Audited Combined Financial Statements And Supplementary Information

Prime Healthcare Services, Inc. – New Jersey Hospitals
and Controlled Entities
Years Ended December 31, 2023 and 2022
With Report of Independent Auditors

Ernst & Young LLP

Building a better
working world

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

Audited Combined Financial Statements and
Supplementary Information

Years Ended December 31, 2023 and 2022

Contents

Report of Independent Auditors 1

Audited Combined Financial Statements

Combined Balance Sheets 4
Combined Statements of Operations....6
Combined Statements of Member's Equity 7
Combined Statements of Cash Flows 8
Notes to Combined Financial Statements 9

Supplementary Information

Supplementary Information – Combining Balance Sheet....35
Supplementary Information – Combining Statement of Operations 37
Supplementary Information – Combining Statement of Member's Equity (Deficit)....38
Supplementary Information – Combining Statement of Cash Flows....39

Report of Independent Auditors on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards* 40

Ernst & Young LLP
99 Wood Avenue South
Metropark
Iselin, NJ 08830-0471

Tel: +1 732 516 4200
Fax: +1 732 516 4429
ey.com

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, 2023 and 2022, and the related combined statements of operations, member's equity, 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, 2023 and 2022, 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) and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States *(Government Auditing Standards)*. 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 and *Government Auditing Standards* 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 and *Government Auditing Standards,* 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 sheet as of December 31, 2023, and the related combining statements of operations, member's equity (deficit), and cash flows for the year then ended 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 audit 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 GAAS. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 29, 2024 on our consideration of the Companies' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Companies' internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Companies' internal control over financial reporting and compliance.

Ernst & Young LLP

April 29, 2024

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

Combined Balance Sheets

(Dollars in Thousands)

	December 31	
	2023	**2022**
Assets		
Current assets:		
Cash and cash equivalents	**$ 21,183**	$ 27,515
Patient accounts receivable	**84,922**	85,210
Third-party payer settlements	**3,728**	5,333
Provider fee receivable	**27,647**	19,374
Supplies inventory	**13,141**	11,851
Prepaid expenses	**2,580**	4,110
Insurance claims and reserves recoverable	**7,073**	6,163
Related-party receivables	**21,223**	29,307
Other current assets	**10,207**	11,344
Total current assets	**191,704**	200,207
Property and equipment, net of accumulated depreciation and amortization	**152,013**	153,231
Right-of-use assets (operating leases)	**3,959**	4,076
Insurance claims and reserves recoverable, net of current portion	**22,532**	21,263
Goodwill	**24,665**	24,665
Other noncurrent assets	**4,821**	5,412
Total assets	**$ 399,694**	$ 408,854

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	
	2023	**2022**
Liabilities and member's equity		
Current liabilities:		
Accounts payable	**$ 29,295**	$ 34,171
Accrued expenses	**26,122**	28,529
Insurance claims liabilities and reserves	**7,073**	6,163
Related-party payables	**51,826**	41,347
Third-party payer settlements	**465**	1,495
Medicare advances	**–**	7,215
Current portion of finance leases	**7,903**	7,178
Current portion of operating leases	**1,408**	1,148
Current portion of long-term debt	**–**	4
Total current liabilities	**124,092**	127,250
Long-term liabilities:		
Sale-leaseback financing obligation	**175,372**	175,146
Insurance claims liabilities and reserves, net of current portion	**30,769**	28,853
Finance leases, net of current portion	**14,152**	14,142
Operating leases, net of current portion	**2,593**	2,929
Other long-term liabilities	**22,198**	15,913
Total long-term liabilities	**245,084**	236,983
Equity:		
Member's equity	**20,236**	34,471
Noncontrolling interest	**10,282**	10,150
Total equity	**30,518**	44,621
Total liabilities and equity	**$ 399,694**	$ 408,854

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	
	2023	**2022**
Revenue		
Net patient service revenue	**$ 650,487**	$ 635,365
Other operating revenue	**26,043**	19,029
Net revenue	**676,530**	654,394
Government stimulus income	**–**	3,392
Net revenue and government stimulus income	**676,530**	657,786
Operating expenses		
Compensation and employee benefits	**345,807**	323,932
General and administrative	**61,698**	59,206
Supplies	**86,987**	87,219
Professional services	**140,011**	140,373
Depreciation and amortization	**28,783**	27,819
Rent and lease	**5,539**	5,499
	668,825	644,048
Income from operations	**7,705**	13,738
Interest expense	**(21,866)**	(20,646)
Other nonoperating income (loss)	**58**	(1,143)
Net loss	**(14,103)**	(8,051)
Net income attributable to noncontrolling interest	**(132)**	(1,019)
Net loss attributable to controlling interest	**$ (14,235)**	$ (9,070)

See accompanying notes to combined financial statements.

