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The Valley Hospital

Consolidated Financial Statements
and Supplementary Information

December 31, 2020 and 2019

Independent Auditors' Report

To the Board of Trustees of
The Valley Hospital

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of The Valley Hospital and affiliated companies (collectively, the Organization), which comprise the consolidated balance sheets as of December 31, 2020 and 2019, 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.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We did not audit the financial statements of Valley Medical Group, for which The Valley Hospital is the sole member, which statements reflect total assets of $146.9 million and $128.7 million as of December 31, 2020 and 2019, respectively, and total revenues of $164.2 million and $170.3 million for the years then ended. Those statements were audited by other auditors, whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for Valley Medical Group, is based solely on the reports of the other auditors. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, based on our audits and the reports of the other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of December 31, 2020 and 2019, and the results of its operations, changes in net assets and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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, 2020 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
March 26, 2021

The Valley Hospital

Consolidated Balance Sheets
December 31, 2020 and 2019
(In Thousands)

Assets	2020	2019
Current Assets		
Cash and cash equivalents	$ 20,062	$ 19,497
Assets whose use is limited, current	19,251	12,747
Accounts receivable	95,435	90,379
Prepaid expenses	8,379	5,606
Supplies and other current assets	22,719	11,474
Total current assets	165,846	139,703
Assets Whose Use is Limited		
Board designated	977,282	758,577
Trustee-held funds	314,308	381,323
Donor restricted investments	6,666	6,580
	1,298,256	1,146,480
Property and Equipment, Net	520,353	431,690
Finance Lease Right-of-Use Asset	53,966	56,313
Operating Lease Right-of-Use Asset	88,001	73,116
Other Assets	71,337	74,025
Prepaid Pension Asset	-	10,838
Assets Held by Related Organization	46,752	51,874
Total assets	$ 2,244,511	$ 1,984,039

Liabilities and Net Assets	2020	2019
Current Liabilities		
Accounts payable	$ 41,696	$ 42,663
Medicare advance payments	45,150	-
Accrued salaries and related benefits	58,357	58,105
Current portion of long-term debt	11,885	11,880
Current portion of finance lease obligation	290	188
Current portion of operating lease liability	7,847	8,561
Other accrued expenses	54,602	49,727
Accrued bond interest payable	7,366	867
Total current liabilities	227,193	171,991
Medicare Advance Payments, Noncurrent Portion	65,496	-
Operating Lease Liability, Noncurrent Portion	81,868	65,622
Long-Term Debt, Noncurrent Portion	372,041	387,742
Finance Lease, Noncurrent Portion	59,167	59,457
Estimated Professional Liability	32,147	32,300
Amounts Due to Third-Party Payors and Other Liabilities	70,695	68,579
Total liabilities	908,607	785,691
Net Assets		
Without donor restrictions	1,325,240	1,186,916
With donor restrictions	10,664	11,432
Total net assets	1,335,904	1,198,348
Total liabilities and net assets	$ 2,244,511	$ 1,984,039

See notes to consolidated financial statements

The Valley Hospital

Consolidated Statements of Operations and Changes in Net Assets
Years Ended December 31, 2020 and 2019
(In Thousands)

	2020	2019
Changes in Net Assets Without Donor Restrictions		
Net patient service revenues	$ 875,519	$ 950,074
COVID-19 funding grant revenues	77,516	-
Other revenues	20,239	23,131
Total operating revenues	973,274	973,205
Expenses		
Salaries and wages	417,606	418,595
Employee benefits	78,822	79,438
Medical fees	1,370	801
Other expenses	324,499	329,291
Interest expense	3,774	3,371
Depreciation	49,840	50,088
Total operating expenses	875,911	881,584
Operating income before other items and special projects	97,363	91,621
Other Items and Special Projects	(15,707)	(2,076)
Operating income	$ 81,656	$ 89,545

See notes to consolidated financial statements

The Valley Hospital

Consolidated Statements of Operations and Changes in Net Assets
Years Ended December 31, 2020 and 2019
(In Thousands)

	2020	2019
Other Income (Loss)		
Income from operations	$ 81,656	$ 89,545
Investment income	32,473	14,016
Change in unrealized gains on investments	8,200	39,986
Pension costs	(77,971)	(4,436)
Revenues in excess of expenses	44,358	139,111
Other Changes in Net Assets Without Donor Restrictions		
Change in prepaid pension asset/accrued pension liability to be recognized in future periods	81,344	(6,809)
Net changes in assets held by related organization and net assets transfers to/from affiliated entities	12,622	70,223
Total other changes in net assets without donor restrictions	93,966	63,414
Cumulative Effect of Change in Accounting Principle	-	14,491
Increase in net assets without donor restrictions	138,324	217,016
Changes in Net Assets With Donor Restrictions		
Decrease in assets with donor restrictions	(768)	(1,118)
Increase in net assets	137,556	215,898
Net Assets, Beginning	1,198,348	982,450
Net Assets, Ending	$ 1,335,904	$ 1,198,348

See notes to consolidated financial statements

The Valley Hospital

Consolidated Statements of Cash Flows
Years Ended December 31, 2020 and 2019
(In Thousands)

