Audited Combined Financial Statements
and Supplementary Information

Prime Healthcare Services, Inc. – New Jersey Hospitals
and Controlled Entities
Year Ended December 31, 2020
With Report of Independent Auditors

Ernst & Young LLP

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and Controlled Entities

Audited Combined Financial Statements and
Supplementary Information

Year Ended December 31, 2020

Contents

Building a better working world

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Report of Independent Auditors

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

We have audited the accompanying combined financial statements of Prime Healthcare Services, Inc. – New Jersey Hospitals and Controlled Entities (collectively, "the Companies"), which comprise the combined balance sheet as of December 31, 2020, and the related combined statement of income, equity (deficit), and cash flows for the year then ended, and the related notes to the combined financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in conformity with U.S. generally accepted accounting principles; this includes 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

Building a better working world

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the combined financial position of Prime Healthcare Services, Inc. – New Jersey Hospitals and Controlled Entities at December 31, 2020, and the combined results of their operations and their cash flow for the year then ended, in conformity with U.S. generally accepted accounting principles.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the combined financial statements as a whole. The accompanying combining balance sheet as of December 31, 2020, and the related combining statement of income, equity (deficit), and cash flow 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 combined 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

June 21, 2021

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

Combined Balance Sheet

(Dollars in Thousands)

December 31, 2020

Assets	
Current assets:	
Cash and cash equivalents	$ 48,084
Patient accounts receivable	73,684
Third-party payor settlements	4,649
Provider fee receivable	10,187
Supplies inventory	10,049
Prepaid expenses and other current assets	12,028
Insurance claims and reserves recoverable	9,241
Related-party receivables	36,209
Total current assets	204,131
Property and equipment, net of accumulated depreciation and amortization	170,381
Insurance claims and reserves recoverable, net of current portion	24,321
Goodwill	24,635
Other assets	7,530
Total assets	$ 430,998

See accompanying notes to combined financial statements.

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

Combined Balance Sheet (continued)

(Dollars in Thousands)

December 31, 2020

Liabilities and equity	
Current liabilities:	
Accounts payable	$ 24,351
Accrued expenses	38,493
Insurance claims liabilities and reserves	9,241
Related-party payables	24,439
Third-party payor settlements	9,156
Current portion of medicare advances	19,159
Current portion of capital leases	10,633
Current portion of long-term debt	148
Total current liabilities	135,620
Long-term liabilities:	
Sale leaseback liabilities	174,708
Insurance claims liabilities and reserves, net of current portion	30,566
Medicare advances, net of current portion	58,096
Capital leases, net of current portion	13,557
Long-term debt, net of current portion	54
Other long-term liabilities	17,677
Total long-term liabilities	294,658
Equity:	
Member's deficit	(6,369)
Noncontrolling interest	7,089
Total equity	720
Total liabilities and equity	$ 430,998

See accompanying notes to combined financial statements.

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

Combined Statement of Operations

(Dollars in Thousands)

December 31, 2020

Revenue		
Net patient service revenue	$	541,143
Other operating revenue		25,448
Net revenue		566,591
Government stimulus income		68,412
Net revenue and government stimulus income		635,003
Operating expenses		
Compensation and employee benefits		330,344
General and administrative		44,603
Supplies		86,430
Professional services		108,159
Depreciation and amortization		26,820
Rent and lease		5,260
		601,616
Income from operations		33,387
Interest expense		(22,709)
Other nonoperating loss		(570)
Net income	$	10,108
Less: Net income attributable to noncontrolling interest		(2,050)
Net income attributable to controlling interest	$	8,058

See accompanying notes to combined financial statements.

Combined Statement of Equity (Deficit)

(Dollars in Thousands, Except Share Data)

	Member's Deficit	Noncontrolling Interest	Total
Balance, December 31, 2019	$ (14,427)	$ 5,039	$ (9,388)
Controlling interest in net income	8,058	–	8,058
Noncontrolling interest in net income	–	2,050	2,050
Balance, December 31, 2020	$ (6,369)	$ 7,089	$ 720

See accompanying notes to combined financial statements.

