Consolidated Financial Statements and Supplementary Information

CentraState Healthcare System, Inc.
Years Ended December 31, 2022 and 2021
With Report of Independent Auditors

Ernst & Young LLP

Building a better working world

CentraState Healthcare System, Inc.

Consolidated Financial Statements
and Supplementary Information

Years Ended December 31, 2022 and 2021

Contents

Ernst & Young LLP
99 Wood Avenue South
Metropark
P.O. Box 751
Iselin, NJ 08830-0471

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

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, 2022 and 2021, 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, 2022 and 2021, 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.

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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, 2022, 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 17, 2023

CentraState Healthcare System, Inc.

Consolidated Balance Sheets
(In Thousands)

	December 31 2022	Predecessor Company December 31 2021
Assets		
Current assets:		
Cash and cash equivalents *(Note 1)*	**$ 27,110**	$ 33,363
Short-term investments *(Note 4)*	**127,067**	191,442
Assets limited as to use that are required for current liabilities *(Note 4)*	**634**	1,234
Patient accounts receivable, net	**36,430**	32,307
Other current assets	**7,705**	12,901
Total current assets	**198,946**	271,247
Assets limited as to use – noncurrent *(Note 4)*	**27,123**	32,457
Property, plant, and equipment, net *(Note 6)*	**251,414**	211,016
Operating lease assets *(Note 8)*	**11,231**	11,397
Noncurrent assets *(Note 5)*	**4,689**	4,673
	$ 493,403	$ 530,790
Liabilities and net assets		
Current liabilities:		
Current maturities of long-term debt and finance lease obligations *(Note 7)*	**$ 48**	$ 6,487
Accounts payable and accrued expenses	**55,881**	52,931
Estimated third-party payor settlements – current *(Note 3)*	**–**	27,947
Operating lease liability – current *(Note 8)*	**1,674**	1,558
Other current liabilities	**260**	3,903
Total current liabilities	**57,863**	92,826
Long-term debt and finance lease obligations, excluding current maturities *(Note 7)*	**104,443**	99,769
Professional liability insurance and other noncurrent liabilities *(Note 9)*	**5,562**	5,993
Estimated third-party payor settlements – noncurrent *(Note 3)*	**19,418**	12,647
Due to affiliates (*Note 11*)	**3,080**	–
Operating lease liability – noncurrent *(Note 8)*	**9,557**	9,839
Deferred revenue and refundable advance fees	**47,893**	46,764
Total liabilities	**247,816**	267,838
Commitments and contingencies		
Net assets:		
Net assets without donor restrictions	**225,749**	240,220
Net assets with donor restrictions	**19,838**	22,732
Total net assets	**245,587**	262,952
	$ 493,403	$ 530,790

See accompanying notes.

CentraState Healthcare System, Inc.

Consolidated Statements of Operations

(In Thousands)

	Year Ended December 31 2022	Predecessor Company Year Ended December 31 2021
Revenue:		
Net patient service revenue *(Note 3)*	**$ 323,825**	$ 325,226
Other revenue *(Note 14)*	**66,656**	60,216
Investment return *(Note 4)*	**13,391**	19,555
Total revenue	**403,872**	404,997
Expenses:		
Salaries and wages	**151,570**	150,445
Employee benefits	**37,284**	38,572
Professional fees	**8,445**	14,325
Supplies and other expenses	**223,833**	180,091
Depreciation and amortization	**20,024**	18,212
Interest expense and amortization of financing costs	**2,942**	3,041
Total expenses	**444,098**	404,686
(Loss) income from operations	**(40,226)**	311
Loss on early extinguishment of debt *(Note 7)*	**(505)**	–
Net change in unrealized gains and losses on investments *(Note 4)*	**(31,546)**	(1,030)
Deficiency of revenue over expenses	**(72,277)**	(719)
Net assets released from restrictions for capital purposes	**1,563**	254
Grant receipts for purchase of fixed assets	**1,417**	–
Net asset transfers from Atlantic Health System (*Note 11*)	**61,107**	–
Change in net assets without donor restrictions	**$ (8,190)**	$ (465)

See accompanying notes.

CentraState Healthcare System, Inc.

Consolidated Statements of Changes in Net Assets

(In Thousands)

	Net Assets		
	Without Donor Restrictions	**With Donor Restrictions**	**Total**
Net assets at January 1, 2021 (predecessor company)	$ 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 (predecessor company)	$ 240,220	$ 22,732	$ 262,952
Net assets at January 1, 2022 (*Note 1*)	**$ 233,939**	**$ 22,732**	**$ 256,671**
Change in net assets without donor restrictions	**(8,190)**	**–**	**(8,190)**
Contributions, investment return and other	**–**	**1,322**	**1,322**
Net assets released from restrictions for operations	**–**	**(2,653)**	**(2,653)**
Net assets released from restrictions for capital purposes	**–**	**(1,563)**	**(1,563)**
Decrease in net assets	**(8,190)**	**(2,894)**	**(11,084)**
Net assets at December 31, 2022	**$ 225,749**	**$ 19,838**	**$ 245,587**

See accompanying notes.

CentraState Healthcare System, Inc.

