

# **Foundation for Morristown Medical Center**

**Financial Statements  
December 31, 2018 and 2017**

**Foundation for Morristown Medical Center**  
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**December 31, 2018 and 2017**

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## 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, 2018 and 2017, 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.



***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, 2018 and 2017, 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.

***Emphasis of Matter***

As discussed in Note 2 to the financial statements, the Company changed the manner it presents net assets and reports certain aspects of its financial statements as a not-for-profit entity in 2018. Our opinion is not modified with respect to these matters.

*PriceWaterhouseCoopers LLP*

December 20, 2019

**Foundation for Morristown Medical Center**  
**Statements of Financial Position**  
**December 31, 2018 and 2017**

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	2018	2017
<b>Assets</b>		
Investments	\$ 62,515,379	\$ 65,707,152
Pledges receivable, net	15,455,320	14,337,327
Other assets	1,327,408	1,434,715
Beneficial interest in charitable remainder unitrust	1,442,839	1,843,960
Due from Morristown Division	63,420,677	70,934,563
Total assets	<u>\$ 144,161,623</u>	<u>\$ 154,257,717</u>
<b>Liabilities</b>		
Annuities payable	\$ 2,278,488	\$ 2,402,898
Accounts payable due to Morristown Division	2,025,242	2,133,460
Total liabilities	<u>4,303,730</u>	<u>4,536,358</u>
<b>Net assets</b>		
Without donor restrictions	30,988,938	36,772,840
With donor restrictions	108,868,955	112,948,519
Total net assets	<u>139,857,893</u>	<u>149,721,359</u>
Total liabilities and net assets	<u>\$ 144,161,623</u>	<u>\$ 154,257,717</u>

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, 2018 and 2017**

	2018			2017		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
<b>Revenue</b>						
Contributions	\$ 1,495,870	\$ 16,130,639	\$ 17,626,509	\$ 1,295,078	\$ 23,068,070	\$ 24,363,148
Investment income, net	2,505,930	2,668,476	5,174,406	4,075,595	3,972,645	8,048,240
Net assets released from restriction	10,455,322	(10,455,322)	-	7,505,518	(7,505,518)	-
Total operating revenues	<u>14,457,122</u>	<u>8,343,793</u>	<u>22,800,915</u>	<u>12,876,191</u>	<u>19,535,197</u>	<u>32,411,388</u>
<b>Expenses</b>						
Program services	9,502,275	-	9,502,275	7,822,231	-	7,822,231
General and administrative	4,737,101	-	4,737,101	4,505,174	-	4,505,174
Total operating expenses	<u>14,239,376</u>	<u>-</u>	<u>14,239,376</u>	<u>12,327,405</u>	<u>-</u>	<u>12,327,405</u>
Operating income	217,746	8,343,793	8,561,539	548,786	19,535,197	20,083,983
Beneficial interest in charitable remainder unitrust	-	(159,416)	(159,416)	-	457,939	457,939
Excess of revenues over expenses	217,746	8,184,377	8,402,123	548,786	19,993,136	20,541,922
Unrealized (losses) gains on investments other than trading securities	(6,001,648)	(4,768,497)	(10,770,145)	5,576,717	3,581,657	9,158,374
Net assets released from restriction used for capital	7,495,444	(7,495,444)	-	8,920,544	(8,920,544)	-
Distributions to Morristown division - capital	(7,495,444)	-	(7,495,444)	(8,920,544)	-	(8,920,544)
(Decrease) / Increase in net assets	(5,783,902)	(4,079,564)	(9,863,466)	6,125,503	14,654,249	20,779,752
<b>Net assets</b>						
Beginning of year	<u>36,772,840</u>	<u>112,948,519</u>	<u>149,721,359</u>	<u>30,647,337</u>	<u>98,294,270</u>	<u>128,941,607</u>
End of year	<u>\$ 30,988,938</u>	<u>\$ 108,868,955</u>	<u>\$ 139,857,893</u>	<u>\$ 36,772,840</u>	<u>\$ 112,948,519</u>	<u>\$ 149,721,359</u>