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

Combined Statement of Cash Flows

(Dollars in Thousands)

Year Ended December 31, 2020

Operating activities		
Net income	$	10,108
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization		26,820
Gain on sale of assets		–
Intangible and goodwill impairment		–
Other		–
Amortization of deferred financing costs		310
Net realized and unrealized loss (gain) on investments		–
Changes in assets and liabilities:		
Patient accounts receivable		4,657
Supplies inventory		32
Prepaid expenses and other current assets		(4,637)
Other assets		(44)
Related-party receivables/payables		(76,859)
Accounts payable		(2,480)
Accrued expenses, insurance claims liabilities and reserves, and other long-term liabilities		13,892
Medical claims payable		–
Medicare advances and deferred government stimulus funds		77,254
Third-party payor settlements and provider fee receivable		3,183
Net cash provided by operating activities		52,236
Investing activities		
Purchase of property and equipment		(17,970)
Proceeds from sale of assets		
Purchases of investments		
Proceeds from sale of investments		
Net cash used in investing activities		(17,970)
Financing activities		
Payments of loan issuance costs		–
(Repayments) borrowings on revolving credit facility		–
Payments on long-term debt		(149)
Payments on capital lease obligations		(11,229)
Advances on related party notes receivable		–
Proceeds from long-term debt borrowing		–
Payments on related-party note		–
Contribution from non-controlling interests		–
Cash distributions		–
Net cash used in financing activities		(11,378)
Increase in cash and cash equivalents		22,888
Cash and cash equivalents at beginning of year		25,196
Cash and cash equivalents at end of year	$	48,084

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

Combined Statement of Cash Flows – (continued)

(Dollars in Thousands)

Year Ended December 31, 2020

Supplemental cash flow information		
Cash paid during the year for:		
Interest	$	21,183
Supplemental disclosure of noncash investing and financing activities		
Financing obligations incurred for the acquisition of property and equipment	$	8,878
Property, plant, and equipment included in accounts payable	$	361

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 that are in the state of New Jersey. These five hospitals, their wholly owned medical groups, a wholly owned home health entity, and a managed clinic ("SMC"), all of which are in the state of New Jersey are collectively called the "Companies". Prime Healthcare Services, Inc. ("PHSI"), the parent company of SMHP, SMMC and SCNJ, owns and operates 31 acute care hospitals in communities across the United States, of which the Companies are wholly owned or controlled subsidiaries. PHSI is the sole member of the LLC's and has no limitation to its member liability.

SCNJ is a community hospital system located in Morris and Sussex Counties, 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 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 and 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 dba Peter Ho Clinic is a not-for-profit clinic created in 2016 and is an HIV/AIDS treatment clinic located in the state of New Jersey. The clinic provides comprehensive medical services, case management, psychological services, nutrition counseling, and substance abuse counseling for people who are HIV positive or contracted AIDS. The clinic is managed by SMMC, SMMC retains the majority interest with 4 of the 5 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 ("US 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 net income of $10,108 for the year ended December 31, 2020. The Companies have a cash balance of $48,084 as of December 31, 2020 and a working capital surplus of $68,511. The Companies have a combined related party payable of $24,439 as of December 31, 2020. PHSI has the necessary resources to fund the future operations of the Companies and has provided a commitment to support the operations of the Companies through June 30, 2022.

In 2020, the Companies received financial assistance under the CARES Act including advance payments of Medicare funds that increased cash flows. The recognition of these funds is further discussed below.

Revenue Recognition

Net Patient Service Revenue

Under Accounting Standards Update ("ASU") 2014-09, *Revenue from Contracts with Customers* (Topic 606), net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, 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 our accounts receivable. Subsequent changes in our

(Dollars in Thousands)

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

estimate of collectability due to a change in the financial status of a payor, for example a bankruptcy, is recognized as bad debt expense within operating expenses in our combined statement 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 payors. 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. See below for further discussion of the Companies' contracts with customers under Topic 606.

