

**NJMHMC LLC AND AFFILIATE
(d/b/a Hudson Regional Hospital)**

**COMBINED FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION**

**AS OF AND FOR THE YEARS ENDED
DECEMBER 31, 2021 AND 2020**

**NJMHMC LLC AND AFFILIATE
(d/b/a Hudson Regional Hospital)**

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Supplementary Combining Information

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INDEPENDENT AUDITORS' REPORT

To the Members
NJMHMC LLC and Affiliate
(d/b/a Hudson Regional Hospital)

Opinion

We have audited the accompanying combined financial statements of NJMHMC LLC and Affiliate, d/b/a Hudson Regional Hospital, which comprise the combined balance sheets as of December 31, 2021 and 2020 and the related combined statements of income and changes in members' equity, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the combined financial position of NJMHMC LLC and Affiliate d/b/a Hudson Regional Hospital as of December 31, 2021 and 2020, and the combined results of its operations and its 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. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of NJMHMC LLC and Affiliate d/b/a Hudson Regional Hospital and to meet our 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 these combined 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 from material misstatement, whether due to fraud or error.

In preparing the combined financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about NJMHMC LLC and Affiliate d/b/a Hudson Regional Hospital's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditors' 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 from material misstatement, whether due to fraud or error, and to issue an auditors' 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 generally accepted 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, including omissions, 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 generally accepted 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 NJMHMC LLC and Affiliate d/b/a Hudson Regional Hospital's 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 NJMHMC LLC and Affiliate d/b/a Hudson Regional Hospital's 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.

Marcum LLP

Hartford, CT
May 13, 2022

NJMHMC LLC AND AFFILIATE
(d/b/a Hudson Regional Hospital)

COMBINED BALANCE SHEETS

DECEMBER 31, 2021 AND 2020

	2021	2020
Assets		
Current Assets		
Cash	\$ 4,266,987	\$ 4,258,460
Restricted cash	320,000	--
Patient accounts receivable	47,889,640	48,616,810
Supplies inventory	2,272,724	2,003,152
Prepaid expenses and other current assets	749,905	929,661
Loans to affiliate, current portion	--	2,746,863
Total Current Assets	55,499,256	58,554,946
Other Assets		
Deposits	7,176	7,176
Property, plant and equipment, net	55,407,750	50,115,107
Operating lease, right-of-use asset	1,209,941	--
Loans to affiliate, net of current portion	45,373,084	9,172,137
Goodwill	518,872	592,996
Total Other Assets	102,516,823	59,887,416
Total Assets	\$ 158,016,079	\$ 118,442,362

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

NJMHMC LLC AND AFFILIATE
(d/b/a Hudson Regional Hospital)

COMBINED BALANCE SHEETS (CONTINUED)

DECEMBER 31, 2021 AND 2020

	2021	2020
Liabilities and Members' Equity		
Current Liabilities		
Accounts payable and accrued expenses	\$ 23,776,445	\$ 15,690,478
Current portion of financing lease obligations	1,259,907	999,707
Current portion of operating lease liability	580,734	--
Current portion of note payable	1,341,940	1,312,670
Current portion of long-term debt and loan from affiliate	2,013,025	801,885
Estimated third-party settlements	56,340	457,339
Line of credit	5,000,000	10,000,000
Paycheck protection program loan	--	6,501,680
Medicare advance - current portion	2,186,327	2,025,000
Unearned income - HHS stimulus	3,390,568	14,415,804
Total Current Liabilities	39,605,286	52,204,563
Long-Term Liabilities		
Financing lease obligations, net of current portion	2,639,572	3,080,049
Operating lease liability, net of current portion	642,655	--
Note payable, net of current portion	2,112,540	3,352,310
Long-term debt, net of current portion	47,583,896	23,983,876
Estimated third-party settlements	165,793	--
Medicare advance - long-term	--	2,274,930
Total Long-Term Liabilities	53,144,456	32,691,165
Total Liabilities	92,749,742	84,895,728
Members' Equity	65,266,337	33,546,634
Total Liabilities and Members' Equity	\$ 158,016,079	\$ 118,442,362

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

NJMHMC LLC AND AFFILIATE
(d/b/a Hudson Regional Hospital)

**COMBINED STATEMENTS OF INCOME AND
CHANGES IN MEMBERS' EQUITY**

FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

	2021	2020
Operating Revenue		
Net patient service revenue	\$ 141,430,734	\$ 120,027,946
COVID stimulus revenue	11,025,236	--
Other revenue	4,857,670	730,126
Total Operating Revenue	157,313,640	120,758,072
Operating Expenses		
Salaries and wages	36,429,056	33,537,550
Payroll taxes and employee benefits	5,536,267	3,870,350
Physician fees	3,933,195	9,808,025
Supplies and other expenses	79,692,187	55,539,287
New Jersey corporate income tax	1,123,085	--
Interest	2,428,794	2,093,593
Depreciation and amortization	4,133,503	2,568,931
Total Operating Expenses	133,276,087	107,417,736
Income from Operations	24,037,553	13,340,336
Debt Forgiveness (Paycheck protection loan program (PPP))	6,501,680	--
Other Non-Operating Loss	(2,787,197)	(1,442,322)
Net Income	27,752,036	11,898,014
Members' Equity - Beginning of year	33,546,634	21,648,620
Members' Contributions	3,967,667	--
Members' Equity - End of year	\$ 65,266,337	\$ 33,546,634

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

NJMHMC LLC AND AFFILIATE
(d/b/a Hudson Regional Hospital)

COMBINED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

	2021	2020
Cash Flows from Operating Activities		
Net income	\$ 27,752,036	\$ 11,898,014
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	4,133,503	2,568,931
Forgiveness of Paycheck protection program loan	(6,501,680)	--
Changes in operating assets and liabilities:		
Patient accounts receivable	727,170	(4,234,501)
Supplies inventory	(269,572)	(121,777)
Prepaid expenses and other current assets	9,525,672	847,242
Deposits	--	(926,356)
Unearned income HHS stimulus funds	(11,025,236)	14,415,804
Accounts payable and accrued expenses	8,085,968	(2,990,267)
Estimated third-party settlements	(235,206)	380,301
Net Cash Provided by Operating Activities	<u>32,192,655</u>	<u>21,837,391</u>
Cash Flows from Investing Activities		
Purchases of property and equipment	(10,561,962)	(9,438,731)
Net Cash Used in Investing Activities	<u>(10,561,962)</u>	<u>(9,438,731)</u>
Cash Flows from Financing Activities		
Borrowings on lines of credit and long term debt	48,777,378	2,054,550
Payments on long term debt	(28,530,426)	(9,981,360)
Paycheck protection program loan	--	6,501,680
Medicare advance payments	(2,113,603)	4,299,930
Loans to affiliate	(42,800,000)	(11,919,000)
Members' contributions	3,967,667	--
Change in deferred financing costs	(603,182)	111,165
Net Cash Used in Financing Activities	<u>(21,302,166)</u>	<u>(8,933,035)</u>
Net Increase in Cash and Restricted Cash	328,527	3,465,625
Cash and Restricted Cash - Beginning	<u>4,258,460</u>	<u>792,835</u>
Cash and Restricted Cash - End	<u>\$ 4,586,987</u>	<u>\$ 4,258,460</u>

