Foundation for Morristown Medical Center

Financial Statements
December 31, 2019 and 2018

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December 31, 2019 and 2018

Report of Independent Auditors

To the Board of Trustees of
Foundation for Morristown Medical Center

We have audited the accompanying financial statements of the Foundation for Morristown Medical Center, which comprise the statements of financial position as of December 31, 2019 and 2018, and the related statements of activities and changes in net assets and of cash flows for the years then ended.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of the 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 financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on the financial statements based on our audits. 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 audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Company's preparation and fair presentation of the 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 Company'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 financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Foundation for Morristown Medical Center as of December 31, 2019 and 2018, 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.

PricewaterhouseCoopers LLP

Florham Park, New Jersey
June 19, 2020

Foundation for Morristown Medical Center
Statements of Financial Position
December 31, 2019 and 2018

	2019	2018
Assets		
Investments	$ 71,027,664	$ 62,515,379
Pledges receivable, net	17,961,288	15,455,320
Other assets	799,200	1,327,408
Beneficial interest in charitable remainder unitrust	1,657,861	1,442,839
Due from Morristown Division	68,677,190	63,420,677
Total assets	$ 160,123,203	$ 144,161,623
Liabilities		
Annuities payable	$ 2,385,290	$ 2,278,488
Accounts payable due to Morristown Division	2,107,998	2,025,242
Total liabilities	4,493,288	4,303,730
Net assets		
Without donor restrictions	43,005,400	30,988,938
With donor restrictions	112,624,515	108,868,955
Total net assets	155,629,915	139,857,893
Total liabilities and net assets	$ 160,123,203	$ 144,161,623

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

Foundation for Morristown Medical Center
Statements of Activities and Changes in Net Assets
Years Ended December 31, 2019 and 2018

	2019			2018		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Revenue						
Contributions	$ 1,463,613	$ 18,661,526	$ 20,125,139	$ 1,495,870	$ 16,130,639	$ 17,626,509
Investment income, net	6,584,726	1,946,084	8,530,810	2,505,930	2,668,476	5,174,406
Net assets released from restriction	9,464,683	(9,464,683)	-	10,455,322	(10,455,322)	-
Total operating revenues	17,513,022	11,142,927	28,655,949	14,457,122	8,343,793	22,800,915
Expenses						
Program services	8,121,050	-	8,121,050	9,502,275	-	9,502,275
General and administrative	5,121,253	-	5,121,253	4,737,101	-	4,737,101
Total operating expenses	13,242,303	-	13,242,303	14,239,376	-	14,239,376
Operating income	4,270,719	11,142,927	15,413,646	217,746	8,343,793	8,561,539
Beneficial interest in charitable remainder unitrust	-	215,022	215,022	-	(159,416)	(159,416)
Change in net unrealized gains	9,446,724	5,016,253	14,462,977	-	-	-
Excess of revenues over expenses	13,717,443	16,374,202	30,091,645	217,746	8,184,377	8,402,123
Change in net unrealized loss on other than trading securities	-	-	-	(6,001,648)	(4,768,497)	(10,770,145)
Net assets released from restriction used for capital	12,618,642	(12,618,642)	-	7,495,444	(7,495,444)	-
Distributions to Morristown division - capital	(14,319,623)	-	(14,319,623)	(7,495,444)	-	(7,495,444)
Increase (decrease) in net assets	12,016,462	3,755,560	15,772,022	(5,783,902)	(4,079,564)	(9,863,466)
Net assets						
Beginning of year	30,988,938	108,868,955	139,857,893	36,772,840	112,948,519	149,721,359
End of year	$ 43,005,400	$ 112,624,515	$ 155,629,915	$ 30,988,938	$ 108,868,955	$ 139,857,893

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

Foundation for Morristown Medical Center
Statements of Cash Flows
Years Ended December 31, 2019 and 2018

