

CONSOLIDATED FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION

CentraState Healthcare System, Inc.
Years Ended December 31, 2020 and 2019
With Report of Independent Auditors

Ernst & Young LLP



CentraState Healthcare System, Inc.

Consolidated Financial Statements and
Supplementary Information

Years Ended December 31, 2020 and 2019

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Report of Independent Auditors

The Board of Trustees
CentraState Healthcare System, Inc.

We have audited the accompanying consolidated financial statements of CentraState Healthcare System, Inc. (the System), which comprise the consolidated balance sheets as of December 31, 2020 and 2019, and the related consolidated statements of operations, changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of CentraState Healthcare System, Inc. at December 31, 2020 and 2019, and the consolidated results of its operations, changes in its net assets and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying consolidating financial statements as of and for the year ended December 31, 2020 are presented for purposes of additional analysis and are not a required part of the consolidated 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 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated 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 consolidated financial statements as a whole.

Ernst & Young LLP

April 16, 2021

CentraState Healthcare System, Inc.

Consolidated Balance Sheets

	December 31	
	2020	2019
	<i>(In Thousands)</i>	
Assets		
Current assets:		
Cash and cash equivalents <i>(Note 1)</i>	\$ 33,891	\$ 18,824
Short-term investments <i>(Notes 1 and 4)</i>	221,083	164,923
Assets limited as to use that are required for current liabilities <i>(Note 4)</i>	1,141	1,094
Patient accounts receivable, net	28,475	28,865
Other current assets <i>(Note 3)</i>	10,644	19,539
Total current assets	295,234	233,245
Assets limited as to use – noncurrent <i>(Note 4)</i>	31,136	29,387
Property, plant, and equipment, net <i>(Note 6)</i>	199,116	194,120
Operating lease assets <i>(Note 8)</i>	13,115	13,983
Noncurrent assets <i>(Note 5)</i>	3,774	13,583
	\$ 542,375	\$ 484,318
Liabilities and net assets		
Current liabilities:		
Current maturities of long-term debt and finance lease obligations <i>(Note 7)</i>	\$ 6,252	\$ 6,825
Accounts payable and accrued expenses	49,127	41,906
Estimated third-party payor settlements – current <i>(Notes 1 and 3)</i>	17,661	3,235
Operating lease liability – current <i>(Note 8)</i>	1,718	1,618
Other current liabilities	155	338
Total current liabilities	74,913	53,922
Long-term debt and finance lease obligations, excluding current maturities <i>(Note 7)</i>	106,220	112,230
Professional liability insurance and other noncurrent liabilities <i>(Notes 1 and 9)</i>	9,006	5,697
Estimated third-party payor settlements – noncurrent <i>(Notes 1 and 3)</i>	35,476	2,727
Operating lease liability – noncurrent <i>(Note 8)</i>	11,397	12,365
Deferred revenue and refundable advance fees	43,360	47,090
Total liabilities	280,372	234,031
Commitments and contingencies		
Net assets:		
Net assets without donor restrictions	240,685	230,192
Net assets with donor restrictions	21,318	20,095
Total net assets	262,003	250,287
	\$ 542,375	\$ 484,318

See accompanying notes.

CentraState Healthcare System, Inc.

Consolidated Statements of Operations

	Year Ended December 31	
	2020	2019
	<i>(In Thousands)</i>	
Revenue:		
Net patient service revenue <i>(Notes 1 and 3)</i>	\$ 267,086	\$ 311,957
Other revenue <i>(Note 13)</i>	80,607	44,675
Investment return <i>(Note 4)</i>	10,556	11,512
Total revenue	358,249	368,144
Expenses:		
Salaries and wages	145,631	138,902
Employee benefits	38,378	37,320
Professional fees	11,709	8,097
Supplies and other expenses	137,852	140,214
Depreciation and amortization	18,345	18,155
Interest expense and amortization of financing costs	3,403	4,117
Total expenses	355,318	346,805
Income from operations	2,931	21,339
Loss on early extinguishment of debt <i>(Note 7)</i>	(199)	—
Net change in unrealized gains and losses on investments <i>(Note 4)</i>	6,984	12,206
Excess of revenue over expenses	9,716	33,545
Net assets released from restrictions for capital purposes	777	904
Change in net assets without donor restrictions	\$ 10,493	\$ 34,449

See accompanying notes.

CentraState Healthcare System, Inc.

Consolidated Statements of Changes in Net Assets

Years Ended December 31, 2020 and 2019

	Without Donor Restrictions	With Donor Restrictions	Total
	<i>(In Thousands)</i>		
Net assets at January 1, 2019	\$ 195,743	\$ 16,329	\$ 212,072
Change in net assets without donor restrictions	34,449	—	34,449
Contributions, investment return and other	—	5,518	5,518
Net assets released from restrictions for operations	—	(848)	(848)
Net assets released from restrictions for capital purposes	—	(904)	(904)
Increase in net assets	34,449	3,766	38,215
Net assets at December 31, 2019	230,192	20,095	250,287
Change in net assets without donor restrictions	10,493	—	10,493
Contributions, investment return and other	—	3,450	3,450
Net assets released from restrictions for operations	—	(1,450)	(1,450)
Net assets released from restrictions for capital purposes	—	(777)	(777)
Increase in net assets	10,493	1,223	11,716
Net assets at December 31, 2020	\$ 240,685	\$ 21,318	\$ 262,003

See accompanying notes.

CentraState Healthcare System, Inc.

Consolidated Statements of Cash Flows

	Year Ended December 31	
	2020	2019
	<i>(In Thousands)</i>	
Operating activities		
Increase in net assets	\$ 11,716	\$ 38,215
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation and amortization	18,345	18,155
Amortization of deferred financing costs and bond discount	46	74
Cash received under nonrefundable advance fee plans, net of refunds	2,642	4,402
Amortization of advance fees	(4,881)	(4,838)
Net realized gains and losses on investments and income in equity of joint ventures	(4,648)	(5,828)
Net change in unrealized gains and losses on investments	(6,984)	(12,206)
Loss on early extinguishment of debt	199	—
Changes in operating assets and liabilities:		
Patient accounts receivable, net	390	(2,516)
Other assets	18,914	(17,887)
Accounts payable and accrued expenses	7,221	3,419
Professional liability insurance and other liabilities	3,126	(2,021)
Estimated third-party payor settlements	47,175	1,606
Net cash provided by operating activities	<u>93,261</u>	<u>20,575</u>
Investing activities		
Acquisitions of property, plant, and equipment, net	(23,189)	(22,662)
Short-term investments (purchased) redeemed, net	(46,137)	1,408
Assets limited as to use purchased, net	(1,806)	(1,253)
Distributions from investment in joint ventures, net	1,399	2,184
Net cash used in investing activities	<u>(69,733)</u>	<u>(20,323)</u>
Financing activities		
Proceeds from issuance of long-term debt	21,608	—
Payments of long-term debt and finance lease obligations	(28,424)	(6,635)
Cash (disbursed) received under refundable advance fee plans, net of refunds	(1,491)	1,098
Payment of deferred financing costs	(163)	(4)
Net cash used in financing activities	<u>(8,470)</u>	<u>(5,541)</u>
Net increase (decrease) in cash and cash equivalents and restricted cash and restricted cash equivalents	15,058	(5,289)
Cash and cash equivalents and restricted cash and restricted cash equivalents at beginning of year	<u>19,360</u>	<u>24,649</u>
Cash and cash equivalents and restricted cash and restricted cash equivalents at end of year	<u>\$ 34,418</u>	<u>\$ 19,360</u>
Supplemental disclosure of non-cash investing and financing activities and cash flow information		
Assets acquired under finance lease obligations	<u>\$ 152</u>	<u>\$ —</u>

See accompanying notes.

CentraState Healthcare System, Inc.

Notes to Consolidated Financial Statements

December 31, 2020

1. Organization and Summary of Significant Accounting Policies

CentraState Healthcare System, Inc. (CSHS), located in Freehold, New Jersey, is a not-for-profit holding corporation. The accompanying consolidated financial statements include the accounts of CSHS, its wholly owned or wholly controlled subsidiary corporations and not-for-profit entities. CSHS is the sole member of the following not-for-profit corporations: CentraState Medical Center, Inc. (the Medical Center), CentraState Healthcare Affiliates, Inc. d/b/a The Manor (The Manor), CentraState Assisted Living, Inc. d/b/a Monmouth Crossing (Monmouth Crossing), CentraState Healthcare Foundation, Inc. (the Foundation), and Center for Aging, Inc. d/b/a Applewood (Applewood). CSHS is the sole stockholder of CentraState Healthcare Services, Inc. (Healthcare Services), a for-profit corporation. Healthcare Services owns all of the membership interests of CentraState Medical Arts Building LLC (MAB), a limited liability company. CentraState Medical Associates, P.C. (Med Associates) and CentraState Specialists P.C., for-profit companies, are controlled subsidiaries of the Medical Center. In 2012, the System formed a captive insurance company domiciled in the Cayman Islands, CentraState Captive Insurance Company Ltd., SPC (the Cayman Captive), a wholly owned subsidiary of the Medical Center.

The reporting entity resulting from the consolidation of these entities is referred to herein as the “System.” All significant intercompany balances and transactions have been eliminated in consolidation. Although these entities have been consolidated for financial statement presentation, there may be limitations on the use of an entity’s funds by another member of the group resulting from the charitable nature of some of the entities or other factors.

Summary information related to the entities follows:

- The Medical Center is an acute care hospital whose mission is to provide the highest quality patient care for the central New Jersey community it serves. The Medical Center has 276 licensed beds.
- Applewood is a continuing care retirement community consisting of 281 independent apartments, 20 cottages, 40 residential health care units, a 60-bed skilled nursing facility, and a 11 unit memory care.
- The Manor provides skilled nursing services for 123 elderly residential units including sub-acute, rehabilitation and I.V. therapy.
- Monmouth Crossing is an assisted living facility for the elderly consisting of 76 units with 16 units for memory care.

CentraState Healthcare System, Inc.

