

**SALEM COUNTY HOSPITAL CORP.
(D/B/A SALEM MEDICAL CENTER) AND AFFILIATE
Combined Financial Statements
December 31, 2021 and 2020
With Independent Auditor's Report**

Salem County Hospital Corp. (D/B/A Salem Medical Center) and Affiliate
Table of Contents
December 31, 2021 and 2020

Independent Auditor's Report	1-2
Combined Financial Statements	
Combined Balance Sheets	3
Combined Statements of Operations and Changes in Net Assets (Deficit)	4
Combined Statements of Cash Flows	5
Notes to Combined Financial Statements	6-22
Supplementary Information	
Combining Balance Sheets	23-24
Combining Statements of Operations and Changes in Net Assets (Deficit)	25-26

INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees,
Salem County Hospital Corp. (D/B/A Salem Medical Center) and Affiliate:

Opinion

We have audited the combined financial statements of Salem County Hospital Corp. (D/B/A Salem Medical Center) and Affiliate (collectively, the "Medical Center"), which comprise the combined balance sheets as of December 31, 2021 and 2020, and the related combined statements of operations and changes in net assets (deficit) and cash flows for the years then ended, and the related notes to the combined financial statements.

In our opinion, the accompanying combined financial statements present fairly, in all material respects, the combined financial position of the Medical Center as of December 31, 2021 and 2020, and the changes in their net assets (deficit) and their 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 Combined Financial Statements section of our report. We are required to be independent of the Medical Center 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.

Substantial Doubt About the Medical Center's Ability to Continue as a Going Concern

The accompanying combined financial statements have been prepared assuming that Salem County Hospital Corp. (D/B/A Salem Medical Center) and Affiliate will continue as a going concern. As discussed in Note 1 to the combined financial statements, the Medical Center has a deficiency of revenue over expenses for the years ended December 31, 2021 and 2020, a working capital deficiency at December 31, 2021 and 2020, and management has stated that substantial doubt exists about the Medical Center's ability to continue as a going concern. Management's evaluation of the events and conditions and management's plans regarding these matters are also described in Note 1. The combined financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Combined Financial Statements

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

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

Auditor's Responsibility for the Audit of the Combined Financial Statements

Our objectives are to obtain reasonable assurance about whether the combined financial statements as a whole are free from 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 judgement made by a reasonable user based on the combined 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 combined 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 combined 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 Medical Center'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 combined financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Medical Centers 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 combined financial statements as a whole. The supplementary combining balance sheets as of December 31, 2021 and 2020, and combining statements of operations and changes in net assets (deficit) for the years ended December 31, 2021 and 2020 are presented for purposes of additional analysis and are not a required part of the combined 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 combined financial statements. The information has been subjected to the auditing procedures applied in the audits of the combined financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the combined financial statements or to the combined 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 combined financial statements as a whole.

Withum Smith+Brown, PC

November 14, 2022

Salem County Hospital Corp. (D/B/A Salem Medical Center) and Affiliate
Combined Balance Sheets
December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Assets		
Current assets		
Cash and cash equivalents	\$ 1,058,346	\$ 235,366
Patient accounts receivable, net	5,987,478	5,928,052
Supplies	1,960,162	2,100,464
Grants receivable	1,849,770	12,434,776
Prepaid expenses and other current assets	<u>1,438,753</u>	<u>1,622,526</u>
Total current assets	12,294,509	22,321,184
Property, plant and equipment, net	12,578,552	14,817,344
Other assets	140,000	140,000
Intangible assets, net	<u>651,386</u>	<u>744,159</u>
Total assets	<u>\$ 25,664,447</u>	<u>\$ 38,022,687</u>
Liabilities and Net Assets (Deficit)		
Current liabilities		
Line of credit	\$ 3,263,263	\$ 2,142,204
Accounts payable	25,391,487	12,126,027
Accrued expenses	2,026,798	1,702,470
Current portion of CARES Act Medicare advancements	4,070,823	2,536,272
Long term debt, current portion	1,097,291	5,953,195
Estimated settlements due to third-party payors	515,000	250,000
Capital leases payable	<u>120,469</u>	<u>117,160</u>
Total current liabilities	36,485,131	24,827,328
Long-term debt, net of current portion	23,402,709	24,500,000
CARES Act Medicare advancements, net of current portion	993,109	4,909,525
Capital leases payable, net of current portion	<u>319,510</u>	<u>387,188</u>
	61,200,459	54,624,041
Net assets (deficit)		
Without donor restrictions	<u>(35,536,012)</u>	<u>(16,601,354)</u>
Total liabilities and net assets (deficit)	<u>\$ 25,664,447</u>	<u>\$ 38,022,687</u>