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

	Year Ended December 31 2020	
Medicare	$ 134,413	24.9%
Medicare Managed Care	74,832	13.8
Medicaid	52,582	9.7
Medicaid Managed Care	72,966	13.5
Commercial – Contracted	183,803	34.0
Commercial – Non-Contracted	15,259	2.8
Self-pay/other	7,288	1.3
Total	$ 541,143	100.0%

The Companies' revenues generally relate to contracts with patients in which the Companies' performance obligations are to provide health care services to patients. Revenues are recorded during the period the Companies' obligations to provide health care services are satisfied. The performance obligations are satisfied over time as services are provided, and revenues are recognized based on charges incurred. Our 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 payor and the transaction prices for the services provided

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

are dependent upon the terms provided by or negotiated with the third-party payors. A summary of the payment arrangements with major third-party payors 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.

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 examination is substantially completed. These differences decreased net patient service revenue by $8,896 for the year ended December 31, 2020. 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

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

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. 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, 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.

Commercial Noncontracted

The Companies also provide their services to patients enrolled in programs of commercial insurance carriers, health maintenance organizations 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' payment for similar services.

Laws and regulations governing the third-party payor 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.

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

State Supplemental Programs

Effective July 1, 2014, the state replaced the Hospital Relief Subsidy Fund with the Delivery System Reform Incentive Payment Pool ("DSRIP"). DSRIP is available to certain hospitals that can establish performance improvement activities in one of eight specified clinical improvement areas. DSRIP covers the period of July 1 to June 30 of each fiscal year and is part of the dynamic Medicaid delivery system reform, and part of the broader Section 1115 Waiver program that provides a better way to deliver Medicaid funding to hospitals. Following the initial project period, the subsidy can be adjusted positively or negatively depending on the performance during a fiscal period. Such adjustments are processed prospectively.

Although many states that use a similar DSRIP program may be required to pay into the program using intergovernmental transfers ("IGTs") in order to draw down federal matching funds – New Jersey does not require such IGTs because DSRIP is included in the Federal Medicaid budget. The Companies recognized $10,583 in net patient service revenue during the period ended December 31, 2020.

Charity Care

The Companies provides 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 $2,508 for the year ended December 31, 2020. 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.

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

The Health Care Subsidy Fund was established by the State of New Jersey to provide a mechanism and funding source to compensate hospitals for charity care. During the year ended December 31, 2020, the Companies received $6,273 for charity care, which is included in net patient service revenue in the Combined Statement 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 placed measures 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 have been lifted in 2020, certain measures remain in place as of December 31, 2020, across various geographic regions. The Company cannot predict, with reasonable certainty, the impact the pandemic will have on future operations.

The U.S. Federal Government enacted the Coronavirus Aid, Relief, and Economic Security ("CARES") Act and Paycheck Protection Program and Health Care Enhancement ("PPPHCE") Acts on March 27, 2020 and April 24, 2020, respectively. The CARES and PPPHCE Acts established the Public Health and Social Services Emergency Fund (the "PHSSEF") authorizing a total of $175,000,000 of funds to be distributed to health care providers. 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 Companies also received state and local government funds in response to the COVID-19 pandemic.

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

Payments received or receivable are recorded at fair value as government stimulus income when the Companies meets the respective terms and conditions and reporting requirements up to the amount of funds that has been received or can be reasonably estimated not to exceed lost revenues and healthcare related expenses attributable to the coronavirus through the measurement period, as such terms are defined in the terms and conditions. Funds received exceeding lost revenues and increased expenses were recorded as deferred government stimulus funds, current liability, until lost revenues or healthcare related expenses attributable to the coronavirus exceed receipts. 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. The Companies received $134,614 of funds from PHSSEF of which $68,412 was recognized as government stimulus income for the year ended December 31, 2020. As allowed by the guidelines released by the HHS, the funds received were transferred to PHSI as of December 31, 2020. HHS allows for PHSI to allocate the targeted distribution received to any of its other subsidiaries that are eligible health care providers. PHSI and the Companies will continue to monitor the terms and conditions of the CARES Act funding 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.