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

Combined Statements of Member's Equity

(Dollars in Thousands)

	Member's Equity	Noncontrolling Interest	Total Equity
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
Controlling interest in net loss	**(14,235)**	**–**	**(14,235)**
Noncontrolling interest in net income	**–**	**132**	**132**
Balance, December 31, 2023	**$ 20,236**	**$ 10,282**	**$ 30,518**

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 2023	December 31 2022
Operating activities		
Net loss	**$ (14,103)**	$ (8,051)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	**28,783**	27,819
Right-of-use asset amortization	**1,610**	1,155
Gain on sale of assets	**(350)**	(101)
Amortization of deferred financing costs	**–**	225
Changes in assets and liabilities:		
Patient accounts receivable	**288**	7,021
Supplies inventory	**(1,290)**	(2,195)
Prepaid expenses	**1,530**	1,067
Other assets	**1,503**	(6,591)
Related-party receivables/payables, net	**18,563**	69,927
Accounts payable	**(4,564)**	6,102
Operating lease obligations	**(1,569)**	(1,200)
Accrued expenses; insurance claims liabilities and reserves, net; and other long-term liabilities	**4,525**	(13,192)
Medicare advances	**(7,215)**	(51,837)
Third-party payer settlements and provider fee receivable	**(7,698)**	(18,822)
Net cash provided by operating activities	**20,013**	11,327
Investing activities		
Purchases of property and equipment	**(18,436)**	(11,972)
Proceeds from sale of property and equipment	**–**	101
Net cash used in investing activities	**(18,436)**	(11,871)
Financing activities		
Payments on long-term debt	**(4)**	(50)
Payments on finance lease obligations	**(7,905)**	(6,432)
Net cash used in financing activities	**(7,909)**	(6,482)
Net decrease in cash and cash equivalents	**(6,332)**	(7,026)
Cash and cash equivalents at beginning of year	**27,515**	34,541
Cash and cash equivalents at end of year	**$ 21,183**	$ 27,515
Supplemental cash flow information		
Cash paid during the year for interest	**$ 19,782**	$ 20,428
Supplemental disclosure of noncash investing and financing activities		
Property, plant, and equipment included in accounts payable	**$ 312**	$ 1,738

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, and 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 30 acute care hospitals in communities across the United States. PHSI is the sole member of 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 314 licensed beds; Saint Clare's Boonton Hospital, with 104 licensed beds; and Saint Clare's Dover Hospital, with 109 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, which retains the majority voting interest with four of the six 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 $14,103 for the year ended December 31, 2023. The Companies have a cash balance of $21,183 and a working capital surplus of $67,612 as of December 31, 2023. In accordance with Accounting Standards Update ("ASU") 2014-15, *Presentation of Financial Statements – Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern*, management is required to perform a two-step analysis over the Companies' ability to continue as a going concern. Management must first evaluate whether there are conditions and events that raise substantial doubt about the Companies' ability to continue as a going concern for a period of 12 months from the date the financial statements are available to be issued. If management concludes that substantial doubt is raised, management is also required to consider whether it plans to alleviate that doubt.

As a result of the purchase of leased facilities in April 2024 (see Note 9 for additional information), the Companies incurred short-term indebtedness of $100,000 due in December 2024. PHSI has agreed to fully support the Companies to meet their obligations as they become due through at least one year and a day beyond April 30, 2024. Management believes that this agreement to support the Companies alleviates substantial doubt regarding their ability to continue as a going concern.

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

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 on the Companies' combined statements of operations.

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.

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.

(Dollars in Thousands)

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

The following is a summary of sources of net patient service revenues. The Companies do not believe there are significant credit risks associated with these government agencies or commercial payers.