	2019	2018
Cash flows from operating activities		
Increase (decrease) in net assets	$ 15,772,022	$ (9,863,466)
Adjustments to reconcile change in net assets to net cash used in operating activities		
Realized and unrealized (gains) losses on investments	(9,718,506)	4,422,653
Realized and unrealized (gains) losses on investments on assets held by Morristown Division	(7,983,878)	5,753,077
Restricted contributions for capital	(13,202,517)	(8,559,852)
Restricted contributions for permanent investments	(189,768)	(1,293,304)
Contributed securities	(1,013,329)	(1,593,226)
Proceeds from sales of contributed investments	345,241	1,248,047
Changes in assets and liabilities		
Decrease in pledges receivable and other assets	820,159	543,776
(Increase) / decrease in beneficial interest in charitable remainder unitrust	(215,022)	401,121
Increase / (decrease) in annuities payable	106,802	(124,410)
Increase / (decrease) in accounts payable to the Morristown Division	82,756	(108,218)
Cash used in operating activities	(15,196,040)	(9,173,802)
Cash flows from investing activities		
Purchase of investments	(19,057,558)	(16,552,311)
Gross proceeds from sales of investments	20,452,609	15,120,830
Net distributions from Morristown Division	2,727,365	1,760,809
Cash provided by investing activities	4,122,416	329,328
Cash flows from financing activities		
Restricted contributions for capital	10,278,234	7,277,167
Restricted contributions for permanent investments	267,182	1,460,000
Cash provided by financing activities	10,545,416	8,737,167
Change in cash, cash equivalents and restricted cash	(528,208)	(107,307)
Cash, cash equivalents and restriced cash		
Beginning of year	1,327,408	1,434,715
End of year	$ 799,200	$ 1,327,408
Supplemental disclosure of cash flow information		
Contributed securities	$ 1,013,329	$ 1,593,226

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

1. Organization

The Foundation for Morristown Medical Center (the “Foundation”) is a not-for-profit fundraising organization which solicits funds in its general appeal to support both the Morristown Medical Center (the “Morristown Division”), which is a division of AHS Hospital Corp. (the “Hospital”), and the community as the Foundation’s Board may deem appropriate. The by-laws of the Foundation were amended on November 19, 2015, to provide that funds received by the Foundation after the date of the amendment may be used for the benefit of Atlantic Health System, Inc. (the “Parent”) and the Hospital upon approval of the Executive Committee of the Board of the Foundation. The Foundation is organized under the not-for-profit corporation law of the State of New Jersey and is exempt from the Federal income tax under Section 501(c)3 of the Internal Revenue Code.

2. Summary of Significant Accounting Policies

The following is a summary of the Foundation’s significant accounting policies:

Basis of Accounting

The financial statements have been prepared on the accrual basis of accounting, in conformity with accounting principles generally accepted in the United States of America.

Adopted Authoritative Pronouncements

In January 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Updates (“ASU”) 2016-01 - Overall (Subtopic 825-10): *Recognition and Measurement of Financial Assets and Financial Liabilities*. This guidance primarily affects the accounting for equity investments, financial liabilities under the fair value option, and the presentation and disclosure requirements for financial instruments. The standard was effective for fiscal years beginning after December 15, 2018. Unrealized gains and losses will now be reflected within the performance indicator, whereas prior to adoption the unrealized gains and losses associated with the available for sale securities were reported within “other adjustments in net assets without donor restrictions.” The amendments in this update require equity investments (except those accounted for under the equity method) to be generally measured at fair value with changes in fair value recognized within the performance indicator. The Foundation adopted this guidance effective January 1, 2019.

In November 2016, the FASB issued ASU 2016-18, *Restricted Cash*, which addresses the presentation, disclosure, and cash flow classification of restricted cash and requires that the statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Entities would also be required to reconcile these amounts on the balance sheets to the statements of cash flows and disclose the nature of the restrictions. The new standard was effective as of January 1, 2019 and was adopted using a retrospective application.

The following table provides a reconciliation of cash, cash equivalents and restricted cash reported within the balance sheets that total to the amounts shown in the of cash flows:

	2019	2018
Other assets	$ 799,200	$ 1,327,408

For cash management purposes, restricted cash identified includes cash held in the Other Assets line, unapplied cash on contributions and cash held on behalf of the Women's Association of Morristown Medical Center at December 31, 2019 and 2018.

In June 2018, the FASB issued ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The amendments in this update provide a framework for evaluating whether grants should be accounted for as exchange transactions or as nonexchange transactions. This ASU was effective for annual periods beginning after June 15, 2018 and was adopted by the Foundation in 2019 on a modified prospective basis. The Foundation has determined this new guidance is not material to the financial statements.

Use of Estimates
The preparation of financial statements in conformity accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Significant estimates include the reserve for uncollectible pledges and valuation of investments. Actual results could differ from those estimates.

Excess of Revenues over Expenses
The statements of activities and changes in net assets include excess of revenues over expenses. Changes in unrestricted net assets which are excluded from excess of revenues over expenses include unrealized losses on investments other than trading securities for 2018, net assets released from restrictions used for capital, and distributions to Morristown Division - capital.