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

NJMHMC LLC AND AFFILIATE
(d/b/a Hudson Regional Hospital)

COMBINED STATEMENTS OF CASH FLOWS (CONTINUED)

FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

	<u>2021</u>	<u>2020</u>
Supplemental Disclosure of Cash Flow Information		
Cash paid for interest	<u>\$ 2,428,794</u>	<u>\$ 2,093,593</u>
Supplemental Disclosure of Noncash Financing Activities		
Equipment purchased under capital leases	<u>\$ 2,777,378</u>	<u>\$ 2,054,550</u>
Reconciliation of Cash and Restricted Cash to Amounts Report in the Combined Balance Sheets at the End of the Period		
Cash	\$ 4,266,987	\$ 4,258,460
Restricted Cash	<u>320,000</u>	<u>--</u>
	<u>\$ 4,586,987</u>	<u>\$ 4,258,460</u>

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

NJMHMC LLC AND AFFILIATE
(d/b/a Hudson Regional Hospital)

NOTES TO THE COMBINED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

NOTE 1 - ORGANIZATION

On December 29, 2017, NJMHMC LLC purchased the operations, building and certain other physical assets of Meadowlands Hospital Medical Center from MHA LLC (the Seller) for a total purchase price of \$12,200,000 with an effective date of January 1, 2018 (inception of operations). In addition, NJMHMC LLC also assumed various leases from the Seller.

NJMHMC LLC d/b/a Hudson Regional Hospital (the Hospital), is a for-profit acute care hospital with 204 licensed beds located in Secaucus, New Jersey. The Hospital provides inpatient, outpatient and emergency care services to residents of Secaucus, New Jersey and surrounding communities in New Jersey. The Hospital leases its space from 55 Meadowlands Holding LLC (the Landlord), which is a related party through common ownership.

The Landlord was formed for the purpose of owning and leasing a healthcare facility located in Secaucus, New Jersey and is considered to be a variable interest entity (VIE). On June 6, 2018, the Landlord acquired the lease option for the land the Hospital is located on. The purchase was financed through a mortgage with Popular Bank (see Note 7). As a result of the acquisition, the land and building were transferred to the Landlord.

PRINCIPLES OF COMBINATION

The combined financial statements include the financial statements of the Hospital and the Landlord. All significant intercompany balances and transactions have been eliminated upon combination. As discussed above, the Hospital leases the facility from the Landlord, which is a related party through common ownership; the Hospital does not own any interest in the related party entity. Such entity is a VIE, and the Hospital is considered to be the primary beneficiary of such entity. Except for amounts contractually required under the lease agreement between the Hospital and the Landlord, the Hospital did not provide any further financial or other support to the Landlord. The Hospital could be required to provide additional financial support to assist the Landlord in meeting its financial obligations if contractually required amounts were insufficient. Financing of the Landlord is accomplished through a mortgage loan as described in Note 7 to the combined financial statements. The Hospital's involvement with the Landlord is limited to leasing the real estate and guaranteeing the mortgage loan payable.

The Hospital has elected to follow the accounting alternative provided in Accounting Standards Codification Topic 810, *Consolidation* (Topic 810). Topic 810 permits private business entities to not consolidate variable interest entities when certain conditions have been met.

NJMHMC LLC AND AFFILIATE
(d/b/a Hudson Regional Hospital)

NOTES TO THE COMBINED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

NOTE 1 - ORGANIZATION (CONTINUED)

PRINCIPLES OF COMBINATION (CONTINUED)

Accordingly, the Hospital does not consolidate its VIE and alternatively is presenting the Hospital and the Landlord on a combined basis. In addition, the Hospital believes that this method provides the most accurate depiction of its financial position and results of operations.

The assets, liabilities, revenues and expenses of the Landlord have been included in the accompanying combined financial statements. As of December 31, 2021 and 2020, amounts included in the combined financial statements are as follows:

	<u>2021</u>	<u>2020</u>
Assets:		
Cash	\$ 248,644	\$ 2,823
Restricted cash	320,000	--
Property, plant and equipment	48,233,619	43,158,573
Loan receivable	42,800,000	--
Liabilities:		
Accrued and other liabilities	\$ 213,853	\$ 102,151
Long term debt	48,596,920	24,785,760
Revenue	\$ 900,539	\$ --
Expenses	\$ 3,766,452	\$ 2,419,092

The rental income amounts have been excluded from this table as they eliminate upon combination.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION

The Hospital's combined financial statements are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America, whereby revenues are recognized when they are earned and expenses are recognized when they are incurred, regardless of the timing of the related cash flows.

NJMHMC LLC AND AFFILIATE
(d/b/a Hudson Regional Hospital)

NOTES TO THE COMBINED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

RECENTLY ADOPTED ACCOUNTING STANDARDS

ASU No. 2016-02, *Leases* (Topic 842), requires that a lessee recognize in the balance sheet a liability to make lease payments (the lease liability) and a right-of-use asset representing its right to use the underlying asset for the lease term. On December 31, 2021, this standard was adopted by the Hospital using the cumulative effect adjustment transition method, which applies the provisions of the standard at the effective date without adjusting comparative periods presented. As of December 31, 2021, the historical gross amount of a right-of-use asset of \$1,828,692 was recorded along with a liability of the same amount. As of December 31, 2021, the impact of the adoption on the combined financial statements resulted in an increase of \$1,209,941 in other assets presented within operating lease right-of-use asset, an increase of \$580,734 in the current portion of the operating lease liability, and an increase of \$642,655 in operating lease liability, net of current portion. The adoption of this standard had no material impact to the results of operations or cash flows and had no impact on members' equity.

ASU No. 2016-18, *Statement of Cash Flows: Restricted Cash*, requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. As a result, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end of-period total amounts shown on the statement of cash flows. On January 1, 2021, this standard was adopted by the Hospital and is reflected in the combined statement of cash flows for the year ended December 31, 2021.

USE OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures 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.

RESTRICTED CASH

The restricted cash of \$320,000 as of December 31, 2021 has been set aside to cover unpaid property taxes and insurance premiums in accordance with the Hospital's refinancing (Note 7).

NJMHMC LLC AND AFFILIATE
(d/b/a Hudson Regional Hospital)

NOTES TO THE COMBINED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

CASH

The Hospital maintains its cash in major financial institutions that insure deposits with the Federal Deposit Insurance Corporation (FDIC). At times, balances may exceed the FDIC limits. The Hospital has suffered no losses in connection with its banking activity.

SUPPLIES INVENTORY

Supplies inventory is recorded at the lower of cost, using the first-in, first-out method, or net realizable value.