	Year Ended December 31			
	2023		**2022**	
Medicare	**$ 143,127**	**22.0%**	$ 150,289	23.6%
Medicare Managed Care	**86,944**	**13.4**	83,365	13.1
Medicaid	**67,666**	**10.4**	62,005	9.8
Medicaid Managed Care	**113,394**	**17.4**	109,257	17.2
Commercial – contracted	**211,510**	**32.5**	206,404	32.5
Commercial – non-contracted	**14,238**	**2.2**	13,805	2.2
Self-pay/other	**13,608**	**2.1**	10,240	1.6
	$ 650,487	**100.0%**	$ 635,365	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:

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.

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

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 $5,023 and $3,390 for the years ended December 31, 2023 and 2022, respectively.

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 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 decreased net patient service revenue by $311 for the year ended December 31, 2023, and were immaterial for the year ended December 31, 2022.

Commercial Contracted

The Companies have also entered into agreements with certain commercial insurance carriers, health maintenance organizations (“HMOs”), 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.

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

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.

State and Local Supplemental Programs

In 2023 and 2022, SMMC and SMHP received additional Medicaid funding under the New Jersey County Option Hospital Fee Pilot Program. This program is administered through the New Jersey Department of Human Services – Division of Medical Assistance and Health Services. 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. This program resulted in fees incurred of $7,805 and $8,722 and Medicaid State Directed Payments recognized of $28,224 and $24,324 during the years ended December 31, 2023 and 2022, respectively.

Quality Improvement Program – New Jersey ("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 the 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 $15,438 and $15,381 in net patient service revenue from QIP-NJ during the years ended December 31, 2023 and 2022, 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 $15,137 and $11,004 for the years ended December 31, 2023 and 2022, 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, 2023 and 2022, the Companies recognized $9,540 and $9,616 of funding under this program, respectively, which is included in net patient service revenue on 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

Since the outbreak of COVID-19 and the resulting pandemic in early 2020, the Companies have seen various impacts to their operations and financial results. Various programs and laws have been enacted by the U.S. federal government ("Stimulus Laws") that have helped lessen the impact on the Companies' results of operations. On May 11, 2023, the U.S. federal government declared an end to the COVID-19 federal public health emergency. This included an end to any remaining programs that had been in place to mitigate the COVID-19 impact on the Companies. The Companies did not recognize any government stimulus income for the year ended December 31, 2023. The Companies recognized government stimulus income of $3,392, of which $3,364 is related to Employee Retention Credits ("ERC"), for the year ended December 31, 2022. The Companies had receivables of $2,327 and $3,364 and deferred revenue of $552 and $0 as of December 31, 2023 and 2022, respectively, as a result of the ERC component of the Stimulus Laws.

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

In addition, the Stimulus Laws expanded the Medicare Accelerated and Advance Payment Program ("AAPP"), which allowed the Companies to receive accelerated payments of $77,255 in 2020, of which $7,215 and $51,837 was recouped during the years ended December 31, 2023 and 2022, respectively. The Companies have no outstanding AAPP liabilities as of December 31, 2023.

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

The Companies implemented ASU 2016-02, *Leases (Topic 842)*, effective as of January 1, 2022. Under ASU 2016-02, the Companies determine whether a contract is a lease or contains a lease at inception of a contract. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition on the statement of operations. The Companies account for operating leases based on a right-of-use ("ROU") model that requires a lessee to record an ROU asset and a lease liability on the balance sheet for all leases with terms longer than 12 months at commencement. The ROU asset represents the Companies' right to use the underlying assets for the lease term and lease liabilities represent their 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 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 its discount rate. Upon adoption of ASU 2016-02, the Companies recorded $2,332 of ROU assets, net of deferred rent, and $2,334 of liabilities associated with operating leases on the combined balance sheets.

Finance leases are included in property and equipment, and in current and long-term liabilities on the combined balance sheets.

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 write them down to fair value if estimated undiscounted cash flows associated with those assets are less than their carrying 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.

The Companies did not have any impairments of long-lived assets during the years ended December 31, 2023 or 2022.

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

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. 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.

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

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, 2023, the Companies fulfilled their annual goodwill impairment test through the use of a qualitative assessment to determine whether it was more likely than not that the fair values of their reporting units exceeded their carrying values, including goodwill. The Companies' qualitative approach considers the general economic conditions, the industry in which 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. The Companies concluded no indicators of impairment were identified. No impairments related to goodwill were recognized in 2023 or 2022.