	2020	2019
Cash Flows From Operating Activities		
Increase in net assets	$ 137,556	$ 215,898
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation	54,424	54,627
Finance lease right-to-use asset amortization	2,347	-
Operating lease right-to-use asset amortization	10,840	1,067
Amortization of bond premium, bond discount and deferred financing costs	(3,816)	-
Change in assets held by related organization	5,122	12,942
Change in prepaid pension asset/accrued pension liability to be recognized in future periods	(81,344)	6,809
Net realized (gains) losses on investments	(14,619)	553
Change in unrealized (gains) on investments	(8,200)	(39,986)
Transfers to/from affiliated entities	(17,744)	(83,165)
Changes in assets and liabilities:		
Accounts receivable	(5,056)	(9,990)
Prepaid expenses, supplies and other current assets	(14,018)	(2,909)
Other assets	2,688	1,079
Accounts payable and other current liabilities	10,659	39,519
Pension asset/liability	92,182	4,436
Medicare advance payments	110,646	-
Operating lease liabilities	(10,193)	-
Estimated professional liability	(153)	(148)
Amounts due to third-party payors and other liabilities	2,116	(11,174)
Net cash provided by operating activities	273,437	189,558
Cash Flows From Investing Activities		
Purchase of property and equipment	(143,087)	(88,640)
Net purchases of assets whose use is limited	(195,972)	(177,807)
Net cash used in investing activities	(339,059)	(266,447)
Cash Flows From Financing Activities		
Issuance of long-term debt	-	400,728
Cost of issuance	-	(854)
Transfers to/from affiliated entities	17,744	83,165
Principal payments on long-term debt	(11,880)	-
Principal payments on capital lease obligation	(188)	(94)
Net cash provided by financing activities	5,676	482,945
(Decrease) increase in cash and cash equivalents and restricted cash	(59,946)	406,056
Cash and Cash Equivalents and Restricted Cash, Beginning	413,567	7,511
Cash and Cash Equivalents and Restricted Cash, Ending	$ 353,621	$ 413,567
Supplemental Schedule of Noncash Investing and Financing Activities		
Right-of-use assets obtained in exchange for lease obligations	$ 25,725	$ 73,116
Reconciliation of Cash and Restricted Cash to Balance Sheets		
Cash and cash equivalents, operations	$ 20,062	$ 19,497
Assets whose use is limited, current	19,251	12,747
Trustee-held funds	314,308	381,323
	$ 353,621	$ 413,567

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 2020 and 2019 consolidated financial statements.

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

Principles of Consolidation

As of December 31, 2020 and 2019 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. 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, equity securities, equity mutual funds, U.S. government obligations and government secured obligations, corporate bonds and alternative investments. All investments, except for alternative investments are reported at fair value. All pension assets were liquidated in connection with the pension plan termination. See note 10.

For the defined benefit pension plan, the fair value of the alternative investments and was determined for each investment based upon net asset values as a practical expedient for fair value. Financial information used to evaluate the alternative investments was provided by the investment manager or general partner and included fair value valuations (quoted market prices and values determined through other means) of underlying securities and other financial instruments held by the investee and estimates that require varying degrees of judgment.

Alternative investments (nontraditional, not readily marketable securities) consist of event-driven funds, multi-strategy hedge funds, emerging market debt funds and global hedge funds. Alternative investment interests generally are structured such that the noncontributory, defined benefit pension plan (the Plan) holds a limited partnership interest or an interest in an investment management company. The Plan's ownership structure does not provide for control over the related investees and the Plan's financial risk is limited to the carrying amount reported for each investee, in addition to any unfunded capital commitment.

Individual investment holdings within the alternative investments include nonmarketable and market-traded debt and equity securities and interests in other alternative investments. The Plan may be exposed indirectly to securities lending, short sales of securities and trading in futures and forward contracts, options and other derivative products. Alternative investments often have liquidity restrictions under which the Plan's capital may be divested only at specified times. Liquidity restrictions may apply to all or portions of a particular invested amount.

There is uncertainty in determining fair values of alternative investments arising from factors such as lack of active markets (primary and secondary), lack of transparency into underlying holdings, time lags associated with reporting by the investee companies and the subjective evaluation of liquidity restrictions. As a result, the estimated fair values reported might differ from the values that would have been used had a ready market for the alternative investment interests existed and there is at least a reasonable possibility that estimates will change.

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.

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 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.

Supplies

Supplies are carried at the lower of cost (first-in, first-out method) or net realizable value. Supplies totaling approximately $13.1 million and $8.1 million are included in supplies and other current assets in the consolidated balance sheets at December 31, 2020 and 2019, 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 2020 or 2019.

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, 2020 and 2019, amounts on deposit with trustees were equal to liabilities under the plans and aggregated $20.2 million and $20.8 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, 2020 and 2019, the Organization recorded investment income related to deferred compensation assets of $1.9 million and $4.1 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, 2020 and 2019, there is an insurance asset of $21.9 million and $21.3 million, respectively, which is included in other assets. Related benefit liabilities and expense of $7.2 million in 2020 and $6.5 million in 2019 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. The System, Hospital and VMG are co-borrowers on a $1.25 million irrevocable standby letter of credit with a bank for self-insured workers' compensation coverage. The letter of credit expires on March 31, 2022 and is automatically extended.

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.