INTANGIBLE ASSETS

Intangible assets primarily consist of goodwill and capitalized computer software costs. Capitalized computer software costs are included in property, plant and equipment, net on the accompanying combined balance sheets.

Intangible assets are comprised of the following at December 31:

	2021	2020
Capitalized computer software costs	\$ 940,182	\$ 862,629
Less: Accumulated amortization	<u>872,889</u>	<u>847,680</u>
Capitalized computer software costs, net	67,293	14,949
Goodwill	<u>518,872</u>	<u>592,996</u>
Total intangible assets, net	<u>\$ 586,165</u>	<u>\$ 607,945</u>

Intangible assets whose lives are indefinite, primarily goodwill, are evaluated for impairment at least annually or when circumstances indicate a possible impairment may exist, while intangible assets with definite lives, primarily capitalized computer software costs, are amortized over their expected useful lives.

DEFERRED FINANCING COSTS

Financing costs associated with the issuance of long-term obligations have been capitalized and are being amortized evenly over the term of the debt using the straight line amortization method which approximates the effective interest rate method. Debt issuance costs related to long-term debt are presented as a reduction of the carrying amount of the debt with the amortization of these costs included with depreciation expense.

NJMHMC LLC AND AFFILIATE
(d/b/a Hudson Regional Hospital)

NOTES TO THE COMBINED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment acquired in business combinations are recorded at fair value at the time of acquisition. All other property and equipment are recorded at cost. Property acquired under capital lease obligations is recorded at the net present value of required total minimum lease payments at the date of acquisition and depreciated over the lease term or estimated useful life, whichever is shorter. The cost of maintenance and repairs is charged to expense as incurred. Significant renewals and betterments that increase the value of, or extend the life of, the related asset are capitalized.

Depreciation and amortization is computed using the straight line method over the estimated useful lives of the related assets as follows:

	<u>Useful Lives</u>
Building and improvements	39 years
Leasehold improvements	15 years
Computer software	3 – 5 years
Major movable equipment	5 – 7 years

IMPAIRMENT OF LONG-LIVED ASSETS

The Hospital reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. Recoverability of these assets is determined by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If such assets are considered impaired, the long-lived assets are then written down to fair value. Fair value is determined based on discounted cash flows or appraised values, depending on the nature of the assets. Management believes no impairments have occurred and, therefore, no write-downs of the assets were necessary for the years ended December 31, 2021 and 2020, respectively.

CHARITY CARE

The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, these amounts are not reported as net patient service revenue.

NJMHMC LLC AND AFFILIATE
(d/b/a Hudson Regional Hospital)

NOTES TO THE COMBINED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

CHARITY CARE (CONTINUED)

The Hospital commits substantial resources to sponsor a broad range of services to the community. Community benefits provided to the indigent include the cost of providing services to persons who cannot afford health care due to inadequate resources and/or who are uninsured or underinsured. This type of community benefit includes the costs of traditional charity care, unpaid costs of care provided to beneficiaries of Medicaid and other indigent public programs, and services such as free clinics and meal programs for which a patient is not billed or for which a nominal fee has been assessed.

The Health Care Subsidy Fund was established by the State of New Jersey for various purposes including the distribution of charity care payments to hospitals statewide. During the years ended December 31, 2021 and 2020, the Hospital received approximately \$76,159 and \$35,149, respectively, from this fund, which is included in net patient service revenue in the accompanying combined statements of income and changes in members' equity.

The Hospital's management estimates its costs of care provided under its charity care programs utilizing a calculated ratio of costs to gross charges multiplied by the Hospital's gross charity care charges provided. The Hospital's gross charity care charges include only services provided to patients who are unable to pay and qualify under the Hospital's charity care policy. To the extent the Hospital receives reimbursement through the various governmental assistance programs in which it participates to subsidize its care of indigent patients, the Hospital does not include these patients' charges in its cost of care provided under its charity care program. The cost of charity care provided was estimated to be approximately \$274,000 and \$364,000 for the years ended December 31, 2021 and 2020, respectively.

NET PATIENT SERVICE REVENUE AND ACCOUNTS RECEIVABLE

Net patient service revenue relates to contracts with patients and in most cases involve a third-party payor (governmental and commercial insurance carriers) in which the Hospital's performance obligations are to provide health care services. The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges and per diem payments (see Note 4).

NJMHMC LLC AND AFFILIATE
(d/b/a Hudson Regional Hospital)

NOTES TO THE COMBINED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

NET PATIENT SERVICE REVENUE AND ACCOUNTS RECEIVABLE (CONTINUED)

Net patient revenue is reported at expected collectible amounts over the time in which obligations to provide health care services are satisfied. Revenue is accrued to estimate the amount of revenue earned to date for patients who have not been discharged and whose care services are not complete as of the reporting period. Substantially all of the Hospital's obligations are satisfied in one year.

The transaction price is determined based on gross charges for services provided, reduced by contractual adjustments provided to third-party payors, discounts provided to uninsured patients in accordance with the Hospital's charity care policy, and implicit price concessions provided primarily to uninsured patients. Patients who have health care insurance may also have discounts applied related to their copayment or deductible. Implicit price concessions are recorded as a direct reduction to net patient service revenue and are based primarily on historical collection experience. Estimates of contractual adjustments and discounts are determined by major payor classes for inpatient and outpatient revenues based on contractual agreements, discount policies and historical experience. Management continually reviews the contractual estimation process to consider and incorporate updates to laws and regulations and frequent changes in commercial and managed care contractual terms resulting from contract renegotiations and renewals.

Contracts, laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates may change by a material amount in the future.

Settlements with third-party payors for retroactive revenue adjustments due to audits, reviews or investigations are considered variable consideration and are included in the determination of the estimated transaction price for providing patient care. Such estimates are determined through either a probability-weighted estimate or an estimate of the most likely amount, depending on the circumstances related to a given estimated settlement item. These settlements are estimated based on the terms of the payment agreement with the payor, correspondence from the payor and the Hospital's historical settlement activity, including an assessment to ensure that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the retroactive adjustment is subsequently resolved. Estimated settlements are adjusted in future periods as adjustments become known, or as years are settled or are no longer subject to such audits, reviews and investigations.

NJMHMC LLC AND AFFILIATE
(d/b/a Hudson Regional Hospital)

NOTES TO THE COMBINED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

NET PATIENT SERVICE REVENUE AND ACCOUNTS RECEIVABLE (CONTINUED)

The Hospital believes that it is in compliance with all applicable Medicare and Medicaid laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing that could have a material adverse effect on its combined financial statements. Noncompliance with such laws and regulations could result in fines, penalties and exclusion from such programs.

Deductibles, copayments, and coinsurance under third-party payment programs which are the patient's responsibility are included within the primary payor category in the table disclosed in Note 4. The primary collection risks relate to uninsured patient accounts, including patient accounts for which the primary insurance carrier has paid the amounts covered by the applicable agreement, but patient deductibles and copayments remain outstanding.

