

CONSOLIDATED FINANCIAL STATEMENTS  
AND SUPPLEMENTARY INFORMATION

CentraState Healthcare System, Inc.  
Years Ended December 31, 2021 and 2020  
With Report of Independent Auditors

Ernst & Young LLP



CentraState Healthcare System, Inc.

Consolidated Financial Statements  
and Supplementary Information

Years Ended December 31, 2021 and 2020

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## Report of Independent Auditors

The Board of Trustees  
CentraState Healthcare System, Inc.

### **Opinion**

We have audited the consolidated financial statements of CentraState Healthcare System, Inc. (the System), which comprise the consolidated balance sheets as of December 31, 2021 and 2020, and the related consolidated statements of operations, changes in net assets and cash flows for the years then ended, and the related notes (collectively referred to as the “financial statements”).

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the System at December 31, 2021 and 2020, and the results of its operations, changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### **Basis for Opinion**

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

### **Responsibilities of Management for the Financial Statements**

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

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

## **Auditor's Responsibilities for the Audit of the Financial Statements**

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

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the System's ability to continue as a going concern for a reasonable period of time.

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

## Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying consolidating balance sheet as of December 31, 2021, and the consolidating statements of operations and changes in net assets for the year then ended, are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

*Ernst + Young LLP*

April 20, 2022

CentraState Healthcare System, Inc.

Consolidated Balance Sheets

	<b>December 31</b>	
	<b>2021</b>	<b>2020</b>
	<i>(In Thousands)</i>	
<b>Assets</b>		
Current assets:		
Cash and cash equivalents <i>(Note 1)</i>	\$ 33,363	\$ 33,891
Short-term investments <i>(Note 4)</i>	191,442	221,083
Assets limited as to use that are required for current liabilities <i>(Note 4)</i>	1,234	1,141
Patient accounts receivable, net	32,307	28,475
Other current assets	12,901	10,644
Total current assets	<u>271,247</u>	<u>295,234</u>
Assets limited as to use – noncurrent <i>(Note 4)</i>	32,457	31,136
Property, plant, and equipment, net <i>(Note 6)</i>	211,016	199,116
Operating lease assets <i>(Note 8)</i>	11,397	13,115
Noncurrent assets <i>(Note 5)</i>	4,673	3,774
	<u>\$ 530,790</u>	<u>\$ 542,375</u>
<b>Liabilities and net assets</b>		
Current liabilities:		
Current maturities of long-term debt and finance lease obligations <i>(Note 7)</i>	\$ 6,487	\$ 6,252
Accounts payable and accrued expenses	52,931	49,127
Estimated third-party payor settlements – current <i>(Note 3)</i>	27,947	17,661
Operating lease liability – current <i>(Note 8)</i>	1,558	1,718
Other current liabilities	3,903	155
Total current liabilities	<u>92,826</u>	<u>74,913</u>
Long-term debt and finance lease obligations, excluding current maturities <i>(Note 7)</i>	99,769	106,220
Professional liability insurance and other noncurrent liabilities <i>(Note 9)</i>	5,993	9,006
Estimated third-party payor settlements – noncurrent <i>(Note 3)</i>	12,647	35,476
Operating lease liability – noncurrent <i>(Note 8)</i>	9,839	11,397
Deferred revenue and refundable advance fees	46,764	43,360
Total liabilities	<u>267,838</u>	<u>280,372</u>
Commitments and contingencies		
Net assets:		
Net assets without donor restrictions	240,220	240,685
Net assets with donor restrictions	22,732	21,318
Total net assets	<u>262,952</u>	<u>262,003</u>
	<u>\$ 530,790</u>	<u>\$ 542,375</u>

See accompanying notes.

CentraState Healthcare System, Inc.  
Consolidated Statements of Operations

	<b>Year Ended December 31</b>	
	<b>2021</b>	<b>2020</b>
	<i>(In Thousands)</i>	
Revenue:		
Net patient service revenue <i>(Note 3)</i>	<b>\$ 325,226</b>	\$ 267,086
Other revenue <i>(Note 13)</i>	<b>60,216</b>	80,607
Investment return <i>(Note 4)</i>	<b>19,555</b>	10,556
Total revenue	<b>404,997</b>	358,249
Expenses:		
Salaries and wages	<b>150,445</b>	145,631
Employee benefits	<b>38,572</b>	38,378
Professional fees	<b>14,325</b>	11,709
Supplies and other expenses	<b>180,091</b>	137,852
Depreciation and amortization	<b>18,212</b>	18,345
Interest expense and amortization of financing costs	<b>3,041</b>	3,403
Total expenses	<b>404,686</b>	355,318
Income from operations	<b>311</b>	2,931
Loss on early extinguishment of debt <i>(Note 7)</i>	–	(199)
Net change in unrealized gains and losses on investments <i>(Note 4)</i>	<b>(1,030)</b>	6,984
(Deficiency) excess of revenue over expenses	<b>(719)</b>	9,716
Net assets released from restrictions for capital purposes	<b>254</b>	777
Change in net assets without donor restrictions	<b>\$ (465)</b>	\$ 10,493

*See accompanying notes.*

CentraState Healthcare System, Inc.