Notes to Consolidated Financial Statements (continued)

1. Organization and Summary of Significant Accounting Policies

- The Foundation was established for the purpose of soliciting and investing funds for the benefit of the Medical Center and other not-for-profit entities of the System.
- Healthcare Services was established to provide various health care and related services to the community.
- MAB was organized to construct, develop, equip, and operate a medical arts building which offers state of the art ambulatory clinical programs.
- Med Associates was established for the purpose of aligning physician practices with the System.
- CentraState Specialists P.C. was formed for the purpose of providing specialized medical services to the community.

In January 2020, the System announced a clinical affiliation with Atlantic Health System (Atlantic Health) that will provide enhanced access to high-quality specialty health care services to the communities of central New Jersey. The affiliation will accelerate the growth of the System's oncology and neuroscience programs through linkages with Atlantic Health's nationally recognized specialists and coordination of clinical and research activities. In addition, the System and Atlantic Health will share clinical expertise and best practices and coordinate patient care through a common technology platform. The affiliation will afford the System the opportunity to participate as a Tier 1 hospital in Horizon's OMNIA network effective April 1, 2020.

In October 2020, the System and Atlantic Health entered into a co-member affiliation agreement under which Atlantic Health will hold a 51% membership interest in CSHS. The co-member affiliation agreement is subject to federal and state regulatory approvals which are in process with final approvals anticipated to be received later in 2021.

COVID-19 Pandemic and CARES Act Funding

On March 11, 2020, the World Health Organization designated the Coronavirus Disease 2019 (COVID-19) outbreak as a global pandemic. Federal, state and local government policies resulted in a substantial portion of the population remaining at home and forced the closure of certain businesses, which had an impact on the System's patient volumes and revenues for most services. Effective March 27, 2020, a New Jersey executive order was issued to suspend all non-essential elective surgeries or invasive procedures, which resumed at different dates during the year ended December 31, 2020.

CentraState Healthcare System, Inc.

Notes to Consolidated Financial Statements (continued)

1. Organization and Summary of Significant Accounting Policies

During this time, the System experienced significant price increases in, and utilization of, medical supplies, particularly personal protective equipment, as global supply lines were disrupted by the pandemic.

In response to COVID-19, the Coronavirus Aid, Relief and Economic Security Act (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). Payments from the Provider Relief Fund are to be used to prevent, prepare for, and respond to COVID-19, and shall reimburse the recipient for health care related expenses and/or lost revenues attributable to COVID-19 and are not required to be repaid except where Provider Relief Funds received exceed the actual amounts of eligible health care related expenses and/or lost revenues as defined by the U.S. Department of Health and Human Services (HHS). Recipients of Provider Relief Funds must attest to and comply with the terms and conditions. HHS distributions from the Provider Relief Fund include general distributions and targeted distributions, to support hospitals in high impact areas and rural providers, for service periods through December 31, 2020, and, if necessary, through June 30, 2021.

HHS has issued several Post-Payment Notices of Reporting Requirements and published responses to frequently asked questions (FAQs) regarding the Provider Relief Fund distributions. Additionally, on December 27, 2020, the Consolidated Appropriations Act, 2021 (CAA) was signed into law. The CAA appropriated additional funding for COVID-19 response and relief through the Provider Relief Fund and provided several changes to the administration of the Provider Relief Fund. The CAA clarified the methods available to calculate lost revenues and indicated that for any payment, including both general and targeted distributions, received by an eligible health care provider that is a subsidiary of a parent organization, the parent organization may allocate all or any portion of the distribution among any other eligible subsidiaries.

Through December 31, 2020, the System received approximately \$37.5 million in funding which was recognized as revenue related to the Provider Relief Fund and is included in other revenue in the accompanying 2020 consolidated statement of operations. The recognized revenue has been determined based on applicable accounting guidance, Post-Payment Notices of Reporting Requirements and FAQs that the System has interpreted as being applicable to the accompanying consolidated financial statements. Subsequent to December 31, 2020, Post-Payment Notices of Reporting Requirements and additional FAQs have been released which have been considered in management's analysis. Management will continue to monitor communications from HHS applicable to the Provider Relief Fund reporting and data submission requirements.

CentraState Healthcare System, Inc.

Notes to Consolidated Financial Statements (continued)

1. Organization and Summary of Significant Accounting Policies (continued)

To enhance liquidity, the Centers for Medicare & Medicaid Services (CMS) expanded and streamlined the process for its Accelerated and Advance Payment Program, pursuant to which providers could receive advance Medicare payments. This program allowed 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. During April 2020, the System received approximately \$42.5 million of expedited payments for future services. The advance was initially scheduled to be recovered by Medicare commencing August 2020. On October 1, 2020, the terms of the CMS accelerated payment program were revised such that the recovery of advances will commence in April 2021 (25% of submitted claims will be withheld for 11 months) and extend through October 2022 (50% of submitted claims will be withheld for six months), with any remaining balance due at that time and subject to interest. CMS advances under this program are included as a contract liability in estimated third-party payor settlements – current (\$15.0 million) and noncurrent (\$27.5 million) at December 31, 2020 in the accompanying consolidated balance sheets.

Additional funding sources are available to pay providers for COVID-19 related treatment of uninsured patients under the CARES Act Uninsured Relief Fund and from CMS for certain Medicare patient diagnoses under for which the System recognized patient service revenue of approximately \$2.4 million in 2020.

Under the CARES Act, the System has elected to defer the payment of the employer portion of social security taxes totaling approximately \$5.5 million that otherwise would have been due between March 27, 2020 and December 31, 2020. The CARES Act requires that 50% of the total deferred amount be paid by December 31, 2021, with the remaining balance due by December 31, 2022. The amount expected to be paid in 2021 is recorded as an accrued expense and the remaining balance expected to be paid in 2022 is included in professional liability insurance and other noncurrent liabilities on the accompanying consolidated balance sheets at December 31, 2020.

The Medical Center has applied for reimbursement for qualifying expenses under the Federal Emergency Management Agency (FEMA) Disaster Relief Fund. Through December 31, 2020, the Medical Center has not received any FEMA reimbursement payments, and as such, has not recorded any receivable or revenue. The Medical Center does anticipate receipt of funds in 2021.

CentraState Healthcare System, Inc.

Notes to Consolidated Financial Statements (continued)

1. Organization and Summary of Significant Accounting Policies (continued)

Med Associates and CentraState Specialists P.C. applied for and received Paycheck Protection Program loans of \$632,462 and \$407,922, respectively, with the Med Associates' loan forgiven in 2020 and reported in other revenue.

The Foundation received various contributions related to the pandemic comprising approximately \$1.1 million in 2020.

Due to the evolving nature of the COVID-19 pandemic, the ultimate impact to the System's operating results, including costs that may be incurred in the future and the level of utilization of the System's services and resulting impact on net patient service revenue reported in the future, and its financial condition is presently unknown.

Significant Accounting Policies

A summary of significant accounting policies follows:

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, such as the valuation of accounts receivable for services to patients, and liabilities, such as estimated settlements with third-party payors and professional insurance liabilities, and disclosures of contingent assets and liabilities at the date of the financial statements. Estimates also affect the amounts of revenue and expenses reported during the period. There is at least a reasonable possibility that certain estimates will change by material amounts in the near term. Actual results could differ from those estimates.

Cash and Cash Equivalents

The System considers all highly liquid investments with a maturity of three months or less at date of purchase to be cash and cash equivalents, except for amounts reported within short-term investments and assets limited as to use as such holdings are within investment portfolios, excluding assets held for indenture agreements. The System does not hold any money market funds with significant liquidity restrictions that would require the funds to be excluded from cash equivalents.

CentraState Healthcare System, Inc.

Notes to Consolidated Financial Statements (continued)

1. Organization and Summary of Significant Accounting Policies (continued)

A reconciliation of amounts reported on the consolidated balance sheets to the consolidated statements of cash flows as of and for the year ended December 31, 2020 and 2019 follows (in thousands):

	<u>2020</u>	<u>2019</u>
Cash and cash equivalents	\$ 33,891	\$ 18,824
Assets limited as to use – by terms of indenture agreements: cash and cash equivalents	<u>527</u>	<u>536</u>
Total cash and cash equivalents and restricted cash and restricted cash equivalents	<u>\$ 34,418</u>	<u>\$ 19,360</u>

Investments and Investment Return

Investments in marketable securities are reported in the consolidated balance sheets at fair value based on quoted market prices. Investments that are readily marketable and which are not reported as assets limited as to use are considered short-term investments and are classified as current assets in the accompanying consolidated balance sheets. All investments in marketable securities are classified as trading securities.

All investment transactions are recorded on the dates such trades take place. The realized gain or loss resulting from these transactions is the difference between the proceeds received and the average historical cost of the assets sold. Interest income is recorded as earned. Dividends are recorded on the ex-dividend date. Investment return and net change in unrealized gains and losses on investments is included in the excess of revenue over expenses unless restricted by donor or law.

Investments in joint ventures, which have been entered into by Healthcare Services and the Medical Center, are accounted for using the equity method.

Assets Limited as to Use

Assets limited as to use include investments internally designated by the Board of Trustees and various external designations. Donor restricted assets limited as to use include assets held under split-interest agreements, such as charitable gift annuity agreements, under which the Foundation pays the designated beneficiaries a predetermined annual annuity amount.

CentraState Healthcare System, Inc.

Notes to Consolidated Financial Statements (continued)

1. Organization and Summary of Significant Accounting Policies (continued)

Supplies

Supplies are reported in other current assets in the accompanying consolidated balance sheets and are stated at the lower of cost or net realizable value. Supplies are used in the provision of patient care and are not held for sale.

Pledges Receivable

Through the fundraising activities of the Foundation, the System is the recipient of pledges which are recorded at the time the unconditional promise to give is made, at estimated net realizable value. The net realizable value of the outstanding pledges of approximately \$1.2 million and \$1.6 million at December 31, 2020 and 2019, respectively, are reported within other current assets in the accompanying consolidated balance sheets. The amount of the allowance for uncollectible pledges is based on management's assessment of historical and expected collections and other collection indicators. Additions to the allowance for uncollectible pledges result from the provision for uncollectible pledges. Pledges written off as uncollectible are deducted from the allowance for uncollectible pledges. Pledges are discounted to net present value based on the scheduled payment terms of each pledge using a discount rate of 2.0% for each of the years ended December 31, 2020 and 2019.