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

**Foundation for Morristown Medical Center**  
**Statements of Cash Flows**  
**Years Ended December 31, 2018 and 2017**

	2018	2017
<b>Cash flows from operating activities</b>		
Change in net assets	\$ (9,863,466)	\$ 20,779,752
Adjustments to reconcile change in net assets to net cash used in operating activities		
Realized and unrealized losses (gains) on investments	4,422,653	(6,369,976)
Realized and unrealized losses (gains) on investments on assets held by Morristown Division	5,753,077	(7,138,212)
Restricted contributions for capital	(8,559,852)	(14,560,104)
Restricted contributions for permanent investments	(1,293,304)	(1,799,000)
Contributed securities	(1,593,226)	(1,623,545)
Proceeds from sales of contributed investments	1,248,047	1,236,974
Changes in assets and liabilities		
Decrease in pledges receivable and other assets	651,083	2,509,395
Decrease (increase) in beneficial interest in charitable remainder unitrust	401,121	(457,939)
Decrease in annuities payable	(124,410)	(121,550)
(Decrease) increase in accounts payable to the Morristown Division	(108,218)	174,008
Cash used in operating activities	<u>(9,066,495)</u>	<u>(7,370,197)</u>
<b>Cash flows from investing activities</b>		
Purchase of investments	(16,552,311)	(23,913,671)
Sales of investments	15,120,830	22,411,694
Net distributions from Morristown Division	1,760,809	774,849
Cash provided by (used in) investing activities	<u>329,328</u>	<u>(727,128)</u>
<b>Cash flows from financing activities</b>		
Restricted contributions for capital	7,277,167	6,298,325
Restricted contributions for permanent investments	1,460,000	1,799,000
Cash provided by financing activities	<u>8,737,167</u>	<u>8,097,325</u>
Change in cash and cash equivalents	-	-
<b>Cash and cash equivalents</b>		
Beginning of year	-	-
End of year	<u>\$ -</u>	<u>\$ -</u>
<b>Supplemental disclosure of cash flow information</b>		
Contributed securities	\$ 1,593,226	\$ 1,623,545

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

# Foundation for Morristown Medical Center

## Notes to Financial Statements

### December 31, 2018 and 2017

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#### 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.

##### **Recent Accounting Pronouncements Issued Not Yet Adopted**

In January 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Updates ("ASU") 2016-01, Recognition and Measurement of Financial Assets and Financial Liabilities. 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. This ASU is effective for fiscal years beginning after December 15, 2018 (fiscal year 2019 for the Foundation).

In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows (Topic 230), Classification of Certain Cash Receipts and Cash Payments. The ASU provides guidance on certain cash receipts and states that cash payments should be classified in the Statement of Cash Flows. The ASU is effective for fiscal years beginning after December 15, 2018 (fiscal year 2019 for the Foundation); however, early adoption is permitted.

In November 2016, the FASB issued ASU 2016-18, Statement of Cash Flows (Topic 230), Restricted Cash. The ASU provides guidance on the presentation, disclosure, and cash flow classification of restricted cash. The ASU is effective for fiscal years beginning after December 15, 2018 (fiscal year 2019 for the Foundation); however, early adoption is permitted.

In June 2018 the FASB issued ASU 2018-08, Not-for-Profit Entities (Topic 958): *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 is effective for annual periods beginning after June 15, 2018, (fiscal year 2019 for the Foundation). This ASU should be applied on a modified prospective basis; however, retrospective application is permitted.

##### **Use of Estimates**

The preparation of financial statements in conformity with 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



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## Notes to Financial Statements

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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, 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 in marketable equity securities with readily determinable fair values and investments in debt securities 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. Investments in other securities which do not have readily determinable fair values are measured at the lower of cost or fair value. Investment income, including realized gains and losses on investments, other than temporarily impaired unrealized 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 other than trading securities are reflected as increases or decreases in unrestricted net assets and are excluded from excess of revenues over expenses, unless determined to be other than temporarily are impaired.

#### **Pledges Receivable**

Contribution receivables are recognized when an unconditional promise to give cash is received. An allowance for estimated uncollectible contribution has been recorded at the amount necessary to reduce pledges receivable to their estimated realizable value. Estimated contributions not to be collected during the next year have been discounted and are reported at the present value of future cash flows.

#### **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 \$1,442,839 and \$1,843,960 as of December 31, 2018 and 2017, respectively. The remainder unitrust continues to be outstanding at December 31, 2018. 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 (\$159,416) and \$457,939 in with donor restriction beneficial interest for the periods ended December 31, 2018 and 2017, respectively.

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**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 \$4,832,822 and \$5,281,982 at December 31, 2018 and 2017, 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, 2018 and 2017, there were liabilities of \$2,278,488 and \$2,402,898, 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).

As a result of the adoption of ASU 2016-14, net assets as of December 31, 2017 were reclassified as follows:

Net Asset Classifications:	ASU 2016-14 Considerations		
	Without Donor Restrictions	With Donor Restrictions	Total Net Assets
As previously presented:			
Unrestricted	\$ 36,772,840	\$ -	\$ 36,772,840
Temporarily Restricted	-	74,375,069	74,375,069
Permanently Restricted	-	38,573,450	38,573,450
Total Net Assets	\$ 36,772,840	\$ 112,948,519	\$ 149,721,359

Additionally, the Foundation reclassified investment management fees of \$42,927 and \$42,655 for the periods ended December 31, 2018 and 2017, respectively, out from general and administrative expenses, and as part of investment income, net, within in the statements of changes in net assets.

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

# Foundation for Morristown Medical Center

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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 4.5% for the twelve-month period ending December 31, 2017, and was then reduced to 4.0% effective June 30, 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.

# Foundation for Morristown Medical Center

## Notes to Financial Statements

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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 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; and
- 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.

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

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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, 2018 and 2017.

**Reclassifications**

Certain previously reported amounts in the fiscal year 2017 financial statements have been reclassified in order to confirm to fiscal year 2018 presentation.