Reclassifications

Certain reclassifications have been made to the prior period to confirm with current reporting.

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) and net periodic pension cost.

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 pension liability adjustment, 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, 2020 and 2019 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 2020 or 2019.

Subsequent Events

The Organization has evaluated the impact of subsequent events through March 26, 2021, representing the date at which the consolidated financial statements were issued.

New Accounting Pronouncement, Cloud Computing

In August 2018, , the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2018-15 *Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That is a Service Contract*. This standard requires implementation costs related to a cloud computing arrangement (CCA) will be (1) deferred or (2) expensed as incurred, in accordance with the existing internal-use software guidance for similar costs. The ASU requires companies to recognize the implementation costs as expense over the noncancellable term of the CCA plus any optional renewal periods (1) that are reasonably certain to be exercised by the customer or (2) for which exercise of the renewal option is controlled by the cloud service provider. The balance sheet, income statement and cash flow presentation for deferred implementation costs will be consistent with the subscription fees associated with the CCA. The Organization adopted ASU 2018-15 during 2020 with no material impact to the accompanying consolidated financial statements.

New Accounting Pronouncement, Reference Rate Reform

In March 2020, FASB issued ASU No. 2020-04, *Reference Rate Reform (Topic 848).* This is an elective ASU and applies to entities that have contracts, hedging relationships and other transactions that reference LIBOR. Provisions permits optional expedients and exceptions for applying GAAP to contract modifications and hedging relationships. This is an elective ASU applicable for a limited time through December 31, 2022. The Organization has not yet made this election or determined the impact of the election of ASU No. 2020-04 on its consolidated financial statements.

2. Liquidity and Availability

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

	2020	2019
Financial assets at year-end:		
Cash and cash equivalents	$ 20,062	$ 19,497
Accounts receivable	95,435	90,379
Board designated investments	977,282	758,577
Total financial assets	$ 1,092,779	$ 868,453

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.

The Organization maintains a $150 million line of credit, as discussed in more detail in Note 19. As of December 31, 2020, $150 million remained available on the Organization's line of credit.

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 $17.6 million and $22.6 million for the years ended December 31, 2020 and 2019, respectively. Total charity care costs were approximately $4.7 million and $5.5 million for the years ended December 31, 2020 and 2019, 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 $0.3 million and $0.4 million for the years ended December 31, 2020 and 2019, respectively, 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 ASC 958-605 guidance for conditional contributions, and accordingly, revenues are recognized when conditions 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.

In March 2020, the Coronavirus Aid, Relief and Economic Security (CARES) Act was signed into law to combat the financial effects of COVID-19. The CARES Act created a Provider Relief Fund (PRF) to provide financial support for hospitals and other healthcare providers. The Organization received $77.5 million in 2020 related to this funding. In accordance with the terms and conditions, the Organization can apply the PRF funding against lost revenues and eligible expenses. Noncompliance with the terms and conditions could result in repayment of some or all of the support. The Department of Health and Human Services (HHS) has indicated Relief Fund payments are subject to future reporting and audit requirements.

HHS released reporting guidance in accordance with the Coronavirus Response and Relief Supplemental Appropriations Act of 2021, which was signed into law on December 27, 2020, that measures lost revenues as either (1) the difference between 2019 and 2020 calendar year actual patient care revenues or (2) the difference between 2020 budgeted and 2020 actual patient care revenues. If recipients elect to use 2020 budgeted patient care revenues to calculate lost revenues, they must use a budget that was established and approved prior to March 27, 2020.

The Organization has incurred lost revenues and eligible expenses in accordance with the terms and conditions of the PRF as of December 31, 2020 of $77.5 million, which were recognized and included in COVID-19 grant revenues in the accompanying consolidating statements of operations and changes in net assets.

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, of which $45.1 million is included in current liabilities and $65.5 million is included in noncurrent liabilities in the accompanying consolidating balance sheets. 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 begin, the Organization will continue to submit Medicare claims but a portion of those new claims will be offset to repay the Organization's loan. The repayment terms are 25 percent of claims made during the first 11 months of repayment and 50 percent of claims made during the next 6 months of repayment. Providers are required to have paid back the loans in full 29 months after the first payment is made. If any money remains unpaid at that time, an interest rate of 4 percent will accrue on the unpaid balance.

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:

	2020	2019
Medicare	$ 227,960	$ 258,767
Horizon	182,240	189,715
United/Oxford	151,046	166,373
Self-pay/charity	10,304	11,828
Other	303,969	323,391
Total	$ 875,519	$ 950,074

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

	2020	2019
Hospital	$ 739,631	$ 801,025
Physicians practice	135,888	149,049
Total	$ 875,519	$ 950,074

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 2015 at December 31, 2020. 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 2018 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 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. For the year ended December 31, 2020, net patient service revenues on the consolidated statements of operations and changes in net assets include favorable transaction price adjustments in the amount of $.3 million related to successful settlements and favorable changes to estimated third-party payor settlement estimates. For the year ended December 31, 2019, the Organization recorded an increase of approximately $14.5 million to net assets on the consolidated statements of operations and changes in net assets related to the adoption of ASU No. 2014-09, *Revenue From Contracts With Customers (Topic 606)* as a cumulative effect of change in accounting principle.