Property, Plant, and Equipment

Property, plant, and equipment are stated at cost, except for donated equipment which is recorded at fair value at the date of the gift. The System provides for depreciation on a straight-line basis over the estimated useful lives of such assets or the lease term, whichever is shorter. Amortization of equipment obtained through finance lease obligations is included in depreciation and amortization expense. The carrying amounts of assets and the related accumulated depreciation are removed from the accounts when such assets are disposed of and any resulting gain or loss is included in operations.

Deferred Financing Costs

Deferred financing costs are amortized over the period the related obligation is outstanding using the effective interest method. Unamortized deferred financing costs are reported as a direct deduction from long-term debt (see Note 7).

CentraState Healthcare System, Inc.

Notes to Consolidated Financial Statements (continued)

1. Organization and Summary of Significant Accounting Policies (continued)

Marketing Costs

Marketing and advertising costs incurred by the System, which are not subject to capitalization and deferral (none in 2020 or 2019), are expensed as incurred and amounted to approximately \$2.7 million and \$2.9 million for the years ended December 31, 2020 and 2019, respectively. Such costs are included in supplies and other expenses on the accompanying consolidated statements of operations.

Professional Liability Insurance

The System is insured for professional liability insurance through its wholly owned captive insurance company. Premiums paid by the System to the Cayman Captive insurance company are determined annually based on claims-made coverage for health care professional liability and on an occurrence basis for general liability. Premiums are actuarially determined based on the actual and estimated experience of the System, subject to retrospective adjustment in future periods. Insurance premium revenue and expenses are eliminated in consolidation.

Retirement Community Obligations

Residents of Applewood are required to pay a fee to obtain a nontransferable right to lifetime occupancy at Applewood. Current residents have selected one of four continuing care contract options: Traditional Plan, 90% Refund Plan, 50% Refund Plan, or Fee for Service Plan. Applewood also offers a 100% Refund Plan.

The Traditional Plan specifies that advance fees are refundable to the resident on a declining balance basis amortized at 2% per month after residency is established. These advance fees are recorded as refundable advance fees upon receipt and amortized to income as performance obligations are satisfied using the straight-line method over the estimated remaining life expectancy of the resident, adjusted annually at the beginning of each year. The Fee for Service Plan requires residents to pay for health care related services on a fee for service basis.

Under the 90% and 50% Refund Plans, 10% and 50%, respectively, of the advance fees are nonrefundable. Nonrefundable fees are recorded as deferred revenue upon receipt and amortized to income as performance obligations are satisfied using the straight-line method over the estimated remaining life expectancy of the resident, adjusted annually.

CentraState Healthcare System, Inc.

Notes to Consolidated Financial Statements (continued)

1. Organization and Summary of Significant Accounting Policies (continued)

The refundable portion of these plans are refundable solely from the resale proceeds upon re-occupancy of the resident's unit, reduced by fees earned through the resident's use of Applewood's health center. The refundable portion of fees received is recorded as deferred revenue upon receipt.

Applewood annually calculates the present value (using a discount rate of 5% in 2020 and 2019) of the estimated net cost of future services and the use of facilities to be provided to current residents and compares that amount with the balance of deferred revenue from advance fees and refundable advance fees. No additional liability to provide future services and use of facilities was required to be recorded at December 31, 2020 and 2019.

Classification of Net Assets

The System separately accounts for and reports net assets with donor restrictions and net assets without donor restrictions. Net assets without donor restrictions are not externally restricted for identified purposes by donors. Net assets without donor restrictions include resources that the governing board may use for any designated purpose and resources whose use is limited by agreement between the System and an outside party other than the donor. Net assets with donor restrictions are those whose use is limited by the donor. When a temporary donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, restricted net assets are reclassified to net assets without donor restrictions and reported as net assets released from restriction.

On a stand-alone financial reporting basis, the Medical Center, Applewood, Monmouth Crossing and The Manor recognize the balance and changes in their accumulated interest in the net assets of the Foundation. Amounts reported on a stand-alone basis are eliminated in consolidation.

Net assets with donor restrictions that are perpetual in nature represent assets held in perpetuity by the Foundation on behalf of the Medical Center and Applewood, the proceeds of which are available to support Medical Center and Applewood programs and services. The System follows the requirements of the New Jersey Uniform Prudent Management of Institutional Funds Act (NJ UPMIFA) as they relate to its permanently restricted contributions and net assets. The System's investment and spending policies for endowment assets attempt to provide a predictable stream of funding to the endowment funds.

CentraState Healthcare System, Inc.

Notes to Consolidated Financial Statements (continued)

1. Organization and Summary of Significant Accounting Policies (continued)

The System recognizes governmental grants where commensurate value is not exchanged as contributions when conditions and restrictions are satisfied and reports such amounts within other revenue (see Note 13).

Functional Expenses

The System provides general health care and other services. Expenses related to providing these services for the years ended December 31, 2020 and 2019 are as follows (in thousands):

	2020						
	Hospital Patient Care	Post-Acute and Continuing Care	Ambulatory Physician Practices	Research	Foundations and Fundraising	Management and Administrative	Total
Salaries and wages	\$ 109,422	\$ 18,408	\$ 10,637	\$ 251	\$ 865	\$ 6,048	\$ 145,631
Employee benefits	28,621	5,584	2,382	63	216	1,512	38,378
Professional fees	11,709	—	—	—	—	—	11,709
Supplies and other expenses	116,170	14,050	2,676	17	968	3,971	137,852
Depreciation and amortization	13,313	4,252	52	—	19	709	18,345
Interest	2,109	613	105	—	—	576	3,403
Total	\$ 281,344	\$ 42,907	\$ 15,852	\$ 331	\$ 2,068	\$ 12,816	\$ 355,318

	2019						
	Hospital Patient Care	Post-Acute and Continuing Care	Ambulatory Physician Practices	Research	Foundations and Fundraising	Management and Administrative	Total
Salaries and wages	\$ 108,552	\$ 18,391	\$ 6,383	\$ 220	\$ 982	\$ 4,374	\$ 138,902
Employee benefits	28,917	5,745	1,264	55	246	1,093	37,320
Professional fees	8,097	—	—	—	—	—	8,097
Supplies and other expenses	117,652	15,030	709	89	1,253	5,481	140,214
Depreciation and amortization	13,458	3,928	31	—	29	709	18,155
Interest	2,667	716	107	—	—	627	4,117
Total	\$ 279,343	\$ 43,810	\$ 8,494	\$ 364	\$ 2,510	\$ 12,284	\$ 346,805

The accompanying consolidated financial statements report expense categories that are attributable to more than one health care service or support function. Costs not directly attributable to a function are allocated on a functional basis using internal records and estimates.

CentraState Healthcare System, Inc.

Notes to Consolidated Financial Statements (continued)

1. Organization and Summary of Significant Accounting Policies (continued)

Performance Indicator

The accompanying consolidated statements of operations include excess of revenue over expenses as the performance indicator. Changes in net assets without donor restrictions which are excluded from the performance indicator include net assets released from restrictions for capital purposes.

Transactions deemed by management to be ongoing, major or central to the provision of health care services are reported within income from operations. Peripheral or incidental transactions are excluded from income from operations.

Income Taxes

The entities comprising the System, with the exception of Healthcare Services, MAB, Med Associates, CentraState Specialists P.C., and the Cayman Captive, are not-for-profit organizations as described in Section 501(c)(3) of the Internal Revenue Code (the Code) and are exempt from federal income taxes on related income pursuant to Section 501(a) of the Code. The not-for-profit organizations are also exempt from state and local income taxes.

Healthcare Services, Med Associates, and CentraState Specialists P.C. are for-profit entities; however, income tax expense and income taxes paid for 2020 and 2019 were not significant. MAB is a single member limited liability company that is not recognized as a separate entity for tax purposes. For income tax purposes, the activities of MAB are treated as a division within its parent, Healthcare Services. The Cayman Captive is generally not subject to income taxes under the Cayman Islands tax concessions laws.

The System accounts for deferred tax assets and liabilities based on the differences between the financial reporting and tax basis of assets and liabilities using enacted tax rates and laws that will be in effect when differences are expected to reverse.

As of and for the years ended December 31, 2020 and 2019, the System has made reasonable estimates of the provision for income taxes and deferred tax balances based on accounting guidance included in Accounting Standards Codification 740, *Income Taxes*. The System will continue to refine its calculations in future periods as additional regulations and guidance are issued by the Internal Revenue Service (IRS).

CentraState Healthcare System, Inc.

Notes to Consolidated Financial Statements (continued)

1. Organization and Summary of Significant Accounting Policies (continued)

Recent Accounting Pronouncements

In June 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. (ASU) 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. The main objective of ASU 2016-13 and related ASU updates is to provide financial statement users with more decision-useful information about the expected credit losses on financial instruments and other commitments to extend credit held by a reporting entity at each reporting date. The amendments affect loans, debt securities, trade receivables, net investments in leases, off balance sheet credit exposures, reinsurance receivables, and any other financial assets not excluded from the scope that have the contractual right to receive cash. The amendments in this ASU are effective for the System for fiscal years beginning after December 15, 2022. The System is in the process of evaluating the impact of ASU 2016-13 on its consolidated financial statements.

In August 2018, the FASB issued ASU 2018-15, *Intangibles – Goodwill and Other -Internal-Use Software (Subtopic 350-40): Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement that is a Service Contract*. The standard aligns the requirement for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal use software license). The accounting for the service element of a hosting arrangement that is a service contract is not affected by this standard.

