Audited Combined Financial Statements And Supplementary Information

Prime Healthcare Services, Inc. – New Jersey Hospitals
and Controlled Entities
Years Ended December 31, 2022 and 2021
With Report of Independent Auditors

Ernst & Young LLP

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Audited Combined Financial Statements and Supplementary Information

Years Ended December 31, 2022 and 2021

Contents

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Report of Independent Auditors

The Board of Directors
Prime Healthcare Services, Inc. – New Jersey Hospitals
and Controlled Entities

Opinion

We have audited the combined financial statements of Prime Healthcare Services, Inc. – New Jersey Hospitals and Controlled Entities (collectively, "the Companies"), which comprise the combined balance sheets as of December 31, 2022 and 2021, and the related combined statements of operations, member's equity (deficit) and cash flows for the years then ended, and the related notes (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Companies at December 31, 2022 and 2021, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Companies and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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

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

Auditor’s Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free of material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Companies’ internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Companies’ ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The combining balance sheets as of December 31, 2022, and the related combining statements of operations, member's equity (deficit), and cash flows are presented for purposes of additional analysis and are not a required part of the 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 financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 financial statements as a whole.

Ernst & Young LLP

April 28, 2023

Prime Healthcare Services, Inc. – New Jersey Hospitals
and Controlled Entities

Combined Balance Sheets
(Dollars in Thousands)

	December 31	
	2022	**2021**
Assets		
Current assets:		
Cash and cash equivalents	**$ 27,515**	$ 34,541
Patient accounts receivable	**85,210**	92,231
Third-party payer settlements	**5,333**	4,325
Provider fee receivable	**19,374**	5,751
Supplies inventory	**11,851**	9,656
Prepaid expenses	**4,110**	5,177
Insurance claims and reserves recoverable	**6,163**	10,231
Related-party receivables	**29,307**	75,951
Other current assets	**11,344**	4,754
Total current assets	**200,207**	242,617
Property and equipment, net of accumulated depreciation and amortization	**153,231**	160,426
Right of use assets (operating leases)	**4,076**	–
Insurance claims and reserves recoverable, net of current portion	**21,263**	26,457
Goodwill	**24,665**	24,635
Other noncurrent assets	**5,412**	6,133
Total assets	**$ 408,854**	$ 460,268

See accompanying notes to combined financial statements.

Prime Healthcare Services, Inc. – New Jersey Hospitals
and Controlled Entities

Combined Balance Sheets (continued)

(Dollars in Thousands)

	December 31	
	2022	**2021**
Liabilities and member's equity		
Current liabilities:		
Accounts payable	**$ 34,171**	$ 27,744
Accrued expenses	**28,529**	43,176
Insurance claims liabilities and reserves	**6,163**	10,231
Related-party payables	**41,347**	18,064
Third-party payer settlements	**1,495**	5,686
Medicare advances	**7,215**	38,510
Current portion of finance leases	**7,178**	6,516
Current portion of operating leases	**1,148**	–
Current portion of long-term debt	**4**	54
Total current liabilities	**127,250**	**149,981**
Long-term liabilities:		
Sale-leaseback financing obligation	**175,146**	174,921
Insurance claims liabilities and reserves, net of current portion	**28,853**	33,057
Medicare advances, net of current portion	**–**	20,542
Finance leases, net of current portion	**14,142**	14,438
Operating leases, net of current portion	**2,929**	–
Other long-term liabilities	**15,913**	14,657
Total long-term liabilities	**236,983**	257,615
Equity:		
Member's equity	**34,471**	43,541
Noncontrolling interest	**10,150**	9,131
Total equity	**44,621**	52,672
Total liabilities and equity	**$ 408,854**	$ 460,268

See accompanying notes to combined financial statements.

Prime Healthcare Services, Inc. – New Jersey Hospitals
and Controlled Entities

Combined Statements of Operations

(Dollars in Thousands)

	Year Ended December 31	
	2022	**2021**
Revenue		
Net patient service revenue	**$ 635,365**	$ 651,753
Other operating revenue	**19,029**	19,710
Net revenue	**654,394**	671,463
Government stimulus income	**3,392**	22,830
Net revenue and government stimulus income	**657,786**	694,293
Operating expenses		
Compensation and employee benefits	**323,932**	329,743
General and administrative	**59,206**	51,623
Supplies	**87,219**	95,142
Professional services	**140,373**	110,329
Depreciation and amortization	**27,819**	27,494
Rent and lease	**5,499**	5,247
Long-lived asset impairment	**–**	2,669
	644,048	622,247
Income from operations	**13,738**	72,046
Interest expense	**(20,646)**	(19,981)
Other non-operating loss	**(1,143)**	(113)
Net (loss) income	**(8,051)**	51,952
Net income attributable to noncontrolling interest	**(1,019)**	(2,042)
Net (loss) income attributable to controlling interest	**$ (9,070)**	$ 49,910

See accompanying notes to combined financial statements.

Prime Healthcare Services, Inc. – New Jersey Hospitals
and Controlled Entities

Combined Statements of Member's Equity (Deficit)

(Dollars in Thousands)

	Member's Equity (Deficit)	Noncontrolling Interest	Total Equity
Balance, December 31, 2020	$ (6,369)	$ 7,089	$ 720
Controlling interest in net income	49,910	–	49,910
Noncontrolling interest in net income	–	2,042	2,042
Balance, December 31, 2021	43,541	9,131	52,672
Controlling interest in net loss	**(9,070)**	**–**	**(9,070)**
Noncontrolling interest in net income	**–**	**1,019**	**1,019**
Balance, December 31, 2022	**$ 34,471**	**$ 10,150**	**$ 44,621**

See accompanying notes to combined financial statements.

Prime Healthcare Services, Inc. – New Jersey Hospitals
and Controlled Entities

Combined Statements of Cash Flows

(Dollars in Thousands)

	December 31	
	2022	**2021**
Operating activities		
Net (loss) income	**$ (8,051)**	$ 51,952
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Depreciation and amortization	**27,819**	27,494
Right-of-use asset amortization	**1,155**	–
Gain on sale of assets	**(101)**	(188)
Long-lived asset impairment	**–**	2,669
Amortization of deferred financing costs	**225**	213
Changes in assets and liabilities:		
Patient accounts receivable	**7,021**	(18,547)
Supplies inventory	**(2,195)**	393
Prepaid expenses	**1,067**	(974)
Other assets	**(6,591)**	3,788
Related-party receivables/payables, net	**69,927**	(46,117)
Accounts payable	**6,102**	2,340
Operating lease obligations	**(1,200)**	–
Accrued expenses, insurance claims liabilities and reserves, net, and other long-term liabilities	**(13,192)**	2,018
Medicare advances	**(51,837)**	(18,203)
Third-party payer settlements and provider fee receivable	**(18,822)**	1,290
Net cash provided by operating activities	**11,327**	8,128
Investing activities		
Purchases of property and equipment	**(11,972)**	(10,532)
Proceeds from sale of property and equipment	**101**	188
Net cash used in investing activities	**(11,871)**	(10,344)
Financing activities		
Payments on long-term debt	**(50)**	(148)
Payments on finance lease obligations	**(6,432)**	(11,179)
Net cash used in financing activities	**(6,482)**	(11,327)
Net decrease in cash and cash equivalents	**(7,026)**	(13,543)
Cash and cash equivalents at beginning of year	**34,541**	48,084
Cash and cash equivalents at end of year	**$ 27,515**	$ 34,541
Supplemental cash flow information		
Cash paid during the year for interest	**$ 20,428**	$ 19,782
Supplemental disclosure of noncash investing and financing activities		
Financing obligations incurred for the acquisition of property and equipment	**$ 7,635**	$ 7,943
Property, plant, and equipment included in accounts payable	**$ 1,738**	$ 1,414

See accompanying notes to combined financial statements.