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, current liabilities, and other long-term liabilities on the combined balance sheets to approximate the fair value of these financial instruments and their expected realization.

(Dollars in Thousands)

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

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, 2023.

Net patient accounts receivable was composed of the following programs:

	December 31	
	2023	**2022**
Medicare	**13.7%**	15.9%
Medicare Managed Care	**21.2%**	17.8%
Medicaid	**3.3%**	2.9%
Medicaid Managed Care	**12.0%**	11.6%
Commercial – contracted	**22.3%**	27.3%
Commercial – non-contracted	**23.0%**	20.2%
Self-pay/other	**4.5%**	4.3%

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.

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

Recent Accounting Pronouncements

On June 16, 2016, the Financial Accounting Standards Board ("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. In November 2019, the FASB issued ASU 2019-10, *Financial Instruments – Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), 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. The Companies adopted this standard effective January 1, 2023. This adoption did not have a material impact on the Companies' combined financial position or results of operations.

2. Goodwill and Intangible Assets

Goodwill

Gross goodwill was $62,395 as of December 31, 2023 and 2022. Accumulated impairment losses as of the same balance sheet dates were $37,730.

Goodwill of $9,559 was allocated to the SMMC reporting unit, which has a negative carrying value as of December 31, 2023 and 2022.

Intangible Assets

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

The gross carrying amount of the Companies' intangible assets was $13,886 and $13,685 as of December 31, 2023 and 2022, respectively, and the net carrying amount was $4,792 and $5,353 as of December 31, 2023 and 2022, respectively, which are recorded in other noncurrent assets.

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

(Dollars in Thousands)

2. Goodwill and Intangible Assets (continued)

Amortization expense on these intangible assets was $768 and $692 during the years ended December 31, 2023 and 2022, respectively. Expected amortization expense on intangible assets for the five years subsequent to December 31, 2023, and thereafter, is as follows:

Year ending December 31:		
2024	$	760
2025		710
2026		675
2027		664
2028		653
Thereafter		1,330
	$	4,792

3. Property and Equipment

Property and equipment consist of the following:

	December 31			
		2023		2022
Land and improvements	**$**	**36,851**	$	36,832
Buildings and improvements		**146,967**		134,737
Equipment		**164,453**		150,249
		348,271		321,818
Less accumulated depreciation and amortization		**(204,818)**		(176,995)
		143,453		144,823
Construction-in-progress		**8,560**		8,408
	$	**152,013**	$	153,231

Depreciation expense was $28,015 and $27,127 for the years ended December 31, 2023 and 2022, respectively.

4. Leases

In May 2016, in connection with the acquisition of St. Michael's Medical Center, SMMC sold the related real estate and hospital building to Medical Properties Trust ("MPT"). SMMC 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.

Additionally, during 2016, SCNJ entered into a sale-leaseback transaction with respect to Saint Clare's Health System by selling the related real estate and hospital buildings to MPT. SCNJ then leased back the real estate and hospital buildings for a term of 15 years, with options to extend the term of the lease for three additional five-year periods. 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.

Both of the above leases have been recorded as sale-leaseback financing obligations as sale-leaseback accounting has been precluded due to the presence of purchase options, rights of first refusal, and/or optional extensions that cover substantially all of the remaining economic lives of the facilities.

Rent payments, consisting of interest-only payments, were $19,473 and $18,073 for the years ended December 31, 2023 and 2022, respectively. The unamortized deferred financing costs were $2,628 and $2,854 for the years ended December 31, 2023 and 2022, respectively, and are recorded as a reduction of the sale-leaseback financing liability on the accompanying balance sheets.

(Dollars in Thousands)

4. Leases (continued)

The Companies' sale-leaseback financing obligations consist of the following, before deferred financing costs:

Hospital	December 31 2023	December 31 2022	Maturity Date[1]
Saint Michael's Medical Center	**$ 63,000**	$ 63,000	August 2035
Saint Clare's Health System	**115,000**	115,000	August 2035
	$ 178,000	$ 178,000	

[1] Both Saint Michael's Medical Center and Saint 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 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 one year to five 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 four years. The Companies do not record leases with an initial term of 12 months or less ("short-term leases") on the combined balance sheets.