**3. Liquidity and Availability of Resources**

The Foundation's financial assets available within one year of December 31, 2018 for general expenditures are as follows:

	<b>December 31</b>	
	<b>2018</b>	<b>2017</b>
Investments	\$ 9,207,992	9,451,679
Pledges receivable, net	5,383,502	4,253,689
Other assets	716,280	591,666
	<u>\$ 15,307,774</u>	<u>\$ 14,297,034</u>

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, 2018 as due from Morristown Division, in the amount of \$63,420,677. 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.

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At December 31, 2018 and 2017, 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, 2018 and 2017 consist of the following:

	Market		Cost	
	2018	2017	2018	2017
<b>Long-term investment</b>				
Money market funds	\$ 1,913,758	\$ 4,722,368	\$ 1,913,758	\$ 4,722,368
Mutual funds-equity securities	29,703,613	32,544,218	23,974,559	22,748,646
Mutual funds-debt securities	26,468,033	23,136,702	27,023,321	22,990,022
Alternative investments-equity	4,429,975	5,303,864	4,429,975	5,303,864
	\$ 62,515,379	\$ 65,707,152	\$ 57,341,613	\$ 55,764,900

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

	Fair Value at December 31, 2018	Based on			Valuation Technique (1)
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Money market funds	\$ 1,913,758	\$ -	\$ 1,913,758	\$ -	M
Mutual funds-equity securities	29,703,613	-	29,703,613	-	M
Mutual funds-debt securities	26,468,033	-	26,468,033	-	M
	\$ 58,085,404	\$ -	\$ 58,085,404	\$ -	

(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, 2017 are as follows:

	Fair Value at December 31, 2017	Based on			Valuation Technique (1)
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Money market funds	\$ 4,722,368	\$ -	\$ 4,722,368	\$ -	M
Mutual funds-equity securities	32,544,218	-	32,544,218	-	M
Mutual funds-debt securities	23,136,702	-	23,136,702	-	M
	\$ 60,403,288	\$ -	\$ 60,403,288	\$ -	

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

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**6. Pledges Receivable**

Pledges receivable, net consists of the following as of December 31, 2018 and 2017:

	<b>2018</b>	<b>2017</b>
<b>Amounts expected to be collected in</b>		
Less than one year	\$ 5,816,765	\$ 4,581,377
One to five years	10,783,991	10,271,174
More than five years	<u>755,000</u>	<u>1,261,700</u>
	17,355,756	16,114,251
Discount to present value of future cash flows (at a rate of 2.51% and 2.20% for pledges made in 2018 and 2017, respectively)	1,032,648	971,211
Reserve for uncollectible amounts	<u>867,788</u>	<u>805,713</u>
Total pledges receivable, net	<u>\$ 15,455,320</u>	<u>\$ 14,337,327</u>

**7. Net Assets with Donor Restrictions**

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

	<b>December 31,</b>	
	<b>2018</b>	<b>2017</b>
Research	\$ 3,201,102	\$ 3,334,068
Purchase of plant and equipment	23,453,365	22,642,758
Scholarships and education	5,521,694	5,628,913
Program services	<u>37,015,456</u>	<u>42,769,330</u>
	<u>\$ 69,191,617</u>	<u>\$ 74,375,069</u>

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

	<b>December 31,</b>	
	<b>2018</b>	<b>2017</b>
Donor-restricted endowment funds	\$ 39,677,338	\$ 38,573,450

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Changes in endowment net assets for the fiscal years ended December 31, 2018 and 2017 were as follows:

	<b>December 31,</b>	
	<b>2018</b>	<b>2017</b>
<b>Endowment net assets with donor restriction at beginning of year</b>	\$ 53,049,279	\$ 45,372,039
Investment income	(2,130,021)	7,616,963
Contributions	1,293,304	1,799,454
Beneficial interest in charitable remainder unitrust	(159,416)	457,939
Appropriation of endowment assets for expenditure	(2,039,382)	(2,197,116)
<b>Endowment net assets with donor restriction at end of year</b>	<b>\$ 50,013,764</b>	<b>\$ 53,049,279</b>

During 2018 and 2017, net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose of purchasing equipment in the amounts of \$7,495,444 and \$8,920,544, respectively, and other noncapital purposes in the amounts of \$10,455,322 and \$7,505,518, 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, 2018 and 2017 are as follows:

<b>Natural Expense Categories</b>	<b>2018</b>		
	<b>Program Services</b>	<b>General and Administrative</b>	<b>Total</b>
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
	<b>\$ 9,502,275</b>	<b>\$ 4,737,101</b>	<b>\$ 14,239,376</b>



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<b>Natural Expense Categories</b>	<b>2017</b>		
	<b>Program Services</b>	<b>General and Administrative</b>	<b>Total</b>
Salaries	\$ 5,469,178	\$ 2,574,530	\$ 8,043,708
Supplies and other expenses	2,353,053	1,258,869	3,611,922
Employee benefits	-	631,524	631,524
Interest	-	40,251	40,251
	<u>\$ 7,822,231</u>	<u>\$ 4,505,174</u>	<u>\$ 12,327,405</u>

**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 December 20, 2019, 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.