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 revenue in the period of the change. For the year ended December 31, 2020, 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):

	2020	2019
Cash and cash equivalents	$ 361,692	$ 406,753
Equity securities	12,060	3,283
Equity mutual funds	97,640	83,731
U.S. government obligations and government secured obligations	519,733	376,755
Corporate bonds	322,337	285,018
Alternative investments	-	115
	1,313,462	1,155,655
Accrued interest receivable	4,045	3,572
Total	1,317,507	1,159,227
Less assets whose use is limited, current	19,251	12,747
Assets whose use is limited, noncurrent portion	$ 1,298,256	$ 1,146,480

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, 2020 and 2019, the change in net unrealized gains and losses was approximately $8.2 million and $40.0 million, respectively.

Investment income consists of the following (in thousands):

	2020	2019
Interest and dividend income	$ 17,854	$ 14,569
Realized gains (losses) on sales of securities	14,619	(553)
Total investment income	$ 32,473	$ 14,016

7. Property and Equipment

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

	2020	2019
Land	$ 92,963	$ 92,598
Land improvements	16,881	16,643
Building	543,279	518,487
Equipment and furnishings	533,503	513,773
	1,186,626	1,141,501
Less accumulated depreciation	839,922	781,532
	346,704	359,969
Construction in progress	173,649	71,721
Property and equipment, net	$ 520,353	$ 431,690

Depreciation expense for the years ended December 31, 2020 and 2019 totaled $55.0 million and $54.4 million, respectively. Included in these amounts are $4.6 million and $4.3 million in 2020 and 2019, 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, 2020, the Organization had commitments outstanding of approximately $464.2 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):

	2020	2019
Health care services	$ 1,601	$ 1,566
VMG services	3,998	4,852
Health education	636	585
Endowment funds	4,429	4,429
Total	$ 10,664	$ 11,432

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):

	2020	2019
Valley Health System, Inc.	$ (7,837)	$ (6,167)
Valley Hospital Foundation, Inc.	988	1,114
Total	$ (6,849)	$ (5,053)

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):

	2020	2019
Transfer from Valley Home Care	$ -	$ 30,211
Transfer from Foundation	-	29,512
Transfer to VHSIC	-	(3,055)
Contributions from Foundation	16,580	5,015
Change in assets held by related organization	(5,122)	8,664
Transfer from Hospital to VMG	(78,420)	(78,306)
VMG net transfers	79,484	79,182
Transfer from Valley Health System	100	-
Acquisition companies net transfers	-	(1,000)
Total	$ 12,622	$ 70,223

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, 2020 and 2019, the Organization reported approximately $16.6 million and $5.0 million, respectively, of contributions received from the Foundation which include both equipment reimbursements and other funds without donor restrictions. The Hospital and VMG reported $46.8 million and $51.9 million at December 31, 2020 and 2019, 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 $(4.3) million and $8.7 million for the years ended December 31, 2020 and 2019, respectively. For the year ended December 31, 2019, transfers from Valley Home Care of $30.2 million and from the Foundation of $29.5 million were related to the completion of financing (Series 2019) with the New Jersey Health Care Facilities Financing Authority (see Note 18).

Effective January 1, 2017, certain administrative department cost centers were transferred to The Valley Health System. For the years ended December 31, 2020 and 2019, total costs, consisting of salaries and operating expenses, of $77.8 million and $74.7 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

Defined Benefit Plan

The Organization maintained a defined benefit plan covering employees of the Hospital and VMG. The benefits were based on years of service and final average earnings. The Organization's funding policy was based on contribution levels recommended by consulting actuaries considering Employee Retirement Income Security Act of 1974 (ERISA) regulations.

The Plan was amended effective April 1, 2004 to provide that no employee who first completes an hour of service after such date shall be eligible to participate in the Plan. The Plan was further amended on December 31, 2010 to provide that no participant shall accrue any additional benefits after December 31, 2010 and that a participant's accrued benefit determined as of December 31, 2010 shall not increase thereafter.

On May 13, 2019, the Board of Trustees resolved its intent to terminate the defined benefit plan. The Pension Plan termination was effective June 30, 2019 and any active participants with nonvested benefits accrued in the Plan became fully vested as of such date. As a result of the decision to terminate the Plan, the benefit obligation for the fiscal year ended December 31, 2019 assumed that 70 percent of active and terminated vested participants would elect a lump sum distribution at the plan termination distributions date, and that annuities would be purchased for the remaining plan participants. The benefit obligation in 2019 was adjusted for this pending termination.

The Pension Plan received a favorable determination letter, dated February 4, 2020, from the Internal Revenue Service (IRS). The pension liability was settled in either a lump sum payment or a purchased annuity. There was a final Pension Plan termination lump sum opportunity offered to the 1,500 active and terminated vested participants. Lump sum payments totaling approximately $174.8 million were distributed during 2020 to about 1,100 participants who elected to receive an immediate distribution as part of the plan termination lump sum window. Benefits for the remaining plan population were transferred to Pacific Life Insurance Company for an annuity purchase premium of $110.6 million, which was paid in July 2020. A settlement was recorded in 2020 by the Organization for the lump sum payments and annuity purchase premium. On December 31, 2020, assets in excess of those used to settle pension benefits were withdrawn from the plan. The amount withdrawn was $14.5 million.