Consolidated Statements of Changes in Net Assets

	Net Assets		
	Without Donor Restrictions	With Donor Restrictions	Total
	<i>(In Thousands)</i>		
Net assets at January 1, 2020	\$ 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
Change in net assets without donor restrictions	(465)	–	(465)
Contributions, investment return and other	–	3,048	3,048
Net assets released from restrictions for operations	–	(1,380)	(1,380)
Net assets released from restrictions for capital purposes	–	(254)	(254)
(Decrease) increase in net assets	(465)	1,414	949
Net assets at December 31, 2021	<b>\$ 240,220</b>	<b>\$ 22,732</b>	<b>\$ 262,952</b>

*See accompanying notes.*



CentraState Healthcare System, Inc.

Consolidated Statements of Cash Flows

	<b>Year Ended December 31</b>	
	<b>2021</b>	<b>2020</b>
	<i>(In Thousands)</i>	
<b>Operating activities</b>		
Increase in net assets	\$ 949	\$ 11,716
Adjustments to reconcile increase in net assets to net cash (used in) provided by operating activities:		
Depreciation and amortization	18,212	18,345
Amortization of deferred financing costs and bond discount	35	46
Cash received under nonrefundable advance fee plans, net of refunds	4,099	2,642
Amortization of advance fees	(3,297)	(4,881)
Net realized gains and losses on investments and income in equity of joint ventures	(11,042)	(4,648)
Net change in unrealized gains and losses on investments	1,030	(6,984)
Loss on early extinguishment of debt	-	199
Changes in operating assets and liabilities:		
Patient accounts receivable, net	(3,832)	390
Other assets	(2,049)	18,914
Accounts payable and accrued expenses	3,804	7,221
Professional liability insurance and other liabilities	735	3,126
Estimated third-party payor settlements	(12,543)	47,175
Net cash (used in) provided by operating activities	(3,899)	93,261
<b>Investing activities</b>		
Acquisitions of property, plant, and equipment, net	(30,112)	(23,189)
Short-term investments redeemed (purchased), net	36,685	(46,137)
Assets limited as to use purchased, net	(1,423)	(1,806)
Distributions from investment in joint ventures, net	1,860	1,399
Net cash provided by (used in) investing activities	7,010	(69,733)
<b>Financing activities</b>		
Proceeds from issuance of long-term debt	-	21,608
Payments of long-term debt and finance lease obligations	(6,251)	(28,424)
Cash received (disbursed) under refundable advance fee plans, net of refunds	2,602	(1,491)
Payment of deferred financing costs	-	(163)
Net cash used in financing activities	(3,649)	(8,470)
Net (decrease) increase in cash and cash equivalents and restricted cash and restricted cash equivalents	(538)	15,058
Cash and cash equivalents and restricted cash and restricted cash equivalents at beginning of year	34,418	19,360
Cash and cash equivalents and restricted cash and restricted cash equivalents at end of year	\$ 33,880	\$ 34,418
<b>Supplemental disclosure of noncash investing and financing activities and cash flow information</b>		
Assets acquired under finance lease obligations	\$ -	\$ 152

See accompanying notes.

# CentraState Healthcare System, Inc.

## Notes to Consolidated Financial Statements

December 31, 2021

### 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 an 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 (continued)**

- 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. Consolidated within this entity is CentraState Specialists Cardiology.

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. As part of the affiliation, Med Associates and CentraState Specialists P.C. employees became part of Atlantic Health's Atlantic Medical Group effective June 20, 2021.

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. CentraState Holding Company, Inc., a New Jersey not-for-profit corporation, was formed to hold a 49% membership interest in CSHS. The co-member affiliation agreement received federal and state regulatory approvals in December 2021 and became effective January 1, 2022.

## CentraState Healthcare System, Inc.

### Notes to Consolidated Financial Statements (continued)

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

##### **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 volume and revenue for most services. Effective March 27, 2020, a New Jersey executive order was issued to suspend all nonessential elective surgeries or invasive procedures, which resumed at different dates during the year ended December 31, 2020. The System's volume and operations were impacted to varying degrees throughout 2021, particularly as the pandemic entered waves two and three in early 2021 and in late 2021, respectively. The System has also experienced significant price increases in, and utilization of, medical supplies, particularly personal protective equipment, as global supply lines were disrupted by the pandemic. These price increases are reflected in supplies and other expenses along with certain labor costs within salaries and wages that also experienced significant price increases.

In response to COVID-19, the Coronavirus Aid, Relief and Economic Security (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), provided the recipients attest to and comply with the terms and conditions. HHS has issued several Post-Payment Notices of Reporting Requirements and published responses to frequently asked questions (FAQs), most recently in September 2021, regarding the Provider Relief Fund distributions.

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.

## CentraState Healthcare System, Inc.

### Notes to Consolidated Financial Statements (continued)

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

For the years ended December 31, 2021 and 2020, the System received approximately \$1.6 million and \$37.5 million, respectively, in funding and recognized revenue of \$37.5 million in 2020 related to the Provider Relief Fund, which is included in other revenue in the accompanying 2020 consolidated statement of operations (none in 2021). 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. Distributions from the Provider Relief Fund are available for specified service periods through December 31, 2022 with various required data submissions (data regarding activity for Provider Relief Fund receipts through June 30, 2020 and the use of such funds through June 30, 2021 was submitted to HHS on November 30, 2021; data for funds received from July 1, 2020 to December 31, 2020 and the use of such funds through December 31, 2021 was submitted to HHS on March 23, 2022). Management will continue to monitor communications from HHS applicable to the Provider Relief Fund reporting and data submission requirements.

