2022.

14. Contingencies

Various investigations, lawsuits and claims arising in the normal course of operations are pending or on appeal against the Organization. While the ultimate effect of such actions cannot be determined at this time, it is the opinion of management that the liabilities which may arise from such actions would not materially affect the consolidated financial position or results of operations of the Organization.

15. Professional Insurance

Through March 20, 2003, the Organization had malpractice insurance coverage on a claims made basis under a retrospectively rated policy based primarily on experience of a group of health care providers. Premiums were accrued based on the ultimate cost of the Organization's claims experience to date. Losses from unasserted claims and incidents that may have occurred, but have not been identified under the incident reporting system are included in other accrued expenses in the amount of approximately $1.0 million at December 31, 2023 and 2022 based principally on estimates that incorporate the Organization's past experience as well as other considerations, including the nature of each claim or incident and relevant trend factors.

Valley Health System, Inc., including The Valley Hospital, Inc., Valley Medical Group, Valley Home Care, Inc. and all, other affiliates and subsidiaries insure their malpractice and general liability under a policy of insurance from VHS Insurance Company, Ltd. VHS Insurance Company, Ltd. Is an insurance company in the Cayman Islands and is 100% owned by Valley Health System. Under this policy, each entity, as applicable, has a Captive retention of $3 million per claim not to exceed $12.5 million in the aggregate, with a $3 million per claim and $3 million in the aggregate interstitial layer excess of $3 million per claim and $12.5 million in the aggregate. In the event of exhaustion of both the $3 million and the $12.5 million annual aggregate, a maintenance deductible of $150,000 shall apply for each new claim thereafter, under the Professional Liability insurance policy and $2 million combined single limit for any one claim of Bodily Injury, Property Damage or Advertising Injury arising out of a General Liability event or General Liability injury.

The actuarially determined undiscounted professional and general liabilities aggregated approximately $36.4 million and $35.9 million at December 31, 2023 and 2022, respectively (includes approximately $8.8 million and $8.1 million at December 31, 2023 and 2022, respectively, for estimated incurred but not reported costs) and are reported as estimated professional liability in the Organization's consolidated balance sheets. At December 31, 2023 and 2022, approximately $43.8 million and $32.4 million, respectively, of insurance claims receivable from the captive are included in other assets in the accompanying consolidated balance sheets.

The Organization maintains excess liability coverage with several qualified commercial carriers of up to $40 million loss per incident once in excess of primary coverage.

16. Other Revenues

The Organization's other revenues consist of the following (in thousands):

	2023	2022
Patient convenience	$ 382	$ 419
Valley Health Pharmacy	16,670	10,224
Food services	2,296	1,894
Purchase discounts and rebates	11,681	4,981
Investment income (loss)	2,692	(1,929)
Charity care subsidy	661	734
Acquisition companies rent	3,831	3,694
ColigoCare shared savings	3,749	1,531
Other	6,651	7,457
Total	$ 48,613	$ 29,005

17. Right-of-Use Assets and Lease Liabilities

The Organization enters into finance and operating leases for buildings, office space and equipment. As of January 1, 2019, the Organization adopted the provisions of ASC 842. Accordingly, all agreements with terms for more than one year were capitalized, where a right-of-use asset was identified. In connection with the adoption of ASC 842 on January 1, 2019, certain practical expedients available under ASC 842-10-65-1 were elected that provide certain concessions to ease the burden of transition, such as the treatment of indirect lease costs, and service contracts which may contain embedded leases. In addition, certain expedients not related to the transition were elected, such as the election to capitalize lease and nonlease components of an agreement as a single component for purposes of simplicity, with the exception of those related to equipment and machinery. Generally, amounts capitalized represent the present value of minimum lease payments over the term, and the duration is equivalent to the base agreement, however, management used certain assumptions when determining the value and duration of leases. These assumptions include, but are not limited to, the probability of renewing a lease term, certain future events impacting lease payments, as well as fair value not explicit in an agreement. Most of our leases do not include variable payments but contain scheduled escalations. The leases expire at various dates through 2047.

Operating Right-of-Use Assets and Operating Lease Liabilities

In the calculation of the right-of-use asset and lease liability, the Organization assumed lease renewals of one to three terms where it was probable that the Organization would continue to utilize the facility. Lease expense is recognized on a straight-line basis over the lease term and is included in other expenses on the consolidated statements of operations and changes in net assets. Lease expense was approximately $11.8 million and $12.1 million for the years ended December 31, 2023 and 2022, respectively. The Organization had a current lease liability of approximately $7.0 million and $8.9 million at December 31, 2023 and 2022, respectively, and a noncurrent lease liability of approximately $92.8 million and $68.8 million at December 31, 2023 and 2022, respectively. The future lease payments are discounted using the practical expedient for not-for-profit entities, which is the risk-free interest rate. The interest rate used in calculating the lease liability ranges from 0.27% to 3.04% depending on the length of the lease term. Additional information with respect to the Organization's operating leases as of December 31, 2023 and 2022 is presented below.