The Notes to Combined Financial Statements are an integral part of these statements.

Salem County Hospital Corp. (D/B/A Salem Medical Center) and Affiliate
Combined Statements of Operations and Changes in Net Assets (Deficit)
Years Ended December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Revenue		
Net patient service revenue	\$ 47,234,407	\$ 44,292,560
Other revenue	<u>6,388,794</u>	<u>19,183,954</u>
Total revenue	<u>53,623,201</u>	<u>63,476,514</u>
Expenses		
Salaries and contract labor	24,484,007	25,462,972
Employee benefits	4,909,233	5,257,785
Physician fees	3,763,670	8,310,738
Supplies and other expenses	35,404,159	32,771,993
Depreciation and amortization	3,099,340	2,594,033
Interest	<u>897,450</u>	<u>648,718</u>
Total expenses	<u>72,557,859</u>	<u>75,046,239</u>
Changes in net assets (deficit) without donor restrictions	<u>(18,934,658)</u>	<u>(11,569,725)</u>
Net assets (deficit) without donor restrictions		
Beginning of year	<u>(16,601,354)</u>	<u>(5,031,629)</u>
End of year	<u>\$ (35,536,012)</u>	<u>\$ (16,601,354)</u>

The Notes to Combined Financial Statements are an integral part of these statements.

Salem County Hospital Corp. (D/B/A Salem Medical Center) and Affiliate
Combined Statements of Cash Flows
Years Ended December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Operating activities		
Changes in net assets (deficit) without donor restrictions	\$ (18,934,658)	\$ (11,569,725)
Adjustments to reconcile changes in net assets (deficit) without donor restrictions to net cash provided by (used in) operating activities		
Depreciation and amortization	3,099,340	2,594,033
Forgiveness of PPP Loan	(4,736,446)	-
Changes in operating assets and liabilities		
Patient accounts receivable	(59,426)	663,238
Supplies	140,302	(197,822)
Grants receivable	10,585,006	(7,934,776)
Prepaid expenses and other current assets	183,773	(564,943)
Accounts payable	14,102,039	2,695,263
Estimated settlements due to third-party payors	265,000	-
CARES Act Medicare advancements	(2,381,865)	7,445,797
Accrued expenses	324,328	132,837
Net cash provided by (used in) operating activities	<u>2,587,393</u>	<u>(6,736,098)</u>
Investing activities		
Purchases of property, plant and equipment	<u>(1,604,354)</u>	<u>(7,534,655)</u>
Net cash used in investing activities	<u>(1,604,354)</u>	<u>(7,534,655)</u>
Financing activities		
Proceeds from long-term debt	-	16,157,235
Repayments of long-term debt	(1,216,749)	(204,040)
Proceeds from (repayments of) line of credit	1,121,059	(1,929,082)
Payments on capital lease obligations	<u>(64,369)</u>	<u>(36,340)</u>
Net cash provided by (used in) financing activities	<u>(160,059)</u>	<u>13,987,773</u>
Net change in cash and cash equivalents	822,980	(282,980)
Cash and cash equivalents		
Beginning of year	<u>235,366</u>	<u>518,346</u>
End of year	<u>\$ 1,058,346</u>	<u>\$ 235,366</u>
Supplemental disclosure of cash flow information		
Cash paid for interest	<u>\$ 561,921</u>	<u>\$ 600,333</u>
Supplemental disclosure of non-cash investing and financing activities		
Property, plant and equipment purchases included in accounts payable	<u>\$ -</u>	<u>\$ 836,579</u>
Equipment purchased under capital leases	<u>\$ -</u>	<u>\$ 346,847</u>

The Notes to Combined Financial Statements are an integral part of these statements.