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 is scheduled to be recovered by Medicare through September 2022. At December 31, 2021 and 2020, \$26.0 million and \$15.0 million, respectively, are included as a contract liability in the current portion of estimated third-party payor settlements in the accompanying consolidated balance sheets. As of December 31, 2020, \$27.5 million was included as a contract liability in noncurrent estimated third-party payor settlements.

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 \$2.8 million and \$2.4 million in 2021 and 2020, respectively.

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 System paid the first 50% in December 2021. The amount expected to be paid in 2022 is recorded as an accrued expense.

## CentraState Healthcare System, Inc.

### Notes to Consolidated Financial Statements (continued)

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

The Medical Center has applied for reimbursement for qualifying expenses totaling \$19.0 million under the Federal Emergency Management Agency (FEMA) Disaster Relief Fund. Through December 31, 2021, the Medical Center received \$15.7 million in FEMA reimbursement payments, and recognized \$19.0 million of revenue within other operating revenue, including a receivable of \$3.2 million recorded within other current assets for FEMA approved and obligated costs. The Medical Center received the remaining funds in February 2022.

During 2020, Med Associates and CentraState Specialists P.C. applied for and received Paycheck Protection Program loans of \$632,462 and \$407,922, respectively, with the CentraState Specialists' loan forgiven in 2021 and reported in other revenue. The Med Associates' loan was forgiven in 2020.

The Foundation received various contributions related to the pandemic comprising approximately \$133,000 and \$1.1 million in 2021 and 2020, respectively.

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.

## CentraState Healthcare System, Inc.

### Notes to Consolidated Financial Statements (continued)

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

##### 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.

A reconciliation of amounts reported on the consolidated balance sheets to the consolidated statements of cash flows as of and for the years ended December 31 follows:

	<u>2021</u>	<u>2020</u>
	<i>(In Thousands)</i>	
Cash and cash equivalents	\$ 33,363	\$ 33,891
Assets limited as to use – by terms of indenture agreements: cash and cash equivalents	<u>517</u>	<u>527</u>
Total cash and cash equivalents and restricted cash and restricted cash equivalents	<u>\$ 33,880</u>	<u>\$ 34,418</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 (deficiency) excess of revenue over expenses unless restricted by donor or law.

## CentraState Healthcare System, Inc.

### Notes to Consolidated Financial Statements (continued)

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

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.

##### **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 \$1.0 million and \$1.2 million at December 31, 2021 and 2020, respectively, is 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, 2021 and 2020.

##### **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



## CentraState Healthcare System, Inc.

### Notes to Consolidated Financial Statements (continued)

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

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).

#### **Marketing Costs**

Marketing and advertising costs incurred by the System, which are not subject to capitalization and deferral (none in 2021 or 2020), are expensed as incurred and amounted to approximately \$2.1 million and \$2.7 million for the years ended December 31, 2021 and 2020, 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.

## CentraState Healthcare System, Inc.

### Notes to Consolidated Financial Statements (continued)

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

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. 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 2021 and 2020) 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, 2021 and 2020.

#### **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 a 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.

## CentraState Healthcare System, Inc.

### Notes to Consolidated Financial Statements (continued)

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

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.

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 are as follows:

	Hospital Patient Care	Post-Acute and Continuing Care	Ambulatory Physician Practices	Research	Foundations and Fundraising	Management and Administrative	Total
	<i>(In Thousands)</i>						
<b>Year ended December 31, 2021</b>							
Salaries and wages	\$ 118,942	\$ 18,697	\$ 6,548	\$ 166	\$ 910	\$ 5,182	\$ 150,445
Employee benefits	29,319	5,635	1,866	46	255	1,451	38,572
Professional fees	14,325	-	-	-	-	-	14,325
Supplies and other expenses	148,163	13,736	13,443	13	1,148	3,588	180,091
Depreciation and amortization	13,053	4,374	63	-	14	708	18,212
Interest	1,857	576	121	-	-	487	3,041
<b>Total</b>	<b>\$ 325,659</b>	<b>\$ 43,018</b>	<b>\$ 22,041</b>	<b>\$ 225</b>	<b>\$ 2,327</b>	<b>\$ 11,416</b>	<b>\$ 404,686</b>
<b>Year ended December 31, 2020</b>							
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
<b>Total</b>	<b>\$ 281,344</b>	<b>\$ 42,907</b>	<b>\$ 15,852</b>	<b>\$ 331</b>	<b>\$ 2,068</b>	<b>\$ 12,816</b>	<b>\$ 355,318</b>

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 (deficiency) 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 2021 and 2020 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, 2021 and 2020, 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 (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 ASU 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 the System for annual reporting periods beginning after December 15, 2020, and interim periods thereafter. The amendments can be applied either retrospectively or prospectively to all implementation costs incurred after the date of adoption. The adoption of ASU 2018-15 in 2021 did not have a material impact on the System’s 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, 2021 and 2020 was approximately \$4.4 million and \$4.1 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 consist 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, 2021 and 2020 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 are as follows:

	<b>Year Ended December 31</b>	
	<b>2021</b>	<b>2020</b>
	<i>(In Thousands)</i>	
Medicare	\$ 132,393	\$ 114,447
Medicaid	24,673	18,750
Commercial insurance	150,547	117,125
Self-pay patients	8,048	8,002
Other third-party payors	9,565	8,762
	<u>\$ 325,226</u>	<u>\$ 267,086</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, disaggregated by lines of service, is as follows:

	<b>Year Ended December 31</b>	
	<b>2021</b>	<b>2020</b>
	<i>(In Thousands)</i>	
Hospital	\$ 305,852	\$ 249,275
Post-acute	9,045	11,456
Physician practices	10,329	6,355
	<u>\$ 325,226</u>	<u>\$ 267,086</u>

Patient accounts receivable, net is comprised of the following components:

	<b>December 31</b>	
	<b>2021</b>	<b>2020</b>
	<i>(In Thousands)</i>	
Patient receivables	\$ 29,129	\$ 25,426
Contract assets	3,178	3,049
	<u>\$ 32,307</u>	<u>\$ 28,475</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 2017 at December 31, 2021.