	Weighted Average Discount Rate	
	2023	2022
Hospital	1.50%	0.29%
VMG	3.04%	2.37%

	Weighted Average Remaining Lease Term in Years	
	2023	**2022**
Hospital	4.29	2.03
VMG	14.90	15.86

The following table presents information about the amount and timing of cash flows arising from operating leases as of December 31, 2023 (in thousands):

2024	$ 9,740
2025	9,836
2026	9,064
2027	9,093
2028	8,588
Thereafter	77,536
Total lease payments	123,857
Less interest	(24,098)
Present value of lease liabilities	$ 99,759

Finance Lease Right-of-Use Asset and Finance Lease Obligation

On October 12, 2016, the Organization entered into leasing arrangement by which the lessor will construct a fitness and wellness center with medical office space and ancillary service facilities which was made available for use by the Organization upon substantial completion of construction of the leased premises. The lease commencement date, the date the leased premises is made available for use to the Organization, was February 1, 2018. The lease is payable in monthly installments over a period of 25 years from the lease commencement date with a purchase option of $1 at the end of the term.

The lease was recorded as a finance lease with a long-term lease asset and lease liability in the amount of approximately $59.7 million and is amortized over the term of the lease. The following is a schedule by years of future minimum lease payments under the finance lease as of December 31, 2023 (in thousands):

2024	$ 3,714
2025	3,816
2026	3,921
2027	4,029
2028	4,140
Thereafter	81,463
Total minimum lease payments	101,083
Less amount representing interest at 6%	(42,830)
Present value of net minimum lease payments	$ 58,253

18. Long-Term Debt

In December 2019, the Hospital completed a financing (Series 2019) with the New Jersey Health Care Facilities Financing Authority (NJHCFFA) for $356,410,000 of publicly issued tax-exempt bonds. These funds, together with investment earnings and other available funds, will be used to finance the costs of planning, development, acquisition, construction, equipping, expansion, furnishing and renovation of a new 370 bed, approximately 875,000 square foot acute care hospital and medical center facility to be located in Paramus, New Jersey, including a 1,500 space parking garage attached thereto, and all infrastructure improvements, relocations and modifications.

The Series 2019 funds are structured with fixed-rate serial bonds maturing from 2020 to 2039 and fixed-rate term bonds maturing in 2044 and 2049.

Yields on the Series 2019 serial bonds range from 1.12% for the 2020 maturity to 2.56% for the 2039 maturity. Yields for the fixed-rate term bonds are as follows: for the term bond maturing in 2044, a yield to call of 2.71% and for the term bond maturing in 2049, a yield to call of 3.15%.

The overall interest cost for the bond issue is 2.93%. During 2023 and 2022, $10.3 million and $10.7 million, respectively, of interest costs incurred with the new hospital were capitalized and included within construction in progress in the consolidated financial statements.

A summary of long-term debt is as follows as of December 31, 2023 and 2022 (in thousands):

	2023	2022
Hospital revenue bonds financed with the NJHCFFA, Series 2019	$ 303,470	$ 320,760
Net original issue premium	46,027	46,027
Less current portion	(11,880)	(11,880)
Less unamortized underwriter discount	(1,268)	(1,371)
Less accumulated amortization of bond premium	(14,303)	(11,025)
Less unamortized bond issuance costs	(664)	(710)
Long-term debt	$ 321,382	$ 341,801

Principal payments for the next five years under the NJHCFFA obligations are as follows (in thousands):

2024	$ 11,880
2025	11,880
2026	11,880
2027	11,880
2028	11,880
Aggregate thereafter	244,070
	$ 303,470

The 2019 Bonds loan agreements require the Hospital to comply with financial covenants.

In 2023, the Hospital began an initiative to Repurchase Valley Hospital Bonds back from the Bond Holders. In total, the Hospital purchased back a total Par Value of $5.4 million in Bonds, for a total proceeds of $4.2 million.

19. Functional Expenses

The consolidated financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. Salaries, benefits, medical fees and other expenses are allocated based upon estimates of time and effort. Depreciation and interest are allocated based upon square footage. Amounts shown are in thousands:

	2023		
	Total	**Program**	**Administrative**
Salaries and wages	$ 514,047	$ 444,344	$ 69,703
Employee benefits	97,597	82,577	15,020
Medical fees	622	622	-
Other expenses	452,016	360,868	91,148
Depreciation	47,577	32,823	14,754
Interest	3,241	3,241	-
Total	$ 1,115,100	$ 924,475	$ 190,625

	2022		
	Total	**Program**	**Administrative**
Salaries and wages	$ 481,698	$ 411,516	$ 70,182
Employee benefits	85,236	72,646	12,590
Medical fees	713	713	-
Other expenses	418,182	334,783	83,399
Depreciation	52,163	37,521	14,642
Interest	3,641	3,641	-
Total	$ 1,041,633	$ 860,820	$ 180,813

The Valley Hospital

Consolidating Balance Sheet
December 31, 2023
(In Thousands)