In addition, the CARES Act provides for an expansion of the Medicare Accelerated and Advance Payment Program for a six-month period to be repaid through withholding of future fee-for-service payments beginning one year after the payments was issued. After such one-year period, Medicare payments owed to providers will be recouped according to the repayment terms. Based on the 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 (seven months for medical groups), and the program currently requires CMS 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 afterwards, until the full accelerated payment has been recouped. The program currently requires any outstanding balance remaining after 29 months to be repaid by the provider or be subject to an interest rate currently set at 4%. During the year ended December 31, 2020, the Companies received $77,255 of accelerated Medicare payments, of which $19,159 is estimated to be recouped within one year from December 31, 2020 and is recorded within the current portion of Medicare advances and $58,096 within the Medicare advances, net of current portion.

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

The CARES Act also provides for a deferral of payments of the employer portion of the Social Security tax incurred through December 31, 2020, allowing half of the payroll taxes to be deferred until December 2021 and the remaining half until December 2022. The Companies elected to adopt starting April 2020. As of December 31, 2020, the Companies recorded a deferred total of $10,726 of Social Security taxes, of which $5,363 is recorded within accrued expenses and $5,363 within other long-term liabilities.

As allowed by the guidelines released by the Department of Human Health Services (“HHS”), the funds received were transferred to PHSI as of December 31, 2020. HHS allows for PHSI to allocate the targeted distribution received to any of its other subsidiaries that are eligible health care providers. PHSI and the Company continues to monitor the terms and conditions of the CARES Act funding and the impact of the pandemic on revenues and expenses. If PHSI or the Company is 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.

Allowance for Contractual Adjustments and Implicit Price Concessions

In evaluating the collectability of patient accounts receivable, the Companies analyze past history and identifies trends for each of its major payor sources of revenue to estimate the appropriate allowances for both contractual adjustments and implicit price concessions. Management regularly reviews data about these major payor sources of revenue in evaluating the sufficiency of these allowances. For receivables associated with self-pay patients, the Companies record an estimate for implicit price concessions in the period of service based on its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the expected rates (or the discounted rates, if negotiated) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against an allowance account and included net of patient accounts receivable.

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

Other Operating Revenue

The Companies recognize revenue from State and County grants 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. Supplies inventory consists 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 3 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 capital lease obligations are 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 lease term, equipment is amortized over the useful life of the asset.

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 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

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

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. There were no impairments of long-lived assets recorded during the year ended December 31, 2020.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States 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 third-party settlements, valuation of patient accounts receivable, depreciation and amortization of long-lived assets, professional and general liability claims, and reserves for legal contingencies.

Income and Other Taxes

The Companies are single member limited liability companies, therefore, 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 provides guidance on various related matters such as de-recognition, interest, penalties, and disclosure 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.

Management evaluates goodwill for impairment on an annual basis (October 1) and whenever events and changes in circumstances suggest that the carrying amount may not be recoverable. 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.

At October 1, 2020, the Companies fulfilled its 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 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. The Companies concluded no indicators of impairment were identified. No impairments related to goodwill was recognized in 2020.

Fair Value of Financial Instruments

The Companies' combined balance sheets includes the following financial instruments: cash and cash equivalents, patient accounts receivable, prepaid expenses and other current assets, related party receivables and payables, estimated third-party payor 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.

(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 limits of $250 per depositor of each financial institution. The Companies have not experienced any losses to date related to these balances. Management monitors the financial condition of these institutions on an ongoing basis and does not believe any significant credit risk exists as of December 31, 2020.