Consolidated Statements of Cash Flows
(In Thousands)

	Year Ended December 31 2022	Predecessor Company Year Ended December 31 2021
Operating activities		
(Decrease) increase in net assets	**$ (11,084)**	$ 949
Adjustments to reconcile (decrease) increase in net assets to net cash		
Provided by (used in) operating activities:		
Depreciation and amortization	**20,024**	18,212
Loss on disposal of fixed assets	**88**	–
Amortization of deferred financing costs and bond discount	**–**	35
Cash received under nonrefundable advance fee plans, net of refunds	**4,473**	4,099
Amortization of advance fees	**(4,327)**	(3,297)
Net realized gains and losses on investments and income in equity of joint ventures	**(7,477)**	(11,042)
Net change in unrealized gains and losses on investments	**31,546**	1,030
Loss on early extinguishment of debt	**505**	–
Changes in operating assets and liabilities:		
Patient accounts receivable, net	**(4,123)**	(3,832)
Other assets	**4,992**	(2,049)
Accounts payable and accrued expenses	**2,950**	3,804
Due to affiliates	**3,080**	–
Professional liability insurance and other liabilities	**(4,074)**	735
Estimated third-party payor settlements	**(21,176)**	(12,543)
Net cash provided by (used in) operating activities	**15,397**	(3,899)
Investing activities		
Acquisitions of property, plant, and equipment, net	**(66,791)**	(30,112)
Short-term investments redeemed, net	**38,934**	36,685
Assets limited as to use redeemed (purchased), net	**5,417**	(1,423)
Distributions from investment in joint ventures, net	**1,560**	1,860
Net cash provided by (used in) investing activities	**(20,880)**	7,010
Financing activities		
Proceeds from issuance of long-term debt	**104,443**	–
Payments of long-term debt and finance lease obligations	**(106,713)**	(6,251)
Cash received (disbursed) under refundable advance fee plans, net of refunds	**983**	2,602
Net cash used in financing activities	**(1,287)**	(3,649)
Net (decrease) increase in cash and cash equivalents and restricted cash and restricted cash equivalents	**(6,770)**	(538)
Cash and cash equivalents and restricted cash and restricted cash equivalents at beginning of year	**33,880**	34,418
Cash and cash equivalents and restricted cash and restricted cash equivalents at end of year	**$ 27,110**	$ 33,880

See accompanying notes.

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. Through December 31, 2021, CSHS had no members and was governed by its Board of Trustees. Effective January 1, 2022 (the Affiliation Date), Atlantic Health System (Atlantic Health) and CentraState Holding Company, Inc. hold membership interests in CSHS of 51% and 49%, respectively (see “Atlantic Health Affiliation” section below).

The accompanying consolidated financial statements include the accounts of CSHS and 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 CSHS and its wholly owned or wholly controlled subsidiary corporations and not-for-profit 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.

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

- 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.

- 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.

- Medical 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.

Atlantic Health Affiliation

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

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

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 holds a 51% membership interest in CSHS. CentraState Holding Company, Inc. (CHC), 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.

The System has elected to apply pushdown accounting, the use of acquirer’s basis of accounting in the preparation of the acquiree’s separate financial statements, consistent with the Financial Accounting Standards Board (FASB) Accounting Standards Update No. (ASU) 2014-17, *Business Combinations (Topic 805): Pushdown Accounting, a consensus of the FASB Emerging Issues Task Force*. In connection with the co-member affiliation, the assets and liabilities of the System were marked to fair value as of the Affiliation Date which resulted in a net decrease of $6,281 as compared to the historical value of the net assets as reported by the predecessor company. The $6,281 decrease in the System’s net assets was attributable to property, plant and equipment. The System also adopted Atlantic Health’s accounting policies as of the Affiliation Date which did not have a significant impact to the System’s accompanying consolidated financial statements. The accompanying financial statements and disclosures identify the financial reporting period through December 31, 2021 as the “predecessor company” and the period commencing January 1, 2022 represents the successor company.

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. The impact of the pandemic continues to affect patient service patterns, revenue and the costs of providing healthcare services. The System has experienced significant price increases in, and utilization of, medical supplies, particularly personal protective equipment, and labor costs, including temporary agency personnel costs.

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

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), 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 and clarifications to the administration of the Provider Relief Fund.

The System received approximately $1,591 in 2021 in funding and recognized revenue of $754 in 2022 (none in 2021) related to the Provider Relief Fund, which is included in other revenue in the accompanying 2022 consolidated statement of operations. The recognized revenue has been determined based on applicable accounting guidance, Post-Payment Notices of Reporting Requirements and FAQs that the System has interpreted as being applicable to the accompanying consolidated financial statements. The System's distributions from the Provider Relief Fund are available for specified service periods through December 31, 2022 with various required data submissions (data for funds received from July 1, 2021 to December 31, 2021 and the use of such funds through December 31, 2022 was submitted to HHS on March 31, 2023). Management will continue to monitor communications from HHS applicable to the Provider Relief Fund reporting and data submission requirements. HHS has indicated that the public health emergency period will end on May 11, 2023.

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

To enhance liquidity, the Centers for Medicare & Medicaid Services (CMS) expanded and streamlined the process for its Accelerated and Advance Payment Program, pursuant to which providers could receive advance Medicare payments. This program allowed eligible health care facilities to request up to six months of advance Medicare payments for acute care hospitals or up to three months of advance Medicare payments for other health care providers. During April 2020, the System received approximately $42,500 of expedited payments for future services. At December 31, 2021, approximately $26,000 is included as a contract liability in the current portion of estimated third-party payor settlements in the accompanying 2021 consolidated balance sheet. The advance was fully recovered by Medicare during 2022.