1. Basis of Presentation and Significant Accounting Policies

Nature of Business

Prime Healthcare Services – Saint Clare's, LLC dba Saint Clare's Health System ("SCNJ"), Prime Healthcare Services – Saint Michael's LLC dba Saint Michael's Medical Center ("SMMC"), and Prime Healthcare Services – St. Mary's Passaic, LLC, dba Saint Mary's General Hospital ("SMHP"), are acute care hospitals in the state of New Jersey. Saint Michael's Clinics, Inc dba Peter Ho Clinic ("SMC"), a subsidiary of SMMC, is a not-for-profit clinic located in New Jersey. SCNJ, SMMC, SMHP, which include their wholly-owned medical groups, and SMC, are collectively called the "Companies". Prime Healthcare Services, Inc. ("PHSI"), the parent company of SCNJ, SMMC, and SMHP, owns and operates 31 acute care hospitals in communities across the United States. PHSI is the sole member of the SCNJ, SMMC, and SMHP, and has no limitation to its member liability.

SCNJ is a community hospital system located in Morris County, New Jersey, acquired by PHSI on October 1, 2015. SCNJ consists of Saint Clare's Denville Hospital, with 272 licensed beds, Saint Clare's Boonton Hospital with 146 licensed beds, and Saint Clare's Dover Hospital with 85 licensed beds.

SMMC is an acute care and regional tertiary care facility located in Newark, New Jersey, acquired by PHSI on May 1, 2016 with 352 licensed beds. SMMC provides general emergency services and a broad range of care relating to orthopedics, treatment of diseases such as diabetes, cancer, and infectious diseases; and inpatient and outpatient behavioral health care among others. SMMC is also a teaching and research center.

SMHP is an acute care facility located in Passaic, New Jersey, acquired by PHSI on August 15, 2014. SMHP is a community-based, tertiary medical center with 293 licensed beds, providing a broad range of cardiovascular, cancer care, maternal-child health, and outpatient behavioral health services.

SMC is an HIV/AIDS treatment clinic created in 2016, that provides comprehensive medical services, case management, psychological services, nutrition counseling, and substance abuse counseling for people who are HIV positive or have contracted AIDS. SMC is managed by SMMC, who retains the majority voting interest with 4 of the 6 board members being part of the SMMC executive team.

1. Basis of Presentation and Significant Accounting Policies (continued)

Basis of Presentation

The combined financial statements of the Companies have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"), and intra-entity transactions and profits or losses have been eliminated. Entities that are controlled by SMHP, SMMC, and SCNJ through a majority voting interest are included in these combined financial statements.

Liquidity

The Companies had a net loss of $8,051 for the year ended December 31, 2022. The Companies have a cash balance of $27,515 and a working capital surplus of $72,957 as of December 31, 2022. Management believes the Companies can support themselves for one year from the date that the financial statements are available to be issued.

For the years ended December 31, 2022 and 2021, the Companies received financial assistance under the CARES Act and for the year ended December 31, 2022 the Companies recognized revenue for the Employee Retention Credit ("ERC") which increased cash flows. The recognition of these funds is further discussed in the COVID-19 Pandemic and CARES Act Funding section of this note below.

Net Patient Service Revenue

Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers, and others for services rendered, including implicit price concessions. The estimates for implicit price concessions are based upon management's assessment of historical write-offs and expected net collections; business and economic conditions; trends in federal, state and private employer health care coverage; and other collection indicators. Management relies on the results of detailed reviews of historical write-offs and collections as a primary source of information in estimating the collectability of the Companies' accounts receivable. Subsequent changes in the Companies' estimate of collectability due to a change in the financial status of a payer, for example a bankruptcy, will be recognized as bad debt expense within operating expenses in the Companies' combined statements of operations.

(Dollars in Thousands)

1. Basis of Presentation and Significant Accounting Policies (continued)

Revenues are recorded during the period the health care services are provided, based upon the estimated amounts due from the patients and third-party payers. In some cases, reimbursement is based on formulas that cannot be determined until cost reports are filed and audited or otherwise settled by the various programs.

The following is a summary of sources of net patient service revenues:

	Year Ended December 31			
	2022		**2021**	
Medicare	**$ 150,289**	**23.6%**	$ 163,472	25.1%
Medicare Managed Care	**83,365**	**13.1**	87,908	13.5
Medicaid	**62,005**	**9.8**	62,364	9.6
Medicaid Managed Care	**109,257**	**17.2**	97,171	14.9
Commercial – Contracted	**206,404**	**32.5**	221,178	33.9
Commercial – Non-Contracted	**13,805**	**2.2**	14,126	2.2
Self-pay/other	**10,240**	**1.6**	5,534	0.8
	$ 635,365	**100.0%**	$ 651,753	100.0%

The Companies' revenues generally relate to contracts with patients in which the Companies' performance obligations are to provide health care services to the patients. Revenues are recorded during the period the Companies' obligations to provide health care services are satisfied. The performance obligations are satisfied over a period of time, and revenues are recognized based on charges incurred. The Companies' performance obligations for outpatient services are generally satisfied over a period of less than one day. The contractual relationships with patients, in most cases, also involve a third-party payer, and the transaction prices for the services provided are dependent upon the terms provided by or negotiated with the third-party payers. A summary of the payment arrangements with major third-party payers is as follows:

1. Basis of Presentation and Significant Accounting Policies (continued)

Medicare

Inpatient acute care services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Medicare reimburses the Companies for covered outpatient services rendered to Medicare beneficiaries by way of an outpatient prospective payment system based on ambulatory payment classifications. The Companies' classification of patients under the Medicare program and the appropriateness of their admissions are subject to an independent review. The Companies are also paid for services rendered to Medicare managed care program beneficiaries, also known as Medicare Part C, or Medicare Advantage, where the federal government contracts with private insurers to provide members with Medicare benefits.

Inpatient non-acute services, certain outpatient services, medical education costs, and defined capital costs related to Medicare beneficiaries are paid based, in part, on a cost reimbursement methodology. The Companies are reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports and audits thereof by the Medicare fiscal intermediary. The estimated amounts due to or from the program are reviewed and adjusted annually based on the status of such audits and any subsequent appeals. Differences between final settlements and amounts accrued in previous years are reported as adjustments to net patient service revenue in the year that examination is substantially completed. These differences increased net patient service revenue by $3,390 for the year ended December 31, 2022 and were immaterial for the year ended December 31, 2021. The Companies do not believe that there are significant credit risks associated with this government agency.

Medicaid

Inpatient services rendered to Medicaid program beneficiaries are reimbursed under a prospective payment system. Outpatient services are reimbursed based on a mixture of fee schedules and a cost reimbursement methodology. The Companies are reimbursed for cost reimbursable services at tentative rates with final settlement determined after submission of annual cost reports and audits thereof by the Medicaid state auditors. The Companies also participate in Medicaid managed care arrangements. Payments for services of Medicaid beneficiaries that participate in those programs include prospectively determined rates and fee schedule payments. The estimated amounts due to or from the Medicaid state auditors are reviewed and adjusted annually based on the status

1. Basis of Presentation and Significant Accounting Policies (continued)

of such audits and any subsequent appeals. Differences between final settlements and amounts accrued in previous years are reported as adjustments to net patient service revenue in the year examination is substantially complete. These differences were immaterial for the years ended December 31, 2022 and 2021. The Companies do not believe that there are significant credit risks associated with this government agency.