At December 31, 2020, net patient accounts receivables were comprised of the following programs:

Medicare	20.4%
Medicare Managed Care	21.0
Medicaid	2.7
Medicaid Managed Care	10.3
Commercial – Contracted	32.2
Commercial – Non-Contracted	9.0
Self-Pay/Other	4.4
	100.0%

Management believes there are minimal credit risks associated with receivables from government programs. Receivables from managed care programs and others are from various payors 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

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. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the statements of operations. In July 2018, the FASB issued ASU 2018-11, *Leases (Topic 842) Targeted*

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

Improvements, to provide another transition method in addition to the existing modified retrospective transition approach, by allowing entities to initially apply the new leases standard at the adoption date for the Companies and recognize a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. In June 2020 the FASB issued ASU 2020-05, *Revenue from Contracts with Customers (Topic 606) and Leases (Topic 842)*, the amendments in this update defer the effective date for one year for entities in the "all other" category and public NFP entities that have not yet issued their financial statements (or made financial statements available for issuance) reflecting the adoption of leases. Therefore, under the amendments, the adoption is effective for fiscal years beginning after December 15, 2021, and interim period within fiscal years beginning after December 15, 2022. Early application continues to be permitted, which means that an entity may choose to implement leases before those deferred effective dates. The Companies do not plan to early adopt and are currently evaluating the impact of their pending adoption of the new standard on their combined financial statements. The Companies plan to elect 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 or (c) initial indirect costs for existing leases.

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),* 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 do not plan to early adopt and are currently evaluating the impact of their pending adoption of the new standard on their combined financial statements.

(Dollars in Thousands)

2. Goodwill and Intangible Assets

Goodwill

Gross goodwill as December 31, 2020, was $62,365 and accumulated impairment losses as of December 31, 2020 were $37,730, for a net goodwill balance of $24,635.

Goodwill of $9,559 allocated to SMMC reporting unit has an accumulated deficit as of December 31, 2020.

Intangible Assets

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

The gross carrying amount of the Companies' trade names was $13,453 and the net carrying amount was $6,493 as of December 31, 2020, and are recorded in other assets (non-current).

The weighted average remaining amortization period for intangible assets subject to amortization is approximately 10 years as of December 31, 2020. There are no expected residual values related to these intangible assets.

Amortization expense on these intangible assets was $645 for the year ended December 31, 2020. Expected amortization expense on intangible assets for the five years subsequent to December 31, 2020, and thereafter, are as follows:

Years ending December 31:		
2021	$	645
2022		645
2023		645
2024		645
2025		645
Thereafter		3,268
	$	6,493

(Dollars in Thousands)

3. Property and Equipment

Property and equipment consist of the following:

	December 31, 2020
Land	$ 37,503
Buildings and improvements	120,286
Equipment	127,991
Construction-in-progress	7,694
	293,474
Accumulated depreciation and amortization	(123,093)
	$ 170,381

Depreciation expense was $26,175 for the year ended December 31, 2020.

Equipment cost includes $62,151 of equipment under capital lease arrangements as of December 31, 2020. Related accumulated depreciation totaled $28,986 as of December 31, 2020.

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 defined as 8.50% of the lease base, subject to annual escalation of the greater of 2% or 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 finance obligation. Later in 2016, an additional $15,000 in financing was provided to St. Clare's LLC Boonton property. Monthly rent is defined as 8.67% of the lease base, subject to annual escalation of the greater of 2% or 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 $16,680 for the year ended December 31, 2020. The unamortized deferred financing costs of $3,221 was classified as a reduction of the sales leaseback liability on the accompanying balance sheets.

The Companies' sale leaseback liabilities consist of the following as of December 31, 2020, before unamortized loan costs:

Hospital	2020 Monthly Rent	December 31 2020	Maturity Date[1]
St. Michael's Medical Center	$ 486	$ 63,000	August 2035
St. Clare's Health System	904	115,000	August 2035
	$ 1,390	$ 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.

Lease expense, consisting primarily of building rent and equipment leases, amounted to $5,260 for the year ended December 31, 2020.

Capital leases bear interest at rates ranging from 2.5% to 8.2% and have maturity dates through December 2025.