Implicit price concessions relate primarily to amounts due directly from patients. Estimated implicit price concessions are recorded for all uninsured accounts, regardless of the aging of those accounts. Accounts are written off when all reasonable internal and external collection efforts have been performed.

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 of revenues and accounts receivable as a primary source of information in estimating the collectability of the Hospital's accounts receivable. Management updates the hindsight analysis at least quarterly, using primarily a rolling twelve-month collection history and write-off data. These routine, quarterly changes in estimates have not resulted in material adjustment to the valuations of accounts receivable or period-to-period comparisons of results of operations.

INCOME TAXES

The members of the Hospital and Landlord have elected to be treated as a partnership for federal and state income tax purposes. Accordingly, any income or loss generated by the Hospital and the Landlord is passed through to the Members. As a result, the accompanying financial statements do not reflect a provision for federal income taxes. The New Jersey Corporation Business Tax Act (CBTA) imposes a tax on partnerships that have nonresident owners. Accordingly, the combined financial statements reflect a provision for state income taxes.

NJMHMC LLC AND AFFILIATE
(d/b/a Hudson Regional Hospital)

NOTES TO THE COMBINED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

INCOME TAXES (CONTINUED)

Management has concluded that the Hospital and the Landlord are pass-through entities for income tax purposes and there are no uncertain tax positions that would require recognition in the combined financial statements. If the Hospital or Landlord were to incur an income tax liability on uncertain tax positions in the future, interest on any income tax liability would be reported as interest expense and penalties on any income tax would be reported as income tax expenses. Management's conclusions regarding uncertain tax positions may be subject to review and adjustment at a later date based upon ongoing analysis of tax laws, regulations and interpretations thereof as well as other factors. The Hospital and Landlord's tax returns are subject to examination by federal and state taxing authorities. Management has stated there are no examinations pending or in progress.

UNEARNED INCOME – HHS STIMULUS

Unearned income includes amounts received for unrecognized CARES Act Funds (Note 3).

SUBSEQUENT EVENTS

In preparing these combined financial statements, the Hospital has evaluated events and transactions for potential recognition or disclosure through May 13, 2022, the date the combined financial statements were available to be issued. There were no subsequent events that require recognition or disclosure in these combined financial statements.

NOTE 3 - COVID-19 PANDEMIC AND CARES ACT FUNDING

In response to COVID-19, the CARES Act was signed into law on March 27, 2020. The CARES Act authorized funding to hospitals and other healthcare providers to be distributed through the Public Health and Social Services Emergency Fund (Provider Relief Fund).

Through December 31, 2020, the Hospital received approximately \$14.4 million in total in Provider Relief funds which was recorded as an unearned income in 2020. During the year ended December 31, 2021, \$11.0 million of this amount was recognized as COVID Stimulus Revenue. The remaining \$3.4 million is recorded as unearned income as of December 31, 2021.

NJMHMC LLC AND AFFILIATE
(d/b/a Hudson Regional Hospital)

NOTES TO THE COMBINED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

NOTE 3 - COVID-19 PANDEMIC AND CARES ACT FUNDING (CONTINUED)

The Hospital is required to report on the usage of the Provider Relief Funds to the U.S. Department of Health and Human Services (HHS) in subsequent periods in order for the funds to be retained with the reporting requirements beginning in 2021. Accordingly, in November 2021, the Hospital submitted the support for use of approximately \$11.0 million of these funds (Period 1 funding) through the HHS reporting portal. Subsequent to December 31, 2021, the Hospital submitted the support for the use of the remaining funds of \$3.4 million (Period 2 funding) through the HHS portal.

In addition, in April 2020, the Hospital entered into a Promissory Note (the "PPP Note") with Popular Bank as the lender (the "Lender"), pursuant to which the Lender agreed to make a loan to the Hospital under the Paycheck Protection Program (the "PPP Loan") offered by the U.S. Small Business Administration ("SBA") in a principal amount of \$6.5 million pursuant to Title 1 of the CARES Act. The PPP Loan proceeds were available to be used to pay for payroll costs, including salaries, commissions, and similar compensation, group health care benefits, and paid leaves; rent; utilities; and interest on certain other outstanding debt. The interest rate on the PPP Note was a fixed rate of 1% per annum. In June 2021, the Hospital received approval from the SBA of forgiveness of the Payroll Protection Program loan and therefore, recognized \$6.5 million within non-operating income.

To enhance liquidity, the Hospital was a participant in the Centers for Medicare and Medicaid Services' Accelerated and Advance Payment Program, designed to increase cash flow to Medicare providers and suppliers impacted by COVID-19. This program allows eligible health care facilities to request up to six months of advance Medicare payments for acute care hospitals or up to three months of advance Medicare payments for other health care providers. Under this program, the Hospital received approximately \$4.3 million in expedited payments for future services, which is subject to repayment. On October 1, 2021, the terms and conditions of this program were revised whereby recoupment would begin 12 months after the date of receipt, and 25% of Medicare payment amounts would be withheld for the first 11 months, increasing to 50% of Medicare payment amounts for the next 6 months, with the full amount due 29 months after date of receipt, at which time any remaining unpaid amounts would be subject to interest of 4%. Through December 31, 2021, the Centers for Medicare and Medicaid Services have recouped \$2.1 million of the Medicare Advance through a reduction in payment remittances with a remaining outstanding balance of approximately \$2.2 million.

NJMHMC LLC AND AFFILIATE
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NOTES TO THE COMBINED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

NOTE 4 - NET PATIENT SERVICE REVENUE

The Hospital has agreements with third-party payors that provide for payments at amounts different from its established rates. A summary of the principal payment arrangements with major third-party payors is as follows:

Medicare: Inpatient acute care and nonacute services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. Outpatient services provided to Medicare program beneficiaries are paid at prospectively determined amounts. These rates vary according to patient classification systems that are based on clinical, diagnostic and other factors. Federal regulations provide for certain adjustments to the current and prior years' payment rates based on industry-wide and hospital-specific data. The Hospital has filed its Medicare cost report for the years ended December 31, 2021 and 2020, respectively. The Hospital's Medicare cost reports have been audited by the Medicare fiscal intermediary through fiscal year 2017.

Medicaid: Medicaid Inpatient acute care services rendered to Medicaid 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. Outpatient services are paid based upon a cost reimbursement methodology and certain services are paid based on a Medicaid fee schedule. The Hospital is paid for reimbursable costs at a tentative rate with final settlement determined after submission of the annual cost report by the Hospital and audit thereof by the Medicaid fiscal intermediary. The Hospital's Medicaid cost reports have been audited and finalized by the Medicaid fiscal intermediary through December 31, 2018.

Other third-party payors: The Hospital also has entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, preferred provider organizations and other organizations. The basis for payment under these agreements includes prospectively determined rates per discharge, discounts from established charges, published fee schedules and prospectively determined daily rates.