Commercial Contracted

The Companies have also entered into agreements with certain commercial insurance carriers, health maintenance organizations ("HMO"s), and preferred provider organizations. The basis for payment to the Companies under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

Commercial Non-contracted

The Companies also provide their services to patients enrolled in programs of commercial insurance carriers, HMOs, and preferred provider organizations under which the Companies do not have agreements. The Companies recognize revenue for these patients based on their usual customary rates for these services, adjusted for historical trends in the Companies' reimbursement for similar services.

Laws and regulations governing the third-party payer arrangements 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. Normal estimation differences between subsequent cash collections on patient accounts receivable and net patient accounts receivable estimated in the prior year are reported as adjustments to net patient service revenue in the current period.

State and Local Supplemental Programs

In 2022 and 2021, SMMC and SMHP received additional Medicaid funding under the New Jersey County Option Hospital Fee Pilot Program ("HFPP"). This program is administered through the New Jersey Department of Human Services-Division of Medical Assistance and Health Services

1. Basis of Presentation and Significant Accounting Policies (continued)

and began in 2021 in certain counties in New Jersey. The program requires that participating hospitals pay quarterly assessed fees based on estimated Medicaid utilization data within the county, and such payments are then pooled with federal Medicaid matching funds and redistributed to the participating hospitals as State Directed Payments. The State Directed Payments are subject to annual settlement based on actual Medicaid utilization data and other factors. The program was in effect for SMMC and SMHP for the fiscal year ended December 31, 2022 and for the last six months of 2021, and resulted in fees paid of $8,722 and $4,534 and Medicaid State Directed Payments received of $24,324 and $5,447 during the years ended December 31, 2022 and 2021, respectively.

Effective July 1, 2014, the state implemented the Hospital Relief Subsidy Fund with the Delivery System Reform Incentive Payment Pool ("DSRIP"). DSRIP was available to certain hospitals that established performance improvement activities in one of eight specified clinical improvement areas. DSRIP officially ended June 30, 2020 and was replaced by the Quality Improvement Program – New Jersey ("QIP-NJ") that had a transitional year from DSRIP to QIP-NJ that ran from July 1, 2020 to June 30, 2021. QIP-NJ officially began during the period from July 1, 2021 through December 31, 2021. After December 31, 2021, the program year is January 1 through December 31.

QIP-NJ is a Medicaid pay-for-performance initiative administered by the Department of Health in partnership with the Department of Human Services. It is focused on behavioral health ("BH") and maternal child health and is open to all acute care hospitals in New Jersey. The Companies earn incentive payments through the achievement of performance targets on state-selected quality measures that demonstrate improvements in maternal care processes, reductions in maternal morbidity, improvements in connections with BH services, and reductions in potentially preventable utilization for BH population. Although many states that use similar programs may be required to pay into the program using intergovernmental transfers ("IGTs") to draw down federal matching funds – New Jersey does not require such IGTs. The Companies recognized $39,705 and $22,827 in net patient service revenue from HFPP and QIP-NJ during the years ended December 31, 2022 and 2021, respectively.

1. Basis of Presentation and Significant Accounting Policies (continued)

Charity Care

The Companies provide care to patients who lack financial resources and are deemed to be medically indigent based on criteria established under the Companies' charity care policy. This care is provided without charge or at amounts less than the Companies' established rates. Because the Companies do not pursue collection of amounts determined to qualify as charity care, such amounts are not reported as revenue. The direct and indirect costs related to this care totaled approximately $11,004 and $5,578 for the years ended December 31, 2022 and 2021, respectively. Direct and indirect costs for providing charity care are estimated by calculating a ratio of cost to gross charges and then multiplying that ratio by the gross uncompensated charges associated with providing care to charity patients. In addition, the Companies provide services to other medically indigent patients who meet certain financial criteria established by the New Jersey Department of Health without charge or at amounts that are less than the cost of the services provided to the recipients.

The Companies received funding from the Health Care Subsidy Fund to compensate for charity care. During the years ended December 31, 2022 and 2021, the Companies received $9,616 and $7,484 for charity care, respectively, which is included in net patient service revenue in the combined statements of operations. The Health Care Subsidy Fund amounts are subject to change from year to year based on available state budget amounts and allocation methodologies.

COVID-19 Pandemic and CARES Act Funding

In January 2020, the Secretary of the U.S. Department of Health and Human Services ("HHS") declared a national public health emergency due to a novel strain of coronavirus. In March 2020, the World Health Organization declared a public health emergency due to the outbreak of COVID-19. During 2020, many state and local authorities put measures in place to keep people at home, close schools and businesses, and, in many areas, temporarily paused elective procedures provided by health care organizations. While many of these measures were terminated in late 2020, certain measures remained in place throughout 2021 and 2022, across the various geographic regions where the Companies operate. The Companies cannot predict, with reasonable certainty, the impact the pandemic will have on future operations.

1. Basis of Presentation and Significant Accounting Policies (continued)

The U.S. Federal Government enacted the Coronavirus Aid, Relief, and Economic Security Act in March 2020; the Paycheck Protection Program and Health Care Enhancement Act in April 2020; the Consolidated Appropriations Act, 2021 in December 2020; and the American Rescue Plan Act of 2021 in March 2021 (together, the "Stimulus Laws"). The Stimulus Laws authorized $186,500,000 in funds to be distributed to hospitals and other healthcare providers through the Public Health and Social Services Emergency Fund (the "PHSSEF"). General and targeted payments from the PHSSEF are intended to compensate health care providers for lost revenues or increased expenses incurred in response to the COVID-19 pandemic and are not required to be repaid provided the recipients attest to and comply with certain terms and conditions, and reporting requirements, including limitations on balance billing and not using PHSSEF funds to reimburse expenses or losses that other sources are obligated to reimburse. The Stimulus Laws also include an ERC against applicable employment taxes for employers subject to closure of suspended operations as a result of COVID-19 related government orders. The Companies also received state and local government funds in response to the COVID-19 pandemic.

Payments received or receivable are recorded at fair value as government stimulus income when the Companies meet the respective terms and conditions and reporting requirements up to the amount of funds that have been received or can be reasonably estimated, not to exceed lost revenues and health-care-related expenses attributable to the coronavirus through the measurement period, as defined in the terms and conditions. On December 27, 2020, the Federal government passed the Consolidated Appropriations Act, which further clarified HHS guidance allowing for transferring certain categories of grant funds among providers within a hospital system and modified the methodology for determining lost revenues in connection with the grants. HHS issued further guidance in June 2021 clarifying the deadline to use and report on the use of funds. The guidance supported the Companies' conclusion that substantially all funds could be recognized as government stimulus income since lost revenues and increased expenses from inception of the pandemic to date exceeded funds received. The Companies received $140,278 of funds from PHSSEF and state and local governments from inception through December 31, 2022. Of these funds received, as allowed by HHS guidelines, the Companies reallocated a net $45,644 to PHSI from inception through December 31, 2022. The Companies recognized government stimulus income of $3,392 of which $3,364 is related to ERC, for the year ended December 31, 2022. The Companies recognized $22,830 of government stimulus funds during the year ended December 31, 2021. The Companies have deferred government stimulus funds related to ERC of $3,330 as of December 31, 2022, and none as of December 31, 2021. PHSI and the Companies will continue

1. Basis of Presentation and Significant Accounting Policies (continued)

to monitor the terms and conditions of the Stimulus Laws and the impact of the pandemic on revenues and expenses. If PHSI or the Companies are unable to attest or comply with current or future terms and conditions, the ability to retain some or all of the distributions received may be impacted.