The following table provides a reconciliation of the changes in the projected benefit obligation and fair value of the plan assets and a statement of the funded status of the Plan (in thousands):

	2020	2019
Change in benefit obligation:		
Benefit obligation, beginning of year	$ 281,018	$ 240,132
Interest cost	3,418	9,548
Actuarial loss	2,997	48,682
Benefits paid	(2,055)	(2,391)
Settlements	(285,378)	(14,953)
Benefit obligation, end of year	-	281,018
Change in plan assets:		
Fair value of plan assets, beginning of year	291,856	262,215
Actual return on plan assets	10,092	46,985
Employer contribution / asset reversion	(14,515)	-
Benefits paid (annuity)	(2,055)	(2,391)
Benefits paid (lump sum)	(285,378)	(14,953)
Fair value of plan assets, end of year	-	291,856
Funded status	$ -	$ 10,838

	2020	2019
Amounts recognized in accumulated net assets without donor restrictions consist of:		
Net actuarial gain	$ -	$ 80,467
Prior service cost	-	877
Total	$ -	$ 81,344

At December 31, 2020 and 2019, the funded status of the Plan is reported in the consolidated balance sheets as a noncurrent asset. The accumulated benefit obligation for the Organization's Plan totaled approximately $0 and $281.0 million at December 31, 2020 and 2019, respectively.

The discount rate used in determining the Plan's projected benefit obligation was 2.5 percent at December 31, 2019.

Net periodic pension costs (benefit) are comprised of the following (in thousands):

	2020	2019
Interest cost	$ 3,418	$ 9,548
Expected return on assets	(4,620)	(15,300)
Recognized actuarial loss	3,213	5,650
Amortization of prior service cost	128	256
Total	$ 2,139	$ 154

In addition, there were pension settlement costs of $75.1 million and $4.3 million for the years ended December 31, 2020 and 2019, which is included in other income (loss) in the consolidated statements of operations and changes in net assets, in accordance with the adoption of ASU No. 2017-07, *Compensation - Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost.* The total pension cost was $78.0 million and $4.4 million for the years ended December 31, 2020 and 2019, respectively.

Weighted-average assumptions used in determining the net periodic pension cost were as follows:

	2020	2019
Discount rate	2.50 %	4.10 %
Expected long-term rate of return on market-related plan assets	3.25	6.00

The Organization's Plan weighted-average asset allocations by asset category were as follows:

	Plan Assets at December 31, 2019	
Asset Category	2019	Target Allocation
Equity securities	12 %	0 - 15 %
Fixed income	87	85 - 100
Other	1	0 - 10
Alternative investments	-	0
	100 %	

Plan assets were invested in a trust. The investment committee of the Board of Trustees established the target asset mix and monitored asset performance. The Organization's determination of the expected long-term rate of return on assets was based on a building block approach. First, the underlying inflation rate was determined, then the expected real rate of return of stocks and bonds was determined based on their allocation percentages within the trust.

The assets of the Plan were managed in accordance with ERISA. Plan assets were measured at fair value and consisted of cash and cash equivalents, collective investment funds and alternative investments. Cash and cash equivalents and collective funds were reported at fair value in accordance with the policies discussed in Note 1. Collective investment funds underlying securities primarily consisted of equity and fixed income securities. Refer to Note 13 for fair value measurement information related to the Plan asset categories noted above.

401(k) Retirement Savings Plan

In April 2004, the Organization introduced a 401(k) Retirement Savings Plan. The Organization no longer offered the defined benefit plan to employees hired after April 1, 2004. Participants of the defined benefit plan had the option to continue with the defined benefit plan, or begin to earn benefits in the new 401(k) plan effective April 1, 2004 with full credit for benefits earned through the defined benefit plan as of March 31, 2004.

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 percent to 25 percent of their salary on a pretax basis, not to exceed the IRS limitation of $19,500 and $19,000 in 2020 and 2019, respectively. All employee pretax contributions are 100 percent vested. Prior to January 1, 2010, the Organization contributed 2 percent of the employee's base compensation and it matched up to 2 percent 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 percent to 6 percent based on points. Additionally, the Organization will match 100 percent of the first 3.5 percent 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 percent and 4 percent. Additionally, the Organization will match 100 percent of the first 1 percent employee contribution and 50 percent of the next 5 percent employee contribution on top of the basic contribution. The Organization contributed $13.2 and $13.5 million to the 401(k) Retirement Savings Plan in 2020 and 2019, 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:

	2020	2019
Blue Cross	18 %	20 %
Medicare and Medicaid	24	20
Commercial	8	8
United/Oxford	15	15
Managed care	22	21
Self-pay	13	16
	100 %	100 %

12. Other Items and Special Projects

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

	2020	2019
Offsite properties	$ (7,920)	$ (6,970)
Strategic initiatives and other nonrecurring items	(7,787)	4,894
Total	$ (15,707)	$ (2,076)

For the year ended December 31, 2019, legal expenses of approximately $25 million were recorded to strategic initiatives and other nonrecurring items. The amount relates to a reserve for a judgment against the Organization in a matter where alleging breach of the implied covenant of good faith and fair dealing. The Organization is in the process of filing an appeal.