Salem County Hospital Corp. (D/B/A Salem Medical Center) and Affiliate
Notes to Combined Financial Statements
December 31, 2021 and 2020

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Organization

Salem County Hospital Corp. (D/B/A Salem Medical Center) ("SMC") is a duly qualified 501(c)(3) not-for-profit organization formed for the purpose of providing community-based healthcare services to the residents of Salem County, New Jersey. SMC began operations on February 1, 2019 after acquiring the hospital from Community Health Systems, a Tennessee-based for-profit healthcare system. For the purposes of managing the day-to-day operations of the hospital, SMC retained Salem Hospital Management, LLC ("SHM"), a for-profit New Jersey limited liability company with experience in providing management and consulting services to acute care hospitals (see Note 14). SHM is an affiliate of Community Healthcare Associates, LLC, one of New Jersey's leading healthcare/real estate service providers.

The combined financial statements include the accounts of Salem County Hospital Corp. (D/B/A Salem Medical Center) and Salem Physicians Practice, P.C. The reporting entity resulting from the combination of these entities is referred to herein as the "Medical Center."

Summary information related to the entities follows:

Salem County Hospital Corp. (D/B/A Salem Medical Center) is a tax-exempt acute care hospital whose mission is to provide a complete range in inpatient and outpatient services. The hospital was formed in March of 2018 and commenced operations in February 2019. SMC is a 133-bed acute care facility, located in Salem County, New Jersey and provides health care services to the surrounding community.

Salem Physicians Practice, P.C. ("SPP") is a not-for-profit captive professional corporation which consists of clinicians, primarily specialty and primary care physicians in Salem and Gloucester Counties, New Jersey. SPP was formed in June of 2018 and also commenced operations in February 2019.

Principles of Combination

The accounts of SMC and SPP have been combined in the financial statements and all significant intercompany balances and transactions between the entities have been eliminated in combination.

Financial Condition and Liquidity

The Medical Center has incurred significant operating losses since its inception, and as of December 31, 2021 and 2020, the Medical Center had a net asset deficit balance of \$35,536,012 and \$16,601,354, respectively.

In 2019 and 2020, Salem Health and Wellness Foundation provided \$24,500,000 in loans to SMC to help offset the losses. Additionally, the Medical Center received funding throughout 2020 of approximately \$6,300,000 in Provider Relief Fund payments under the CARES Act and approximately \$4,700,000 in loans under the Paycheck Protection Program ("PPP"). The Medical Center received notice in 2021 their PPP Loans are forgiven in entirety. In addition, in 2020 the New Jersey Health Care Facilities Financing Authority ("NJHCFFA") issued a loan to SMC of approximately \$1,400,000. In 2020, the Medical Center also received an advance from Medicare of approximately \$7,500,000 via the Medicare Accelerated and Advance Payment Program of which approximately \$5,000,000 remains outstanding at December 31, 2021. The payback of this advance commenced in April 2021 and is anticipated to be completed by August 2022. In 2021, SMC also received approximately \$242,000 of Provider Relief Fund Phase IV payments, a Small Rural Hospital Improvement Program ("SHIP") payment of approximately \$35,000 and an Intellectual and Developmental Disabilities ("IDD") grant of \$4,900,000. Approximately \$1,013,000 of the IDD grant was earned in 2021 and is included in grants receivable and other revenue and in the accompanying combined financial statements. These loans and grants helped the Medical Center's liquidity. In addition, the Medical Center received a \$12,434,776 FEMA grant in 2020.