As part of the pandemic relief measures, the federal government incorporated additional reimbursement to health care providers by suspending the Medicare 2% sequestration payment cut from May 1, 2020 to March 31, 2022, reducing the payment cut to 1% from April 1, 2022 to June 30, 2022, and by providing an additional 20% add-on payment for Medicare beneficiaries who were admitted to a hospital for COVID-19. As of July 1, 2022, the Medicare sequestration payment cuts of 2% were reimposed. Providers were also eligible to receive Medicare reimbursements for uninsured patients serviced for COVID-19 under the Health Resources and Services Administration ("HRSA") COVID-19 claims reimbursement program. In April of 2022, the HRSA uninsured COVID-19 program stopped accepting claims for reimbursement due to lack of funds. The Companies recorded net patient service revenues of $4,943 and $11,065 during the years ended December 31, 2022 and 2021, respectively, related to these reimbursement types.

In addition, the Stimulus Laws expanded the Medicare Accelerated and Advance Payment Program ("AAPP"). Inpatient acute care hospitals were able to request accelerated payments of up to 100% of the Medicare payment amount for a six-month period (not including Medicare Advantage payments) based on payment amounts for inpatient acute care hospitals on the provider's Medicare fee-for-service reimbursements in the last six months of 2019. Based on terms released on October 1, 2020, through the Continuing Appropriations Act, 2021 and Other Extensions Act, such accelerated payments are interest free for inpatient acute care hospitals for 29 months, and the program currently requires Centers for Medicare and Medicaid Services to recoup the payments beginning one year after receipt by the provider, by withholding future Medicare fee-for-service payments for claims at a rate of 25% for the first 11 months, and 50% for the 6 months afterward, until the full accelerated payment has been recouped. If an outstanding balance remains after 29 months, a provider must repay the balance or be subject to 100% withholding and an annual interest rate currently set at 4%. During the year ended December 31, 2020, the Companies received $77,255 of AAPP payments, of which $51,837 and $18,203 was recouped during the year ended December 31, 2022 and 2021, respectively. The Companies have $7,215 in outstanding AAPP liabilities as of December 31, 2022. The Stimulus Laws also provide for a deferral of payments of the employer portion of the Social Security ("SSI") tax required to

1. Basis of Presentation and Significant Accounting Policies (continued)

be made for the period of March 27, 2020 to December 31, 2020, allowing half of the payroll taxes to be deferred until December 2021 and the remaining half until December 2022. The Companies deferred the SSI payment from April 2020 until December 31, 2020 in the amount of $10,726. As of December 31, 2022, the Companies repaid all of the deferred SSI taxes.

Other Operating Revenue

The Companies recognize revenue from State and County grant funds for operating and offering behavioral health type services to the local communities within other operating revenue. Grant revenue is recognized at fair value as the Companies meet the terms of the agreements. Additionally, the Companies collect other operating revenue from cafeteria sales and sublease income throughout the year.

Supplies Inventory

Supplies inventory is stated at the lower of cost, determined by the average cost method, or net realizable value. Inventories consist primarily of medical and surgical supplies and pharmaceuticals.

Property and Equipment

Property and equipment is recorded at net book value, which is the original cost less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, which range from 2 to 30 years. Amortization of leasehold improvements is computed over the lesser of the lease term and the estimated useful lives of the assets and is included in depreciation and amortization expense. Equipment capitalized under finance lease obligations is amortized over the lesser of the life of the lease or the useful life of the asset. However, if there is a bargain purchase option or the ownership title of the equipment transfers to the Companies at the end of the lease term, equipment is amortized over the useful life of the asset.

1. Basis of Presentation and Significant Accounting Policies (continued)

Leases

In February 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-02, *Leases (Topic 842)*. ASU 2016-02 establishes a right-of-use ("ROU") model that requires a lessee to record a ROU asset and a lease liability on the balance sheet for all leases with terms longer than 12 months at commencement. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition on the income statement. A modified retrospective transition approach is required for lessees for finance and operating leases existing at, or entered into after, the beginning of the period of adoption presented in the financial statements, with certain practical expedients available. The Companies adopted the new ASU as of January 1, 2022. Upon adoption of ASU 2016-02, the Companies recorded $2,332 of right-of-use assets, net of deferred rent, and $2,334 of liabilities associated with operating leases on the combined balance sheet.

The Companies determine whether a contract is a lease or contains a lease at inception of the contract. ROU assets represent the Companies' right to use the underlying assets for the lease term and lease liabilities represent its obligation to make lease payments arising from the leases. ROU assets and lease liabilities are recognized at commencement date based on the present value of lease payments over the lease term. The Companies have elected to use the risk-free rate, when the rate implicit in the lease is not readily determinable. If the rate implicit in the lease is readily determinable, the Companies use such rate as their discount rate.

The Companies have elected the practical expedient packages to not reassess at adoption (a) expired or existing contracts for whether they are or contain a lease, (b) the lease classification of any existing leases, (c) initial indirect costs for existing leases, or (d) allocating consideration between lease and non-lease components.

Long-Lived Assets

The Companies review long-lived assets, including amortizable intangible assets, for impairment whenever events or changes in circumstances indicate that the carrying value of such assets may not be recoverable. The Companies consider assets to be impaired and writes them down to fair value if estimated undiscounted cash flows associated with those assets are less than their carrying

1. Basis of Presentation and Significant Accounting Policies (continued)

amounts. Fair value is based upon the present value of the associated cash flows. Changes in circumstances (for example, changes in laws or regulations, technological advances or changes in strategies) may also reduce the useful lives from initial estimates. Changes in planned use of intangibles may result from changes in customer base, contractual agreements, or regulatory requirements.

During the year ended December 31, 2021, the Companies determined that long-lived assets related to Saint Clare's Sussex Facility, which were primarily land and building, were substantially impaired, and recorded an impairment charge of $2,669 within general and administrative expense in the combined statement of operations. The Companies did not have any impairments during the year ended December 31, 2022.

Use of Estimates

The preparation of financial statements in conformity with U.S. 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 financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Principal areas requiring the use of estimates include government stimulus income and government stimulus funds receivable relating to ERC; third-party settlements; valuation of patient accounts receivable; impairment and useful lives of long-lived assets; professional liability, general liability, workers' compensation, and medical claims reserves; and reserves for legal contingencies.

Income and Other Taxes

The Companies are single member limited liability companies; therefore, they do not pay corporate income taxes on their taxable income. Their taxable income or losses are included on the PHSI consolidated income tax return. The Companies may disburse funds necessary to satisfy PHSI's tax liability.

The literature related to uncertain tax positions prescribes a recognition threshold and measurement process for accounting for uncertain tax positions and also provides guidance on various related matters such as derecognition, interest, penalties, and disclosures required.

1. Basis of Presentation and Significant Accounting Policies (continued)

The Companies are subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax period in progress. Generally, the Companies are subject to examination by U.S. federal (or state and local) income tax authorities for three years from the filing of a tax return.

Cash and Cash Equivalents

The Companies consider all highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents.