Certain information related to lease expense for finance and operating leases is as follows:

	Year Ended December 31 2023	Year Ended December 31 2022
Rent and operating lease expense		
Operating lease	**$ 2,556**	$ 1,355
Short term/other	**2,983**	4,144
Total rent and operating lease expense	**$ 5,539**	$ 5,499
Finance lease expense		
Amortization of finance lease assets	**$ 5,936**	$ 5,631
Interest on lease liabilities	**1,121**	1,006
Total finance lease expense	**$ 7,057**	$ 6,637

(Dollars in Thousands)

4. Leases (continued)

Supplemental cash flow information related to leases is as follows:

	Year Ended December 31	
Cash paid for amounts included in the measurement of lease liabilities	**2023**	**2022**
Operating cash flows for operating leases	**$ 1,569**	$ 1,200
Operating cash flows for finance leases	**1,121**	837
Financing cash flows for finance leases	**7,905**	6,432
Total cash paid for amounts involved in the measurement of lease liabilities	**$ 10,595**	$ 8,469

	Year Ended December 31	
Right-of-use assets obtained in exchange for lease obligations	**2023**	**2022**
Operating leases	**$ 1,493**	$ 3,703
Finance leases	**8,640**	7,635
Total right-of-use assets obtained in exchange for lease obligations	**$ 10,133**	$ 11,338

Supplemental balance sheet information related to leases is as follows:

	December 31	
Operating leases	**2023**	**2022**
Operating lease right-of-use assets	**$ 3,959**	$ 4,076
Operating current lease liabilities	**$ 1,408**	$ 1,148
Operating long-term lease liabilities	**2,593**	2,929
Total operating lease liabilities	**$ 4,001**	$ 4,077

(Dollars in Thousands)

4. Leases (continued)

Finance leases	**December 31 2023**	**2022**
Property and equipment, gross	**$ 43,255**	$ 36,352
Accumulated depreciation	**(16,527)**	(12,145)
Property and equipment, net of accumulated depreciation and amortization	**$ 26,728**	$ 24,207
Finance lease current liabilities	**$ 7,903**	$ 7,178
Finance lease long-term liabilities	**14,152**	14,142
Total finance lease liabilities	**$ 22,055**	$ 21,320

	December 31 2023	**2022**
Weighted Average Remaining Lease Term		
Operating leases	**2.8 years**	3.6 years
Finance leases	**3.5 years**	3.3 years
Weighted Average Discount Rate		
Operating leases	**2.3%**	2.0%
Finance leases	**5.8%**	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:			
2024	$ 9,012	$ 1,453	$ 20,104
2025	6,563	1,375	20,506
2026	5,068	930	20,916
2027	2,783	309	21,334
2028	1,155	–	21,761
Thereafter	5	–	335,830
Total minimum payments	24,586	4,067	440,451
Less amounts representing interest	(2,531)	(66)	(262,451)
	22,055	4,001	178,000
Less current portion	(7,903)	(1,408)	–
Less deferred financing cost	–	–	(2,628)
	$ 14,152	$ 2,593	$ 175,372

5. Professional Liability, Workers' Compensation, and Health Care Insurance

Desert Valley Insurance, Limited ("DVIL") provides workers' compensation, professional liability and general liability, earthquake and flood, and employee medical claims stop loss insurance coverage to the Companies. DVIL is owned by Prime A Investments LLC, 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.

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

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 $8,000 per claim with no deductible. Excess losses up to an additional $65,000 per incident and general aggregate are insured by third-party insurers. The Companies renewed their claims-made policies with DVIL for the policy year ending January 1, 2025, at an increased amount of $8,000 per claim with no deductible. Coverage for the medical groups was renewed under similar terms as the previous policy. Excess coverage with third-party insurers was increased by $5,000 per incident to $70,000 in 2024.

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.

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 $8,237 and $7,591 as of December 31, 2023 and 2022, 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' combined financial position.

(Dollars in Thousands)

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

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 $28,599 and $28,543 for the years ended December 31, 2023 and 2022, respectively, and are classified within compensation and employee benefits on the accompanying statements of operations.