Salem County Hospital Corp. (D/B/A Salem Medical Center) and Affiliate
Notes to Combined Financial Statements
December 31, 2021 and 2020

SMC will continuously pursue FEMA monies to which it may be entitled, as well as any other revenue sources in 2022, in addition to continually exploring operational initiatives.

Throughout 2021 and 2022, SMC remained committed to initiatives designed to increase revenue without a significant increase in expense, such as the implementation of new Behavioral Health and Bariatric Surgery programs, in addition to improving payer rates and revenue cycle procedures. Despite these successful initiatives, the ongoing COVID-19 pandemic continued causing disruption(s) to operations including clinical and non-clinical staffing shortages, resulting in the need to pay expenses related to agency staffing and/or offer pay incentives, as well as increased spend for drugs and supplies associated with COVID-19 treatment.

The accompanying combined financial statements have been prepared assuming the Medical Center will continue as a going concern. However, because of the conditions referred to above, there is substantial doubt about the ability of Salem County Hospital Corp. (D/B/A Salem Medical Center) and Affiliate to continue as a going concern within one year after issuance date of the combined financial statements. The combined financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets, or the amounts and classification of liabilities that may result should the Medical Center be unable to continue as a going concern.

As a result of the on-going uncertainty, the Board of Trustees determined the best course of action to ensure the future viability of SMC, and continued access to acute care hospital services for Salem County residents, was merging with a larger healthcare provider. To this extent, the Board of Trustees engaged in dialog between several health systems, with the goal of stabilizing SMC's operations. In December of 2021, SMC signed a definitive agreement to be acquired by a local healthcare system. This transaction consists of a single member transfer agreement which is expected to be finalized in 2022. This agreement includes the forgiveness of all debt owed to the Salem Health and Wellness Foundation.

Basis of Accounting

The Medical Center prepares its combined financial statements in accordance with accounting principles generally accepted in the United States of America which involves the application of accrual basis accounting; consequently, revenues and gains are recognized when earned, and expenses and losses are recognized when incurred.

Basis of Presentation

The Medical Center reports information regarding its financial position and activities according to two classes of net assets which are defined as follows:

Net assets without donor restrictions: Net assets available for use in general operations and not subject to donor-imposed (or certain grantor-imposed) restrictions.

Net assets with donor restrictions: Net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates those resources be maintained in perpetuity. There were no assets with donor restrictions at December 31, 2021 and 2020.

Salem County Hospital Corp. (D/B/A Salem Medical Center) and Affiliate
Notes to Combined Financial Statements
December 31, 2021 and 2020

Contributions

Contributions are recognized as income when the cash, securities or other assets, or an unconditional promise to give is received. Contributions with donor restrictions are recorded as increases in net assets without donor restrictions if the restrictions expire (that is, when the stipulated time restriction ends or the purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor restricted contributions, are reported as increases in net assets with donor restrictions, depending on the nature of the restrictions. Conditional promises to give, that is, those with measurable performance or other barriers, and a right of return, are not recognized until the conditions on which they depend have been substantially met.

Use of Estimates

The preparation of combined financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets, 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 combined 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 Medical Center considers all highly liquid investments with a maturity of three months or less at the date of purchase to be cash and cash equivalents.

Supplies

Supplies are reported in the accompanying combined balance sheets and are stated at the lower of cost or net realizable value. Cost is determined on the first-in, first-out method.

Estimated Malpractice Claims Liability

The provision for estimated medical malpractice claims includes undiscounted estimates of the ultimate costs for both reported claims and claims incurred but not reported. There were no estimated medical malpractice claims at December 31, 2021 and 2020.