Goodwill

Goodwill represents the excess of the consideration paid and liabilities assumed over the fair value of the net assets acquired, including identifiable intangible assets. Goodwill and other indefinite-lived acquired intangible assets are not amortized but evaluated for impairment annually (October 1), or whenever events or changes in circumstances indicate that the value of a certain asset may be impaired. Generally, the Companies' evaluation begins with a qualitative assessment to determine whether a quantitative impairment test is necessary. Impairment of goodwill is tested at the reporting unit level by comparing the reporting unit's carrying amount, including goodwill, to the fair value of the reporting unit. If the Companies determine, after performing an assessment based on the qualitative factors, that the fair value of the reporting unit is more likely than not less than the carrying amount, or that a fair value of the reporting unit substantially in excess of the carrying amount cannot be assured, then a quantitative impairment test would be performed. The quantitative test for impairment requires the Companies to make judgments relating to future cash flows, growth rates, and economic and market conditions. These evaluations are based on determining the fair value of a reporting unit or asset using a valuation method such as discounted cash flows.

On October 1, 2022, the Companies fulfilled their annual goodwill impairment test through the use of a qualitative assessment to determine if it was more likely than not that the fair value of the reporting unit exceeded its carrying value, including goodwill. The Companies' qualitative approach considers the general economic conditions, the industry the entity operates, changes in the market for an entity's services, regulatory and political development, actual financial performance compared with projected results of relevant prior periods, cost factors and other entity specific events.

(Dollars in Thousands)

1. Basis of Presentation and Significant Accounting Policies (continued)

The Companies concluded no indicators of impairment were identified. No impairments related to goodwill were recognized in 2022 and 2021.

Fair Value of Financial Instruments

The Companies' combined balance sheets include the following financial instruments: cash and cash equivalents, patient accounts receivable, prepaid expenses, other current assets, related party receivables and payables, estimated third-party payer settlements, provider fee receivables and payables, accounts payable, accrued expenses, insurance claims and reserves recoverable, and insurance claims liabilities and reserves. The Companies consider the carrying amounts of current assets, and current liabilities in the combined balance sheets to approximate the fair value of these financial instruments and their expected realization.

Concentration of Credit Risk

Cash and cash equivalents are maintained at financial institutions and, generally, balances may exceed federally insured per depositor limits at each financial institution. The Companies have not experienced any losses to date related to these balances. The Companies monitor the financial condition of these institutions on an ongoing basis and do not believe any significant credit risk exists as of December 31, 2022.

At December 31, 2022 and 2021, net patient accounts receivables were comprised of the following:

	2022	**2021**
Medicare	**15.9%**	18.4%
Medicare Managed Care	**17.8**	18.5
Medicaid	**2.9**	2.8
Medicaid Managed Care	**11.6**	10.3
Commercial – contracted	**27.3**	26.9
Commercial – non-contracted	**20.2**	19.5
Self-pay/other	**4.3**	3.6

1. Basis of Presentation and Significant Accounting Policies (continued)

Management believes there are minimal credit risks associated with receivables from government programs. Receivables from managed care programs and others are from various payers who are subject to differing economic conditions and do not represent concentrated risks to the Companies. Management continually monitors and adjusts the reserves associated with receivables.

Recent Accounting Pronouncements

On June 16, 2016, the FASB issued ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, which introduced an expected credit loss methodology for the impairment of financial assets measured at amortized cost basis. That methodology replaces the probable, incurred loss model for those assets. The FASB added topic 326 and made several consequential amendments to the FASB accounting standards codification. On November 2019, the FASB issued ASU 2019-10, *Financial Instruments – Credit Losses (Topic 326) and Leases (Topic 842) Effective Dates*, which extended the adoption deadline for ASU 2016-13 from beginning on December 15, 2018, to fiscal years beginning after December 15, 2022, for private companies, including interim periods within those fiscal years. Early adoption continues to be allowed. The Companies are currently evaluating the impact of their pending adoption of the new standard on their combined financial statements.

2. Goodwill and Intangible Assets

Goodwill

Gross goodwill was $62,395 and $62,365 as of December 31, 2022 and 2021, respectively. Accumulated impairment losses as of the same balance sheet dates were $37,730.

Goodwill of $9,559 allocated to SMMC reporting unit has a negative carrying value as of December 31, 2022 and 2021.

Intangible Assets

The Companies' intangible assets consist primarily of trade names, which were acquired in connection with acquisitions, and are amortized over 15 years.

(Dollars in Thousands)

2. Goodwill and Intangible Assets (continued)

The gross carrying amount of the Companies' intangible assets was $13,685 as of December 31, 2022 and 2021, and the net carrying amount was $5,353 and $6,045 as of December 31, 2022 and 2021, respectively, and are recorded in other noncurrent assets.

The weighted average remaining amortization period for intangible assets subject to amortization is approximately eight years. There are no expected residual values related to these intangible assets.

Amortization expense on these intangible assets was $692 and $680 during the years ended December 31, 2022 and 2021, respectively. Expected amortization expense on intangible assets for the five years subsequent to December 31, 2022, and thereafter, is as follows:

Years ending December 31:		
2023	$	692
2024		692
2025		692
2026		657
2027		645
Thereafter		1,975
	$	5,353

(Dollars in Thousands)

3. Property and Equipment

Property and equipment consist of the following as of December 31:

	2022	2021
Land and improvements	**$ 36,832**	$ 36,804
Buildings and improvements	**134,737**	122,599
Equipment	**150,249**	138,543
	321,818	297,946
Less accumulated depreciation and amortization	**(176,995)**	(149,641)
	144,823	148,305
Construction-in-progress	**8,408**	12,121
	$ 153,231	$ 160,426

Depreciation expense was $27,127 and $26,814 for the years ended December 31, 2022 and 2021, respectively.

Equipment cost includes $36,352 and $43,322 of equipment under finance lease arrangements as of December 31, 2022 and 2021, respectively. Related accumulated depreciation totaled $12,145 and $16,959 as of December 31, 2022 and 2021, respectively.

4. Leases

In May 2016, in connection with the acquisition of St. Michael's Medical Center, PHSI sold the related real estate and hospital building to Medical Properties Trust ("MPT"). PHSI then leased back the real estate and hospital building for periods of ten years, with options to extend the term of the lease for two additional five-year periods. Monthly rent is based on a per annum rate of 8.50% of the lease base, subject to annual escalation of the greater of 2% or the percentage increase in the Consumer Price Index. PHSI has the right of first refusal to purchase the properties for the price that a third party offers. PHSI has the option to purchase the real estate and hospital buildings at the greater of fair market value or the allocated lease base of the applicable properties. These transactions do not qualify for sale leaseback accounting because of PHSI's deemed continuing involvement with the buyer-lessor, including the requirement to pay reserves for major repairs, which is considered a form of contingent collateral and results in the transaction being recorded under the financing method.

(Dollars in Thousands)

4. Leases (continued)

Additionally, during 2016, PHSI entered into a sale leaseback transaction with respect to St. Clare's Health System. Due to the option to purchase included in the lease, this transaction was recognized as a sale-leaseback finance obligation. Later in 2016, an additional $15,000 in financing was provided to St. Clare's LLC Boonton property. Monthly rent is based on a per annum rate of 8.67% of the lease base, subject to annual escalation of the greater of 2% or the percentage increase in the Consumer Price Index. PHSI has the right of first refusal to purchase the properties for the price that a third party offers. PHSI has the option to purchase the real estate and hospital buildings at the greater of fair market value or the allocated lease base of the applicable properties.

Rent payments, consisting of interest-only payments, were $18,073 and $17,014 for the years ended December 31, 2022 and 2021, respectively. The unamortized deferred financing costs of $2,854 was classified as a reduction of the sale-leaseback financing liability on the accompanying balance sheets.