There are various proposals at the federal and state levels that could, among other things, significantly reduce payment rates or modify payment methods. The ultimate outcome of these proposals and other market changes, including the potential effects of health care reform that has been enacted by the federal government, cannot presently be determined. Future changes in the Medicare and Medicaid programs and any reduction of funding could have an adverse impact on the Hospital.

NJMHMC LLC AND AFFILIATE
(d/b/a Hudson Regional Hospital)

NOTES TO THE COMBINED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

NOTE 4 - NET PATIENT SERVICE REVENUE (CONTINUED)

Net patient service revenue for the years ended December 31 is as follows:

	2021	2020
Inpatient care	\$ 67,440,439	\$ 63,499,867
Outpatient care	73,990,295	56,528,079
Total net patient service revenue	\$ 141,430,734	\$ 120,027,946

The Hospital grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements.

Net patient service revenue earned by payor and significant concentrations of accounts receivable are as follows:

	Net Patient Service Revenue		Accounts Receivable	
	December 31		December 31	
	2021	2020	2021	2020
Medicare	17%	20%	4%	3%
Medicaid	13%	13%	7%	4%
Other third party payors	66%	63%	76%	80%
Self Pay	4%	4%	13%	13%
	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>

NJMHMC LLC AND AFFILIATE
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NOTES TO THE COMBINED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

NOTE 5 - PROPERTY, PLANT AND EQUIPMENT

A summary of property, plant and equipment at December 31, 2021 and 2020 is as follows:

	2021	2020
Land	\$ 23,707,000	\$ 23,707,000
Building and building improvements	26,487,399	20,620,256
Computer equipment, software	1,100,112	1,022,559
Major movable equipment	<u>12,329,059</u>	<u>10,167,212</u>
	63,623,570	55,517,027
Less accumulated depreciation and amortization	<u>(8,215,820)</u>	<u>(5,401,920)</u>
	<u>\$ 55,407,750</u>	<u>\$ 50,115,107</u>

Depreciation and amortization expense on property, plant and equipment for the years ended December 31, 2021 and 2020 was \$4,133,503 and \$2,568,931 respectively.

The historical cost of the right of use asset is \$1,828,692 with accumulated depreciation of \$618,751 as of December 31, 2021. These amounts are excluded from the table above.

NOTE 6 - LEASE COMMITMENTS

FINANCING LEASES

The Hospital finances certain equipment under financing leases. Obligations under the financing leases are recorded in the accompanying combined financial statements at the present value of future minimum lease payments. The leases mature through August 2026 and have effective interest rates ranging from 4.25 percent to 9.5 percent. The net book value of this leased equipment included within property, plant and equipment at December 31, 2021 and 2020 was \$3,849,353 and \$4,132,192, respectively.

NJMHMC LLC AND AFFILIATE
(d/b/a Hudson Regional Hospital)

NOTES TO THE COMBINED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

NOTE 6 - LEASE COMMITMENTS (CONTINUED)

FINANCING LEASES (CONTINUED)

Future minimum financing lease payments for the years ending December 31 are as follows:

2022	\$ 1,405,982
2023	1,264,184
2024	807,545
2025	511,685
2026	<u>226,584</u>
	4,215,980
Less, amounts representing interest	<u>(316,501)</u>
Present value of minimum lease payments	3,899,479
Less, current portion	<u>(1,259,907)</u>
Financing lease obligations, net of current portion	<u>\$ 2,639,572</u>

Interest expense associated with the above financing lease obligations for the years ended December 31, 2021 and 2020 was \$204,056 and \$200,617, respectively.

OPERATING LEASES

As stated in Note 2, the Hospital adopted ASU 2016-02 effective December 31, 2021. The Hospital leases certain medical offices, personnel, administrative offices and equipment under finance and operating leases. At the inception of a contract, a determination is made if the arrangement is or contains a lease. Leases are classified as either finance or operating leases based on the underlying terms of the agreement and certain criteria, such as the term of the lease relative to the useful life of the asset and the total lease payments to be made as compared to the fair value of the asset, amongst other criteria. The Hospital had a right-of-use asset and operating lease liability totaling approximately \$1.2 million at December 31, 2021, which are respectively recorded as operating lease right of use asset and operating lease liability on the accompanying audited combined balance sheet. Finance lease right-of-use assets are included in property, plant and equipment, and the related lease liabilities are separately disclosed in the accompanying audited combined balance sheet.

NJMHMC LLC AND AFFILIATE
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NOTES TO THE COMBINED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

NOTE 6 - LEASE COMMITMENTS (CONTINUED)

OPERATING LEASES (CONTINUED)

Rent expense related to the remaining operating leases was \$173,743 and \$761,989 for the years ended December 31, 2021 and 2020, respectively.

The Hospital's right-of-use asset pertaining to operating leases represents the right to use the underlying assets for the lease term, and the corresponding lease liability represents the obligation to make lease payments arising from the leases. Such right-of-use asset and lease liability are recognized at the lease's commencement date at the present value of lease payments over the lease term for leases with initial terms greater than a year. The present value of lease payments is calculated by utilizing the discount rate stated in the lease, when readily determinable. For leases for which this rate is not readily available, the Hospital has elected to use a discount rate comparable to the Hospital's incremental borrowing rate for financing over a comparable period. A right-of-use asset and lease liability are not recognized for leases with an initial term of 12 months or less, and the Hospital recognizes lease expense for such leases on a straight-line basis over the lease term within supplies and other expenses on the accompanying audited combined statement of income.

The Hospital's operating leases have remaining lease terms of one year, some of which may include options to extend. Lease payments related to periods subject to renewal options are excluded from the amounts used to determine the right-of-use leased assets and liabilities. The Hospital's leases may also include variable lease payments. Variable lease payments are excluded from the amounts used to determine the right-of-use leased assets and liabilities, unless the variable lease payments depend on an index, rate or are in substance fixed payments.

Operating expenses for the Hospital's leasing activity for the year ended December 31, 2021 are as follows:

	Classification	Amount
Operating lease expense	Supplies and other expenses	\$ 173,743
Operating lease expense	Interest	64,347
Operating lease amortization	Depreciation and amortization	<u>618,751</u>
Total lease cost		<u><u>\$ 856,841</u></u>

NJMHMC LLC AND AFFILIATE
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NOTES TO THE COMBINED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

NOTE 6 - LEASE COMMITMENTS (CONTINUED)

OPERATING LEASES (CONTINUED)

Supplemental cash flow information is as follows for the year ended December 31, 2021:

Cash paid for amounts included in measurement of lease liabilities:	
Operating cash flows from operating leases	\$ 605,304
Operating cash flows from financing leases	<u>1,128,963</u>
 Total cash flows	 <u>\$ 1,734,267</u>

The aggregate future minimum lease payments of operating leases as of December 31, 2021 were as follows:

<u>Year ending December 31,</u>	
2022	\$ 640,862
2023	372,257
2024	127,929
2025	127,929
2026	<u>43,550</u>
 Total lease obligation	 1,312,527
Less, imputed interest	<u>(89,138)</u>
 Total liability	 1,223,389
Less current portion	<u>(580,734)</u>
 Long-term liability	 <u>\$ 642,655</u>