The standard requires the customer in a hosting arrangement that is a service contract to follow the guidance in Accounting Standards Codifications Subtopic 350-40 to determine which implementation costs to capitalize as an asset related to the service contract and which costs to expense by determining which project stage an implementation activity relates to and the nature of the costs. The standard also requires the customer to expense the capitalized implementation costs of a hosting arrangement that is a service contract over the term of the hosting arrangement, among other provisions. The amendments in ASU 2018-15 are effective for annual reporting periods beginning after December 15, 2020, and interim periods thereafter. Early adoption is permitted. The amendments should be applied either retrospectively or prospectively to all implementation costs incurred after the date of adoption. The System is in the process of evaluating the impact of ASU 2018-15 on its consolidated financial statements.

CentraState Healthcare System, Inc.

Notes to Consolidated Financial Statements (continued)

2. Charity Care

The System provides care to patients who meet certain criteria defined by the New Jersey Department of Health (DOH) without charge or at amounts less than established rates. The Medical Center's records identify and monitor the level of charity care it provides and include the amount of charges foregone for services and supplies furnished. The current DOH charity care guidelines require participation and cooperation of the patient in order to be identified as a charity care account. Management believes that the present charity care guidelines understate the System's reported charity care amounts because of the difficulties involved with obtaining patient cooperation. The cost of charity care includes the direct and indirect cost of providing charity care services. The cost is estimated by utilizing a ratio of cost to standard charges applied to the standard uncompensated charges associated with providing charity care. The cost of charity care provided during the years ended December 31, 2020 and 2019 was approximately \$4.1 million and \$4.9 million, respectively. The System receives partial reimbursement for the charity care it provides (see Note 3).

3. Net Patient Service Revenue

Net patient service revenue is reported at the amount that reflects the consideration to which the System expects to be entitled in exchange for providing patient care. These amounts are due from patients, third-party payors (including health insurers and government programs), and others and includes provisions for variable consideration (reductions to revenue) in determining a transaction price.

The System uses a portfolio approach as a practical expedient to account for categories of patient contracts as collective groups rather than recognizing revenue on an individual contract basis. The portfolios consists of major payor classes for inpatient revenue and major payer classes and types of services provided for outpatient revenue. Based on historical collection trends and other analyses, the System believes that revenue recognized by utilizing the portfolio approach approximates the revenue that would have been recognized if an individual contract approach were used.

The System's initial estimate of the transaction price for services provided to patients subject to revenue recognition is determined by reducing the total standard charges related to the patient services provided by various elements of variable consideration, including contractual adjustments, discounts, implicit price concessions, and other reductions to the System's standard charges.

CentraState Healthcare System, Inc.

Notes to Consolidated Financial Statements (continued)

3. Net Patient Service Revenue (continued)

The System determines the transaction price associated with services provided to patients who have third-party payor coverage on the basis of contractual or formula-driven rates for the services rendered (see description of third-party payor payment programs below). The estimates for contractual allowances and discounts are based on contractual agreements, the System's discount policies and historical experience. For uninsured and under-insured patients who do not qualify for charity care, the System determines the transaction price associated with services rendered on the basis of charges reduced by implicit price concessions. Implicit price concessions included in the estimate of the transaction price are based on the System's historical collection experience for applicable patient portfolios.

Generally, the System bills patients and third-party payors several days after the services are performed and/or the patient is discharged. Net patient service revenue is recognized as performance obligations are satisfied. Performance obligations are determined based on the nature of the services provided by the System. Net patient service revenue for performance obligations satisfied over time is recognized based on actual charges incurred in relation to total charges. The System believes that this method provides a reasonable depiction of the transfer of services over the term of the performance obligation based on the services needed to satisfy the obligation. Generally, performance obligations satisfied over time relate to patients receiving inpatient acute care services or patients receiving services in the System's outpatient, ambulatory or long-term care centers. The System measures the performance obligation from admission into the System or the commencement of an outpatient service to the point when it is no longer required to provide services to that patient, which is generally at the time of discharge or the completion of the outpatient visit.

Substantially all of its performance obligations relate to contracts with a duration of less than one year. The unsatisfied or partially unsatisfied performance obligations primarily relate to inpatient acute care services at the end of the reporting period for patients who remain admitted at that time (in-house patients). The performance obligations for in-house patients are generally completed when the patients are discharged, which for the majority of the System's in-house patients occurs within days or weeks after the end of the reporting period.

Subsequent changes to the estimate of the transaction price (determined on a portfolio basis when applicable) are generally recorded as adjustments to patient service revenue in the period of the change.

CentraState Healthcare System, Inc.

Notes to Consolidated Financial Statements (continued)

3. Net Patient Service Revenue (continued)

Changes in the System's estimates of implicit price concessions, discounts, contractual adjustments or other changes to expected payments for performance obligations satisfied in prior years were not significant. Portfolio collection estimates are updated based on collection trends. Subsequent changes that are determined to be the result of an adverse change in the patient's ability to pay (determined on a portfolio basis when applicable) are recorded as bad debt expense. Bad debt expense for the years ended December 31, 2020 and 2019 was not significant.

The System has determined that the nature, amount, timing and uncertainty of revenue and cash flows are affected by the following factors: payors, lines of business and timing of when revenue is recognized. Tables providing details of these factors are presented below.

Net patient service revenue disaggregated by payor for the years ended December 31, 2020 and 2019 are as follows (in thousands):

	2020	2019
Medicare	\$ 114,447	\$ 128,133
Medicaid	18,750	22,088
Commercial insurance	117,125	145,675
Self-pay patients	8,002	5,622
Other third-party payors	8,762	10,439
	<u>\$ 267,086</u>	<u>\$ 311,957</u>

Deductibles, copayments and coinsurance under third-party payment programs which are the patient's responsibility are included within the third-party payors amounts or self-pay category above.

CentraState Healthcare System, Inc.

Notes to Consolidated Financial Statements (continued)

3. Net Patient Service Revenue (continued)

Net patient service revenue for the years ended December 31, 2020 and 2019, disaggregated by lines of service, is as follows (in thousands):

	<u>2020</u>	<u>2019</u>
Hospital	\$ 249,275	\$ 293,627
Post-acute	11,456	13,333
Physician practices	6,355	4,997
	<u>\$ 267,086</u>	<u>\$ 311,957</u>

At December 31, 2020 and 2019, patient accounts receivable, net is comprised of the following components (in thousands):

	<u>2020</u>	<u>2019</u>
Patient receivables	\$ 25,426	\$ 27,368
Contract assets	3,049	1,497
	<u>\$ 28,475</u>	<u>\$ 28,865</u>

Contract assets are related to in-house patients who were provided services during the reporting period but were not discharged as of the reporting date and for which the System may not have the right to bill.

Third-Party Payment Programs

The System has agreements with third-party payors that provide for payment for services rendered at amounts different from its established rates. A summary of the payment arrangements with major third-party payors follows:

Medicare: The System is paid for most Medicare inpatient and outpatient services under the national prospective payment system and other methodologies of the Medicare program for certain other services. Federal regulations provide for certain adjustments to current and prior years' payment rates, based on industry-wide and hospital-specific data. Medicare cost reports of the System have been audited and settled for years through 2016 at December 31, 2020.

CentraState Healthcare System, Inc.

Notes to Consolidated Financial Statements (continued)

3. Net Patient Service Revenue (continued)

Medicaid: Inpatient acute care services rendered to Medicaid program beneficiaries are paid at prospectively determined rates per discharge. Outpatient services rendered to Medicaid program beneficiaries are reimbursed under cost-based and fee schedule methodologies. The System is reimbursed for outpatient services at a tentative rate, with final settlement determined after submission of annual cost reports and audits thereof by the Medicaid fiscal intermediary. The Medicaid cost reports of the System for years through 2017 have been audited and settled.

Other third-party payors: The System also has entered into payment agreements with certain commercial insurance carriers and health maintenance organizations. The basis for payment to the System under these agreements includes prospectively determined rates per discharge or days of hospitalization and discounts from established charges.

Medicare and Medicaid cost reports, which serve as the basis for final settlement with these programs, have been audited by the applicable fiscal intermediary and settled through years noted above, although revisions to final settlements or other retroactive changes could be made. Other years and various issues remain open for audit and settlements.

Settlements with third-party payors for cost report filings and retroactive adjustments due to ongoing and future audits, reviews or investigations are considered variable consideration and are included in the determination of the estimated transaction price for providing patient care. These settlements are estimated based on the terms of the payment agreement with the payor, correspondence from the payor and the System's historical settlement activity (for example, cost report final settlements or repayments related to recovery audits), 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. 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. Estimated settlements are adjusted in future periods as adjustments become known (that is, new information becomes available), or as years are settled or are no longer subject to such audits, reviews, and investigations. For the years ended December 31, 2020 and 2019, the net effect of the System's revisions to prior year Medicare and Medicaid settlement estimates, as well as settlements with commercial insurers, resulted in net patient service increasing by approximately \$35,000 and \$11.3 million, respectively. The 2019 amount included a portion of a commercial non-recurring settlement totaling \$20.0 million which was a one-time increase to 2019 net patient service revenue of which \$10.0 million was collected in 2019 with the balance recorded in other current assets and subsequently collected in 2020.

CentraState Healthcare System, Inc.

Notes to Consolidated Financial Statements (continued)

3. Net Patient Service Revenue (continued)

The System has appealed certain items in audited cost reports. The outcome of these appeals is uncertain and, therefore, potential revenue associated with these appeals is not included within the accompanying consolidated statements of operations.

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 or changes to health care reform that has been or will be 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 System.

Laws and regulations governing the Medicare and Medicaid programs 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. The System believes that it is in compliance with all applicable 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 financial statements. Noncompliance with such laws and regulations could result in fines, penalties and exclusion from such programs.

The New Jersey Health Care Subsidy Fund and other state programs have been established for various purposes including the distribution of charity care payments to hospitals statewide. The following subsidy amounts have been included in net patient service revenue (in thousands):

	Year Ended December 31	
	2020	2019
Charity care	\$ 432	\$ 517
Special subsidy	419	419
Medicaid GME	310	309
Delivery System Reform Incentive Payments	236	234
	<u>\$ 1,397</u>	<u>\$ 1,479</u>

CentraState Healthcare System, Inc.