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 for which the System recognized patient service revenue of approximately $658 and $2,800 in 2022 and 2021, respectively.

Under the CARES Act, the System elected to defer the payment of the employer portion of social security taxes totaling approximately $5,500 that otherwise would have been due between March 27, 2020 and December 31, 2020. The CARES Act required 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 and the second 50% in December 2022.

Additionally, the Medical Center has applied for reimbursement for qualifying expenses totaling approximately $49,900 under the Federal Emergency Management Agency (FEMA) Disaster Relief Fund. During 2022 and 2021, the Medical Center recognized $15,818 and $18,988 for FEMA reimbursement within other operating revenue, respectively. Additional costs have been and are expected to be submitted to FEMA for reimbursement.

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. The System has also experienced significant price increases in personnel costs and medical supplies, as well as volatility in the interest rate and capital markets, due to the broader economic disruption caused by the pandemic.

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

Significant Accounting Policies

A summary of significant accounting policies follows:

Use of Estimates

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

Cash and Cash Equivalents

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

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

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

	2022	**Predecessor Company 2021**
Cash and cash equivalents	**$ 27,110**	$ 33,363
Assets limited as to use – by terms of indenture agreements: cash and cash equivalents	**–**	517
Total cash and cash equivalents and restricted cash and restricted cash equivalents	**$ 27,110**	$ 33,880

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 of revenue over expenses unless restricted by donor or law.

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

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

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 $700 and $1,000 at December 31, 2022 and 2021, 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, 2022 and 2021.

Property, Plant, and Equipment

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

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

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 at December 31, 2021 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 2022 or 2021), are expensed as incurred and amounted to approximately $2,300 and $2,100 for the years ended December 31, 2022 and 2021, respectively. Such costs are included in supplies and other expenses on the accompanying consolidated statements of operations.

Professional Liability Insurance

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

Retirement Community Obligations

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

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

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

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 2022 and 2021) 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, 2022 and 2021.

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.

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.

(In Thousands)

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

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 14).

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	Foundation and Fundraising	Management and Administrative	Total
Year ended December 31, 2022							
Salaries and wages	**$ 126,337**	**$ 19,589**	**$ 462**	**$ 171**	**$ 926**	**$ 4,085**	**$ 151,570**
Employee benefits	**30,337**	**5,507**	**157**	**48**	**262**	**973**	**37,284**
Professional fees	**8,445**	**–**	**–**	**–**	**–**	**–**	**8,445**
Supplies and other expenses	**188,083**	**22,085**	**9,476**	**15**	**1,362**	**2,812**	**223,833**
Depreciation and amortization	**14,833**	**4,410**	**71**	**–**	**14**	**696**	**20,024**
Interest	**1,985**	**533**	**47**	**–**		**377**	**2,942**
Total	**$ 370,020**	**$ 52,124**	**$ 10,213**	**$ 234**	**$ 2,564**	**$ 8,943**	**$ 444,098**
Year ended December 31, 2021 (Predecessor Company)							
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
Total	$ 325,659	$ 43,018	$ 22,041	$ 225	$ 2,327	$ 11,416	$ 404,686

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.

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

Performance Indicator

The accompanying consolidated statements of operations include deficiency 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 and permanent transfers of assets from related entities.

Transactions deemed by management to be ongoing, major or central to the provision of health care services are reported within (loss) income from operations. Peripheral or incidental transactions are excluded from (loss) 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 2022 and 2021 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, 2022 and 2021, 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).

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.

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, 2022 and 2021 was approximately $5,200 and $4,400, 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.

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.

3. Net Patient Service Revenue (continued)

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.

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, 2022 and 2021 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.

(In Thousands)

3. Net Patient Service Revenue (continued)

Net patient service revenue disaggregated by payor are as follows:

	Year Ended December 31 2022	Predecessor Company Year Ended December 31 2021
Medicare	**$ 132,249**	$ 132,393
Medicaid	**25,278**	24,673
Commercial insurance	**149,762**	150,547
Self-pay patients	**7,531**	8,048
Other third-party payors	**9,005**	9,565
	$ 323,825	$ 325,226

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.

Net patient service revenue, disaggregated by lines of service, is as follows:

	Year Ended December 3 2022	Predecessor Company Year Ended December 31 2021
Hospital	**$ 307,777**	$ 305,852
Post-acute	**10,899**	9,045
Physician practices	**5,149**	10,329
	$ 323,825	$ 325,226

(In Thousands)

3. Net Patient Service Revenue (continued)

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

	December 31 2022	Predecessor Company December 31 2021
Patient receivables	**$ 33,108**	$ 29,129
Contract assets	**3,322**	3,178
	$ 36,430	$ 32,307

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 2018 at December 31, 2022.

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 2019 have been audited and settled.

3. Net Patient Service Revenue (continued)

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 year ended December 31, 2021, 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 $3,600 (none in 2022).

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.