During 2019, the VHSIC Board of Directors approved approximately $41 million premium credit to the Organization and is included in strategic initiatives and other nonrecurring items. The assets are included in the Board designated assets whose use is limited.

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, deferred compensation assets, and defined benefit plan assets (2019 only) carried at fair value as of December 31, 2020 and 2019 are classified in the tables below in one of the three categories described above (in thousands):

	2020			
	Level 1	**Level 2**	**Level 3**	**Total**
Equity securities	$ 12,060	$ -	$ -	$ 12,060
Fixed income:				
Mortgage backed securities	-	2,048	-	2,048
U.S. Treasuries	517,685	-	-	517,685
Corporate bonds	-	277,076	-	277,076
Loomis Sayles Mutual Fund	45,261	-	-	45,261
Equity mutual funds:				
Deferred Comp Mutual Funds	20,221	-	-	20,221
MSCI ACWI	-	28,328	-	28,328
Equity Index Fund	-	48,238	-	48,238
Russell 200 Index Fund	-	21,074	-	21,074
Total assets in the fair value hierarchy	$ 595,227	$ 376,764	$ -	971,991
Cash and cash equivalents				361,692
Assets at fair value				$ 1,333,683

The table above includes $20,221 of deferred compensation mutual funds as of December 31, 2020 which are recorded to other assets on the consolidated balances sheets. The table above does not include $4,045 of accrued investment income which is included in assets whose use is limited on the consolidated balance sheets.

	2019			
	Level 1	**Level 2**	**Level 3**	**Total**
Equity securities	$ 3,283	$ -	$ -	$ 3,283
Fixed income:				
Mortgage backed securities	-	3,109	-	3,109
U.S. Treasuries	373,646	-	-	373,646
Corporate bonds	-	242,068	-	242,068
Loomis Sayles Mutual Fund	42,950	-	-	42,950
Equity mutual funds:				
Deferred Comp Mutual Funds	20,558	-	-	20,558
MSCI ACWI	-	24,517	-	24,517
Equity Index Fund	-	43,022	-	43,022
Russell 200 Index Fund	-	16,192	-	16,192
Total assets in the fair value hierarchy	$ 440,437	$ 328,908	$ -	769,345
Cash and cash equivalents				408,635
Assets recorded at net asset value				290,322
Assets at fair value				$ 1,468,302

The table above includes $20,558 of deferred compensation mutual funds as of December 31, 2019 which are recorded to other assets on the consolidated balances sheets. The table above also includes $291,856 of pension plan assets which is disclosed in Note 10 and part of prepaid pension asset on the consolidated balance sheets. The table above does not include $3,339 of accrued investment income which is included in assets whose use is limited on the consolidated balance sheets.

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, 2020 and 2019.

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.

Investments in the accompanying consolidated balance sheets and defined benefit plan assets include $290 million of common collective trusts (CCTs), hedge funds and other alternative investments funds (the Funds) at December 31, 2019. The Funds are measured using the net asset value per share as a practical expedient. The Funds are generally structured such that the Organization holds a limited partnership interest or an interest in an investment management company. The Organization's ownership structure does not provide for control over the related investees, and the Organization's financial risk is limited to the carrying amount reported for each investee, in addition to any unfunded capital commitment. The Organization may be exposed indirectly to securities lending, short sales of securities and trading in futures and forward contracts, options and other derivative products. The Organization has no plans to sell the Funds or a portion of the amounts currently owned. Financial information used by the Organization to evaluate the Funds are provided by the investment manager or general partner, and includes fair value valuations of underlying securities and other financial instruments held by the investee, and estimates that require varying degrees of judgment. The financial statements of the Funds are audited annually by independent auditors, although the timing of reporting the results of the audits does not coincide with the Organization's annual consolidated financial statement reporting. There is uncertainty in the accounting for the Funds arising from factors such as a lack of active markets, lack of transparency in underlying holdings and time lags associated with reporting by the investee companies. As a result, there is at least a reasonable possibility that estimates of fair value will change in the near term. The following represents each of the fund's objectives and redemption restrictions:

State Street Bank and Trust Company SSgA U.S. Aggregate Bond Index Non-Lending Fund: The investment objective of the Fund is to approximate as closely as practicable, before expenses, the performance of the Barclays U.S. Aggregate Bond Index over the long term. The Fund attempts to achieve its investment objective by investing in other collective investment funds (each an underlying fund), managed by the Trustee, which have characteristics consistent with the Fund's overall investment objective. In order to redeem the investment in this Fund, the Organization has to provide 30 days written notice. There were no unfunded commitments related to this fund at December 31, 2019. The fund was sold during 2020.

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, 2020 and 2019.

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, 2020 and 2019.

Blackrock Russell 2000 Index Non-Lendable 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, 2020 and 2019.

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.

As a not-for-profit corporation in New Jersey, the Hospital is an organization which has historically qualified for an exemption from real property taxes; however, a number of cities and municipalities in New Jersey have challenged such exemptions. As a result of these challenges, in February 2021, New Jersey passed a law requiring nonprofit hospitals to pay the municipality where they are located 3 dollars per day for each hospital bed and 300 dollars per day for each satellite emergency care facility, based on the prior year's tally of beds and facilities. Fees would rise 2.0 percent annually to cover inflationary costs.