Notes to Consolidated Financial Statements (continued)

4. Investments and Assets Limited as to Use

Short-Term Investments

Short-term investments consist of the following (in thousands):

	December 31	
	2020	2019
United States government obligations	\$ 26,273	\$ 23,402
Corporate bonds	36,826	17,071
Common stocks	7,441	5,763
Mutual funds	150,260	118,405
	<u>220,800</u>	<u>164,641</u>
Interest receivable	283	282
	<u><u>\$ 221,083</u></u>	<u><u>\$ 164,923</u></u>

Assets Limited as to Use

Assets limited as to use consist of the following (in thousands):

	December 31	
	2020	2019
Cash and cash equivalents	\$ 12,650	\$ 11,667
Common stocks	1,326	1,626
United States government obligations	2,304	3,334
Corporate bonds	2,658	2,050
Mutual funds	13,339	11,804
Total assets limited as to use	<u>32,277</u>	<u>30,481</u>
Less current portion	1,141	1,094
Assets limited as to use – noncurrent	<u><u>\$ 31,136</u></u>	<u><u>\$ 29,387</u></u>

CentraState Healthcare System, Inc.

Notes to Consolidated Financial Statements (continued)

4. Investments and Assets Limited as to Use (continued)

Assets limited as to use are maintained for the following purposes (in thousands):

	December 31	
	2020	2019
As directed by the Board of Trustees	\$ 4,856	\$ 4,856
By terms of indenture agreements	527	536
Estimated advance fee refunds	3,118	3,118
Supplemental executive retirement plan	807	1,434
By donor restrictions	16,183	14,508
Assets held in the Cayman Captive (<i>Note 9</i>)	6,786	6,029
	\$ 32,277	\$ 30,481

A summary of assets limited as to use by terms of indenture agreement is as follows (in thousands):

	December 31	
	2020	2019
Debt service interest funds	\$ 526	\$ 536
Debt service cost of issuance funds	1	—
	\$ 527	\$ 536

CentraState Healthcare System, Inc.

Notes to Consolidated Financial Statements (continued)

4. Investments and Assets Limited as to Use (continued)

Investment Return

Investment return included in the excess of revenue over expenses without donor restrictions consists of the following (in thousands):

	Year Ended December 31	
	2020	2019
Revenue from operations:		
Interest and dividends	\$ 5,908	\$ 5,684
Net realized gains and losses	3,039	3,500
Net gain in equity of joint venture investments	1,609	2,328
	<u>10,556</u>	<u>11,512</u>
Nonoperating income:		
Net change in unrealized gains and losses on investments	6,984	12,206
Total investment return – without donor restrictions	<u>\$ 17,540</u>	<u>\$ 23,718</u>

5. Noncurrent Assets

Noncurrent assets consist of the following (in thousands):

	December 31	
	2020	2019
Investments in joint ventures	\$ 2,143	\$ 1,932
Other noncurrent assets	1,631	11,651
	<u>\$ 3,774</u>	<u>\$ 13,583</u>

Included in investments in joint ventures under which Healthcare Services holds 50% ownership interests are the following companies: CentraState Fitness & Wellness Center LLC (F&W), Freehold Venture Associates, LLC, and Pier Practice Solutions. F&W leases space from the Medical Center. The remaining term of the lease with the Medical Center is 8 years, with the option to renew for three terms of 10 years each (annual rental payments of approximately \$500,000 per year). Distributions received from these joint ventures for 2020 and 2019 totaled approximately \$1.4 million and \$2.2 million, respectively.

CentraState Healthcare System, Inc.

Notes to Consolidated Financial Statements (continued)

6. Property, Plant, and Equipment

Property, plant, and equipment consist of the following (in thousands):

	December 31	
	2020	2019
Land	\$ 16,712	\$ 16,712
Land improvements	11,501	11,005
Buildings and fixtures	315,286	307,952
Equipment	137,017	191,820
	<u>480,516</u>	<u>527,489</u>
Less accumulated depreciation and amortization	292,725	336,204
Add construction in progress	11,325	2,835
	<u><u>\$ 199,116</u></u>	<u><u>\$ 194,120</u></u>

During 2020 and 2019, the System wrote off approximately \$61.8 million and \$15,000 of fully depreciated assets, respectively.

Equipment and facilities acquired through finance lease obligations are included in the amounts above, including approximately \$127,000 and \$25,000 of unamortized balances at December 31, 2020 and 2019, respectively. During 2020 and 2019, approximately \$50,000 was amortized for these equipment and facilities costs.

CentraState Healthcare System, Inc.

Notes to Consolidated Financial Statements (continued)

7. Long-Term Debt and Finance Lease Obligations

Long-term debt and finance lease obligations consist of the following (in thousands):

	December 31	
	2020	2019
Series 2010 CAP Loan – Medical Center (a)	\$ –	\$ 917
Series 2012 Note – Medical Center (b)	24,813	25,038
Series 2014 Bonds – Medical Center (c)	30,100	33,350
Series 2017A Bonds – Medical Center (d)	32,100	32,670
Series 2020 Bonds – Applewood (e)	20,828	–
Series 2005B Bonds – Applewood (e)	–	21,860
Series 2000 Bonds – MAB (f)	4,860	5,635
Finance lease obligation at a rate of 3.25%, collateralized by leased equipment and facilities maturing in 2023	147	43
	112,848	119,513
Less:		
Unamortized bond discount	–	3
Deferred financing costs, net	376	455
Current maturities	6,252	6,825
Long-term debt and finance lease obligations, excluding current maturities	\$ 106,220	\$ 112,230

(a) *CentraState Medical Center* – On November 30, 2010, the New Jersey Health Care Facilities Financing Authority (NJHCFFA) approved a \$10.0 million loan through the Hospital Capital Asset Financing Program (Series 2010 CAP Loan). The loan proceeds were used by the Medical Center for the relocation and expansion of the radiation oncology department, purchase of certain equipment, and costs associated with the financing. Principal payments were payable in monthly amounts sufficient to amortize the principal balance over a ten-year period through the maturity date of December 1, 2017, at which time all unpaid balance was due. On November 22, 2017, the NJHCFFA extended the term of the loan to December 1, 2020, at which point the unpaid principal balance and interest were due. The Series 2010 CAP Loan was fully paid off in 2020.

CentraState Healthcare System, Inc.

Notes to Consolidated Financial Statements (continued)

7. Long-Term Debt and Finance Lease Obligations (continued)

- (b) *CentraState Medical Center* – On April 26, 2012, the Medical Center executed a loan agreement for an approximately \$26.5 million promissory note with a bank (the Series 2012 Note). Principal payments are due annually through July 1, 2037. The Series 2012 Note bears interest at a variable rate established monthly (1.3% and 2.9% at December 31, 2020 and 2019, respectively). The interest rate can be converted to a fixed rate, at the option of the Medical Center, pursuant to the loan agreement.
- (c) *CentraState Medical Center* – In 1998, the NJHCFFA issued Series 1998 Bonds on behalf of the Medical Center. On August 14, 2014, the System fully refunded the outstanding Series 1998 Bond with proceeds from the issuance of Series 2014 Bonds issued by the NJHCFFA on behalf of the Medical Center.

The NJHCFFA issued approximately \$48.1 million of Series 2014 Bonds. In addition to the refunding of the Series 1998 Bonds, the proceeds were used to construct a new information technology building and fund certain Medical Center renovations. At December 31, 2020, the bonds consist of approximately \$23.7 million of Series 2014A Bonds with an interest rate of 2.9% maturing annually through July 1, 2028; approximately \$6.4 million of Series 2014C bonds with an interest rate of 3% maturing annually through July 1, 2029. The 2014 Bonds are collateralized by the gross receipts of the Medical Center and a first mortgage lien on certain of the Medical Center's real property.

- (d) *CentraState Medical Center* – In December 2017, the NJHCFFA issued approximately \$33.5 million of Series 2017A Bonds on behalf of the Medical Center. A portion of the proceeds, together with the remaining debt service reserve funds, were used to defease previously outstanding Series 2006A Bonds. The Series 2017A Bonds mature annually through July 1, 2037, with an interest rate of 3.26%. The Series 2017A Bonds are collateralized by a pledge of gross receipts and a first mortgage lien on the Medical Center's real property.

CentraState Healthcare System, Inc.

Notes to Consolidated Financial Statements (continued)

7. Long-Term Debt and Finance Lease Obligations (continued)

- (e) *Applewood* – Series 2005A, 2005B and 2005C Bonds (collectively, the 2005 Bonds) were issued by the New Jersey Economic Development Authority (NJEDA) on behalf of Applewood to fund the construction and expansion of the Applewood project and for the repayment of previously outstanding NJEDA Variable Rate Revenue Bonds, Applewood Center for Aging, Inc., Series 1989. The Series 2005A and 2005C Bonds have been fully repaid in prior years.

The Series 2005B Bonds were scheduled to mature through 2035 and bore interest at variable rates determined weekly based on remarketing activities and not to exceed 10% (1.23% at December 31, 2019).

In February 2020, Applewood refinanced the Series 2005B Bonds through a \$21.6 million private placement debt offering of Series 2020 Revenue Refunding Bonds – Applewood Estate Project with National Finance Authority and a bank, maturing in October 2035 with interest at a fixed rate of 2.38%. A loss on early extinguishment of debt of \$199,000 resulted from this transaction.

- (f) *CentraState Medical Arts Building* – On December 28, 2000, MAB issued Series 2000 Bonds to finance the construction and equipping of the medical arts building. The Series 2000 Bonds mature December 1, 2025, with interest at a variable rate based on remarketing activities (not to exceed 15%, while the bonds bear interest at a weekly rate or 25% if the bonds are converted to a term rate) which was 0.21% and 1.89% at December 31, 2020 and 2019, respectively. The holders of the Series 2000 Bonds have the right to tender their bonds for purchase on a weekly basis. MAB has an irrevocable letter of credit with a bank, providing security for the payment of principal and interest on the Series 2000 Bonds. The letter of credit is collateralized by a first priority lien and security interests in substantially all of MAB's real property, assets, and leases (the Medical Center leases the medical arts building and the lease payment amounts are based on MAB's debt service under the Series 2000 Bonds).