## 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 2018 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, 2021 and 2020, the net effect of the System's revisions to prior year Medicare and Medicaid settlement estimates resulted in net patient service revenue increasing by approximately \$3.6 million and \$35,000, respectively.

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:

	<b>Year Ended December 31</b>	
	<b>2021</b>	<b>2020</b>
	<i>(In Thousands)</i>	
Charity care	\$ 431	\$ 432
Special subsidy	385	419
Medicaid GME	347	310
Pool and transitional program payments	83	236
	<u>\$ 1,246</u>	<u>\$ 1,397</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:

	<b>December 31</b>	
	<b>2021</b>	<b>2020</b>
	<i>(In Thousands)</i>	
United States government obligations	\$ 17,701	\$ 26,273
Corporate bonds	28,990	36,826
Common stocks	8,782	7,441
Mutual funds	135,808	150,260
	<b>191,281</b>	220,800
Interest receivable	161	283
	<b>\$ 191,442</b>	<b>\$ 221,083</b>

**Assets Limited as to Use**

Assets limited as to use consist of the following:

	<b>December 31</b>	
	<b>2021</b>	<b>2020</b>
	<i>(In Thousands)</i>	
Cash and cash equivalents	\$ 9,497	\$ 12,650
Common stocks	–	1,326
United States government obligations	2,464	2,304
Corporate bonds	2,970	2,658
Mutual funds	18,760	13,339
Total assets limited as to use	<b>33,691</b>	32,277
Less current portion	1,234	1,141
Assets limited as to use – noncurrent	<b>\$ 32,457</b>	<b>\$ 31,136</b>

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:

	<b>December 31</b>	
	<b>2021</b>	<b>2020</b>
	<i>(In Thousands)</i>	
As directed by the Board of Trustees	\$ 4,856	\$ 4,856
By terms of indenture agreements	517	527
Estimated advance fee refunds	3,505	3,118
Supplemental executive retirement plan	944	807
By donor restrictions	18,284	16,183
Assets held in the Cayman Captive <i>(Note 9)</i>	5,585	6,786
	<b>\$ 33,691</b>	<b>\$ 32,277</b>

A summary of assets limited as to use by terms of indenture agreement is as follows:

	<b>December 31</b>	
	<b>2021</b>	<b>2020</b>
	<i>(In Thousands)</i>	
Debt service interest funds	\$ 516	\$ 526
Debt service cost of issuance funds	1	1
	<b>\$ 517</b>	<b>\$ 527</b>

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 (deficiency) excess of revenue over expenses without donor restrictions consists of the following:

	<b>Year Ended December 31</b>	
	<b>2021</b>	<b>2020</b>
	<i>(In Thousands)</i>	
Revenue from operations:		
Interest and dividends	\$ 8,513	\$ 5,908
Net realized gains and losses	8,075	3,039
Net gain in equity of joint venture investments	2,967	1,609
	<u>19,555</u>	<u>10,556</u>
Nonoperating income:		
Net change in unrealized gains and losses on investments	(1,030)	6,984
Total investment return – without donor restrictions	<u>\$ 18,525</u>	<u>\$ 17,540</u>

**5. Noncurrent Assets**

Noncurrent assets consist of the following:

	<b>December 31</b>	
	<b>2021</b>	<b>2020</b>
	<i>(In Thousands)</i>	
Investments in joint ventures	\$ 3,250	\$ 2,143
Other noncurrent assets	1,423	1,631
	<u>\$ 4,673</u>	<u>\$ 3,774</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 seven years, with the option to renew for three terms of ten years each (annual rental payments of approximately \$500,000 per year). Distributions received from these joint ventures for 2021 and 2020 totaled approximately \$1.9 million and \$1.4 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:

	<b>December 31</b>	
	<b>2021</b>	<b>2020</b>
	<i>(In Thousands)</i>	
Land	\$ 17,103	\$ 16,712
Land improvements	14,333	11,501
Buildings and fixtures	323,885	315,286
Equipment	141,101	137,017
	<u>496,422</u>	<u>480,516</u>
Less accumulated depreciation and amortization	308,875	292,725
Add construction in progress	23,469	11,325
	<u>\$ 211,016</u>	<u>\$ 199,116</u>

During 2021 and 2020, the System wrote off approximately \$2.1 million and \$61.8 million of fully depreciated assets, respectively.