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 million at December 31, 2020 and 2019 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.

Effective March 20, 2003, the Organization became insured for its malpractice and general liability claims under a policy from VHS Insurance Company, LTD (VHSIC). Under this policy, the Organization is insured for professional liability up to $3.0 million for each incident and with $12.0 million annual aggregate, with an interstitial layer of $2m/$2m excess of $3m/$12m. The Organization funds VHSIC for the projected cost of future professional liabilities. Suggested funding levels are actuarially determined based on experience to date of VHSIC and a projected investment return. In accordance with GAAP, VHSIC is required to apply deposit accounting based upon VHSIC (insurer) not providing indemnification of the Organization (insured) against loss or liability.

The actuarially determined undiscounted professional and general liabilities aggregated approximately $32.1 million and $32.3 million at December 31, 2020 and 2019, respectively (includes approximately $6.2 million and $5.8 million at December 31, 2020 and 2019, 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, 2020 and 2019, approximately $27.3 million and $29.2 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):

	2020	2019
Patient convenience	$ 434	$ 654
Valley Health Pharmacy	5,269	3,535
Food services	1,531	2,187
Purchase discounts and rebates	3,170	3,494
Investment (loss) income	2,486	4,738
Charity care subsidy	339	369
Acquisition companies rent	3,693	3,737
Other	3,317	4,417
Total	$ 20,239	$ 23,131

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 $11.0 million and $12.0 million for the years ended December 31, 2020 and 2019, respectively. The Organization had a current lease liability of $7.8 million and $8.6 million at December 31, 2020 and 2019, respectively, and a noncurrent lease liability of $81.8 million and $65.6 million at December 31, 2020 and 2019, 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 1.74 percent to 6.50 percent depending on the length of the lease term. Additional information with respect to the Organization's operating leases as of December 31, 2020 and 2019 is presented below.

	Weighted Average Remaining Lease Term in Years	
	2020	2019
Hospital	.49	1.37
VMG	16.38	14.76

The following table presents information about the amount and timing of cash flows arising from operating leases as of December 31, 2020 (in thousands):

2021	$ 9,808
2022	9,065
2023	8,105
2024	6,326
2025	5,881
Thereafter	69,659
Total lease payments	108,844
Less interest	(19,129)
Present value of lease liabilities	$ 89,715

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 $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, 2020 (in thousands):

2021	$ 3,424
2022	3,518
2023	3,615
2024	3,714
2025	3,816
Thereafter	93,552
Total minimum lease payments	111,639
Less amount representing interest at 6%	(52,182)
Present value of net minimum lease payments	$ 59,457

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 372 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 percent for the 2020 maturity to 2.56 percent 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 percent and for the term bond maturing in 2049, a yield to call of 3.15 percent

The overall interest cost for the bond issue is 2.93 percent.

A summary of long-term debt is as follows as of December 31, 2020 and 2019 (in thousands):

	2020	2019
Hospital revenue bonds financed with the NJHCFFA, Series 2019	$ 344,530	$ 356,410
Net original issue premium	46,027	46,027
Less current portion	(11,885)	(11,880)
Less unamortized underwriter discount	(1,592)	(1,703)
Less accumulated amortization of bond premium	(4,235)	(261)
Less unamortized bond issuance costs	(804)	(851)
Long-term debt	$ 372,041	$ 387,742

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

2021	$ 11,885
2022	11,885
2023	11,880
2024	11,880
2025	11,880
Aggregate thereafter	285,120
	$ 344,530

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

19. Line of Credit

The Hospital has a line of credit agreement with TD Bank, N.A. for $150 million. Amounts advanced under this line of credit are due on demand and interest is charged at the LIBOR plus 140 basis points. There is an undrawn fee on the line of credit of .11 percent per annum. There were no borrowings at December 31, 2020. The line of credit expires on April 25, 2021.

20. Functional Expenses

The 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:

	2020		
	Total	**Program**	**Administrative**
Salaries and wages	$ 417,606	$ 363,852	$ 53,754
Employee benefits	78,822	66,937	11,885
Medical fees	1,370	1,370	-
Other expenses	324,499	262,480	62,019
Depreciation	49,840	36,383	13,457
Interest	3,774	3,774	-
Total	$ 875,911	$ 734,796	$ 141,115

	2019		
	Total	**Program**	**Administrative**
Salaries and wages	$ 418,595	$ 359,029	$ 59,566
Employee benefits	79,438	70,135	9,303
Medical fees	801	801	-
Other expenses	329,291	265,426	63,865
Depreciation	50,088	36,063	14,025
Interest	3,371	3,371	-
Total	$ 881,584	$ 734,825	$ 146,759

The Valley Hospital

Consolidating Balance Sheet
December 31, 2020
(In Thousands)