The Companies' lease financing obligations consist of the following, before deferred financing costs:

	December 31		
Hospital	**2022**	**2021**	**Maturity Date[1]**
St. Michael's Medical Center	**$ 63,000**	$ 63,000	August 2035
St. Clare's Health System	**115,000**	115,000	August 2035
	$ 178,000	$ 178,000	

[1] Both St. Michael's Medical Center and St. Clare's Health System's leases were arranged under MPT Master Lease V (ML V). On August 14, 2020, in connection with PHSI's acquisition of St. Francis Medical Center, PHSI entered into a sale leaseback agreement with MPT under ML V, which amended its maturity date from 2031 to 2035.

The accounting for these sale-leaseback financing transactions have remained the same under ASC 842.

(Dollars in Thousands)

4. Leases (continued)

The Companies lease certain medical equipment, copiers, and medical office buildings under various noncancelable operating and finance lease arrangements. The leases have remaining lease terms of 1 year to 5 years, some of which include options to purchase the leased assets at a bargain purchase price and some of which include options to extend the leases for up to 4 years. The Companies do not record leases with an initial term of 12 months or less ("short-term leases") on the consolidated balance sheets.

Certain information related to lease expense for finance and operating leases for the year ended December 31, 2022, is as follows:

Rent and operating lease expense:		
Operating lease	$	1,355
Short-term/other		4,144
Total rent and operating lease expense	$	5,499
Finance lease expense:		
Amortization of finance lease assets	$	5,631
Interest on lease liabilities		1,006
Total finance lease expense	$	6,637

Supplemental cash flow information related to leases for the year ended December 31, 2022, is as follows:

Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows for operating leases	$	1,200
Operating cash flows for finance leases		837
Financing cash flows for finance leases		6,432
Right-of-use assets obtained in exchange for lease obligations:		
Operating leases		3,703
Finance leases		7,635

(Dollars in Thousands)

4. Leases (continued)

Supplemental balance sheet information related to leases at December 31, 2022, is as follows:

Operating leases		
Operating lease right-of-use assets	$	4,076
Operating current lease liabilities	$	1,148
Operating long-term lease liabilities		2,929
Total operating lease liabilities	$	4,077
Finance leases		
Property and equipment, gross	$	36,352
Accumulated depreciation		(12,145)
Property and equipment, net of accumulated depreciation and amortization	$	24,207
Finance lease current liabilities	$	7,178
Finance lease long-term liabilities		14,142
Total finance lease liabilities	$	21,320
Weighted average remaining lease term:		
Operating leases		3.6 years
Finance leases		3.3 years
Weighted average discount rate:		
Operating leases		2.0%
Finance leases		5.1%

(Dollars in Thousands)

4. Leases (continued)

Maturities of lease liabilities are as follows:

	Finance Lease Commitments	Operating Lease Obligation Commitments	Sale-leaseback Financing Obligation Commitments
Year ending December 31:			
2023	$ 8,105	$ 1,454	$ 19,473
2024	6,812	1,302	19,862
2025	4,334	1,194	20,259
2026	3,104	872	20,664
2027	959	272	21,078
Thereafter	–	–	362,527
Total minimum payments	23,314	5,094	463,863
Less amounts representing interest	(1,994)	(1,017)	(285,863)
	21,320	4,077	178,000
Less current portion	(7,178)	(1,148)	–
Less deferred financing cost	–	–	(2,854)
	$ 14,142	$ 2,929	$ 175,146

(Dollars in Thousands)

4. Leases (continued)

Prior to the adoption of ASU 2016-02, future minimum lease payments under noncancelable operating leases, future minimum finance lease and sale-leaseback financing payments at December 31, 2021 are presented in the following table:

	Finance Lease Commitments	Operating Lease Commitments	Sale-leaseback Financing Obligations Commitments
Years ending December 31:			
2022	$ 7,413	$ 489	$ 18,073
2023	6,272	125	18,434
2024	5,057	–	18,803
2025	2,529	–	19,179
2026	1,345	–	19,562
Thereafter	6	–	372,642
Total minimum payments	22,622	$ 614	466,693
Less amounts representing interest	(1,668)		(288,693)
	20,954		178,000
Less current portion	(6,516)		–
Less deferred financing cost	–		(3,079)
	$ 14,438		$ 174,921

Lease expense, consisting primarily of building rent and equipment leases, amounted to $5,247 for the year ended December 31, 2021.

Finance leases bear interest at rates ranging from 1.6% to 8.8% and have maturity dates through December 2027. The Companies' finance leases mainly consist of medical equipment and mostly have lease terms of five years, which include options to purchase the leased assets at a bargain purchase price.

5. Professional Liability, Workers' Compensation and Healthcare Insurance

Desert Valley Insurance, Limited ("DVIL") provides workers' compensation, professional liability, and medical insurance coverage to the Companies. DVIL is owned by Prime A Investments LLC ("Prime A"), a related party of the Companies.

Workers' Compensation Insurance

DVIL provides workers' compensation insurance on an occurrence basis. Under the terms of the policies, DVIL is obligated to insure each workers' compensation claim up to a maximum of $1,000 per claim. Losses in excess of $1,000 per claim and a $500 corridor deductible in aggregate paid losses are insured by the Safety National Insurance Company. The coverage includes a $1,000 policy limit on bodily injury by disease.

Professional Liability Insurance

DVIL provides professional liability insurance on a claims-made basis. Under this policy, insurance premiums cover only those claims actually reported during the policy term. Should the claims-made policy not be renewed or replaced with equivalent insurance, claims related to occurrences during the policy term but reported after the policy's termination may be uninsured. Under the current policy, the medical groups of the Companies are covered up to $1,000 per claim and a $3,000 general aggregate limit with no deductible. The hospitals of the Companies are covered up to $7,000 per claim with no deductible. Excess losses up to an additional $45,000 per incident and general aggregate are insured by third party insurers. The Companies renewed its claims-made policy with DVIL for the next policy year ending January 1, 2024 at an increased amount of $8,000 per claim with no deductible. Coverage for the medical groups were renewed under similar terms as the previous policy. Excess coverage with third-party insurers was increased by $20,000 per incident to $65,000 in 2023.

U.S. GAAP requires that a health care facility recognize the estimated costs of malpractice claims in the period of the incident of malpractice, if it is reasonably possible that liabilities may be incurred, and losses can be reasonably estimated. The claim reserve is based on the most recent data available to the Companies; however, the estimate is subject to a significant degree of inherent variability.

(Dollars in Thousands)

5. Professional Liability, Workers' Compensation and Healthcare Insurance (continued)

The estimate is continually monitored and reviewed, and as the reserve is adjusted, the difference is reflected in current operations. While the ultimate amount of professional liability is dependent on future developments, management is of the opinion that the associated liabilities relating to the amounts incurred but not reported before the policy's termination date, recognized in the accompanying combined financial statements within insurance claims liabilities and reserves of $7,591 and $6,601 as of December 31, 2022 and 2021, respectively, are adequate to cover such claims.

Management is not aware of any potential professional liability claims whose settlement, if any, would have a material adverse effect on the Companies' financial position.

Medical Insurance

The Companies' medical insurance is covered under the PHSI Exclusive Provider Organization program, which is a comprehensive medical plan that features PHSI's in-network providers. Premiums incurred totaled $28,543 and $30,566 for the years ended December 31, 2022 and 2021, respectively.