(In Thousands)

3. Net Patient Service Revenue (continued)

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:

	Year Ended December 31 2022	Predecessor Company Year Ended December 31 2021
Charity care	**$ 695**	$ 431
Special subsidy	**419**	385
Medicaid GME	**374**	347
Pool and transitional program payments	**–**	83
	$ 1,488	$ 1,246

(In Thousands)

4. Investments and Assets Limited as to Use

Short-Term Investments

Short-term investments consist of the following:

	December 31 2022	Predecessor Company December 31 2021
United States government obligations	**$ 12,228**	$ 17,701
Corporate bonds	**14,968**	28,990
Common stocks	**–**	8,782
Mutual funds	**99,692**	135,808
	126,888	191,281
Interest receivable	**179**	161
	$ 127,067	$ 191,442

Assets Limited as to Use

Assets limited as to use consist of the following:

	December 31 2022	Predecessor Company December 31 2021
Cash and cash equivalents	**$ 7,962**	$ 9,497
United States government obligations	**1,899**	2,464
Corporate bonds	**3,416**	2,970
Mutual funds	**14,480**	18,760
Total assets limited as to use	**27,757**	33,691
Less current portion	**634**	1,234
Assets limited as to use – noncurrent	**$ 27,123**	$ 32,457

(In Thousands)

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

Assets limited as to use are maintained for the following purposes:

	December 31 2022	Predecessor Company December 31 2021
As directed by the Board of Trustees	**$ 4,856**	$ 4,856
By terms of indenture agreements	**–**	517
Estimated advance fee refunds	**3,812**	3,505
Supplemental executive retirement plan	**814**	944
By donor restrictions	**13,227**	18,284
Assets held in the Cayman Captive *(Note 9)*	**5,048**	5,585
	$ 27,757	$ 33,691

Assets limited as to use by terms of indenture agreements at December 31, 2021 related to debt service interest funds.

(In Thousands)

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

Investment Return

Investment return included in the deficiency of revenue over expenses without donor restrictions consists of the following:

	Year Ended December 31 2022	Predecessor Company Year Ended December 31 2021
Revenue from operations:		
Interest and dividends	**$ 5,914**	$ 8,513
Net realized gains and losses	**6,105**	8,075
Net gain in equity of joint venture investments	**1,372**	2,967
	13,391	19,555
Nonoperating income:		
Net change in unrealized gains and losses on investments	**(31,546)**	(1,030)
Total investment return – without donor restrictions	**$ (18,155)**	$ 18,525

5. Noncurrent Assets

Noncurrent assets consist of the following:

	December 31 2022	Predecessor Company December 31 2021
Investments in joint ventures	**$ 3,062**	$ 3,250
Other noncurrent assets	**1,627**	1,423
	$ 4,689	$ 4,673

(In Thousands)

5. Noncurrent Assets (continued)

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 per year). Distributions received from these joint ventures for 2022 and 2021 totaled approximately $1,560 and $1,860, respectively.

6. Property, Plant, and Equipment

Property, plant, and equipment consist of the following:

		Predecessor Company
	December 31 2022	**December 31 2021**
Land	**$ 30,875**	$ 17,103
Land improvements	**7,805**	14,333
Buildings and fixtures	**134,287**	323,885
Equipment	**68,779**	141,101
	241,746	496,422
Less accumulated depreciation and amortization	**20,024**	308,875
Add construction in progress (estimated cost to complete approximately $25,000)	**29,692**	23,469
	$ 251,414	$ 211,016

As described in Note 1, the historical value of the System's property, plant and equipment was adjusted to fair value at the Affiliation Date, resulting in a $6,281 reduction to the prior carrying value. During 2021, the System wrote off approximately $2,100 of fully depreciated assets.

(In Thousands)

7. Long-Term Debt and Finance Lease Obligations

Long-term debt and finance lease obligations consist of the following:

	December 31 2022	Predecessor Company December 31 2021
Secured loan with AHS Hospital Corp. (a)	**$ 103,497**	$ –
Engineered Solutions Program Loan (b)	**946**	–
Series 2012 Note – Medical Center (c)	**–**	24,563
Series 2014 Bonds – Medical Center (d)	**–**	26,740
Series 2017A Bonds – Medical Center (e)	**–**	31,510
Series 2020 Bonds – Applewood (f)	**–**	19,660
Series 2000 Bonds – MAB (g)	**–**	4,025
Finance lease obligation at a rate of 3.25%, collateralized by leased equipment and facilities maturing in 2023	**48**	99
	104,491	106,597
Less:		
Deferred financing costs, net	**–**	341
Current maturities	**48**	6,487
Long-term debt and finance lease obligations, excluding current maturities	**$ 104,443**	$ 99,769

(a) On August 17, 2022, the Medical Center, Applewood, and MAB, entered into a secured loan agreement with AHS Hospital Corp. (AHSHC), an affiliate of Atlantic Health, for approximately $103,497. Proceeds of the loan were used to defease the Series 2017A Bonds; redeem the Series 2000, Series 2014, and Series 2020 Bonds; and repay the Series 2012 Note. The loan with AHSHC matures on May 31, 2037, with an annual interest rate of 3.21% due monthly. The loan is collateralized by a pledge and security interest in all gross receipts of the Medical Center, Applewood and MAB.

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

(b) In September 2022, the Medical Center participated in the Engineered Solutions Program through a utility company using grant funding (not subject to repayment) combined with a loan to be repaid over 60 months upon the completion of an energy conservation project. As of December 31, 2022, the System has received approximately $2,362 under the program, of which, $946 is reported as long-term debt.

(c) *CentraState Medical Center* – During August 2022, the Medical Center refinanced the previously outstanding 2012 Note through the AHSHC loan (see note (a)). The 2012 Note previously bore interest at a variable rate (1.25% at December 31, 2021).