The reimbursement terms of the letter of credit are such that in the event that a bondholder demanded repayment on the bonds and adequate funds are not available from the remarketing of such bonds, the letter of credit would be drawn and MAB would reimburse the bank which issued the letter of credit over a long-term period. The letter of credit has been extended through several amendments and currently expires September 1, 2021. Management is currently working with the bank to secure another long-term extension.

CentraState Healthcare System, Inc.

Notes to Consolidated Financial Statements (continued)

7. Long-Term Debt and Finance Lease Obligations (continued)

Debt issued by each entity of the System is the sole responsibility of that entity.

Principal payments on long-term debt and finance lease obligations for the next five years and thereafter are as follows (in thousands):

	Long-Term Debt	Obligations Under Finance Leases	Total
2021	\$ 6,203	\$ 49	\$ 6,252
2022	6,436	51	6,487
2023	6,750	47	6,797
2024	7,009	—	7,009
2025	7,331	—	7,331
Thereafter	78,972	—	78,972
	<u>\$ 112,701</u>	<u>\$ 147</u>	<u>\$ 112,848</u>

At December 31, 2020 and 2019, the entities comprising the System were in compliance with the financial covenants of their respective loan agreements.

Interest paid under all borrowings for years ended December 31, 2020 and 2019 aggregated approximately \$3.4 million and \$4.1 million, respectively, net of capitalized interest.

The System maintains a \$30.0 million line of credit with a bank. At December 31, 2020, no balance was outstanding on the line. The line is due on demand and expires September 7, 2021. Interest on the line is calculated using an adjusted LIBOR Rate plus one hundred sixty basis points.

CentraState Healthcare System, Inc.

Notes to Consolidated Financial Statements (continued)

8. Leases

The System leases certain property and equipment under finance and operating leases. 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. Finance leases result in an accounting treatment similar to an acquisition of the asset.

For leases with initial terms greater than a year, the System records the related right-of-use assets and liabilities at the present value of the lease payments to be paid over the life of the related lease. The System's leases may include variable lease payments and renewal options. Variable lease payments are excluded from the amounts used to determine the right-of-use assets and liabilities unless the variable lease payments depend on an index or rate or are in substance fixed payments. Lease payments related to periods subject to renewal options are also excluded from the amounts used to determine the right-of-use assets and liabilities unless the System is reasonably certain to exercise the option to extend the lease. 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 System has elected to use a risk-free discount rate determined using a period comparable with that of the lease term. The System does not account for the nonlease components together with the related lease components when determining the right-of-use assets and liabilities, except for medical equipment.

The System does not record leases with an initial term of less than a year as right-of-use assets and liabilities.

CentraState Healthcare System, Inc.

Notes to Consolidated Financial Statements (continued)

8. Leases (continued)

The following schedules summarize information related to the lease assets and liabilities as of and for the years ended December 31, 2020 and 2019 (in thousands):

	2020	2019
Lease cost:		
Finance lease cost:		
Amortization of right-of-use asset	\$ 48	\$ 50
Interest on lease liabilities	1	3
Operating lease cost	2,210	2,195
Total lease cost	\$ 2,259	\$ 2,248
Right-of-use assets and liabilities:		
Right-of-use assets – finance leases	\$ 127	\$ 25
Lease liability – finance leases	147	43
Right-of-use assets – operating leases	13,115	13,983
Lease liability – operating leases	13,115	13,983
Other information:		
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from finance leases	\$ 1	\$ 3
Operating cash flows from operating leases	2,210	2,195
Financing cash flows from finance leases	48	50
Right-of-use assets obtained in exchange for new finance lease liabilities	152	–
Right-of-use assets obtained in exchange for new operating lease liabilities	751	–
Weighted-average remaining lease term – finance leases	35 months	10 months
Weighted-average remaining lease term – operating leases	10 years	9 years
Weighted-average discount rate – finance leases	3.25%	4.25%
Weighted-average discount rate – operating leases	4.21%	4.5%

CentraState Healthcare System, Inc.

Notes to Consolidated Financial Statements (continued)

8. Leases (continued)

For finance leases, right-of-use assets are recorded in property, plant and equipment and lease liabilities are recorded in long-term debt and finance lease obligations in the accompanying consolidated balance sheets. For operating leases, right-of-use assets are recorded in operating lease assets and lease liabilities are recorded in operating lease liability, current and noncurrent, in the accompanying consolidated balance sheets.

The following table reconciles the undiscounted lease payments to the lease liabilities recorded on the accompanying consolidated balance sheet at December 31, 2020 (in thousands):

	<u>Finance leases</u>	<u>Operating leases</u>
2021	\$ 53	\$ 2,226
2022	53	2,010
2023	49	1,938
2024	—	1,727
2025	—	1,581
Thereafter	—	6,509
Total lease payments	155	15,991
Less imputed interest	8	2,876
Total lease obligation	147	13,115
Less current portion	49	1,718
Long-term portion	<u>\$ 98</u>	<u>\$ 11,397</u>

9. Professional Liability Insurance and Other Noncurrent Liabilities

Through April 30, 2003, the System maintained claims-made professional liability coverage through a commercial insurance carrier.

Effective May 1, 2003, the System, in conjunction with other health care entities, participated in the formation of a captive insurance company, System and Affiliate Members, Limited, a Bermuda domiciled organization (the Bermuda Captive), to provide professional liability and general liability insurance to its participants at a primary level.

CentraState Healthcare System, Inc.

Notes to Consolidated Financial Statements (continued)

9. Professional Liability Insurance and Other Noncurrent Liabilities (continued)

Effective January 1, 2013, the System withdrew from the Bermuda Captive and as of that date primary professional and general liability insurance coverage is provided by the Cayman Captive, including assumption of the period of claims that were previously covered by the Bermuda Captive. As discussed in Note 1, the Cayman Captive is a wholly owned subsidiary of the Medical Center. The Cayman Captive is reflected in the System's consolidated financial statements within the Medical Center as follows:

	December 31		December 31
	2020		2019
Included in assets limited as to use:			
Cash and investments	\$ 6,786	\$	6,029
Included within professional liability insurance:			
Other assets	3,101		3,259
Professional liabilities	(5,659)		(5,802)
Equity in Cayman Captive	<u>\$ 4,228</u>	<u>\$</u>	<u>3,486</u>

Under the professional and general liability programs, as it pertains to the System, a self-insured retention exists for primary coverage. Through April 30, 2004, the self-insured retention covered individual claims up to \$250,000 or total claims aggregating \$750,000. Beginning May 1, 2004, the self-insured retention was increased to \$500,000 for individual claims or total claims aggregating \$1.5 million. Effective May 1, 2006, the self-insured retention was increased to \$1.0 million for individual claims or total claims aggregating \$3.0 million in the policy year and has remained at the level since then. After the self-insured retention, the System carries a \$20.0 million buffer policy and a \$10.0 million excess umbrella liability policy with two separate commercial insurance carriers.

In addition, the System recorded actuarially determined liabilities related to claims incurred but not reported and amounts insured above the primary insurance coverage layer of approximately \$900,000 at December 31, 2020 and 2019. The professional liabilities are undiscounted and are included in professional liability insurance and other noncurrent liabilities at approximately \$3.8 million and \$3.7 million at December 31, 2020 and 2019, respectively.

CentraState Healthcare System, Inc.

Notes to Consolidated Financial Statements (continued)

9. Professional Liability Insurance and Other Noncurrent Liabilities (continued)

As of January 1, 2012, the System is self-insured for workers' compensation claims through a large deductible, paid loss retro program with a commercial carrier. Prior to January 1, 2012, workers' compensation claims were commercially insured on a fixed cost basis.

Professional liability insurance and other noncurrent liabilities consist of the following:

	December 31	
	2020	2019
Other insurance related assets	\$ 3,101	\$ 3,259
Professional liabilities	(5,659)	(5,802)
Workers compensation	(1,305)	(557)
FICA liability deferral	(2,781)	—
Other	(2,362)	(2,597)
	<u>\$ (9,006)</u>	<u>\$ (5,697)</u>

The System's estimates for professional liabilities are based upon complex actuarial calculations which utilize factors such as historical claims experience for the System and related industry factors, trending models, and estimates for the payment patterns of future claims. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. The estimated professional liabilities recorded at December 31, 2020 and 2019 are subject to revision as actual experience or other factors impacting the estimates become known or are anticipated.

CentraState Healthcare System, Inc.

Notes to Consolidated Financial Statements (continued)

10. Pension Plans

The System sponsors a defined contribution pension plan (the 401(a) Plan) covering all eligible employees. Employees are eligible to participate in the 401(a) Plan following the completion of one year of service, as defined in the 401(a) Plan document, and the attainment of age 21. The System contributes a percentage of eligible salaries on an annual basis (5% for 2020 and 2019), net of forfeitures. Eligible salaries exclude certain items such as overtime. Additionally, the System sponsors another defined contribution plan (the 403(b) Plan) which prior to 2004 included only employee contributions. Beginning in 2004, the System contributes amounts to the 403(b) Plan based on a match of employee contributions. Pension expense under both pension plans aggregated approximately \$6.1 million and \$7.0 million for the years ended December 31, 2020 and 2019, respectively.

The System also sponsors a defined contribution supplemental executive retirement plan (SERP) for certain employees and a 457(b) eligible deferred compensation plan available to all executives. Total pension expense under the SERP plan was approximately \$224,000 and \$185,000 for the years ended December 31, 2020 and 2019, respectively.

11. Concentrations of Credit Risk

At December 31, 2020 and 2019, the System has its cash, including amounts classified within short-term investments, assets limited as to use and other noncurrent assets, deposited in several financial institutions. Investments in money market funds are not guaranteed by the U.S. government. Cash held in certain interest-bearing accounts is not fully insured. Exposure to any individual financial institution does not exceed 61% of the System's total cash balance. Management considers the credit risk related to these deposits to be minimal.