6. Related-Party Transactions

Related-party receivables are unsecured, non-interest bearing, and due on demand, and consist of the following as of December 31:

	2022	**2021**
Due from Prime Healthcare Foundation Inc. and subsidiaries	**$ 324**	$ 275
Due from PHSI and its other subsidiaries	**28,983**	75,676
	$ 29,307	$ 75,951

These receivable balances represent the receivables from PHSI's Exclusive Provider Organization program and receivables from allocations initiated by PHSI's treasury management system to PHSI and its other subsidiaries allowed by the guidelines released by HHS (Note 1).

(Dollars in Thousands)

6. Related-Party Transactions (continued)

Related-party payables are unsecured, non-interest bearing, due on demand, and consist of the following as of December 31:

	2022	2021
Due to Prime Healthcare Management, Inc. ("PHMI") and related entities	**$ 41,347**	$ 18,064

The Companies pay PHMI, a related party, for management services provided by PHMI. Management fees were $22,348 and $19,408 for the years ended December 31, 2022 and 2021, respectively, and are classified within professional services expense on the accompanying combined statements of operations.

The Companies entered into agreements with DVIL to provide workers' compensation insurance, professional and general liability insurance, and earthquake and flood insurance coverage. Premiums incurred totaled $9,105 and $9,132 for the years ended December 31, 2022 and 2021, respectively. The Companies' medical insurance is covered under the PHSI Exclusive Provider Organization program. Premiums incurred totaled $28,543 and $30,566 for the years ended December 31, 2022 and 2021, respectively, and are classified within compensation and employee benefits on the accompanying combined statements of operations (Note 5).

The Companies entered into a service contract with Bio-Med Services, Inc. ("BMI"), a related party under common ownership, under which BMI provides asset management services, including but not limited to repairs and maintenance of medical equipment. Service fees incurred to BMI totaled $8,348 and $8,740 for the years ended December 31, 2022 and 2021, respectively, and are classified within professional services expense on the accompanying combined statements of operations.

The Companies pay PrimEra Technologies, Inc., a related party, for outsourced IT, coding, and other revenue cycle services. Fees relating to these services totaled $3,111 and $2,942 for the years ended December 31, 2022 and 2021, respectively. These fees are classified within professional services expense on the accompanying combined statements of operations.

6. Related-Party Transactions (continued)

SMMC and SMHP pay Central Business Office, a related party, for management fees which totaled $2,566 and $2,710 for the years ended December 31, 2022 and 2021, respectively. These fees are classified within professional services expense on the accompanying combined statements of operations.

7. Retirement Savings Plan

The Companies participate in the 401(k) plan of their parent company, PHSI. The plan covers substantially all of the Companies' employees. The Companies' contribution to the plan is at the Companies' discretion but limited to the maximum amount deductible for federal income tax purposes under the applicable Internal Revenue Code. The Companies incurred contribution costs of $2,208 and $2,606 during the years ended December 31, 2022 and 2021 related to the plan.

8. Contingencies

Litigation

The Companies are subject to a variety of claims and lawsuits that arise from time to time in the ordinary course of their business, acquisitions, or other transactions. While the Companies' management currently believes that resolving all of these matters, individually or in the aggregate, will not have a material adverse impact on the Companies' financial position or results of operations, the litigation and other claims that the Companies face are subject to inherent uncertainties and management's view of these matters may change in the future. Should an unfavorable final outcome occur, there exists the possibility of a material adverse impact on the Companies' financial position, results of operations and cash flows for the period in which the effect becomes probable and reasonably estimable.

8. Contingencies (continued)

Legislation and Health Insurance Portability and Accountability Act ("HIPAA")

The health care industry is subject to numerous laws and regulations of federal, state, and local governments. Compliance with such laws and regulations can be subject to future government review and interpretation, as well as regulatory actions unknown or unasserted at this time. These laws and regulations include, but are not limited to, accreditation, licensure, government health care program participation requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Government activity has increased with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by health care providers. Violations of these laws and regulations could result in exclusion from government health care program participation, together with the imposition of significant fines and penalties, as well as significant repayment of past reimbursement received for patient services. While the Companies are subject to similar regulatory review, management believes that the outcome of any potential regulatory review will not have a material adverse effect on the Companies' combined financial position.

Management believes that the Companies are in compliance with government laws and regulations related to fraud and abuse and other applicable areas. Compliance with such laws and regulations can be subject to future governmental review and interpretation, as well as regulatory actions unknown or unasserted at this time.

HIPAA assures health insurance portability, reduces health care fraud and abuse, guarantees security and privacy of health information, and enforces standards for health information. The Health Information Technology for Economic and Clinical Health Act expanded upon HIPAA in a number of ways, including establishing notification requirements for certain breaches of protected health information. The Companies may be subject to significant fines and penalties if found not to be compliant with these federal provisions.

Labor Relations

As of December 31, 2022, the Companies had approximately 4,309 employees, of whom approximately 26% are represented by various labor organizations.

(Dollars in Thousands)

8. Contingencies (continued)

The table below shows the Companies' employees who are represented by unions as of December 31, 2022:

Facility	Employee Group	Union	Date in Which Collective Bargaining Agreement Expires
St. Michael's Medical Center	Professional and Service Employees	1199J (Guild)	April 30, 2026
St. Michael's Medical Center	Residents	Committee of Interns and Residents	August 29, 2026
St. Michael's Medical Center	Boiler Room and Maintenance Dept. Employees	International Union of Engineers ("IUOE") Local 68	April 30, 2023
St. Michael's Medical Center	Registered Nurses and Nurse Anesthetists. Technical Employees in certain departments only	Jersey Nurses Economic Security Organization ("JNESO")	May 4, 2025
St. Mary's General Hospital	Skilled Maintenance Employees	IUOE Local 68-68A-68B	August 14, 2023
St. Mary's General Hospital	Registered Nurses	JNESO	August 14, 2023
St. Mary's General Hospital	Technical Employees	JNESO	August 14, 2023

Provider Contracts

Many of the Companies' payer and provider contracts are complex in nature and may be subject to differing interpretations regarding amounts due for the provision of medical services. Such differing interpretations may not come to light until a substantial period of time has passed following contract implementation. Liabilities for claims disputes are recorded when the loss is probable and can be estimated. Any adjustments to reserves are reflected in current operations.

9. Subsequent Events

Subsequent events are events or transactions that occur after the balance sheet date but before the financial statements are available to be issued. The Companies recognize in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the balance sheet, including the estimates inherent in the process of preparing the financial statements. The Companies' financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the balance sheet but arose after the balance sheet date and before financial statements are available to be issued; however, such events are subject to disclosure. The Companies have evaluated subsequent events through April 28, 2023, which is the date the financial statements were available to be issued.