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:

	<b>December 31</b>	
	<b>2021</b>	<b>2020</b>
	<i>(In Thousands)</i>	
Series 2012 Note – Medical Center (a)	\$ 24,563	\$ 24,813
Series 2014 Bonds – Medical Center (b)	26,740	30,100
Series 2017A Bonds – Medical Center (c)	31,510	32,100
Series 2020 Bonds – Applewood (d)	19,660	20,828
Series 2000 Bonds – MAB (e)	4,025	4,860
Finance lease obligation at a rate of 3.25%, collateralized by leased equipment and facilities maturing in 2023	99	147
	<b>106,597</b>	112,848
Less:		
Deferred financing costs, net	341	376
Current maturities	6,487	6,252
Long-term debt and finance lease obligations, excluding current maturities	<b>\$ 99,769</b>	<b>\$ 106,220</b>

(a) *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 based on an amortization schedule through July 1, 2037 with an initially scheduled balloon payment due June 1, 2022, for which a commitment to extend to June 1, 2023 has been provided by the bank. The Series 2012 Note bears interest at a variable rate established monthly (1.25% and 1.3% at December 31, 2021 and 2020, respectively). The interest rate can be converted to a fixed rate, at the option of the Medical Center, pursuant to the loan agreement.

(b) *CentraState Medical Center* – In 1998, the New Jersey Health Care Facilities Financing Authority (NJHCFFA) issued Series 1998 Bonds on behalf of the Medical Center. On August 14, 2014, the System fully refunded the outstanding Series 1998 Bonds with proceeds from the issuance of Series 2014 Bonds issued by the NJHCFFA on behalf of the Medical Center.



## CentraState Healthcare System, Inc.

### Notes to Consolidated Financial Statements (continued)

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

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, 2021, the bonds consist of approximately \$21.0 million of Series 2014A Bonds with an interest rate of 2.9% maturing annually through July 1, 2028 and approximately \$5.7 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.

- (c) *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.
- (d) *Applewood* – In February 2020, Applewood refinanced previously outstanding variable rate 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 recorded in 2020 resulted from this transaction.
- (e) *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 0.8% and 0.21% at December 31, 2021 and 2020, 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).

CentraState Healthcare System, Inc.

Notes to Consolidated Financial Statements (continued)

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

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, 2023.

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:

	<b>Long-Term Debt</b>	<b>Obligations Under Finance Leases</b>	<b>Total</b>
	<i>(In Thousands)</i>		
2022	\$ 6,436	\$ 51	\$ 6,487
2023	6,750	48	6,798
2024	7,009	–	7,009
2025	7,331	–	7,331
2026	6,457	–	6,457
Thereafter	72,515	–	72,515
	<u>\$ 106,498</u>	<u>\$ 99</u>	<u>\$ 106,597</u>

At December 31, 2021 and 2020, 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, 2021 and 2020 aggregated approximately \$3.0 million and \$3.4 million, respectively, net of capitalized interest.

The System maintains a \$20.0 million line of credit with a bank. At December 31, 2021, no balance was outstanding on the line. The line is due on demand and expires September 7, 2022. Interest on the line is calculated using an adjusted LIBOR Rate plus ninety five 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 non-lease 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.

The following schedules summarize information related to the lease assets and liabilities as of and for the years ended December 31:

	<b>2021</b>	<b>2020</b>
	<i>(In Thousands)</i>	
Lease cost:		
Finance lease cost:		
Amortization of right-of-use asset	\$ 51	\$ 48
Interest on lease liabilities	1	1
Operating lease cost	<b>2,043</b>	2,210
Total lease cost	<b>\$ 2,095</b>	\$ 2,259

CentraState Healthcare System, Inc.

Notes to Consolidated Financial Statements (continued)

**8. Leases (continued)**

	<b>2021</b>	<b>2020</b>
	<i>(In Thousands)</i>	
Right-of-use assets and liabilities:		
Right-of-use assets – finance leases	\$ 76	\$ 127
Lease liability – finance leases	99	147
Right-of-use assets – operating leases	11,397	13,115
Lease liability – operating leases	11,397	13,115
Other information:		
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from finance leases	\$ 1	\$ 1
Operating cash flows from operating leases	2,043	2,210
Financing cash flows from finance leases	48	48
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	<b>23 months</b>	35 months
Weighted-average remaining lease term – operating leases	<b>9 years</b>	10 years
Weighted-average discount rate – finance leases	<b>3.25%</b>	3.25%
Weighted-average discount rate – operating leases	<b>4.24%</b>	4.21%

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.

CentraState Healthcare System, Inc.

Notes to Consolidated Financial Statements (continued)

**8. Leases (continued)**

The following table reconciles the undiscounted lease payments to the lease liabilities recorded on the accompanying consolidated balance sheet at December 31, 2021:

	<b>Finance Leases</b>	<b>Operating Leases</b>
	<i>(In Thousands)</i>	
2022	\$ 51	\$ 2,010
2023	48	1,938
2024	–	1,727
2025	–	1,581
2026	–	1,139
Thereafter	–	5,371
Total lease payments	99	13,766
Less imputed interest	–	2,369
Total lease obligation	99	11,397
Less current portion	48	1,558
Long-term portion	\$ 51	\$ 9,839

**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.

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

CentraState Healthcare System, Inc.

Notes to Consolidated Financial Statements (continued)

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

Center. The Cayman Captive is reflected in the System's consolidated financial statements within the Medical Center as follows:

	<b>December 31</b>	
	<b>2021</b>	<b>2020</b>
	<i>(In Thousands)</i>	
Included in assets limited as to use:		
Cash and investments	\$ 5,585	\$ 6,786
Included within professional liability insurance:		
Other assets	3,574	3,101
Professional liabilities	<b>(5,509)</b>	<b>(5,659)</b>
Equity in Cayman Captive	<b>\$ 3,650</b>	<b>\$ 4,228</b>

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 records 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, 2021 and 2020. The professional liabilities are undiscounted and are included in professional liability insurance and other noncurrent liabilities.