(d) *CentraState Medical Center* – During August 2022, the Medical Center refinanced the previously outstanding Series 2014A Bonds and Series 2014C Bonds through the AHSHC loan (see note (a)). The Series 2014A and 2014C Bonds previously had fixed interest rates of 2.9% and 3%, respectively.

(e) *CentraState Medical Center* – During August 2022, the System advance refunded the previously outstanding Series 2017A Bonds through the AHSHC loan (see note (a)). Approximately $31,130 was deposited into an escrow account to pay debt service and fully redeem the bonds on January 1, 2026. The Series 2017A Bonds have a fixed 3.26% interest rate.

(f) *Applewood* – In August 2022, Applewood refinanced the previously outstanding Series 2020 Revenue Refunding Bonds through the AHSHC loan (see note (a)). The Series 2020 Bonds previously had a fixed interest rate of 2.38%.

(g) *CentraState Medical Arts Building* – In August 2022, MAB refinanced the previously outstanding Series 2020 Revenue Refunding Bonds through the AHSHC loan (see note (a)). The Series 2020 Bonds previously bore interest at a variable rate (0.8% at December 31, 2021).

The Medical Center, Applewood and MAB formed an obligated debtor group for the purpose of the AHSHC loan and related compliance with the loan's requirements.

(In Thousands)

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

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

	Long-Term Debt	Obligations Under Finance Leases	Total
2023	$ –	$ 48	$ 48
2024	95	–	95
2025	189	–	189
2026	189	–	189
2027	189	–	189
Thereafter	103,781	–	103,781
	$ 104,443	$ 48	$ 104,491

At December 31, 2022 and 2021, 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, 2022 and 2021 aggregated approximately $2,800 and $3,000 million, respectively, net of capitalized interest.

The System maintains a $20,000 line of credit with a bank. At December 31, 2022, no balance was outstanding on the line. The line is due on demand and expires September 8, 2023. Interest on the line is calculated using the Term Secured Overnight Financing Rate (SOFR) plus one hundred twenty six and one-half basis points.

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.

(In Thousands)

8. Leases (continued)

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 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:

		Predecessor Company
	Year Ended December 31 2022	**Year Ended December 31 2021**
Lease cost:		
Finance lease cost:		
Amortization of right-of-use asset	**$ 48**	$ 51
Interest on lease liabilities	**1**	1
Operating lease cost	**2,133**	2,043
Total lease cost	**$ 2,182**	$ 2,095

(In Thousands)

8. Leases (continued)

	Year Ended December 31 2022	Predecessor Company Year Ended December 31 2021
Right-of-use assets and liabilities:		
Right-of-use assets – finance leases	**$ 25**	$ 76
Lease liability – finance leases	**48**	99
Right-of-use assets – operating leases	**11,231**	11,397
Lease liability – operating leases	**11,231**	11,397
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	**2,133**	2,043
Financing cash flows from finance leases	**51**	48
Right-of-use assets obtained in exchange for new finance lease liabilities	**–**	–
Right-of-use assets obtained in exchange for new operating lease liabilities	**1,487**	–
Weighted-average remaining lease term – finance leases	**12 months**	23 months
Weighted-average remaining lease term – operating leases	**8.6 years**	9.0 years
Weighted-average discount rate – finance leases	**3.25%**	3.25%
Weighted-average discount rate – operating leases	**3.76%**	4.24%

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.

(In Thousands)

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, 2022:

	Finance Leases	Operating Leases
2023	$ 48	$ 2,127
2024	–	1,893
2025	–	1,754
2026	–	1,309
2027	–	1,339
Thereafter	–	5,061
Total lease payments	48	13,483
Less imputed interest	–	2,252
Total lease obligation	48	11,231
Less current portion	48	1,674
Long-term portion	$ –	$ 9,557

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.

(In Thousands)

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

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

		Predecessor Company
	December 31 2022	**December 31 2021**
Included in assets limited as to use:		
Cash and investments	**$ 5,048**	$ 5,585
Included within professional liability insurance:		
Other assets	**2,531**	3,574
Professional liabilities	**(4,786)**	(5,509)
Equity in Cayman Captive	**$ 2,793**	$ 3,650

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 or total claims aggregating $750. Beginning May 1, 2004, the self-insured retention was increased to $500 for individual claims or total claims aggregating $1,500. Effective May 1, 2006, the self-insured retention was increased to $1,000 for individual claims or total claims aggregating $3,000 in the policy year and has remained at that level. After the self-insured retention, the System carries a $20,000 buffer policy and a $10,000 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 at December 31, 2022 and 2021. The professional liabilities are undiscounted and are included in professional liability insurance and other noncurrent liabilities.

(In Thousands)

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

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

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

	December 31 2022	Predecessor Company December 31 2021
Other insurance related assets	**$ 2,531**	$ 3,574
Professional liabilities	**(4,786)**	(5,509)
Workers' compensation	**(1,195)**	(1,437)
Other	**(2,112)**	(2,621)
	$ (5,562)	$ (5,993)

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, 2022 and 2021 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 2022 and 2021), 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

10. Pension Plans (continued)

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 $7,100 and $6,900 for the years ended December 31, 2022 and 2021, respectively.

The System also sponsors a defined contribution supplemental executive retirement plan (SERP) for certain employees and a 457(b) eligible deferred compensation plan available to all executives. Total pension expense under the SERP plan was approximately $189 and $191 for the years ended December 31, 2022 and 2021, respectively.