6. Related-Party Transactions

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

	December 31	
	2023	**2022**
Due from Prime Healthcare Foundation Inc. and subsidiaries	**$ 501**	$ 324
Due from PHSI and its other subsidiaries	**20,722**	28,983
	$ 21,223	$ 29,307

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 (see Note 1).

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

	December 31	
	2023	**2022**
Due to Prime Healthcare Management, Inc. ("PHMI") and related entities	**$ 51,826**	$ 41,347

The Companies pay PHMI, a related party, for management services provided by PHMI. Management fees were $24,984 and $22,348 for the years ended December 31, 2023 and 2022, respectively, and are classified within professional services expense on the accompanying combined statements of operations.

6. Related-Party Transactions (continued)

The Companies also pay PHMI for central business office services, which totaled $5,364 and $5,432 for the years ended December 31, 2023 and 2022, respectively. These fees 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 $9,116 and $9,105 for the years ended December 31, 2023 and 2022, respectively. The Companies' medical insurance is covered under the PHSI Exclusive Provider Organization program. Premiums incurred totaled $28,599 and $28,543 for the years ended December 31, 2023 and 2022, respectively (see 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 $9,467 and $8,348 for the years ended December 31, 2023 and 2022, 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 $5,822 and $3,111 for the years ended December 31, 2023 and 2022, 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 $2,223 and $2,208 during the years ended December 31, 2023 and 2022, respectively, 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' combined financial position, results of operations, and cash flows for the period in which the effect becomes probable and reasonably estimable.

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.

(Dollars in Thousands)

8. Contingencies (continued)

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, 2023, the Companies had approximately 4,288 employees, of whom approximately 26% are represented by various labor organizations.

The table below shows the Companies' employees who are represented by unions as of December 31, 2023:

Facility	Employee Group	Union	Date on Which Collective Bargaining Agreement Expires
Saint Michael's Medical Center	Professional and Service Employees	1199J (Guild)	April 30, 2026
Saint Michael's Medical Center	Residents	Committee of Interns and Residents	August 29, 2026
Saint Michael's Medical Center	Boiler Room and Maintenance Dept. Employees	International Union of Engineers ("IUOE") Local 68	April 30, 2028
Saint 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, 2028
St. Mary's General Hospital	Registered Nurses	JNESO	August 14, 2026
St. Mary's General Hospital	Technical Employees	JNESO	August 14, 2026

8. Contingencies (continued)

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 29, 2024, which is the date the financial statements were available to be issued.

On April 9, 2024, SCNJ repurchased all the Saint Clare's Health System properties under ML V from MPT for a purchase price of $147,000. Prior to this transaction, these properties were recorded by the Companies as a sale-leaseback financing obligation with a carrying amount of $115,000. This purchase price was comprised of $47,000 of cash with the remaining $100,000 payable to MPT pursuant to the terms of a promissory note (the "Promissory Note"), dated April 9, 2024, with interest payments due monthly based on an interest rate of 9.89% per annum that will adjust to 12.00% per annum on October 1, 2024, through the maturity date of the Promissory Note, December 31, 2024, at which time the principal balance is due. The Promissory Note is collateralized by the Saint Clare's Health System repurchased properties.

9. Subsequent Events (continued)

Additionally, on April 9, 2024, SMMC and MPT agreed to amend Master Lease IV (“ML IV”) to include the real estate and hospital buildings of Saint Michael’s Medical Center previously under ML V. The new lease base for these assets under ML IV is $77,000 with an interest rate of 11.26% per annum, subject to annual escalation of the greater of 2% or the percentage increase in the Consumer Price Index. Prior to this transaction, these properties were recorded by SMMC as a sale-leaseback financing obligation of $63,000. The amended ML IV includes a repurchase option that only allows for the repurchase of the properties in ML IV as a group. If the election to repurchase these properties takes place on or prior to August 26, 2028, the repurchase price for the SMMC properties is $77,000. If an election to repurchase is made after that date, the price applicable to the SMMC properties will be $84,000. ML IV was also amended with a new termination date of April 2044.