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.

CentraState Healthcare System, Inc.

Notes to Consolidated Financial Statements (continued)

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

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

	<b>December 31</b>	
	<b>2021</b>	<b>2020</b>
	<i>(In Thousands)</i>	
Other insurance related assets	\$ 3,574	\$ 3,101
Professional liabilities	<b>(5,509)</b>	(5,659)
Workers' compensation	<b>(1,437)</b>	(1,305)
FICA liability deferral	—	(2,781)
Other	<b>(2,621)</b>	(2,362)
	<b>\$ (5,993)</b>	<b>\$ (9,006)</b>

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, 2021 and 2020 are subject to revision as actual experience or other factors impacting the estimates become known or are anticipated.

**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 2021 and 2020), 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 \$6.9 million and \$6.1 million for the years ended December 31, 2021 and 2020, respectively.

## CentraState Healthcare System, Inc.

### Notes to Consolidated Financial Statements (continued)

#### 10. Pension Plans (continued)

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 \$191,000 and \$224,000 for the years ended December 31, 2021 and 2020, respectively.

#### 11. Concentrations of Credit Risk

At December 31, 2021 and 2020, 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 79% 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:

	<b>December 31</b>	
	<b>2021</b>	<b>2020</b>
Medicare	<b>46%</b>	40%
Medicaid	<b>7</b>	8
Managed care – insurance companies	<b>32</b>	31
Other third-party payors	<b>8</b>	13
Patients	<b>7</b>	8
	<b>100%</b>	100%

#### 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.



CentraState Healthcare System, Inc.

Notes to Consolidated Financial Statements (continued)

**12. Commitments and Contingencies (continued)**

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, 2021 and 2020.

**13. Other Revenue**

Other revenue consists of the following:

	<b>Year Ended December 31</b>	
	<b>2021</b>	<b>2020</b>
	<i>(In Thousands)</i>	
Residential services revenue, including amortization income of approximately \$3.3 million and \$4.9 million in 2021 and 2020, respectively	<b>\$ 24,047</b>	\$ 26,484
Rental income	<b>5,068</b>	3,554
HHS Provider Relief Fund	–	37,481
FEMA Disaster Relief Fund	<b>18,988</b>	–
Grants and community health programs	<b>1,282</b>	427
Net assets released from restrictions for operations	<b>1,380</b>	1,450
Food services	<b>1,138</b>	1,245
Vendor rebates	<b>692</b>	916
Other	<b>7,621</b>	9,050
	<b>\$ 60,216</b>	<b>\$ 80,607</b>

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.

## CentraState Healthcare System, Inc.

### Notes to Consolidated Financial Statements (continued)

#### **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 carried at fair value are classified in the table below in one of the three categories described above:

	Level 1	Level 2	Level 3	Total
	<i>(In Thousands)</i>			
<b>December 31, 2021</b>				
Cash and cash equivalents – held for investments	\$ 9,497	\$ –	\$ –	\$ 9,497
United States government obligations	20,165	–	–	20,165
Corporate bonds	29,278	2,682	–	31,960
Common stocks – large cap	8,782	–	–	8,782
Mutual funds:		–	–	
Fixed income	98,359	–	–	98,359
Equities – small cap	2,849	–	–	2,849
Equities – large cap	24,967	–	–	24,967
International equity	28,393	–	–	28,393
	<u>\$ 222,290</u>	<u>\$ 2,682</u>	<u>\$ –</u>	<u>\$ 224,972</u>
<b>December 31, 2020</b>				
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
	<u>\$ 249,965</u>	<u>\$ 3,112</u>	<u>\$ –</u>	<u>\$ 253,077</u>

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:

	<b>December 31</b>	
	<b>2021</b>	<b>2020</b>
	<i>(In Thousands)</i>	
Financial assets at year-end:		
Cash and cash equivalents	\$ 33,363	\$ 33,891
Short-term investments	191,442	221,083
Assets limited as to use	33,691	32,277
Receivables for patient care, net	32,307	28,475
Current portion of pledges receivable, net	931	1,180
Total financial assets	<u>291,734</u>	<u>316,906</u>
Less amounts not available to be used within one year:		
Assets limited as to use	<u>32,457</u>	31,136
Financial assets available to meet general expenditures over the next twelve months	<u>\$ 259,277</u>	<u>\$ 285,770</u>

## CentraState Healthcare System, Inc.

### Notes to Consolidated Financial Statements (continued)

#### **15. Liquidity and Available Resources (continued)**

The System has 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 is 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, 2021 and 2020. This fund established by the Board of Trustees may be drawn upon, if necessary, to meet unexpected liquidity needs.

Additionally, the System maintains a \$20.0 million line of credit, as described in Note 7. As of December 31, 2021, there was no balance outstanding on the line of credit.

As of December 31, 2021 and 2020, the System was in compliance with financial covenants of outstanding long-term debt; see Note 7.