11. Related-Party Transactions

The entities comprising the System provide various inter-entity services to their affiliated entities and the CSHS parent company. The services consist of certain financial planning, information systems and telecommunications, general accounting, and other services. Charges for such services are based on the approximate cost to provide the services and are allocated between the entities based on an agreed-upon method which reflects the approximate level of usage by each entity. Such inter-entity charges and all intercompany balances between the entities comprising the System eliminate in consolidation.

Refer to Note 7 for disclosures regarding long-term debt with AHSHC. Additionally, Atlantic Health provides certain services to the System for information systems, printing services, legal services, and bio-medical services. Charges for such services are based on the approximate cost to provide the services and totaled approximately $3,080 for the year ended December 31, 2022. At December 31, 2022, the balance due to Atlantic Health totaled approximately $3,080. During 2022, Atlantic Health transferred $61,107 to the System for certain costs related to strategic initiatives resulting from the affiliation including $53,396 for capital expenditures, $3,292 for certain agreed-upon shared administrative costs and $4,419 for physician practice related expenses.

(In Thousands)

12. Concentrations of Credit Risk

At December 31, 2022 and 2021, 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 67% 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:

		Predecessor Company
	December 31 2022	**December 31 2021**
Medicare	**48%**	46%
Medicaid	**10**	7
Managed care – insurance companies	**32**	32
Other third-party payors	**4**	8
Patients	**6**	7
	100%	100%

13. 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.

(In Thousands)

13. 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, 2022 and 2021.

14. Other Revenue

Other revenue consists of the following:

	Year Ended December 31 2022	Predecessor Company Year Ended December 31 2021
Residential services revenue, including amortization income of approximately $4,327 and $3,297 in 2022 and 2021, respectively	**$ 26,774**	$ 24,047
Rental income	**3,821**	5,068
HHS Provider Relief Fund	**754**	–
FEMA Disaster Relief Fund	**15,818**	18,988
Grants and community health programs	**1,858**	1,282
Net assets released from restrictions for operations	**2,653**	1,380
Food services	**1,433**	1,138
Vendor rebates	**868**	692
Gain on sale	**2,555**	–
Other	**10,122**	7,621
	$ 66,656	$ 60,216

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.

15. 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.

(In Thousands)

15. 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
December 31, 2022				
Cash and cash equivalents – held for investments	**$ 7,962**	**$ –**	**$ –**	**$ 7,962**
United States government obligations	**14,127**	**–**	**–**	**14,127**
Corporate bonds	**16,971**	**1,413**	**–**	**18,384**
Mutual funds:				
Fixed income	**52,696**	**–**	**–**	**52,696**
Equities – small cap	**2,885**	**–**	**–**	**2,885**
Equities – large cap	**23,091**	**–**	**–**	**23,091**
International equity	**35,500**	**–**	**–**	**35,500**
	$ 153,232	**$ 1,413**	**$ –**	**$ 154,645**
December 31, 2021 (Predecessor Company)				
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
	$ 222,290	$ 2,682	$ –	$ 224,972

(In Thousands)

15. 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.

16. Liquidity and Available Resources

The table below represents financial assets available for general expenditures within one year:

		Predecessor Company
	December 31 2022	**December 31 2021**
Financial assets at year-end:		
Cash and cash equivalents	**$ 27,110**	$ 33,363
Short-term investments	**127,067**	191,442
Assets limited as to use	**27,757**	33,691
Receivables for patient care, net	**36,430**	32,307
Current portion of pledges receivable, net	**671**	931
Total financial assets	**219,035**	291,734
Less amounts not available to be used within one year:		
Assets limited as to use	**27,123**	32,457
Financial assets available to meet general expenditures over the next twelve months	**$ 191,912**	$ 259,277

16. 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.

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 approximately $4,900 as of December 31, 2022 and 2021. This fund established by the Board of Trustees may be drawn upon, if necessary, to meet unexpected liquidity needs.

Additionally, the System maintains a $20,000 line of credit, as described in Note 7. As of December 31, 2022 and 2021, there was no balance outstanding on the line of credit.

As of December 31, 2022 and 2021, the System was in compliance with financial covenants of outstanding long-term debt; see Note 7.

17. Events Subsequent to December 31, 2022

Subsequent events have been evaluated through April 17, 2023 which is the date the accompanying consolidated financial statements were issued. Except as disclosed below, no subsequent events have occurred that require disclosure in or adjustments to the accompanying consolidated financial statements.

On December 29, 2022, the System experienced a cyber data breach impacting certain of its information systems. The System's management and external consultants have investigated the incident and are following required notification procedures as a result of the data breach.

Supplementary Information

CentraState Healthcare System, Inc.