The System's health care providing entities grant credit without collateral to their patients, most of whom are local residents and are insured under third-party payor agreements. Concentrations of gross accounts receivable from patients and third-party payors were as follows:

	December 31	
	2020	2019
Medicare	40%	47%
Medicaid	8	7
Managed care – insurance companies	31	29
Other third-party payors	13	10
Patients	8	7
	100%	100%

CentraState Healthcare System, Inc.

Notes to Consolidated Financial Statements (continued)

12. Commitments and Contingencies

Various lawsuits and claims arising in the normal course of operations are pending or are on appeal against the System. Such lawsuits and claims are either specifically covered by insurance, included in estimated liabilities for self-insured exposure levels, or are not material. While the outcome of these lawsuits cannot be determined at this time, management believes that any loss which may arise from the System's actions will not have a material adverse effect on the System's consolidated financial position or results of operations.

Applewood is regulated by the New Jersey Department of Community Affairs pursuant to the Continuing Care Retirement Community Regulation and Financial Disclosure Act (the Act). The Act requires, among other things, that Applewood establish and maintain liquid reserves which generally are equal to the greater of 15% of the projected annual operating expenses (excluding depreciation) or the principal and interest due on the bonds in the next 12 months. Applewood has complied with that requirement at December 31, 2020 and 2019.

13. Other Revenue

Other revenue consists of the following (in thousands):

	Year Ended December 31	
	2020	2019
Residential services revenue, including amortization income of approximately \$4.9 million and \$4.8 million in 2020 and 2019, respectively	\$ 26,484	\$ 28,476
Rental income	3,554	4,535
Grants and community health programs	427	453
HHS Provider Relief Fund	37,481	—
Net assets released from restrictions for operations	1,450	848
Food services	1,245	1,646
Vendor rebates	916	1,044
Other	9,050	7,673
	<u>\$ 80,607</u>	<u>\$ 44,675</u>

CentraState Healthcare System, Inc.

Notes to Consolidated Financial Statements (continued)

13. Other Revenue (continued)

Residential services revenue is reported within other revenue at amounts that reflect the consideration the System expects to receive in exchange for the services provided. These amounts are due from residents or third-party payors and include provisions for variable consideration. Performance obligations are determined based on the nature of the services provided. Resident services revenue including amortization of advance fees are recognized as performance obligations are satisfied.

14. Fair Value Measurements

For assets and liabilities required to be measured at fair value, the System measures fair value based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements are applied based on the unit of account from the System's perspective. The unit of account determines what is being measured by reference to the level at which the asset or liability is aggregated (or disaggregated) for purposes of applying other accounting pronouncements.

The System follows a valuation hierarchy that prioritizes observable and unobservable inputs used to measure fair value into three broad levels, which are described below:

Level 1: Quoted prices (unadjusted) in active markets that are accessible at the measurement date for identical assets or liabilities. The fair value hierarchy gives the highest priority to Level 1 inputs.

Level 2: Observable inputs that are based on inputs not quoted in active markets, but corroborated by market data.

Level 3: Unobservable inputs are used when little or no market data is available. The fair value hierarchy gives the lowest priority to Level 3 inputs.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. In determining fair value, the System uses valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible and considers nonperformance risk in its assessment of fair value.

CentraState Healthcare System, Inc.

Notes to Consolidated Financial Statements (continued)

14. Fair Value Measurements (continued)

Financial assets and liabilities carried at fair value as of December 31, 2020 and 2019 are classified in the table below in one of the three categories described above (in thousands):

		2020						
		Level 1	Level 2	Level 3	Total			
Assets:								
Cash and cash equivalents – held for investments	\$	12,650	\$	–	\$	12,650		
United States government obligations		28,577		–		28,577		
Corporate bonds		36,372	3,112		–	39,484		
Common stocks – large cap		8,767		–		8,767		
Mutual funds:								
Fixed income		100,894		–		100,894		
Equities – small cap		6,147		–		6,147		
Equities – large cap		34,731		–		34,731		
International equity		21,827		–		21,827		
	\$	249,965	\$	3,112	\$	–	\$	253,077
		2019						
		Level 1	Level 2	Level 3	Total			
Assets:								
Cash and cash equivalents – held for investments	\$	11,667	\$	–	\$	11,667		
United States government obligations		26,736		–		26,736		
Corporate bonds		16,786	2,335		–	19,121		
Common stocks – large cap		7,389		–		7,389		
Mutual funds:								
Fixed income		80,004		–		80,004		
Equities – small cap		3,838		–		3,838		
Equities – large cap		29,436		–		29,436		
International equity		16,931		–		16,931		
	\$	192,787	\$	2,335	\$	–	\$	195,122

CentraState Healthcare System, Inc.

Notes to Consolidated Financial Statements (continued)

14. Fair Value Measurements (continued)

Fair value for Level 1 is based upon quoted prices in active markets. Fair value for Level 2 is based on quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active and model-based valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of the assets. While the System believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date. A financial instrument's categorization within the three levels of the valuation hierarchy is not indicative of the investment risk associated with the underlying assets.

The carrying values of cash, patient receivables, accounts payable and accrued expenses, other current assets and liabilities are reasonable estimates for fair value due to the short-term nature of these financial instruments.

15. Liquidity and Available Resources

The table below represents financial assets available for general expenditures within one year at December 31, 2020 and 2019 (in thousands):

	2020	2019
Financial assets at year-end:		
Cash and cash equivalents	\$ 33,891	\$ 18,824
Short-term investments	221,083	164,923
Assets limited as to use	32,277	30,481
Receivables for patient care, net	28,475	28,865
Current portion of pledges receivable, net	1,180	1,624
Total financial assets	<u>316,906</u>	<u>244,717</u>
Less amounts not available to be used within one year:		
Assets limited as to use	<u>31,136</u>	<u>29,387</u>
Financial assets available to meet general expenditures over the next twelve months	<u><u>\$ 285,770</u></u>	<u><u>\$ 215,330</u></u>

CentraState Healthcare System, Inc.

Notes to Consolidated Financial Statements (continued)

15. Liquidity and Available Resources (continued)

The System has other assets limited as to use for donor-restricted purposes, debt service, refundable advance fees, supplemental retirement plan and professional liabilities. These assets limited as to use, which are more fully described in Note 4 are not available for general expenditure within the next year and are not reflected in the amounts above.

As part of the System's liquidity management plan, cash in excess of daily requirements are invested in short-term investments and money market funds. Occasionally, the Board designates a portion of any operating surplus to an operating reserve, which was \$4.9 million as of December 31, 2020 and 2019. This fund established by the Board of Trustees may be drawn upon, if necessary, to meet unexpected liquidity needs.

Additionally, the System maintains a \$30.0 million line of credit, as described in Note 7. As of December 31, 2020, there was no balance outstanding on the line of credit.

As of December 31, 2020 and 2019, the System was in compliance with financial covenants; see Note 7.

16. Events Subsequent to December 31, 2020

Subsequent events have been evaluated through April 16, 2021 which is the date the accompanying consolidated financial statements were issued. Except as disclosed in Note 1, no subsequent events have occurred that require disclosure in or adjustments to the accompanying consolidated financial statements.

Supplementary Information

CentraState Healthcare System, Inc.

Consolidating Balance Sheet

December 31, 2020
(With Comparative Consolidated Amounts at December 31, 2019)
(In Thousands)

	CentraState Healthcare Services, Inc.														CentraState Healthcare System, Inc. Consolidated Total	
	CentraState Healthcare System, Inc.	CentraState Medical Center, Inc.	Center for Aging, Inc.	CentraState Healthcare Affiliates, Inc.	CentraState Assisted Living, Inc.	CentraState Healthcare Foundation, Inc.	CentraState Healthcare Services, Inc.	CentraState Medical Arts Building LLC	Eliminations	CentraState Healthcare Services, Inc. Consolidated Total	CentraState Medical Associates, P.C.	CentraState Specialists, P.C.	Eliminations		2020	2019
Assets																
Current assets:																
Cash and cash equivalents	\$ 37	\$ 24,389	\$ 2,595	\$ 2,960	\$ 1,380	\$ 1,009	\$ 329	\$ 544	\$ —	\$ 873	\$ 376	\$ 272	\$ —		\$ 33,891	\$ 18,824
Short-term investments	—	181,073	29,801	9,913	296	—	—	—	—	—	—	—	—		221,083	164,923
Assets limited as to use that are required for current liabilities	—	527	—	—	—	614	—	—	—	—	—	—	—		1,141	1,094
Patient accounts receivable, net	—	25,372	411	1,567	125	—	—	—	—	—	512	488	—		28,475	28,865
Due from affiliates	—	8,824	—	—	—	—	—	—	—	—	—	112	(8,936)		—	—
Other current assets	—	8,280	460	473	15	1,180	129	—	—	129	106	1	—		10,644	19,539
Total current assets	37	248,465	33,267	14,913	1,816	2,803	458	544	—	1,002	994	873	(8,936)		295,234	233,245
Assets limited as to use – noncurrent	—	12,449	3,118	—	—	15,569	—	—	—	—	—	—	—		31,136	29,387
Due from affiliates – noncurrent	—	7,592	—	—	—	—	2,355	3,063	—	5,418	—	—	(13,010)		—	—
Investment in subsidiary	—	—	—	—	—	—	3,861	—	(3,861)	—	—	—	—		—	—
Interest in CentraState Healthcare Foundation	—	18,014	3,213	87	4	—	—	—	—	—	—	—	(21,318)		—	—
Property, plant, and equipment, net	—	130,219	50,011	2,830	5,703	55	3,273	6,780	—	10,053	146	99	—		199,116	194,120
Operating lease assets	—	6,097	—	—	—	—	7,018	—	—	7,018	—	—	—		13,115	13,983
Noncurrent assets	—	6,032	—	—	—	873	1,686	—	—	1,686	75	—	(4,892)		3,774	13,583
	\$ 37	\$ 428,868	\$ 89,609	\$ 17,830	\$ 7,523	\$ 19,300	\$ 18,651	\$ 10,387	\$ (3,861)	\$ 25,177	\$ 1,215	\$ 972	\$ (48,156)		\$ 542,375	\$ 484,318

CentraState Healthcare System, Inc.