Patient Accounts Receivable

Patient accounts receivable are recorded at established rates net of price concessions, including contractual adjustments and discounts and do not bear interest. Management assesses the reasonableness of the accounts receivable based on historical and expected collections, business economic conditions, trends in healthcare coverage and other collection indicators. The allowance for doubtful accounts was not significant at December 31, 2021 and 2020.

Grant Receivable and Related Revenue and Donated Equipment

The Salem Health and Wellness Foundation, Inc. ("SHWF") a New Jersey 501(c)(3) organization which supports, assists, and develops the health and wellness of the residents of Salem County, New Jersey provided a grant of \$14,500,000 in 2019 to the Medical Center to assist with operating SMC. SMC used the grant for working capital needs, acquisition of information technology, purchase of medical equipment and the modernization of patients' rooms. SHWF has no other relationship with the Medical Center and is not a partner or in a joint venture with the Medical Center. This grant revenue was included in other revenue in the 2019 combined statements of operations and changes in net assets (deficit). It was fully collected in 2020.

Salem County Hospital Corp. (D/B/A Salem Medical Center) and Affiliate
Notes to Combined Financial Statements
December 31, 2021 and 2020

On May 4, 2020, the Medical Center was awarded a grant from FEMA to provide COVID-19 pandemic assistance in the amount of \$12,434,776. The Medical Center began receiving payment in January 2021 and the remaining balance of \$836,579 is expected to be received in 2022.

In 2021, the Medical Center also received an Intellectual and Developmental Disabilities grant of \$4,900,000 from the State of New Jersey Department of Health. The Medical Center earned \$1,013,191 of this grant in 2021 for which it received payment in January 2022. The balance of the grant was earned and received in 2022.

Property, Plant and Equipment

Property, plant, and equipment are stated at cost, except for donated equipment, which is recorded at fair value at the date of the gift. The Medical Center 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 financed through capitalized lease obligations is included in depreciation and amortization expense.

Those assets acquired by gift are carried at amounts established as fair value at the time of acquisition. Gifts of long-lived assets such as land, buildings, or equipment are reported as other changes in net assets without donor restrictions, unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

Impairment of Long-Lived Assets

The Medical Center continually evaluates whether events and circumstances have occurred that indicate the remaining estimated useful life of long-lived assets is appropriate, or whether the remaining balance may not be recoverable. When factors indicate that long-lived assets should be evaluated for possible impairment, the Medical Center uses an estimate of the related undiscounted operating income over the remaining life of the long-lived asset in measuring whether the long-lived asset is recoverable. The impairment loss on these assets is measured as the excess of the carrying amount of the asset over its fair value. Fair value is based upon market prices where available, or discounted cash flows. Management believes that no revision to the remaining useful lives or write-down of long-lived assets is required at December 31, 2021 and 2020.

Intangible Assets

Included in intangible assets is a certificate of need to operate a 133-bed hospital in Salem County, New Jersey obtained as part of the acquisition of SMC. The certificate of need has an indefinite useful life, and accordingly, is not being amortized. The certificate of need was determined to have a fair value of \$605,000 and is supported by a valuation. Intangible assets are reviewed for impairment annually or whenever events or circumstances indicate a possible impairment of the carrying amount. There were no impairment losses recorded during 2021 and 2020.

Also included in intangible assets are deferred financing costs associated with the line of credit which are being amortized over the term of the agreement which expires on July 1, 2022. At December 31, 2021 and 2020, deferred financing costs were \$278,318 and the accumulated amortization of the deferred financing costs was \$231,932 and \$139,159 respectively. Amortization expense was \$92,773 for both the years ended December 31, 2021 and 2020.