NJMHMC LLC AND AFFILIATE
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NOTES TO THE COMBINED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

NOTE 6 - LEASE COMMITMENTS (CONTINUED)

OPERATING LEASES (CONTINUED)

As disclosed in Note 1, the Hospital leases its space from the Landlord under a lease that expires in April 2048 for \$306,000 per month with 2% annual increase. The rental income for the Landlord and rental expense for the Hospital was \$3,820,349 and \$3,745,440 for the years ended December 31, 2021 and 2020, respectively. These amounts have been eliminated upon combination. The future minimum rental payments under the above lease are as follows:

<u>Year ending December 31,</u>	
2022	\$ 3,896,756
2023	3,974,691
2024	4,054,185
2025	4,135,268
2026	4,217,974
Thereafter	<u>117,449,324</u>
	<u>\$ 137,728,198</u>

In August 2020, the Hospital leased additional space located at 43 Meadowlands Parkway from 43 Meadowlands Holding, LLC, (“43 Meadowlands”), a related party through common ownership. The monthly rent was \$282,500 and the lease expires in August 2030. On July 23, 2021, this lease agreement was terminated and a new lease agreement was signed with the monthly rent of \$78,333. This lease expires on July 23, 2026. Rental expense for this lease for the Hospital was \$2,369,167 and \$1,412,500 for the years ended December 31, 2021 and 2020, respectively. The Hospital does not own any interest in the related party entity. 43 Meadowlands is a variable interest entity and the Hospital is considered to be the primary beneficiary of such entity. Except for amounts contractually required under the lease agreement between the Hospital and 43 Meadowlands, the Hospital did not provide any further financial or other support to 43 Meadowlands. The Hospital has elected not to consolidate 43 Meadowlands as a result of the accounting alternative disclosed in Note 1.

NJMHMC LLC AND AFFILIATE
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NOTES TO THE COMBINED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

NOTE 6 - LEASE COMMITMENTS (CONTINUED)

OPERATING LEASES (CONTINUED)

The future minimum rental payments under the above lease are as follows:

<u>Year ending December 31,</u>	
2022	\$ 940,000
2023	940,000
2024	940,000
2025	940,000
2026	<u>548,333</u>
	<u>\$ 4,308,333</u>

In addition, the Hospital and the Landlord are lessors under certain operating lease agreements and lease space in the Hospital building to outside parties. These leases are immaterial to the combined financial statements.

NOTE 7 - LONG-TERM DEBT AND LINES OF CREDIT

The Hospital has a \$7,200,000 note payable with the Seller. This note was issued as part of the acquisition that occurred on December 29, 2017 as disclosed in Note 1. This note carries an interest rate of 2.18%, matures in 2024, and began amortization on October 1, 2018. The monthly principal and interest payments are \$108,445. The balance outstanding under this note payable is \$3,454,480 and \$4,664,980 at December 31, 2021 and 2020, respectively.

Future minimum payments by year and in the aggregate under the note payable are as follows:

<u>Year Ending December 31,</u>	
2022	\$ 1,341,940
2023	1,267,453
2024	<u>845,087</u>
	<u>\$ 3,454,480</u>

The above note payable is secured by a guarantee from members of the Hospital and the Landlord.

NJMHMC LLC AND AFFILIATE
(d/b/a Hudson Regional Hospital)

NOTES TO THE COMBINED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

NOTE 7 - LONG-TERM DEBT AND LINES OF CREDIT (CONTINUED)

The Hospital and Landlord had a \$18,655,000 mortgage since June 7, 2018 and a \$7,861,000 additional mortgage since November 21, 2019, both with Popular Bank. The balance on these mortgages was \$25,254,656 as of December 31, 2020.

On July 27, 2021, the Hospital and the Landlord refinanced the Popular Bank mortgages with a Cross River Bank (CRB) term loan. The new term loan with CRB is a \$50.0 million loan that replaced the two mortgages with Popular Bank. This term loan is for thirty six (36) months with two twelve month extension options for 0.5% per extension. The rate is 1 month LIBOR plus 4.5% with a 0.50% floor on LIBOR. As such, the current rate is 5% as of December 31, 2021. The loan has 25 year mortgage amortization.

The above term loan is secured by a guarantee from members of the Hospital and the Landlord.

Future minimum payments by year and in the aggregate under the CRB \$50.0 million loan are as follows:

<u>Year Ending December 31,</u>	
2022	\$ 1,013,025
2023	1,065,591
2024	<u>47,590,381</u>
	49,668,997
Unamortized deferred financing costs	<u>(1,072,077)</u>
	<u>\$ 48,596,920</u>

The CRB \$50.0 million loan is subject to certain financial and non-financial covenants and other restrictions similar in financings of this type. Except for the financial reporting requirement for which the Hospital and the Landlord received a waiver from CRB, the Hospital and Landlord were in compliance with these covenants for the year ended December 31, 2021.

The Hospital and the Landlord had a \$10 million credit line with Popular Bank to be used for operating expenses. On July 27, 2021, this credit line was replaced with a \$10 million line of credit with CRB. The CRB line of credit has 1) a Collateral Management fee of 0.025-0.050% per month and 2) an Unused Line Fee of 0.042% per month. The interest rate at December 31, 2021 was 5%. As of December 31, 2021, the Hospital had a \$5 million outstanding balance under the line.

NJMHMC LLC AND AFFILIATE
(d/b/a Hudson Regional Hospital)

NOTES TO THE COMBINED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

NOTE 8 - EMPLOYEE BENEFIT PLANS

The Hospital sponsors a defined contribution 401(k) plan for its employees. This plan was established on May 1, 2011. All full-time and part-time employees who are at least 21 years of age are eligible for participation in the plan after completion of three months of employment and are encouraged to make contributions. The Hospital's contributions to the Plan were \$135,098 and \$121,596 for the years ended December 31, 2021 and 2020, respectively.

The Hospital contributes to a union pension plan under a collective bargaining agreement with the Operating Engineers Local No. 68 Union. Union pension expense included in payroll taxes and employee benefits in the accompanying combined statements of income and changes in members' equity for the years ended December 31, 2021 and 2020 was \$16,252 and \$19,187, respectively.

NOTE 9 - TRANSACTIONS WITH AFFILIATED ENTITIES

The Hospital has unsecured amounts due from various affiliated entities related by common ownership. Amounts due from affiliates at December 31, 2021 and 2020 amounted to \$4,958,989 and \$1,531,649, respectively. As collectability cannot be reasonably assured, at December 31, 2021 the Hospital has fully reserved these amounts.