Supplementary Information

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

Supplementary Information – Combining Balance Sheet

(Dollars in Thousands)

December 31, 2023

	SMHP	SCNJ	SMMC	Eliminations	Combined
Assets					
Current assets:					
Cash and cash equivalents	$ 1,480	$ 6,670	$ 13,033	$ –	$ 21,183
Patient accounts receivable	21,221	49,076	14,625	–	84,922
Third-party payer settlements	1,423	584	1,721	–	3,728
Provider fee receivable	9,374	8,296	9,977	–	27,647
Supplies inventory	5,459	4,209	3,473	–	13,141
Prepaid expenses	568	1,415	597	–	2,580
Insurance claims and reserves recoverable	1,861	4,011	1,201	–	7,073
Related-party receivables	–	71,058	57	(49,892)	21,223
Other current assets	2,911	5,174	2,684	(562)	10,207
Total current assets	44,297	150,493	47,368	(50,454)	191,704
Property and equipment, net of accumulated depreciation and amortization	46,255	78,057	27,701	–	152,013
Right-of-use assets (operating leases)	662	2,221	1,076	–	3,959
Insurance claims and reserves recoverable, net of current portion	5,506	11,795	5,231	–	22,532
Goodwill	119	14,987	9,559	–	24,665
Other noncurrent assets	131	2,138	2,552	–	4,821
Total assets	$ 96,970	$ 259,691	$ 93,487	$ (50,454)	$ 399,694

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

Supplementary Information – Combining Balance Sheet (continued)

(Dollars in Thousands)

December 31, 2023

	SMHP	SCNJ	SMMC	Eliminations	Combined
Liabilities and member's equity					
Current liabilities:					
Accounts payable	$ 6,827	$ 14,415	$ 8,170	$ (117)	$ 29,295
Accrued expenses	5,128	13,497	7,942	(445)	26,122
Insurance claims liabilities and reserves	1,860	4,011	1,202	–	7,073
Related-party payables	49,246	4,965	47,507	(49,892)	51,826
Third-party payer settlements	287	79	99	–	465
Current portion of finance leases	1,333	4,707	1,863	–	7,903
Current portion of operating leases	328	705	375	–	1,408
Total current liabilities	65,009	42,379	67,158	(50,454)	124,092
Long-term liabilities:					
Sale-leaseback financing obligation	–	112,987	62,385	–	175,372
Insurance claims liabilities and reserves, net of current portion	7,680	14,892	8,197	–	30,769
Finance leases, net of current portion	2,354	9,053	2,745	–	14,152
Operating leases, net of current portion	332	1,553	708	–	2,593
Other long-term liabilities	1,270	14,812	6,116	–	22,198
Total long-term liabilities	11,636	153,297	80,151	–	245,084
Equity (deficit):					
Member's equity (deficit)	20,325	64,015	(64,104)	–	20,236
Noncontrolling interest	–	–	10,282	–	10,282
Total equity (deficit)	20,325	64,015	(53,822)	–	30,518
Total liabilities and equity (deficit)	$ 96,970	$ 259,691	$ 93,487	$ (50,454)	$ 399,694

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

Supplementary Information – Combining Statement of Operations

(Dollars in Thousands)

Year Ended December 31, 2023

	SMHP	SCNJ	SMMC	Eliminations	Combined
Revenue					
Net patient service revenue	$ 163,236	$ 315,214	$ 172,037	$ –	$ 650,487
Other operating revenue	10,668	10,970	7,516	(3,111)	26,043
Net revenue and government stimulus income	173,904	326,184	179,553	(3,111)	676,530
Operating expenses					
Compensation and employee benefits	83,311	169,546	92,950	–	345,807
General and administrative	14,576	30,337	16,785	–	61,698
Supplies	21,791	32,748	32,448	–	86,987
Professional services	39,324	59,678	43,914	(2,905)	140,011
Depreciation and amortization	7,403	9,861	11,519	–	28,783
Rent and lease	699	3,783	1,263	(206)	5,539
	167,104	305,953	198,879	(3,111)	668,825
Income (loss) from operations	6,800	20,231	(19,326)	–	7,705
Interest expense	(186)	(14,189)	(7,491)	–	(21,866)
Other nonoperating income (loss)	98	(331)	291	–	58
Net income (loss)	6,712	5,711	(26,526)	–	(14,103)
Net income attributable to noncontrolling interest	–	–	(132)	–	(132)
Net income (loss) attributable to controlling interest	$ 6,712	$ 5,711	$ (26,658)	$ –	$ (14,235)