(Dollars in Thousands)

4. Leases (continued)

Future minimum lease payments under non-cancelable operating leases (with initial or remaining lease terms in excess of one year), future minimum capital leases payments, and future sale leaseback payments as of December 31, 2020, are as follows:

	Capital Leases	Operating Lease Commitments	Sale Leaseback Commitments
Years ending December 31:			
2021	$ 11,618	$ 9,195	$ 17,014
2022	5,643	7,019	17,354
2023	4,501	6,106	17,701
2024	3,346	5,256	18,056
2025	841	3,753	18,417
Thereafter	–	14,239	376,207
Total minimum payments	25,949	$ 45,568	464,749
Less: amounts representing interest	(1,759)		(286,820)
	24,190		177,929
Less: current portion	(10,633)		–
Less: deferred financing cost	–		(3,221)
	$ 13,557		$ 174,708

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, 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 an additional $500 corridor deductible in aggregate paid loss 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 Healthcare 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. The Company is covered up to $6,000 per claim with no deductible. Excess losses from $6,000 up to $46,000 per incident and general aggregate are insured by third party insurers. The Company renewed its claims-made policy with DVIL for the next policy year ending January 1, 2022, increasing the coverage up to $7,000 per claim with no deductible, and keeping the excess coverage with third party insurers the same.

U.S. generally accepted accounting principles (US 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 consolidated financial statements within insurance claims liabilities and reserves of $6,246 as of December 31, 2020, 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 the PHSI's in-network providers. Premiums incurred totaled $31,209 for the year ended December 31, 2020.

(Dollars in Thousands)

6. Related-Party Transactions

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

	December 31, 2020
Due from Prime Healthcare Foundation Inc. and subsidiaries	$ 84
Due from PHSI and its other subsidiaries	36,125
	$ 36,209

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

	December 31, 2020
Due to Prime Healthcare Management, Inc. ("PHMI") and related entities	$ 24,439
	$ 24,439

The Companies pay PHMI, a related party, for management services provided by PHMI. Management fees were $21,904 for the year ended December 31,2020 and are classified within professional services expense on the accompanying combined statement of operations.

The Companies entered into agreements with DVIL to provide workers' compensation, professional and general liability insurance, earthquake and flood insurance coverage, and healthcare insurance for employees (see Note 5). Premiums incurred totaled $9,659 for the year ended December 31, 2020 and are classified within compensation and employee benefits and general and administrative expense on the accompanying combined statement of operations.

6. Related-Party Transactions (continued)

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 $8,278 for the year ended December 31, 2020 and are classified within professional services expense on the accompanying combined statement 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 $2,519 for the year ended December 31, 2020. These fees are classified within professional services expense on the accompanying combined statement of operations.

SMMC and SMHP pay the Central Business Office, a related party, for management fees which totaled $2,379 for the year ended December 31, 2020. These fees are classified within purchase services expense on the accompanying combined statement 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 made contributions of $2,514 to the plan during the year ended December 31, 2020.

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

8. Contingencies (continued)

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.

Legislation and The 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 for past amounts for received 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' financial position.

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.

Labor Relations

As of December 31, 2020, the Companies had approximately 4,900 employees, of whom approximately 25% 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, 2020:

Facility	Employee Group	Union	Date in Which Collective Bargaining Agreement Expires
St. Michael's Medical Center	Professional Employees	1199J (Guild)	May 1, 2022
St. Michael's Medical Center	Service Employees	1199J (Service)	May 1, 2022
St. Michael's Medical Center	Residents	Committee of Interns and Residents	August 29, 2022
St. Michael's Medical Center	Boiler Room and Maintenance Dept. Employees	International Union of Engineers Local 68	April 30, 2023
St. Michael's Medical Center	All Registered Nurses and Nurse Anesthetists. Technical Employees in certain departments only.	Jersey Nurses Economic Security Organization "JNESO"	May 4, 2022
St. Mary's Hospital – Passaic	Skilled Maintenance Employees	International Union of Engineers Local 68-68A-68B	August 14, 2023
St. Mary's Hospital – Passaic	Registered Nurses	JNESO	August 14, 2023
St. Mary's Hospital – Passaic	Technical Employees	JNESO	August 14, 2023