#### **16. Events Subsequent to December 31, 2021**

Subsequent events have been evaluated through April 20, 2022 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, 2021

(With Comparative Consolidated Amounts at December 31, 2020)

(In Thousands)

	CentraState Healthcare Services, Inc.											CentraState Healthcare System, 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	2021	2020
<b>Assets</b>															
Current assets:															
Cash and cash equivalents	\$ 37	\$ 19,305	\$ 5,430	\$ 2,715	\$ 1,677	\$ 794	\$ 666	\$ 570	\$ –	\$ 1,236	\$ 830	\$ 1,339	\$ –	\$ 33,363	\$ 33,891
Short-term investments	–	154,115	28,165	8,867	295	–	–	–	–	–	–	–	–	191,442	221,083
Assets limited as to use that are required for current liabilities	–	518	–	–	–	716	–	–	–	–	–	–	–	1,234	1,141
Patient accounts receivable, net	–	29,762	754	1,090	44	–	–	–	–	–	117	540	–	32,307	28,475
Due from affiliates	–	10,209	–	–	–	–	–	–	–	–	–	3,077	(13,286)	–	–
Other current assets	–	10,163	1,089	113	13	1,060	263	–	–	263	178	22	–	12,901	10,644
Total current assets	37	224,072	35,438	12,785	2,029	2,570	929	570	–	1,499	1,125	4,978	(13,286)	271,247	295,234
Assets limited as to use – noncurrent	–	11,384	3,505	–	–	17,568	–	–	–	–	–	–	–	32,457	31,136
Due from affiliates – noncurrent	–	7,162	–	–	–	–	2,269	2,904	–	5,173	–	–	(12,335)	–	–
Investment in subsidiary	–	–	–	–	–	–	3,861	–	(3,861)	–	–	–	–	–	–
Interest in CentraState Healthcare Foundation	–	19,805	2,834	87	6	–	–	–	–	–	–	–	(22,732)	–	–
Property, plant and equipment, net	–	144,556	48,922	2,566	5,331	47	2,878	6,461	–	9,339	113	142	–	211,016	199,116
Operating lease assets	–	4,915	–	–	–	–	6,482	–	–	6,482	–	–	–	11,397	13,115
Noncurrent assets	–	6,066	–	–	–	640	2,218	–	–	2,218	614	27	(4,892)	4,673	3,774
	\$ 37	\$ 417,960	\$ 90,699	\$ 15,438	\$ 7,366	\$ 20,825	\$ 18,637	\$ 9,935	\$ (3,861)	\$ 24,711	\$ 1,852	\$ 5,147	\$ (53,245)	\$ 530,790	\$ 542,375

CentraState Healthcare System, Inc.

Consolidating Balance Sheet (continued)

December 31, 2021  
(With Comparative Consolidated Amounts at December 31, 2020)  
(In Thousands)

	CentraState Healthcare Services, Inc.											CentraState Healthcare System, 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	2021	2020														
<b>Liabilities and net assets</b>																														
Current liabilities:																														
Current maturities of long-term debt and finance lease obligations	\$	–	\$	4,391	\$	1,196	\$	–	\$	–	\$	–	\$	900	\$	–	\$	–	\$	–	\$	–	\$	6,487	\$	6,252				
Accounts payable and accrued expenses	–	46,696	2,331	1,606	1,490	114	115	62	–	177	200	317	–	52,931	–	49,127														
Due to affiliates – current	–	–	1,959	975	2,576	402	6,157	–	–	6,157	19	1,198	(13,286)	–	–															
Estimated third-party payor settlements – current	–	27,053	367	496	31	–	–	–	–	–	–	–	–	27,947	17,661															
Operating lease liability – current	–	981	–	–	–	–	577	–	–	577	–	–	–	1,558	1,718															
Other current liabilities	–	–	211	66	–	55	–	–	–	–	–	3,571	–	3,903	155															
<b>Total current liabilities</b>	–	<b>79,121</b>	<b>6,064</b>	<b>3,143</b>	<b>4,097</b>	<b>571</b>	<b>6,849</b>	<b>962</b>	–	<b>7,811</b>	<b>219</b>	<b>5,086</b>	<b>(13,286)</b>	<b>92,826</b>	<b>74,913</b>															
Long-term debt and finance lease obligations, excluding current maturities																														
Due to affiliates – noncurrent	–	78,333	18,311	–	–	–	–	3,125	–	3,125	–	–	–	99,769	106,220															
Professional liability insurance and other noncurrent liabilities	–	2,904	–	–	3,017	–	4,145	–	–	4,145	2,269	–	(12,335)	–	–															
Estimated third-party payor settlements – noncurrent	–	5,459	–	–	–	–	–	–	–	–	534	–	–	5,993	9,006															
Operating lease liability – noncurrent	–	12,547	100	–	–	–	–	–	–	–	–	–	–	12,647	35,476															
Deferred revenue and refundable advanced fees	–	3,934	–	–	–	–	5,905	–	–	5,905	–	–	–	9,839	11,397															
<b>Total liabilities</b>	–	<b>182,298</b>	<b>76,131</b>	<b>3,143</b>	<b>7,114</b>	<b>571</b>	<b>16,899</b>	<b>4,087</b>	–	<b>20,986</b>	<b>3,022</b>	<b>5,086</b>	<b>(30,513)</b>	<b>267,838</b>	<b>280,372</b>															
Net assets:																														
Net assets without donor restrictions	37	215,857	11,734	12,208	246	(2,478)	1,738	5,848	(3,861)	3,725	(1,170)	61	–	240,220	240,685															
Net assets with donor restrictions	–	19,805	2,834	87	6	22,732	–	–	–	–	–	–	(22,732)	22,732	21,318															
<b>Total net assets</b>	<b>37</b>	<b>235,662</b>	<b>14,568</b>	<b>12,295</b>	<b>252</b>	<b>20,254</b>	<b>1,738</b>	<b>5,848</b>	<b>(3,861)</b>	<b>3,725</b>	<b>(1,170)</b>	<b>61</b>	<b>(22,732)</b>	<b>262,952</b>	<b>262,003</b>															
	\$	37	\$	417,960	\$	90,699	\$	15,438	\$	7,366	\$	20,825	\$	18,637	\$	9,935	\$	(3,861)	\$	24,711	\$	1,852	\$	5,147	\$	(53,245)	\$	530,790	\$	542,375



CentraState Healthcare System, Inc.