The Foundation differentiates its operating activities through the use of operating income as an intermediate measure of operations. For the purposes of display, beneficial interest in charitable remainder unitrusts, which management does not consider being a component of the Foundation's operating activities, is excluded from operating income in the statements of activities and changes in net assets.

Investments
Investments principally consist of in marketable equity securities with readily determinable fair values including money market funds which are measured at fair value in the statements of financial position. Fair value is generally determined by sales prices or bid-and-asked quotations that are available on a securities exchange registered with the Securities and Exchange Commission or in the over-the-counter market. For investments in mutual funds, the fair value per share, or unit, is the value that is determined and published and the basis for current transactions. For investments in alternative investments, upon the adoption of ASU 2016-01 fair value is measured at net asset value. Investment income, including realized gains and losses, including realized gains and losses on investments, interest income and dividends, and investment management fees, are included in excess of revenues over expenses unless the income or loss is restricted by donor or law. Changes in unrealized gains / losses on investments on equity securities which include investment in mutual funds are included within excess of revenues over expenses in the statements of activities and changes in net assets upon the adoption of ASU 2016-01 on January 1, 2019. Prior to adoption, unrealized gains on investments considered other than trading were reflected outside the excess of revenues over expenses.

Pledges Receivable
Contributions, including unconditional promises to give ("pledges"), are reported as revenues in the period received or pledged.

Conditional promises to give are not recognized until they become unconditional, that is, when both the barrier to entitlement and the refund of amounts paid (or a release from obligation to make future payments) have been substantially met. Conditional contributions received, where the barrier to entitlement is not yet overcome, are recorded as deferred revenue.

Contributions of assets other than cash are recorded at their estimated fair value at the date of receipt if the Foundation received certain goods and services that meet criteria under generally accepted accounting principles in the United States of America ("GAAP") for recognition as contributions. Contributions of property and equipment are recorded as increases in net assets without donor restrictions unless the donor places restrictions on their use. Pledges not expected to be received within one year are discounted at a risk-adjusted rate that includes a premium for credit risk, if any. In addition, provisions for uncollectible contribution receivables has been recorded at the amount necessary to reduce pledges receivable to its estimated realizable value.

Beneficial Interest in Charitable Remainder Unitrust
In 2013, the Foundation became the sole beneficiary of an irrevocable charitable remainder unitrust administered by a third party. The donor has designated the remainder unitrust as a permanent endowment for the benefit of the emergency department at the Morristown Division. The charitable remainder unitrust provides for the payment of distributions to the grantor or other designated beneficiaries over the trust's term (over the benefactor's lifetime). Upon the termination of annuity payments to the grantor, the Foundation will receive its respective remaining share of principal and income from the trust. The Foundation's interest in the trust is shown in the statements of financial position at $1,657,861 and $1,442,839 as of December 31, 2019 and 2018, respectively. The remainder unitrust continues to be outstanding at December 31, 2019. On an annual basis, the Foundation revalues the remainder unitrust based on a fixed annuity payment over the estimated life of the benefactors, and accordingly, recognized $215,022 and ($159,416) in with donor restriction beneficial interest for the periods ended December 31, 2019 and 2018, respectively.

Charitable Gift Annuities
The Foundation has entered into certain agreements with donors which consist primarily of charitable gift annuities for which the Foundation serves as trustee. Within the investment portfolio assets associated with the charitable gift annuities amounted to $5,420,430 and $4,832,822 at December 31, 2019 and 2018, respectively. Contributions related to these charitable gift annuities, net of related liabilities, increase net assets with donor restriction. Liabilities associated with charitable gift annuities represent the present value of the expected payments to the beneficiaries based on the terms of the agreements. At December 31, 2019 and 2018, there were liabilities of $2,385,290 and $2,278,488, respectively, on the statements of financial position.

Net Assets with Donor Restrictions
In August 2016, the FASB issued ASU 2016-14, Presentation of Financial Statements for Not-for-Profit Entities. The Foundation adopted this standard in 2018 retrospectively. Under the new guidance, the existing three categories of net assets were replaced with a model that combined temporarily restricted and permanently restricted net assets into a single category called "net assets with donor restrictions." The guidance also enhances disclosures about liquidity and expense by both natural and functional classification (See Notes 3 and 8).