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 June 21, 2021, 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 Sheet
(Dollars in Thousands)

As of December 31, 2020

	SMHP	SCNJ	SMMC	Eliminations	Combined
Assets					
Current assets:					
Cash and cash equivalents	$ 372	$ 31,928	$ 15,784	$	$ 48,084
Patient accounts receivable	16,666	36,743	20,275	–	73,684
Third-party payor settlements	765	333	3,551	–	4,649
Provider fee receivable	689	5,431	4,067	–	10,187
Supplies inventory	3,701	3,352	2,996	–	10,049
Prepaid expenses and other current assets	1,840	4,135	6,053	–	12,028
Insurance claims and reserves recoverable	3,246	5,105	890	–	9,241
Related-party receivables	–	57,087	3,670	(24,548)	36,209
Total current assets	27,279	144,114	57,286	(24,548)	204,131
Property and equipment, net of accumulated depreciation and amortization	52,532	74,223	43,626	–	170,381
Insurance claims and reserves recoverable, net of current portion	7,782	13,356	3,183	–	24,321
Goodwill	89	14,987	9,559	–	24,635
Other assets	300	5,644	4,292	(2,706)	7,530
Total assets	$ 87,982	$ 252,324	$ 117,946	$ (27,254)	$ 430,998

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

Supplementary Information – Combining Balance Sheet (continued)

(Dollars in Thousands)

As of December 31, 2020

	SMHP	SCNJ	SMMC	Eliminations	Combined
Liabilities and equity					
Current liabilities:					
Accounts payable	$ 4,100	$ 12,218	$ 8,033	$ –	$ 24,351
Accrued expenses	6,479	20,173	11,841	–	38,493
Insurance claims liabilities and reserves	3,246	5,105	890	–	9,241
Related-party payables	46,242	1,403	1,342	(24,548)	24,439
Third-party payor settlements	701	747	7,708	–	9,156
Medicare advances	5,711	6,316	7,132	–	19,159
Current portion of capital leases	1,003	5,820	3,810	–	10,633
Current portion of long-term debt	32	91	25	–	148
Total current liabilities	67,514	51,873	40,781	(24,548)	135,620
Long-term liabilities:					
Sale leaseback liabilities	–	112,482	62,226	–	174,708
Insurance claims liabilities and reserves, net of current portion	8,905	15,685	5,976	–	30,566
Medicare advances, net of current portion	9,691	29,725	18,680	–	58,096
Capital leases, net of current portion	2,147	7,355	4,055	–	13,557
Long-term debt, net of current portion	31	8	15	–	54
Other long-term liabilities	1,167	13,355	5,861	(2,706)	17,677
Total long-term liabilities	21,941	178,610	96,813	(2,706)	294,658
Equity (deficit):					
Member's equity (deficit)	(1,473)	21,841	(26,737)	–	(6,369)
Noncontrolling interest	–	–	7,089	–	7,089
Total member's equity (deficit)	(1,473)	21,841	(19,648)	–	720
Total liabilities and equity (deficit)	$ 87,982	$ 252,324	$ 117,946	$ (27,254)	$ 430,998

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

Supplementary Information – Combining Statement of Income

(Dollars in Thousands)