	Valley Hospital	Valley Medical Group	Real Estate Acquisition Companies	Eliminations	Consolidated
Assets					
Current Assets					
Cash and cash equivalents	$ 6,218	$ 3,358	$ 863	$ -	$ 10,439
Assets whose use is limited, current	6,471	-	-	-	6,471
Accounts receivable	110,203	15,910	-	-	126,113
Prepaid expenses	11,068	439	-	-	11,507
Supplies and other current assets	16,786	6,408	-	-	23,194
Total current assets	150,746	26,115	863	-	177,724
Assets Whose Use is Limited					
Board designated	902,386	-	-	-	902,386
Donor-restricted investments	6,776	-	-	-	6,776
	909,162	-	-	-	909,162
Property and Equipment, Net	1,125,645	44,971	25,016	-	1,195,632
Finance Lease Right-of-Use Asset	46,927	-	-	-	46,927
Operating Lease Right-of-Use Assets	2,353	94,486	-	-	96,839
Other Assets	81,383	49	350	-	81,782
Assets Held by Related Organization	26,344	2,604	-	-	28,948
Total assets	$ 2,342,560	$ 168,225	$ 26,229	$ -	$ 2,537,014

The Valley Hospital

Consolidating Balance Sheet
December 31, 2023
(In Thousands)

	Valley Hospital	Valley Medical Group	Real Estate Acquisition Companies	Eliminations	Consolidated
Liabilities and Net Assets					
Current Liabilities					
Accounts payable	$ 67,692	$ 2,660	$ -	$ -	$ 70,352
Accrued salaries and related benefits	56,364	15,992	-	-	72,356
Current portion of long-term debt	11,880	-	-	-	11,880
Current portion of finance lease obligation	643	-	-	-	643
Current portion of operating lease liability	816	6,150	-	-	6,966
Other accrued expenses	70,803	16,786	515	-	88,104
Accrued bond interest payable	6,533	-	-	-	6,533
Total current liabilities	214,731	41,588	515	-	256,834
Operating Lease Noncurrent Portion	1,537	91,256	-	-	92,793
Long-Term Debt, Noncurrent Portion	321,382	-	-	-	321,382
Finance Lease, Noncurrent Portion	57,610	-	-	-	57,610
Estimated Professional Liability	36,445	-	-	-	36,445
Amounts Due to Third-Party Payors and Other Liabilities	78,876	10,065	-	-	88,941
Total liabilities	710,581	142,909	515	-	854,005
Net Assets					
Without donor restrictions	1,625,203	22,712	25,714	-	1,673,629
With donor restrictions	6,776	2,604	-	-	9,380
Total net assets	1,631,979	25,316	25,714	-	1,683,009
Total liabilities and net assets	$ 2,342,560	$ 168,225	$ 26,229	$ -	$ 2,537,014

The Valley Hospital

Consolidating Statement of Operations and Changes in Net Assets
Year Ended December 31, 2023
(In Thousands)

	Valley Hospital	Valley Medical Group	Real Estate Acquisition Companies	Eliminations	Consolidated
Changes in Net Assets Without Donor Restrictions					
Net patient service revenues	$ 998,315	$ 175,543	$ -	$ -	$ 1,173,858
COVID-19 funding grant revenues	23,354	6,182	-	-	29,536
Other revenues	39,460	42,232	3,831	(36,910)	48,613
Total operating revenues	1,061,129	223,957	3,831	(36,910)	1,252,007
Expenses					
Salaries and wages	326,072	187,975	-	-	514,047
Employee benefits	69,209	28,388	-	-	97,597
Medical fees	37,532	-	-	(36,910)	622
Other expenses	356,318	92,097	3,601	-	452,016
Interest expense	3,241	-	-	-	3,241
Depreciation	47,577	-	-	-	47,577
Total operating expenses	839,949	308,460	3,601	(36,910)	1,115,100
Operating income (loss) before other items and special projects	221,180	(84,503)	230	-	136,907
Other Items and Special Projects	(35,299)	-	(1,271)		(36,570)
Operating income (loss)	185,881	(84,503)	(1,041)	-	100,337
Other Income (Loss)					
Nonoperating gains and losses	6,950	-	-	-	6,950
Change in unrealized gains and losses on investments	73,522	-	-	-	73,522
Revenues in excess of (less than) expenses	266,353	(84,503)	(1,041)	-	180,809
Other Changes in Net Assets Without Donor Restrictions					
Net changes in assets held by related organization and net assets transfers to/from affiliated entities	(77,953)	98,977	(1,250)	-	19,774
Total other changes in net assets without donor restrictions	(77,953)	98,977	(1,250)	-	19,774
Increase (decrease) in net assets without donor restrictions	188,400	14,474	(2,291)	-	200,583
Cancellation of 599 Paramus Acquisition, LLC	8,355	-	(8,355)	-	-
Increase (decrease) in net assets without donor restrictions	196,755	14,474	(10,646)	-	200,583
Changes in Net Assets With Donor Restrictions					
Net assets released from restriction for operating purposes	53	(523)	-	-	(470)
Increase (decrease) in net assets with donor restrictions	53	(523)	-	-	(470)
Increase (decrease) in net assets	196,808	13,951	(10,646)	-	200,113
Net Assets, Beginning	1,435,171	11,365	36,360	-	1,482,896
Net Assets, Ending	$ 1,631,979	$ 25,316	$ 25,714	$ -	$ 1,683,009