On July 31, 2020, the Hospital entered into a \$9 million loan receivable agreement with 29 E. 29th Street Holdings, LLC, a related party through common ownership. This is a 5 year loan with interest only for the first seven months. The interest rate was 5%. The monthly principal and interest payments were \$170,100. As of December 31, 2020, no principal payments were made. On December 31, 2020, an addendum was signed related to this agreement allowing for an additional \$1.8 million and an additional \$35,050 in monthly principal and interest payments. As a result of CRB refinancing as disclosed in Note 7 above, the Hospital's intercompany loan of \$10.8 million was replaced by a \$42.8 million ten year loan from the Landlord to 29 E. 29th Street Holdings LLC. This loan bears the same interest rate (5%) as the Hospital's term loan and has a 25 year mortgage amortization. As of December 31, 2021, there have been no principal payments made.

On December 31, 2020, the Hospital entered into a \$1.1 million loan receivable with the managing member of the Hospital. The loan bears an interest rate of 5% and is payable on demand.

NJMHMC LLC AND AFFILIATE
(d/b/a Hudson Regional Hospital)

NOTES TO THE COMBINED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

NOTE 10 - COMMITMENTS AND CONTINGENCIES

The Hospital is involved in various litigation and regulatory inspections arising in the normal course of business. Management estimates that ongoing legal matters will be resolved without material adverse effect on the Hospital's future financial position or results of operations.

The health care industry is subject to numerous laws and regulations of federal, state and local government. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, and healthcare fraud and abuse. Activity continues to increase 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 expulsion from government health care programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed.

NOTE 11 - MEDICAL MALPRACTICE RESERVES

The Hospital has an internal risk management program and carries claims made insurance coverage through a commercial carrier. The Hospital also has excess umbrella liability coverage, which provides coverage above the basic policy limits up to the amounts specified in the umbrella coverage. The Hospital reviewed the adequacy of its professional liability insurance coverage and has determined that a provision for estimated malpractice claims for both reported and incurred but not reported is not necessary at December 31, 2021 and 2020. Management believes that any claims, if asserted, would be settled within the limits of its insurance coverage.

NOTE 12 - HEALTH INSURANCE

The Hospital self-insures its employee health insurance coverage and accrues the estimated costs of incurred and reported and incurred and unreported claims, after consideration of its stop-loss insurance coverage, based upon data provided by the third-party administrator of the program and its historical claims experience. The insurance health plan has a stop loss policy for the employee health insurance claims, which covers the amount of each claim in excess of \$175,000. The Hospital's estimated liability of \$340,316 and \$65,549 at December 31, 2021 and 2020, respectively, is included in accounts payable and accrued expenses in the accompanying combined balance sheets.

**INDEPENDENT AUDITORS' REPORT ON ACCOMPANYING
SUPPLEMENTARY COMBINING INFORMATION**

To the Members
NJMHMC LLC and Affiliate
(d/b/a Hudson Regional Hospital)

We have audited the combined financial statements of NJMHMC LLC and Affiliate, d/b/a Hudson Regional Hospital as of and for the years ended December 31, 2021 and 2020, and have issued our report thereon dated May 13, 2022, which contained an unmodified opinion on those financial statements and which appears on pages 1 and 2. Our audits were performed for the purpose of forming an opinion on the combined financial statements as a whole. The accompanying supplementary combining information consisting of the combining balance sheets and the combining statements of income as of December 31, 2021 and 2020 and for the years then ended are presented for the purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedure sin accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying supplementary combining information is fairly stated in all material respects in relation to the combined financial statements taken as a whole.

Marcum LLP

Hartford, CT
May 13, 2022

NJMHMC LLC AND AFFILIATE
(d/b/a Hudson Regional Hospital)

SCHEDULE I – COMBINING BALANCE SHEET

DECEMBER 31, 2021

	NJMHMC LLC	55 Meadowlands Holding LLC	Eliminations	Total
Assets				
Current Assets				
Cash	\$ 4,018,343	\$ 248,644	\$ --	\$ 4,266,987
Restricted cash	--	320,000	--	320,000
Patient accounts receivable	47,889,640	--	--	47,889,640
Supplies inventory	2,272,724	--	--	2,272,724
Prepaid expenses and other current assets	749,905	--	--	749,905
Total Current Assets	<u>54,930,612</u>	<u>568,644</u>	<u>--</u>	<u>55,499,256</u>
Other Assets				
Deposits	7,176	--	--	7,176
Property, plant and equipment, net	7,174,131	48,233,619	--	55,407,750
Operating lease, right-of-use asset	1,209,941	--	--	1,209,941
Loans to affiliates, net of current portion	40,826,723	52,596,618	(48,050,257)	45,373,084
Goodwill	518,872	--	--	518,872
Total Other Assets	<u>49,736,843</u>	<u>100,830,237</u>	<u>(48,050,257)</u>	<u>102,516,823</u>
Total Assets	<u>\$ 104,667,455</u>	<u>\$ 101,398,881</u>	<u>\$ (48,050,257)</u>	<u>\$ 158,016,079</u>

See independent auditors' report on supplementary information.

NJMHMC LLC AND AFFILIATE
(d/b/a Hudson Regional Hospital)

SCHEDULE I – COMBINING BALANCE SHEET (CONTINUED)

DECEMBER 31, 2021

	NJMHMC LLC	55 Meadowlands Holding LLC	Eliminations	Total
Liabilities and Members' Equity				
Current Liabilities				
Accounts payable and financing accrued expenses	\$ 32,637,006	\$ 39,189,696	\$ (48,050,257)	\$ 23,776,445
Current portion of lease obligations	1,259,907	--	--	1,259,907
Current portion of operating lease liability	580,734	--	--	580,734
Current portion of note payable	1,341,940	--	--	1,341,940
Current portion of long-term debt and loan from affiliate	1,000,000	1,013,025	--	2,013,025
Estimated third-party settlements	56,340	--	--	56,340
Line of credit	5,000,000	--	--	5,000,000
Medicare advance - current portion	2,186,327	--	--	2,186,327
Unearned income - HHS stimulus	3,390,568	--	--	3,390,568
Total Current Liabilities	<u>47,452,822</u>	<u>40,202,721</u>	<u>(48,050,257)</u>	<u>39,605,286</u>
Long-Term Liabilities				
Financing lease obligation, net of current portion	2,639,572	--	--	2,639,572
Operating lease liability, net of current portion	642,655	--	--	642,655
Note payable, net of current portion	2,112,540	--	--	2,112,540
Long-term debt, net of current portion	--	47,583,896	--	47,583,896
Estimated third-party settlements	165,793	--	--	165,793
Total Long-Term Liabilities	<u>5,560,560</u>	<u>47,583,896</u>	<u>--</u>	<u>53,144,456</u>
Total Liabilities	53,013,382	87,786,617	(48,050,257)	92,749,742
Members' Equity	<u>51,654,073</u>	<u>13,612,264</u>	<u>--</u>	<u>65,266,337</u>
Total Liabilities and Members' Equity	<u>\$ 104,667,455</u>	<u>\$ 101,398,881</u>	<u>\$ (48,050,257)</u>	<u>\$ 158,016,079</u>

See independent auditors' report on supplementary information.