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

Supplementary Information – Combining Statement 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, 2022	$ 13,613	$ 58,304	$ (37,446)	$ 10,150	$ 44,621
Controlling interest in net income (loss)	6,712	5,711	(26,658)	–	(14,235)
Noncontrolling interest in net income	–	–	–	132	132
Balance, December 31, 2023	$ 20,325	$ 64,015	$ (64,104)	$ 10,282	$ 30,518

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

Supplementary Information – Combining Statement of Cash Flows

(Dollars in Thousands)

Year Ended December 31, 2023

	SMHP	SCNJ	SMMC	Eliminations	Combined
Operating activities					
Net income (loss)	$ 6,712	$ 5,711	$ (26,526)	$ –	$ (14,103)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:					
Depreciation and amortization	7,403	9,861	11,519	–	28,783
Right-of-use asset amortization	362	807	441	–	1,610
Gain on sale of assets	(51)	(8)	(291)	–	(350)
Changes in assets and liabilities:					
Patient accounts receivable	186	(4,568)	4,670	–	288
Supplies inventory	(630)	(123)	(537)	–	(1,290)
Prepaid expenses	(222)	1,036	716	–	1,530
Other assets	(1,092)	846	1,382	367	1,503
Related-party receivables/payables, net	(9,861)	6,789	21,635	–	18,563
Accounts payable	1,506	(5,595)	(386)	(89)	(4,564)
Operating lease obligation	(363)	(768)	(438)	–	(1,569)
Accrued expenses; insurance claims liabilities and reserves, net; and other long-term liabilities	1,710	1,520	1,573	(278)	4,525
Medicare advances	–	(5,316)	(1,899)	–	(7,215)
Third-party payer settlements and provider fee receivable	(747)	(2,997)	(3,954)	–	(7,698)
Net cash provided by operating activities	4,913	7,195	7,905	–	20,013
Investing activities					
Purchases of property and equipment	(5,025)	(9,170)	(4,241)	–	(18,436)
Net cash used in investing activities	(5,025)	(9,170)	(4,241)	–	(18,436)
Financing activities					
Payments on long-term debt	–	–	(4)	–	(4)
Payments on finance lease obligations	(1,217)	(4,669)	(2,019)	–	(7,905)
Net cash used in financing activities	(1,217)	(4,669)	(2,023)	–	(7,909)
(Decrease) increase in cash and cash equivalents	(1,329)	(6,644)	1,641	–	(6,332)
Cash and cash equivalents at beginning of year	2,809	13,314	11,392	–	27,515
Cash and cash equivalents at end of year	$ 1,480	$ 6,670	$ 13,033	$ –	$ 21,183
Supplemental cash flow information					
Cash paid during the year for interest	$ 116	$ 12,758	$ 6,908	$ –	$ 19,782
Supplemental disclosure of noncash investing and financing activities					
Property, plant, and equipment included in accounts payable	$ (10)	$ –	$ 322	$ –	$ 312

Ernst & Young LLP
99 Wood Avenue South
Metropark
Iselin, NJ 08830-0471

Tel: +1 732 516 4200
Fax: +1 732 516 4429
ey.com

Report of Independent Auditors on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*), the combined financial statements of Prime Healthcare Services, Inc. – New Jersey Hospitals and Controlled Entities, which comprise the combined balance sheets as of December 31, 2023, and the related combined statements of operations, member's equity, and cash flows for the year then ended, and the related notes (collectively referred to as the "financial statements"), and have issued our report thereon dated April 29, 2024.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Prime Healthcare Services, Inc. – New Jersey Hospitals and Controlled Entities internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Prime Healthcare Services, Inc. – New Jersey Hospitals and Controlled Entities' internal control. Accordingly, we do not express an opinion on the effectiveness of Prime Healthcare Services, Inc. – New Jersey Hospitals and Controlled Entities' internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether Prime Healthcare Services, Inc. – New Jersey Hospitals and Controlled Entities' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Ernst & Young LLP

April 29, 2024

EY | Building a better working world

EY exists to build a better working world, helping to create long-term value for clients, people and society and build trust in the capital markets.

Enabled by data and technology, diverse EY teams in over 150 countries provide trust through assurance and help clients grow, transform and operate.

Working across assurance, consulting, law, strategy, tax and transactions, EY teams ask better questions to find new answers for the complex issues facing our world today.

ey.com