Consolidating Balance Sheet

December 31, 2022
(With Comparative Consolidated Amounts at December 31, 2021)
(In Thousands)

	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	CentraState Medical Associates, P.C.	CentraState Specialists, P.C.	Eliminations	CentraState Healthcare System, Inc. Consolidated Total 2022	CentraState Healthcare System, Inc. Consolidated Total 2021 (Predecessor Company)
Assets													
Current assets:													
Cash and cash equivalents	$ 37	$ 13,990	$ 4,695	$ 1,665	$ 942	$ 3,446	$ 530	$ 788	$ 358	$ 659	$ –	**$ 27,110**	$ 33,363
Short-term investments	–	98,620	22,088	6,065	294	–	–	–	–	–	–	**127,067**	191,442
Assets limited as to use that are required for current liabilities	–	–	–	–	–	634	–	–	–	–	–	**634**	1,234
Patient accounts receivable, net	–	33,151	821	965	174	–	–	–	–	1,319	–	**36,430**	32,307
Due from affiliates	–	14,576	–	–	–	–	–	–	–	–	(14,576)	–	–
Other current assets	–	6,027	288	203	18	841	145	–	117	66	–	**7,705**	12,901
Total current assets	37	166,364	27,892	8,898	1,428	4,921	675	788	475	2,044	(14,576)	**198,946**	271,247
Assets limited as to use – noncurrent	–	10,718	3,812	–	–	12,593	–	–	–	–	–	**27,123**	32,457
Due from affiliates – noncurrent	–	4,887	–	–	–	–	–	3,487	–	–	(8,374)	–	–
Investment in subsidiary	–	–	–	–	–	–	3,861	–	–	–	(3,861)	–	–
Interest in CentraState Healthcare Foundation	–	17,020	2,724	88	6	–	–	–	–	–	(19,838)	–	–
Property, plant and equipment, net	–	189,406	47,009	1,586	4,962	155	1,965	6,143	75	113	–	**251,414**	211,016
Operating lease assets	–	5,326	–	–	–	–	5,905	–	–	–	–	**11,231**	11,397
Noncurrent assets	–	6,323	–	–	–	656	2,602	–	–	–	(4,892)	**4,689**	4,673
	$ 37	$ 400,044	$ 81,437	$ 10,572	$ 6,396	$ 18,325	$ 15,008	$ 10,418	$ 550	$ 2,157	$ (51,541)	**$ 493,403**	$ 530,790

CentraState Healthcare System, Inc.

Consolidating Balance Sheet (continued)

December 31, 2022
(With Comparative Consolidated Amounts at December 31, 2021)
(In Thousands)

	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**	**CentraState Medical Associates, P.C.**	**CentraState Specialists, P.C.**	**Eliminations**	**CentraState Healthcare System, Inc. Consolidated Total 2022**	**2021 (Predecessor Company)**
Liabilities and net assets													
Current liabilities:													
Current maturities of long-term debt and finance lease obligations	$ –	$ 48	$ –	$ –	$ –	$ –	$ –	$ –	$ –	$ –	$ –	**$ 48**	$ 6,487
Accounts payable and accrued expenses	–	49,824	2,507	1,930	934	116	231	58	208	73	–	**55,881**	52,931
Due to affiliates – current	–	–	2,558	2,983	3,615	417	5,003	–	–	–	(14,576)	**–**	–
Estimated third-party payor settlements – current	–	–	–	–	–	–	–	–	–	–	–	**–**	27,947
Operating lease liability – current	–	1,058	–	–	–	–	616	–	–	–	–	**1,674**	1,558
Other current liabilities	–	–	88	101	–	71	–	–	–	–	–	**260**	3,903
Total current liabilities	–	50,930	5,153	5,014	4,549	604	5,850	58	208	73	(14,576)	**57,863**	92,826
Long-term debt and finance lease obligations, excluding current maturities	–	80,733	19,681	–	–	–	–	4,029	–	–	–	**104,443**	99,769
Professional liability insurance and other noncurrent liabilities	–	5,562	–	–	–	–	–	–	–	–	–	**5,562**	5,993
Estimated third-party payor settlements – noncurrent	–	19,387	–	–	31	–	–	–	–	–	–	**19,418**	12,647
Due to affiliates	–	6,567	–	–	3,017	–	1,870	–	–	–	(8,374)	**3,080**	–
Operating lease liability – noncurrent	–	4,268	–	–	–	–	5,289	–	–	–	–	**9,557**	9,839
Deferred revenue and refundable advanced fees	–	–	52,785	–	–	–	–	–	–	–	(4,892)	**47,893**	46,764
Total liabilities	–	167,447	77,619	5,014	7,597	604	13,009	4,087	208	73	(27,842)	**247,816**	267,838
Net assets:													
Net assets without donor restrictions	37	215,577	1,094	5,470	(1,207)	(2,117)	1,999	6,331	342	2,084	(3,861)	**225,749**	240,220
Net assets with donor restrictions	–	17,020	2,724	88	6	19,838	–	–	–	–	(19,838)	**19,838**	22,732
Total net assets	37	232,597	3,818	5,558	(1,201)	17,721	1,999	6,331	342	2,084	(23,699)	**245,587**	262,952
	$ 37	$ 400,044	$ 81,437	$ 10,572	$ 6,396	$ 18,325	$ 15,008	$ 10,418	$ 550	$ 2,157	$ (51,541)	**$ 493,403**	$ 530,790

CentraState Healthcare System, Inc.