Net assets with donor restrictions are those funds whose use by the Foundation has been limited by donors to a specific time period and/or purpose. Once the restrictions are satisfied, or have been deemed to have been satisfied, those assets with donor restrictions are released from restrictions. Net assets that have been restricted by donors to be maintained by the Foundation in perpetuity will remain classified as net assets with donor restrictions.

Net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions. Management of the Foundation has interpreted the State of New Jersey's enacted version of the Uniform Prudent Management of Institutional Funds Act "UPMIFA" as requiring the preservation of the historic dollar value of donor-restricted endowment funds (absent explicit donor stipulations to the contrary). Historic dollar value is defined as the aggregate fair value in dollars of (i) an endowment fund at the time it became an endowment, (ii) each subsequent donation to the fund at the time it is made, and (iii) each accumulation made pursuant to a direction in the applicable gift instrument at the time the accumulation is added to the fund. Based on this interpretation, the Foundation classifies as net assets with donor restrictions (a) the original value of gifts donated to the restricted net assets (b) the original value of subsequent gifts to the permanent endowment (c) the net realizable value of future payments to restricted net assets in accordance with the donor's gift instrument (outstanding endowment pledges net of applicable discount) and (d) appreciation (depreciation), gains (losses) and income earned on the fund when the donor states that such increases or decreases are to be treated as changes in net assets with donor restriction. The remaining portions of the donor-restricted endowment fund that is not classified in net assets with donor restriction in perpetuity is classified as net assets with donor restriction until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

(1) The duration and preservation of the fund;

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

(3) General economic conditions;

(4) The possible effect of inflation and deflation;

(5) The expected total return from income and the appreciation of investments;

(6) Other resources of the Foundation; and

(7) The investment policies of the Foundation.

The Foundation has an endowment spending policy that governs distributions each year to 5% of its endowment fund's average fair value over the prior 12 quarters through the calendar year end preceding the fiscal year in which the distribution is planned. In establishing this policy, the Foundation considered the long-term expected return on its endowment. This is consistent with the Foundation's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return. This method also compensates for any volatile year-to-year fluctuation in investment returns. The effective distribution rate under the endowment spending policy was equal to 4.0% for the periods ending December 31, 2019 and 2018.

Management further understands that expenditures from a donor-restricted fund is limited to the uses and purposes for which the endowment fund is established and the use of net appreciation, realized gains (with respect to all assets) and unrealized gains (with respect only to readily marketable assets) is limited to the extent that the fair value of a donor-restricted fund exceeds the historic dollar value of the fund (unless the applicable gift instrument indicates that net appreciation shall not be expended), to the extent that such expenditure is prudent, considering the long and short term needs of the Foundation in carrying out its purposes, its present and anticipated financial requirements, expected total return on its investments and general economic conditions.

Under the policies established and approved by the Foundation’s Investment Committee, donor-restricted endowment funds are invested in income-generating investment vehicles to generate appreciation and preserve capital.

Unconditional promises to give cash and other assets are reported at fair value at the date the promise is received. The gifts are reported as net assets with donor restrictions if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restriction are reclassified as net assets without donor restriction and reported in the statements of activities and changes in net assets as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reflected as net assets without donor restriction in the accompanying financial statements.

Fair Value Measurements
The accounting guidance establishes a framework for measuring fair value under generally accepted accounting principles and enhances disclosures about fair value measurements. Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Fair value requires an organization to determine the unit of account, the mechanism of hypothetical transfer, and the appropriate markets for the asset or liability being measured.

The accounting guidance establishes a hierarchy of valuation inputs based on the extent to which the inputs are observable in the marketplace. Observable inputs reflect market data obtained from sources independent of the reporting entity and unobservable inputs reflect the entities own assumptions about how market participants would value an asset or liability based on the best information available. Valuation techniques used to measure fair value must maximize the use of observable inputs and minimize the use of unobservable inputs. The guidance describes a fair value hierarchy based on three levels of inputs, of which the first two are considered observable and the last unobservable, that may be used to measure fair value.

The following describes the hierarchy of inputs used to measure fair value and the primary valuation methodologies used by the Foundation for financial instruments measured at fair value on a recurring basis. Alternative investments are not considered leveled investments and are treated similar to cash. The three levels of inputs are as follows:

Level 1 Quoted market prices in active markets for identical assets or liabilities. Level 1 assets consist of common stock as they are traded in an active market with sufficient volume and frequency of transactions.