Year Ended December 31, 2020

	SMHP	SCNJ	SMMC	Eliminations	Combined
Revenue					
Net patient service revenue	$ 117,908	$ 261,747	$ 161,488	$ –	$ 541,143
Other operating revenue	3,590	14,769	9,619	(2,530)	25,448
Net revenue	121,498	276,516	171,107	(2,530)	566,591
Government stimulus income	9,143	28,168	31,101	–	68,412
Net revenue and government stimulus income	130,641	304,684	202,208	(2,530)	635,003
Operating expenses					
Compensation and employee benefits	71,792	162,822	95,730	–	330,344
General and administrative	9,172	26,168	9,276	(13)	44,603
Supplies	21,074	30,924	34,432	–	86,430
Professional services	24,749	48,817	36,770	(2,177)	108,159
Depreciation and amortization	7,462	10,674	8,684	–	26,820
Rent and lease	954	3,609	1,037	(340)	5,260
	135,203	283,014	185,929	(2,530)	601,616
Income (loss) from operations	(4,562)	21,670	16,279	–	33,387
Interest income (expense)	13	(14,790)	(7,932)	–	(22,709)
Other nonoperating loss	(19)	(551)	–	–	(570)
Net (loss) income	$ (4,568)	$ 6,329	$ 8,347	$ –	$ 10,108

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

Supplementary Information – Combining Statement of Equity (Deficit)

(Dollars in Thousands, Except Share Data)

	SMHP Member's Deficit	SCNJ Member's Equity	SMMC Member's Deficit	Noncontrolling Interest	Eliminations	Combined Equity
Balance, December 31, 2019	$ 3,095	$ 15,512	$ (33,034)	$ 5,039	$ –	$ (9,388)
Controlling interest in net income (loss)	(4,568)	6,329	6,297	–	–	8,058
Noncontrolling interest in net income	–	–	–	2,050	–	2,050
Balance, December 31, 2020	$ (1,473)	$ 21,841	$ (26,737)	$ 7,089	$ –	$ 720

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

Supplementary Information – Combining Statement of Cash Flows

(Dollars in Thousands)

Year Ended December 31, 2020

	SMHP	SCNJ	SMMC	Eliminations	Combined
Operating activities					
Net loss (income)	$ (4,568)	$ 6,329	$ 8,347	$ –	10,108
Adjustments to reconcile net loss to net cash provided by operating activities:					
Depreciation and amortization	7,462	10,674	8,684	–	26,820
Amortization of deferred debt issuance costs	–	252	58	–	310
Changes in assets and liabilities:					
Patient accounts receivable	(830)	7,909	(2,422)	–	4,657
Supplies inventory	(101)	117	16	–	32
Prepaid expenses and other current assets	(252)	(289)	(4,071)	(25)	(4,637)
Other assets	(77)	216	(183)	–	(44)
Related-party receivables/payables	(13,675)	(32,065)	(31,144)	25	(76,859)
Accounts payable	(1,915)	(1,646)	1,081	–	(2,480)
Accrued expenses, insurance claims liabilities and reserves, and other long-term liabilities	2,649	7,008	4,235	–	13,892
Medicare advances and deferred government stimulus funds	15,402	36,041	25,811	–	77,254
Third-party payor settlements and provider fee receivable	2,267	(2,216)	3,132	–	3,183
Net cash provided by operating activities	6,362	32,330	13,544	–	52,236
Investing activities					
Purchase of property and equipment	(4,363)	(7,108)	(6,499)	–	(17,970)
Net cash used in investing activities	(4,363)	(7,108)	(6,499)	–	(17,970)
Financing activities					
Payments on long-term debt	(31)	(92)	(26)	–	(149)
Payments on capital lease obligations	(2,100)	(5,815)	(3,314)	–	(11,229)
Net cash used in financing activities	(2,131)	(5,907)	(3,340)	–	(11,378)
(Decrease) increase in cash and cash equivalents	(132)	19,315	3,705	–	22,888
Cash and cash equivalents at beginning of year	504	12,614	12,078	–	25,196
Cash and cash equivalents at end of year	$ 372	$ 31,929	$ 15,783	$ –	$ 48,084
Supplemental cash flow information					
Cash Paid during the year for:					
Interest	$ 79	$ 13,489	$ 7,615	$ –	$ 21,183
Supplemental disclosure of noncash investing and financing activities					
Financing obligations incurred for the acquisition of property and equipment	$ 2,844	$ 2,913	$ 3,121	$ –	$ 8,878
Property, plant, and equipment included in accounts payable	$ 85	$ 18	$ 258	$ –	$ 361

See accompanying notes to consolidated financial statements.

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