Supplementary Information

Prime Healthcare Services, Inc. – New Jersey Hospitals
and Controlled Entities

Supplementary Information – Combining Balance Sheets
(Dollars in Thousands)

December 31, 2022

	SMHP	SCNJ	SMMC	Eliminations	Combined
Assets					
Current assets:					
Cash and cash equivalents	$ 2,809	$ 13,314	$ 11,392	$ –	$ 27,515
Patient accounts receivable	21,407	44,508	19,295	–	85,210
Third-party payer settlements	1,041	1,692	2,600	–	5,333
Provider fee receivable	9,300	4,929	5,145	–	19,374
Supplies inventory	4,829	4,086	2,936	–	11,851
Prepaid expenses	346	2,451	1,313	–	4,110
Insurance claims and reserves recoverable	1,615	3,733	815	–	6,163
Related-party receivables	–	74,521	57	(45,271)	29,307
Other current assets	1,999	5,847	3,693	(195)	11,344
Total current assets	43,346	155,081	47,246	(45,466)	200,207
Property and equipment, net of accumulated depreciation and amortization	47,270	71,337	34,624	–	153,231
Right of use assets (operating leases)	691	1,903	1,482	–	4,076
Insurance claims and reserves recoverable, net of current portion	6,220	11,062	3,981	–	21,263
Goodwill	119	14,987	9,559	–	24,665
Other noncurrent assets	–	2,486	2,926	–	5,412
Total assets	$ 97,646	$ 256,856	$ 99,818	$ (45,466)	$ 408,854

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Prime Healthcare Services, Inc. – New Jersey Hospitals
and Controlled Entities

Supplementary Information – Combining Balance Sheets (continued)

(Dollars in Thousands)

December 31, 2022

	SMHP	SCNJ	SMMC	Eliminations	Combined
Liabilities and member's equity					
Current liabilities:					
Accounts payable	$ 5,310	$ 20,011	$ 8,878	$ (28)	$ 34,171
Accrued expenses	4,509	17,117	7,070	(167)	28,529
Insurance claims liabilities and reserves	1,615	3,733	815	–	6,163
Related-party payables	59,107	1,639	25,872	(45,271)	41,347
Third-party payer settlements	578	816	101	–	1,495
Medicare advances	–	5,316	1,899	–	7,215
Current portion of finance leases	1,116	4,085	1,977	–	7,178
Current portion of operating leases	271	465	412	–	1,148
Current portion of long-term debt	–	–	4	–	4
Total current liabilities	72,506	53,182	47,028	(45,466)	127,250
Long-term liabilities:					
Sale-leaseback financing obligation	–	112,814	62,332	–	175,146
Insurance claims liabilities and reserves, net of current portion	8,094	13,865	6,894	–	28,853
Finance leases, net of current portion	2,535	7,290	4,317	–	14,142
Operating leases, net of current portion	419	1,436	1,074	–	2,929
Other long-term liabilities	479	9,965	5,469	–	15,913
Total long-term liabilities	11,527	145,370	80,086	–	236,983
Equity (deficit):					
Member's equity (deficit)	13,613	58,304	(37,446)	–	34,471
Noncontrolling interest	–	–	10,150	–	10,150
Total equity (deficit)	13,613	58,304	(27,296)	–	44,621
Total liabilities and equity (deficit)	$ 97,646	$ 256,856	$ 99,818	$ (45,466)	$ 408,854

Prime Healthcare Services, Inc. – New Jersey Hospitals and Controlled Entities

Supplementary Information – Combining Statements of Operations

(Dollars in Thousands)

Year Ended December 31, 2022

	SMHP	SCNJ	SMMC	Eliminations	Combined
Revenue					
Net patient service revenue	$ 156,669	$ 299,735	$ 178,961	$ –	$ 635,365
Other operating revenue	4,587	9,927	6,806	(2,291)	19,029
Net revenue	161,256	309,662	185,767	(2,291)	654,394
Government stimulus income	633	2,294	465	–	3,392
Net revenue and government stimulus income	161,889	311,956	186,232	(2,291)	657,786
Operating expenses					
Compensation and employee benefits	75,807	161,361	86,764	–	323,932
General and administrative	13,876	27,890	17,440	–	59,206
Supplies	21,848	33,421	31,950	–	87,219
Professional services	37,915	54,714	49,700	(1,956)	140,373
Depreciation and amortization	6,313	10,004	11,502	–	27,819
Rent and lease	912	3,080	1,842	(335)	5,499
	156,671	290,470	199,198	(2,291)	644,048
Income (loss) from operations	5,218	21,486	(12,966)	–	13,738
Interest expense	(161)	(13,336)	(7,149)	–	(20,646)
Other nonoperating income (loss)	50	(1,216)	23	–	(1,143)
Net income (loss)	5,107	6,934	(20,092)	–	(8,051)
Net income attributable to noncontrolling interest	–	–	(1,019)	–	(1,019)
Net income (loss) attributable to controlling interest	$ 5,107	$ 6,934	$ (21,111)	$ –	$ (9,070)

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Prime Healthcare Services, Inc. – New Jersey Hospitals
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Supplementary Information – Combining Statements of Member's Equity (Deficit)

(Dollars in Thousands)

	SMHP Member's Equity	SCNJ Member's Equity	SMMC Member's Deficit	Noncontrolling Interest	Combined Equity
Balance, December 31, 2021	$ 8,506	$ 51,370	$ (16,335)	$ 9,131	$ 52,672
Controlling interest in net income (loss)	5,107	6,934	(21,111)	–	(9,070)
Noncontrolling interest in net income	–	–	–	1,019	1,019
Balance, December 31, 2022	$ 13,613	$ 58,304	$ (37,446)	$ 10,150	$ 44,621

Prime Healthcare Services, Inc. – New Jersey Hospitals and Controlled Entities

Supplementary Information – Combining Statements of Cash Flows

(Dollars in Thousands)

Year Ended December 31, 2022

	SMHP	SCNJ	SMMC	Eliminations	Combined
Operating activities					
Net income (loss)	$ 5,107	$ 6,934	$ (20,092)	$ –	$ (8,051)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:					
Depreciation and amortization	6,313	10,004	11,502	–	27,819
Right-of-use asset amortization	272	468	415	–	1,155
Gain on sale of assets	–	(101)	–	–	(101)
Amortization of deferred financing costs	–	172	53	–	225
Changes in assets and liabilities:					
Patient accounts receivable	(2,370)	3,445	5,946	–	7,021
Supplies inventory	(1,578)	(709)	92	–	(2,195)
Prepaid expenses	200	1,024	(157)	–	1,067
Other assets	(1,127)	(3,318)	(1,006)	(1,140)	(6,591)
Related-party receivables/payables, net	19,019	20,491	30,417	–	69,927
Accounts payable	(1,381)	6,355	1,127	1	6,102
Operating lease obligation	(278)	(485)	(437)	–	(1,200)
Accrued expenses, insurance claims liabilities and reserves, net, and other long-term liabilities	(3,132)	(7,670)	(3,529)	1,139	(13,192)
Medicare advances	(9,062)	(24,960)	(17,815)	–	(51,837)
Third-party payer settlements and provider fee receivable	(7,466)	(5,979)	(5,377)	–	(18,822)
Net cash provided by operating activities	4,517	5,671	1,139	–	11,327
Investing activities					
Purchases of property and equipment	(3,336)	(5,698)	(2,938)	–	(11,972)
Proceeds from sale of property and equipment	–	101	–	–	101
Net cash used in investing activities	(3,336)	(5,597)	(2,938)	–	(11,871)
Financing activities					
Payments on long-term debt	(31)	(8)	(11)	–	(50)
Payments on finance lease obligations	(1,018)	(3,992)	(1,422)	–	(6,432)
Net cash used in financing activities	(1,049)	(4,000)	(1,433)	–	(6,482)
Increase (decrease) in cash and cash equivalents	132	(3,926)	(3,232)	–	(7,026)
Cash and cash equivalents at beginning of year	2,677	17,240	14,624	–	34,541
Cash and cash equivalents at end of year	$ 2,809	$ 13,314	$ 11,392	$ –	$ 27,515
Supplemental cash flow information					
Cash paid during the year for interest	$ 165	$ 13,163	$ 7,100	$ –	$ 20,428
Supplemental disclosure of noncash investing and financing activities					
Financing obligations incurred for the acquisition of property and equipment	$ 1,248	$ 3,969	$ 2,418	$ –	$ 7,635
Property, plant, and equipment included in accounts payable	$ 1,305	$ 289	$ 144	$ –	$ 1,738

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