Consolidating Statement of Operations

Year Ended December 31, 2022
(With Comparative Consolidated Amounts for the Year Ended December 31, 2021 (Predecessor))
(In Thousands)

	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	CentraState Medical Associates, P.C.	CentraState Specialists, P.C.	Eliminations	CentraState Healthcare System, Inc. Consolidated Total 2022	CentraState Healthcare System, Inc. Consolidated Total 2021 (Predecessor Company)
Revenue:													
Net patient service revenue	$ –	$ 307,777	$ –	$ 10,899	$ –	$ –	$ –	$ –	$ –	$ 5,149	$ –	**$ 323,825**	$ 325,226
Other revenue	–	33,098	24,463	333	5,406	824	2,047	1,309	2,822	2,051	(5,697)	**66,656**	60,216
Investment return	–	9,969	1,173	308	5	913	1,268	6	–	–	(251)	**13,391**	19,555
Total revenue	–	350,844	25,636	11,540	5,411	1,737	3,315	1,315	2,822	7,200	(5,948)	**403,872**	404,997
Expenses:													
Salaries and wages	–	131,893	9,924	6,077	3,588	–	–	–	196	(108)	–	**151,570**	150,445
Employee benefits	–	31,712	2,697	1,810	1,000	–	–	–	9	56	–	**37,284**	38,572
Professional fees	–	8,445	–	–	–	–	–	–	–	–	–	**8,445**	14,325
Supplies and other expenses	–	189,992	12,101	8,383	1,601	1,362	2,392	420	4,963	8,316	(5,697)	**223,833**	180,091
Depreciation and amortization	–	14,833	3,488	465	457	14	378	318	38	33	–	**20,024**	18,212
Interest expense and amortization of financing costs	–	2,236	476	–	57	–	284	93	20	27	(251)	**2,942**	3,041
Total expenses	–	379,111	28,686	16,735	6,703	1,376	3,054	831	5,226	8,324	(5,948)	**444,098**	404,686
(Loss) income from operations	–	(28,267)	(3,050)	(5,195)	(1,292)	361	261	484	(2,404)	(1,124)	–	**(40,226)**	311
Loss on early extinguishment of debt	–	(318)	(187)	–	–	–	–	–	–	–	–	**(505)**	–
Net change in unrealized gains and losses on investments	–	(24,299)	(5,948)	(1,297)	(2)	–	–	–	–	–	–	**(31,546)**	(1,030)
(Deficiency) excess of revenue over expenses	–	(52,884)	(9,185)	(6,492)	(1,294)	361	261	484	(2,404)	(1,124)	–	**(72,277)**	(719)
Net assets released from restrictions for capital purposes	–	1,563	–	–	–	–	–	–	–	–	–	**1,563**	254
Grant receipts for purchase of fixed assets	–	1,417	–	–	–	–	–	–	–	–	–	**1,417**	–
Net asset transfers from Atlantic Health System	–	54,043	–	–	–	–	–	–	3,916	3,148	–	**61,107**	–
Change in net assets without donor restrictions	$ –	$ 4,139	$ (9,185)	$ (6,492)	$ (1,294)	$ 361	$ 261	$ 484	$ 1,512	$ 2,024	$ –	**$ (8,190)**	$ (465)

CentraState Healthcare System, Inc.

Consolidating Statement of Changes in Net Assets

Year Ended December 31, 2022
(With Comparative Consolidated Amounts for the Year Ended December 31, 2021)
(In Thousands)

												CentraState Healthcare System, Inc. Consolidated Total	
	CentraState Healthcare System, Inc.	CentraState Medical Center, Inc.	Center for Aging, Inc.	CentraState Healthcare Affiliates, Inc.	CentraState Assisted Living, Inc.	CentraState Healthcare Foundation, Inc.	CentraState Healthcare Services, Inc.	CentraState Medical Arts Building LLC	CentraState Medical Associates, P.C.	CentraState Specialists, P.C.	Eliminations	2022	2021 (Predecessor Company)
Net Assets													
Without Donor Restrictions													
Net assets as of beginning of year	$ 37	$ 211,438	$ 10,279	$ 11,962	$ 87	$ (2,478)	$ 1,738	$ 5,847	$ (1,170)	$ 60	$ (3,861)	**$ 233,939**	$ 240,685
Change in net assets without donor restrictions	–	4,139	(9,185)	(6,492)	(1,294)	361	261	484	1,512	2,024	–	**(8,190)**	(465)
Net assets as of end of year	$ 37	$ 215,577	$ 1,094	$ 5,470	$ (1,207)	$ (2,117)	$ 1,999	$ 6,331	$ 342	$ 2,084	$ (3,861)	**$ 225,749**	$ 240,220
With Donor Restrictions													
Net assets as of beginning of year	$ –	$ 19,805	$ 2,834	$ 87	$ 6	$ 22,732	$ –	$ –	$ –	$ –	$ (22,732)	**$ 22,732**	$ 21,318
Change in beneficial interest in CentraState Healthcare Foundation, Inc.	–	(2,785)	(110)	1	–	–	–	–	–	–	2,894	**–**	–
Contributions, investment return and other	–	–	–	–	–	1,322	–	–	–	–	–	**1,322**	3,048
Net assets released from restrictions for operations	–	–	–	–	–	(2,653)	–	–	–	–	–	**(2,653)**	(1,380)
Net assets released from restrictions for capital purposes	–	–	–	–	–	(1,563)	–	–	–	–	–	**(1,563)**	(254)
Change in net assets with donor restrictions	–	(2,785)	(110)	1	–	(2,894)	–	–	–	–	2,894	**(2,894)**	1,414
Net assets as of end of year	$ –	$ 17,020	$ 2,724	$ 88	$ 6	$ 19,838	$ –	$ –	$ –	$ –	$ (19,838)	**$ 19,838**	$ 22,732

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