Level 2 Quoted prices in active markets for similar assets or liabilities, unadjusted quoted prices for identical or similar assets or liabilities in markets that are not active, or inputs other than quoted prices that are observable for the asset or liability. Level 2 assets consist of money market funds and mutual funds that are nonexchange trade and valued based on Net Asset Values (NAVs) calculated by the funds' independent administrators which are calculated at least daily. These valuations are readily observable in the market place or are supported by observable levels at which transactions are executed in the marketplace. As Level 2 investments include positions that are not traded in active markets and/or are subject to transfer restrictions, valuations may be adjusted to reflect illiquidity and / or nontransferability, which are generally based on available market information. Redemptions from each of the funds can be made at least daily on the latest reported NAV.

Level 3 Unobservable inputs for the asset or liability that are supported by little or no market activity and that are significant to the fair value. Level 3 assets consist of beneficial interests in perpetual trusts held by third parties, primarily invested in equities and fixed income securities.

NAV For investments in alternative investments, fair value is measured based on unobservable inputs that cannot be corroborated by observable market data where the Foundation does not exert significant influence to cover the waterfall concern. The Foundation accounts for these investments within its long-term investment portfolio using the net asset value (NAV) as a practical expedient, as such these investments are excluded from the fair value hierarchy.

Assets and liabilities measured at fair value are based on one or more of three valuation techniques. The three valuation techniques are as follows:

Market Approach (M) - Prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities;

Cost Approach (C) - Amount that would be required to replace the service capacity of an asset (i.e., replacement cost); and

Income Approach (I) - Techniques to convert future amounts to a single present amount based on market expectations (including present value techniques, option-pricing models, and lattice models).

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. Inputs are used in applying the various valuation techniques and broadly refer to the assumptions the market participants use to make valuation decisions. Inputs may include price information, credit data, liquidity statistics and other factors.

The Foundation utilized the best available information in measuring fair value (Note 5).

There were no transfers between levels during the years ended December 31, 2019 and 2018.

3. Liquidity and Availability of Resources

The Foundation's financial assets available within one year of December 31, 2019 for general expenditures are as follows:

	2019	2018
Investments	$ 18,038,860	$ 9,207,992
Pledges receivable, net	6,943,653	5,383,502
Other assets	272,769	716,280
	$ 25,255,282	$ 15,307,774

Management monitors the Foundation's cash flow on a regular basis. If needed, short-term investments are available and can be liquidated in order to meet financial needs. Also, the Foundation shares an operating bank account as well as an investment pool with the Morristown Division, which is reflected on the statement of financial position as of December 31, 2019 and 2018 as due from Morristown Division, in the amount of $68,677,190 and $63,420,677, respectively. The aforementioned assets are available upon request by the Foundation but are held by the Morristown Division for administrative purposes and to optimize investment performance. Such requests to transfer assets from the Morristown Division to the Foundation are subject to the approval by the Board of Trustees of the Morristown Division.

4. Related-Party Transactions

Accounts payable due to the Morristown Division arise from expenses incurred by the Foundation which are paid by the Morristown Division. The Morristown Division pays all expenses on behalf of the Foundation and is subsequently reimbursed by the Foundation. Distributions to the Morristown Division include cash transfers to be used for capital and are treated as equity transfers on the statements of activities and changes in net assets.

At December 31, 2019 and 2018, for cash management purposes, the Foundation's cash is held at the Morristown Division and the Foundation correspondingly recognizes these amounts as part of due from Morristown Division in the statements of financial position, as is noted in Note 3 above.

5. Investments

Investments at fair value at December 31, 2019 and 2018 consist of the following:

	Market	
	2019	**2018**
Long-term investment		
Money market funds	$ 2,194,843	$ 1,913,758
Mutual funds	65,700,092	56,171,646
Alternative investments-equity	3,132,729	4,429,975
	$ 71,027,664	$ 62,515,379

The fair value of the Foundation's financial assets that are measured on a recurring basis at December 31, 2019 are as follows:

		Based on			
	Fair Value at December 31, 2019	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Valuation Technique (1)
Money market funds	$ 2,194,843	$ -	$ 2,194,843	$ -	M
Mutual funds	65,700,092	-	65,700,092	-	M
	$ 67,894,935	$ -	$ 67,894,935	$ -	
Investments measured at net asset value	$ 3,132,729				

(1) The three valuation techniques are Market Value (M), Cost Approach (C) and Income Approach (I)

The fair value of the Foundation's financial assets that are measured on a recurring basis at December 31, 2018 are as follows:

		Based on			
	Fair Value at December 31, 2018	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Valuation Technique (1)
Money market funds	$ 1,913,758	$ -	$ 1,913,758	$ -	M
Mutual funds	56,171,646	-	56,171,646	-	M
	$ 58,085,404	$ -	$ 58,085,404	$ -	

(1) The three valuation techniques are Market Value (M), Cost Approach (C) and Income Approach (I)

6. Pledges Receivable

Pledges receivable, net consists of the following as of December 31, 2019 and 2018:

	2019	2018
Amounts expected to be collected in		
Less than one year	$ 7,508,498	$ 5,816,765
One to five years	11,843,696	10,783,991
More than five years	625,000	755,000
	19,977,194	17,355,756
Discount to present value of future cash flows (at a rate of 1.69% and 2.51% for pledges made in 2019 and 2018, respectively)	1,052,046	1,032,648
Reserve for uncollectible amounts	963,860	867,788
Total pledges receivable, net	$ 17,961,288	$ 15,455,320

7. Net Assets with Donor Restrictions

Net assets with donor restrictions, subject to restriction for a specified purpose are as follows:

	December 31,	
	2019	**2018**
Research	$ 3,247,804	$ 3,201,102
Purchase of plant and equipment	23,720,835	23,453,365
Scholarships and education	5,110,904	5,521,694
Program services	42,141,397	37,015,456
	$ 74,220,940	$ 69,191,617

Net assets with donor restrictions, subject to the Foundation's spending policy and appropriation are listed in the table below:

	December 31,	
	2019	**2018**
Donor-restricted endowment funds	$ 38,403,575	$ 39,677,338

Changes in endowment net assets for the fiscal years ended December 31, 2019 and 2018 were as follows:

	December 31,	
	2019	**2018**
Endowment net assets with donor restriction at beginning of year	$ 50,013,764	$ 53,049,279
Investment income (loss)	7,017,648	(2,130,021)
Contributions	170,680	1,293,304
Beneficial interest in charitable remainder unitrust	215,022	(159,416)
Appropriation of endowment assets for expenditure	(2,154,029)	(2,039,382)
Return of prior year gift (at donor's request)	(1,700,981)	-
Endowment net assets with donor restriction at end of year	$ 53,562,104	$ 50,013,764

During 2019 and 2018, net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose of purchasing equipment in the amounts of $12,618,642 and $7,495,444, respectively, and other noncapital purposes in the amounts of $9,464,683 and $10,455,322, respectively.

8. Functional Expenses

The financial statements report certain expense categories that are attributable to both program services and management and general functions. Therefore, the natural expenses require allocation on a reasonable basis that is consistently applied, across functional expense category. Salaries are allocated based on a percent-to-total of program salaries and management and general salaries to the applicable total expense categories. Costs not directly attributable to a function, including program services expenses spent in line with donor restrictions, are allocated to a function based on the same allocation rates as salaries.

Total expenses related to providing both program services and general and administrative functions at December 31, 2019 and 2018 are as follows:

	2019		
Natural Expense Categories	**Program Services**	**General and Administrative**	**Total**
Salaries	$ 5,225,971	$ 2,833,108	$ 8,059,079
Supplies and other expenses	2,895,079	1,545,833	4,440,912
Employee benefits	-	651,693	651,693
Interest	-	90,619	90,619
	$ 8,121,050	$ 5,121,253	$ 13,242,303

	2018		
Natural Expense Categories	**Program Services**	**General and Administrative**	**Total**
Salaries	$ 6,395,064	$ 2,590,176	$ 8,985,240
Supplies and other expenses	3,107,211	1,470,453	4,577,664
Employee benefits	-	638,126	638,126
Interest	-	38,346	38,346
	$ 9,502,275	$ 4,737,101	$ 14,239,376

9. Disclosure of Fair Value of Financial Instruments

The Foundation currently has no other financial instruments subject to fair value measurement on a recurring basis. For other assets, accounts payable due to Morristown Division and annuities payable the net carrying value of these items approximates their fair value.

10. Subsequent Events

Subsequent events have been evaluated through June 19, 2020, which is the date the financial statements were available to be issued. The Foundation has determined that all events or transactions, including estimates, required to be recognized in accordance with generally accepted accounting principles, are included in the financial statements.

In connection with the outbreak of the COVID-19, the Foundation is monitoring developments and the directives of federal, state and local officials to determine the impact, if any, on social interaction, travel, economies and financial markets has, and may continue to, there is no material impact to the Foundation’s finances and operations.