Consolidating Statement of Operations

Year Ended December 31, 2021  
 (With Comparative Consolidated Amounts for the Year Ended December 31, 2020)  
 (In Thousands)

	CentraState Healthcare Services, Inc.													CentraState Healthcare System, 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	2021	2020
Revenue:																
Net patient service revenue	\$ -	\$ 305,852	\$ -	\$ 9,045	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 3,315	\$ 5,867	\$ 4,462	\$ -	\$ 325,226	\$ 267,086	
Other revenue	-	29,909	21,636	335	4,294	137	1,823	1,492	-	1,906	1,891	8,661	(9,962)	60,216	80,607	
Investment return	-	12,977	2,235	885	2	810	1,906	-	-	5,221	1,109	-	(369)	19,555	10,556	
Total revenue		348,738	23,871	10,265	4,296	947	3,729	1,492			8,867	13,123	(10,331)	404,997	358,249	
Expenses:																
Salaries and wages	-	125,535	8,873	6,656	3,168	-	-	-	-	-	2,847	3,366	-	150,445	145,631	
Employee benefits	-	31,165	2,838	1,822	975	-	-	-	-	-	695	1,077	-	38,572	38,378	
Professional fees	-	14,325	-	-	-	-	-	-	-	-	-	-	-	14,325	11,709	
Supplies and other expenses	-	158,138	8,996	3,390	1,350	1,148	3,122	466	-	3,588	4,805	8,638	(9,962)	180,091	137,852	
Depreciation and amortization	-	13,053	3,418	489	467	14	390	318	-	708	39	24	-	18,212	18,345	
Interest expense and amortization of financing costs	-	2,226	507	-	69	-	399	88	-	487	103	18	(369)	3,041	3,403	
Total expenses		344,442	24,632	12,357	6,029	1,162	3,911	872		4,783	8,489	13,123	(10,331)	404,686	355,318	
Income (loss) from operations	-	4,296	(761)	(2,092)	(1,733)	(215)	(182)	620	-	438	378	-	-	311	2,931	
Loss on early extinguishment of debt	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(199)	
Net change in unrealized gains and losses on investments	-	(604)	(501)	75	-	-	-	-	-	-	-	-	-	(1,030)	6,984	
Excess (deficiency) of revenue over expenses	-	3,692	(1,262)	(2,017)	(1,733)	(215)	(182)	620	-	438	378	-	-	(719)	9,716	
Net assets released from restrictions for capital purposes	-	67	187	-	-	-	-	-	-	-	-	-	-	254	777	
Change in net assets without donor restrictions	\$ -	\$ 3,759	\$ (1,075)	\$ (2,017)	\$ (1,733)	\$ (215)	\$ (182)	\$ 620	\$ -	\$ 438	\$ 378	\$ -	\$ -	\$ (465)	\$ 10,493	

CentraState Healthcare System, Inc.

Consolidating Statement of Changes in Net Assets

Year Ended December 31, 2021  
 (With Comparative Consolidated Amounts for the Year Ended December 31, 2020)  
 (In Thousands)

	CentraState Healthcare Services, Inc.											CentraState Healthcare System, 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	2021	2020
<b>Net Assets</b>															
<b>Without Donor Restrictions</b>															
Net assets as of beginning 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
Change in net assets without donor restrictions	-	3,759	(1,075)	(2,017)	(1,733)	(215)	(182)	620	-	438	378	-	-	(465)	10,493
Net assets as of end of year	\$ 37	\$ 215,857	\$ 11,734	\$ 12,208	\$ 246	\$ (2,478)	\$ 1,738	\$ 5,848	\$ (3,861)	\$ 3,725	\$ (1,170)	\$ 61	\$ -	\$ 240,220	\$ 240,685
<b>With Donor Restrictions</b>															
Net assets as of beginning of year	\$ -	\$ 18,014	\$ 3,213	\$ 87	\$ 4	\$ 21,318	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (21,318)	\$ 21,318	\$ 20,095
Change in beneficial interest in CentraState Healthcare Foundation, Inc.	-	1,791	(379)	-	2	-	-	-	-	-	-	-	(1,414)	-	-
Contributions, investment return and other	-	-	-	-	-	3,048	-	-	-	-	-	-	-	3,048	3,450
Net assets released from restrictions for operations	-	-	-	-	-	(1,380)	-	-	-	-	-	-	-	(1,380)	(1,450)
Net assets released from restrictions for capital purposes	-	-	-	-	-	(254)	-	-	-	-	-	-	-	(254)	(777)
Change in net assets with donor restrictions	-	1,791	(379)	-	2	1,414	-	-	-	-	-	-	(1,414)	1,414	1,223
Net assets as of end of year	\$ -	\$ 19,805	\$ 2,834	\$ 87	\$ 6	\$ 22,732	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (22,732)	\$ 22,732	\$ 21,318

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