NJMHMC LLC AND AFFILIATE
(d/b/a Hudson Regional Hospital)

SCHEDULE II – COMBINING INCOME STATEMENT

FOR THE YEAR ENDED DECEMBER 31, 2021

	NJMHMC LLC	55 Meadowlands Holding LLC	Eliminations	Total
Operating Revenues				
Net patient service revenue	\$ 141,430,734	\$ --	\$ --	\$ 141,430,734
COVID stimulus revenue	11,025,236	--	--	11,025,236
Rental income	--	3,820,349	(3,820,349)	--
Other revenue	3,957,131	900,539	--	4,857,670
Total Operating Revenues	<u>156,413,101</u>	<u>4,720,888</u>	<u>(3,820,349)</u>	<u>157,313,640</u>
Operating Expenses				
Salaries and wages	36,429,056	--	--	36,429,056
Payroll taxes and employee benefits	5,536,267	--	--	5,536,267
Physician fees	3,933,195	--	--	3,933,195
Supplies and other expenses	82,913,867	598,669	(3,820,349)	79,692,187
New Jersey corporate income tax	1,123,085	--	--	1,123,085
Interest	540,175	1,888,619	--	2,428,794
Depreciation and amortization	2,854,339	1,279,164	--	4,133,503
Total Operating Expenses	<u>133,329,984</u>	<u>3,766,452</u>	<u>(3,820,349)</u>	<u>133,276,087</u>
Income from Operations	23,083,117	954,436	--	24,037,553
Debt Forgiveness (PPP Loan)	6,501,680	--	--	6,501,680
Other Non-Operating Loss	<u>(2,787,197)</u>	<u>--</u>	<u>--</u>	<u>(2,787,197)</u>
Net Income	<u>\$ 26,797,600</u>	<u>\$ 954,436</u>	<u>\$ --</u>	<u>\$ 27,752,036</u>

See independent auditors' report on supplementary information.

NJMHMC LLC AND AFFILIATE
(d/b/a Hudson Regional Hospital)

SCHEDULE III – COMBINING BALANCE SHEET

DECEMBER 31, 2020

	NJMHMC LLC	55 Meadowlands Holding LLC	Eliminations	Total
Assets				
Current Assets				
Cash	\$ 4,255,637	\$ 2,823	\$ --	\$ 4,258,460
Patient accounts receivable	48,616,810	--	--	48,616,810
Supplies inventory	2,003,152	--	--	2,003,152
Prepaid expenses and other current assets	929,661	--	--	929,661
Loans to affiliates, current portion	2,746,863	--	--	2,746,863
Total Current Assets	<u>58,552,123</u>	<u>2,823</u>	<u>--</u>	<u>58,554,946</u>
Other Assets				
Deposits	7,176	--	--	7,176
Property, plant and equipment, net	6,956,534	43,158,573	--	50,115,107
Loans to affiliates, net of current portion	29,074,729	8,832,600	(28,735,192)	9,172,137
Goodwill	592,996	--	--	592,996
Total Other Assets	<u>36,631,435</u>	<u>51,991,173</u>	<u>(28,735,192)</u>	<u>59,887,416</u>
Total Assets	<u>\$ 95,183,558</u>	<u>\$ 51,993,996</u>	<u>\$ (28,735,192)</u>	<u>\$ 118,442,362</u>

See independent auditors' report on supplementary information.

NJMHMC LLC AND AFFILIATE
(d/b/a Hudson Regional Hospital)

SCHEDULE III – COMBINING BALANCE SHEET (CONTINUED)

DECEMBER 31, 2020

	NJMHMC LLC	55 Meadowlands Holding LLC	Eliminations	Total
Liabilities and Members' Equity				
Current Liabilities				
Accounts payable and accrued expenses	\$ 24,420,929	\$ 20,004,741	\$ (28,735,192)	\$ 15,690,478
Current portion of capital lease obligations	999,707	--	--	999,707
Current portion of note payable	1,312,670	--	--	1,312,670
Current portion of long-term debt	--	801,885	--	801,885
Estimated third-party settlements	457,339	--	--	457,339
Line of credit	10,000,000	--	--	10,000,000
Paycheck protection program loan	6,501,680	--	--	6,501,680
Medicare advance - current portion	2,025,000	--	--	2,025,000
Unearned income - HHS stimulus	14,415,804	--	--	14,415,804
Total Current Liabilities	<u>60,133,129</u>	<u>20,806,626</u>	<u>(28,735,192)</u>	<u>52,204,563</u>
Long-Term Liabilities				
Capital lease obligation, net of current portion	3,080,049	--	--	3,080,049
Note payable, net of current portion	3,352,310	--	--	3,352,310
Long-term debt, net of current portion	--	23,983,876	--	23,983,876
Medicare advance - long term	2,274,930	--	--	2,274,930
Total Long-Term Liabilities	<u>8,707,289</u>	<u>23,983,876</u>	<u>--</u>	<u>32,691,165</u>
Total Liabilities	68,840,418	44,790,502	(28,735,192)	84,895,728
Members' Equity	<u>26,343,140</u>	<u>7,203,494</u>	<u>--</u>	<u>33,546,634</u>
Total Liabilities and Members' Equity	<u>\$ 95,183,558</u>	<u>\$ 51,993,996</u>	<u>\$ (28,735,192)</u>	<u>\$ 118,442,362</u>

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NJMHMC LLC AND AFFILIATE
(d/b/a Hudson Regional Hospital)

SCHEDULE IV – COMBINING INCOME STATEMENT

FOR THE YEAR ENDED DECEMBER 31, 2020

	NJMHMC LLC	55 Meadowlands Holding LLC	Eliminations	Total
Operating Revenues				
Net patient service revenue	\$ 120,027,946	\$ --	\$ --	\$ 120,027,946
Rental income	--	3,745,440	(3,745,440)	--
Other revenue	730,126	--	--	730,126
Total Operating Revenues	<u>120,758,072</u>	<u>3,745,440</u>	<u>(3,745,440)</u>	<u>120,758,072</u>
Operating Expenses				
Salaries and wages	33,537,550	--	--	33,537,550
Payroll taxes and employee benefits	3,870,350	--	--	3,870,350
Physician fees	9,808,025	--	--	9,808,025
Supplies and other expenses	58,792,047	492,680	(3,745,440)	55,539,287
Interest	838,469	1,255,124	--	2,093,593
Depreciation and amortization	1,897,643	671,288	--	2,568,931
Total Operating Expenses	<u>108,744,084</u>	<u>2,419,092</u>	<u>(3,745,440)</u>	<u>107,417,736</u>
Income from Operations	12,013,988	1,326,348	--	13,340,336
Other Non-Operating Loss	<u>(1,442,322)</u>	--	--	<u>(1,442,322)</u>
Net Income	<u>\$ 10,571,666</u>	<u>\$ 1,326,348</u>	<u>\$ --</u>	<u>\$ 11,898,014</u>

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