	Valley Hospital	Valley Medical Group	Acquisition Companies	Eliminations	Consolidated
Assets					
Current Assets					
Cash and cash equivalents	$ 12,760	$ 4,390	$ 2,912	$ -	$ 20,062
Assets whose use is limited, current	19,251	-	-	-	19,251
Accounts receivable	82,285	13,150	-	-	95,435
Prepaid expenses	7,367	1,012	-	-	8,379
Supplies and other current assets	21,443	9,783	-	(8,507)	22,719
Total current assets	143,106	28,335	2,912	(8,507)	165,846
Assets Whose Use is Limited					
Board designated	977,282	-	-	-	977,282
Trustee-held funds	314,308	-	-	-	314,308
Donor restricted investments	6,666	-	-	-	6,666
	1,298,256	-	-	-	1,298,256
Property and Equipment, Net	454,020	26,016	40,317	-	520,353
Finance Lease Right-of-Use Asset	53,966	-	-	-	53,966
Operating Lease Right-of-Use Assets	301	87,700	-	-	88,001
Other Assets	69,822	891	624	-	71,337
Prepaid Pension Asset	-	-	-	-	-
Assets Held by Related Organization	42,754	3,998	-	-	46,752
Total assets	$ 2,062,225	$ 146,940	$ 43,853	$ (8,507)	$ 2,244,511

The Valley Hospital

Consolidating Balance Sheet
December 31, 2020
(In Thousands)

	Valley Hospital	Valley Medical Group	Acquisition Companies	Eliminations	Consolidated
Liabilities and Net Assets					
Current Liabilities					
Accounts payable	$ 40,563	$ 1,133	$ -	$ -	$ 41,696
Medicare advance payments	45,150	8,507	-	(8,507)	45,150
Accrued salaries and related benefits	43,298	15,059	-	-	58,357
Current portion of long-term debt	11,885	-	-	-	11,885
Current portion of finance lease obligation	290	-	-	-	290
Current portion of operating lease liability	301	7,546	-	-	7,847
Other accrued expenses	42,765	11,183	654	-	54,602
Accrued bond interest payable	7,366	-	-	-	7,366
Total current liabilities	191,618	43,428	654	(8,507)	227,193
Medicare Advance Payments, Noncurrent Portion	65,496	-	-	-	65,496
Operating Lease Noncurrent Portion	-	81,868	-	-	81,868
Long-Term Debt, Noncurrent Portion	372,041	-	-	-	372,041
Finance Lease, Noncurrent Portion	59,167	-	-	-	59,167
Estimated Professional Liability	32,147	-	-	-	32,147
Amounts Due to Third-Party Payors and Other Liabilities	66,650	4,045	-	-	70,695
Total liabilities	787,119	129,341	654	(8,507)	908,607
Net Assets					
Without donor restrictions	1,268,440	13,601	43,199	-	1,325,240
With donor restrictions	6,666	3,998	-	-	10,664
Total net assets	1,275,106	17,599	43,199	-	1,335,904
Total liabilities and net assets	$ 2,062,225	$ 146,940	$ 43,853	$ (8,507)	$ 2,244,511

The Valley Hospital

Consolidating Statement of Operations and Changes in Net Assets
Year Ended December 31, 2020
(In Thousands)

	Valley Hospital	Valley Medical Group	Acquisition Companies	Eliminations	Consolidated
Changes in Net Assets Without Donor Restrictions					
Net patient service revenues	$ 739,631	$ 135,888	$ -	$ -	$ 875,519
COVID-19 funding grant revenues	74,295	3,221	-	-	77,516
Other revenues	15,588	25,111	3,693	(24,153)	20,239
Total operating revenues	829,514	164,220	3,693	(24,153)	973,274
Expenses					
Salaries and wages	267,625	149,981	-	-	417,606
Employee benefits	56,449	22,373	-	-	78,822
Medical fees	25,523	-	-	(24,153)	1,370
Other expenses	249,131	72,740	2,628	-	324,499
Interest expense	3,774	-	-	-	3,774
Depreciation	49,840	-	-	-	49,840
Total operating expenses	652,342	245,094	2,628	(24,153)	875,911
Operating income (loss) before other items and special projects	177,172	(80,874)	1,065	-	97,363
Other Items and Special Projects	(14,324)	-	(1,383)		(15,707)
Operating income (loss)	162,848	(80,874)	(318)	-	81,656
Other Income (Loss)					
Nonoperating gains and losses	32,473	-	-	-	32,473
Change in unrealized gains and losses on investments	8,200	-	-	-	8,200
Pension costs	(77,971)	-	-	-	(77,971)
Revenues in excess of (less than) expenses	125,550	(80,874)	(318)	-	44,358
Other Changes in Net Assets Without Donor Restrictions					
Change in accrued pension liability to be recognized in future periods	81,344	-	-	-	81,344
Net changes in assets held by related organization and net assets transfers to/from affiliated entities	(66,862)	79,484	-	-	12,622
Total other changes in net assets without donor restrictions	14,482	79,484	-	-	93,966
Cumulative Effect of Change in Accounting Principle	-	-	-	-	-
Increase (decrease) in net assets without donor restrictions	140,032	(1,390)	(318)	-	138,324
Changes in Net Assets With Donor Restrictions					
Net assets released from restriction for operating purposes	86	(854)	-	-	(768)
Increase (decrease) in net assets with donor restrictions	86	(854)	-	-	(768)
Increase (decrease) in net assets	140,118	(2,244)	(318)	-	137,556
Net Assets, Beginning	1,134,988	19,843	43,517	-	1,198,348
Net Assets, Ending	$ 1,275,106	$ 17,599	$ 43,199	$ -	$ 1,335,904