Consolidating Balance Sheet (continued)

December 31, 2020
(With Comparative Consolidated Amounts at December 31, 2019)
(In Thousands)

	CentraState Healthcare Services, Inc.															
	CentraState Healthcare System, Inc.	CentraState Medical Center, Inc.	Center for Aging, Inc.	CentraState Healthcare Affiliates, Inc.	CentraState Assisted Living, Inc.	CentraState Healthcare Foundation, Inc.	CentraState Healthcare Services, Inc.	CentraState Medical Arts Building LLC	Eliminations	CentraState Healthcare Services, Inc. Consolidated Total	CentraState Medical Associates, P.C.	CentraState Specialists, P.C.	Eliminations	CentraState Healthcare System, Inc. Consolidated Total		
														2020	2019	
Liabilities and net assets																
Current liabilities:																
Current maturities of long-term debt and finance lease obligations	\$ —	\$ 4,249	\$ 1,168	\$ —	\$ —	\$ —	\$ —	\$ 835	\$ —	\$ 835	\$ —	\$ —	\$ —	\$ 6,252	\$ 6,825	
Accounts payable and accrued expenses	—	43,543	1,959	1,596	724	197	97	299	—	396	408	304	—	49,127	41,906	
Due to affiliates – current	—	—	1,623	567	1,704	—	5,042	—	—	5,042	—	—	(8,936)	—	—	
Estimated third-party payor settlements – current	—	15,876	435	1,151	—	—	—	—	—	—	—	199	—	17,661	3,235	
Operating lease liability – current	—	1,183	—	—	—	—	535	—	—	535	—	—	—	1,718	1,618	
Other current liabilities	—	—	30	77	—	48	—	—	—	—	—	—	—	155	338	
Total current liabilities	—	64,851	5,215	3,391	2,428	245	5,674	1,134	—	6,808	408	503	(8,936)	74,913	53,922	
Long-term debt and finance lease obligations, excluding current maturities	—	82,694	19,501	—	—	—	—	4,025	—	4,025	—	—	—	106,220	112,230	
Due to affiliates – noncurrent	—	3,063	—	—	3,017	—	4,575	—	—	4,575	2,355	—	(13,010)	—	—	
Professional liability insurance and other noncurrent liabilities	—	8,230	177	127	64	—	—	—	—	—	—	408	—	9,006	5,697	
Estimated third-party payor settlements – noncurrent	—	35,003	442	—	31	—	—	—	—	—	—	—	—	35,476	2,727	
Operating lease liability – noncurrent	—	4,915	—	—	—	—	6,482	—	—	6,482	—	—	—	11,397	12,365	
Deferred revenue and refundable advance fees	—	—	48,252	—	—	—	—	—	—	—	—	—	(4,892)	43,360	47,090	
Total liabilities	—	198,756	73,587	3,518	5,540	245	16,731	5,159	—	21,890	2,763	911	(26,838)	280,372	234,031	
Commitments and contingencies																
Net assets:																
Net assets without donor restrictions	37	212,098	12,809	14,225	1,979	(2,263)	1,920	5,228	(3,861)	3,287	(1,548)	61	—	240,685	230,192	
Net assets with donor restrictions	—	18,014	3,213	87	4	21,318	—	—	—	—	—	—	(21,318)	21,318	20,095	
Total net assets	37	230,112	16,022	14,312	1,983	19,055	1,920	5,228	(3,861)	3,287	(1,548)	61	(21,318)	262,003	250,287	
	\$ 37	\$ 428,868	\$ 89,609	\$ 17,830	\$ 7,523	\$ 19,300	\$ 18,651	\$ 10,387	\$ (3,861)	\$ 25,177	\$ 1,215	\$ 972	\$ (48,156)	\$ 542,375	\$ 484,318	

CentraState Healthcare System, Inc.

Consolidating Statement of Operations

Year Ended December 31, 2020
(With Comparative Consolidated Amounts for the Year Ended December 31, 2019)
(In Thousands)

	CentraState Healthcare Services, Inc.																															
	CentraState Healthcare System, Inc.	CentraState Medical Center, Inc.	Center for Aging, Inc.	CentraState Healthcare Affiliates, Inc.	CentraState Assisted Living, Inc.	CentraState Healthcare Foundation, Inc.	CentraState Healthcare Services, Inc.	CentraState Medical Arts Building LLC	Eliminations	CentraState Healthcare Services, Inc. Consolidated Total	CentraState Medical Associates, P.C.	CentraState Specialists, P.C.	Eliminations	CentraState Healthcare System, Inc. Consolidated Total																		
														2020	2019																	
Revenue:																																
Net patient service revenue	\$	—	\$	249,275	\$	—	\$	11,456	\$	—	\$	—	\$	3,699	\$	2,656	\$	—	\$	267,086	\$	311,957										
Other revenue		—		45,963		24,366		1,206		5,057		—		1,818		1,527		—		3,345		2,459		5,668		(7,457)		80,607		44,675		
Investment return		—		7,195		1,785		338		7		—		1,110		2		—		1,112		499		—		(380)		10,556		11,512		
Total revenue		—		302,433		26,151		13,000		5,064		—		2,928		1,529		—		4,457		6,657		8,324		(7,837)		358,249		368,144		
Expenses:																																
Salaries and wages		—		116,900		8,805		6,495		3,108		—		—		—		—		—		4,859		5,464		—		145,631		138,902		
Employee benefits		—		30,491		2,712		1,897		975		—		—		—		—		—		1,106		1,197		—		38,378		37,320		
Professional fees		—		11,709		—		—		—		—		—		—		—		—		—		—		—		11,709		8,097		
Supplies and other expenses		—		123,644		8,186		4,278		1,586		968		3,511		460		—		3,971		1,033		1,643		(7,457)		137,852		140,214		
Depreciation and amortization		—		13,313		3,272		503		477		19		390		319		—		709		32		20		—		18,345		18,155		
Interest expense and amortization of financing costs		—		2,489		532		—		81		—		390		186		—		576		105		—		(380)		3,403		4,117		
Total expenses		—		298,546		23,507		13,173		6,227		987		4,291		965		—		5,256		7,135		8,324		(7,837)		355,318		346,805		
Income (loss) from operations		—		3,887		2,644		(173)		(1,163)		(987)		(1,363)		564		—		(799)		(478)		—		—		2,931		21,339		
Loss on early extinguishment of debt		—		—		(199)		—		—		—		—		—		—		—		—		—		—		(199)		—		
Net change in unrealized gains and losses on investments		—		5,196		1,288		499		1		—		—		—		—		—		—		—		—		6,984		12,206		
Excess (deficiency) of revenue over expenses		—		9,083		3,733		326		(1,162)		(987)		(1,363)		564		—		(799)		(478)		—		—		9,716		33,545		
Equity transfer		—		(891)		—		—		—		891		—		—		—		—		—		—		—		—		—		
Net assets released from restrictions for capital purposes		—		697		80		—		—		—		—		—		—		—		—		—		—		777		904		
Change in net assets without donor restrictions	\$	—	\$	8,889	\$	3,813	\$	326	\$	(1,162)	\$	(96)	\$	(1,363)	\$	564	\$	—	\$	(799)	\$	(478)	\$	—	\$	—	\$	—	\$	10,493	\$	34,449

CentraState Healthcare System, Inc.

Consolidating Statement of Changes in Net Assets

Year Ended December 31, 2020
(With Comparative Consolidated Amounts for the Year Ended December 31, 2019)
(In Thousands)

	CentraState Healthcare Services, Inc.															
	CentraState Healthcare System, Inc.	CentraState Medical Center, Inc.	Center for Aging, Inc.	CentraState Healthcare Affiliates, Inc.	CentraState Assisted Living, Inc.	CentraState Healthcare Foundation, Inc.	CentraState Healthcare Services, Inc.	CentraState Medical Arts Building LLC	Eliminations	CentraState Healthcare Services, Inc. Consolidated Total	CentraState Medical Associates, P.C.	CentraState Specialists, P.C.	Eliminations	CentraState Healthcare System, Inc. Consolidated Total		
														2020	2019	
Without Donor Restrictions																
Net assets as of beginning of year	\$ 37	\$ 203,209	\$ 8,996	\$ 13,899	\$ 3,141	\$ (2,167)	\$ 3,283	\$ 4,664	\$ (3,861)	\$ 4,086	\$ (1,070)	\$ 61	\$ –	\$ 230,192	\$ 195,743	
Change in net assets without donor restrictions	–	8,889	3,813	326	(1,162)	(96)	(1,363)	564	–	(799)	(478)	–	–	10,493	34,449	
Net assets as of end of year	\$ 37	\$ 212,098	\$ 12,809	\$ 14,225	\$ 1,979	\$ (2,263)	\$ 1,920	\$ 5,228	\$ (3,861)	\$ 3,287	\$ (1,548)	\$ 61	\$ –	\$ 240,685	\$ 230,192	
With Donor Restrictions																
Net assets as of beginning of year	\$ –	\$ 16,412	\$ 3,594	\$ 87	\$ 2	\$ 20,095	\$ –	\$ –	\$ –	\$ –	\$ –	\$ –	\$ (20,095)	\$ 20,095	\$ 16,329	
Change in beneficial interest in CentraState Healthcare Foundation, Inc.	–	1,602	(381)	–	2	–	–	–	–	–	–	–	(1,223)	–	–	
Contributions, investment return and other	–	–	–	–	–	3,450	–	–	–	–	–	–	–	3,450	5,518	
Net assets released from restrictions for operations	–	–	–	–	–	(1,450)	–	–	–	–	–	–	–	(1,450)	(848)	
Net assets released from restrictions for capital purposes	–	–	–	–	–	(777)	–	–	–	–	–	–	–	(777)	(904)	
Change in net assets with donor restrictions	–	1,602	(381)	–	2	1,223	–	–	–	–	–	–	(1,223)	1,223	3,766	
Net assets as of end of year	\$ –	\$ 18,014	\$ 3,213	\$ 87	\$ 4	\$ 21,318	\$ –	\$ –	\$ –	\$ –	\$ –	\$ –	\$ (21,318)	\$ 21,318	\$ 20,095	

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