Salem County Hospital Corp. (D/B/A Salem Medical Center) and Affiliate
Notes to Combined Financial Statements
December 31, 2021 and 2020

Functional Expenses

The Medical Center provides general health care and other services. The combined financial statements report certain expense categories that are attributable to both patient program services and management and administrative functions. Therefore, the natural expenses require allocation on a reasonable basis, that is consistently applied, across functional expense categories. Certain expenses are wholly allocated to either patient programs or management and administrative because they directly support those functions. There are certain other categories of expenses that are attributable to more than one function, so they are allocated accordingly. Other expenses include salaries, benefits, insurance, depreciation, and interest. Those expenses are allocated based on a percentage of program salaries and management and administrative salaries to total salaries. Expenses related to providing these services for the years ended December 31, 2021 and 2020 are as follows:

	2021			
	Hospital Patient Care	Physician Practices	Management and Administrative	Total
Salaries and contract labor	\$ 19,355,123	\$ 4,253,637	\$ 875,247	\$ 24,484,007
Employee benefits	3,736,164	638,784	534,285	4,909,233
Physician fees	2,887,572	776,284	99,814	3,763,670
Supplies and other expenses	22,801,096	2,422,456	10,180,607	35,404,159
Depreciation and amortization	2,610,885	27,285	461,170	3,099,340
Interest	32,881	533	864,036	897,450
	<u>\$ 51,423,721</u>	<u>\$ 8,118,979</u>	<u>\$ 13,015,159</u>	<u>\$ 72,557,859</u>

	2020			
	Hospital Patient Care	Physician Practices	Management and Administrative	Total
Salaries and contract labor	\$ 21,052,590	\$ 3,406,827	\$ 1,003,555	\$ 25,462,972
Employee benefits	4,062,259	614,142	581,384	5,257,785
Physician fees	3,439,862	4,757,621	113,255	8,310,738
Supplies and other expenses	20,965,155	2,308,240	9,498,598	32,771,993
Depreciation and amortization	2,326,447	27,017	240,569	2,594,033
Interest	32,443	1,575	614,700	648,718
	<u>\$ 51,878,756</u>	<u>\$ 11,115,422</u>	<u>\$ 12,052,061</u>	<u>\$ 75,046,239</u>

Advertising Costs

Advertising costs, which are included in supplies and other expenses in the combined statements of operations and changes in net assets (deficit), are expensed as incurred. Advertising costs for the years ended December 31, 2021 and 2020 were \$231,672 and \$325,923, respectively.

Salem County Hospital Corp. (D/B/A Salem Medical Center) and Affiliate
Notes to Combined Financial Statements
December 31, 2021 and 2020

Income Taxes

SMS and SPP are not-for-profit corporations and are exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code and the laws of the State of New Jersey.

The Medical Center follows the accounting guidance for uncertainties in income tax positions which requires that a tax position be recognized or derecognized based on a "more likely than not" threshold. This applies to positions taken or expected to be taken in a tax return. The Medical Center does not believe its combined financial statements include any material uncertain tax positions. In addition, there have been no tax related interest or penalties for the periods presented in these combined financial statements. Should any such penalties be incurred, the Medical Center's policy would be to recognize them as operating expenses.

Performance Indicator

The accompanying combined statements of operations and changes in net assets (deficit) included the changes in net assets (deficit) without donor restrictions as the performance indicator.

Recent Accounting Pronouncements Not Yet Adopted

In February 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-02, *Leases* (Topic 842). ASU 2016-02 requires the rights and obligations arising from lease contracts, including existing and new arrangements, to be recognized as assets and liabilities on the balance sheet, including both finance and operating leases. ASU 2016-02 will require disclosures to help the financial statement users better understand the amount, timing, and uncertainty of cash flows arising from leases. The recognition, measurement and presentation of expenses and cash flows arising from a lease will primarily depend on its classification as a finance or operating lease. ASU 2016-02 is effective for the Medical Center beginning January 1, 2022 and will be applied using a modified retrospective approach. The Medical Center is currently in the process of evaluating its lease contracts as well as certain service contracts that may include embedded leases. Additionally, the Medical Center is performing an analysis of certain key assumptions that will be utilized at the transition date including the incremental borrowing rate. The primary effect of the new standard will be to record right-of-use assets and obligations for current operating leases and management is in the process of evaluating the effect the adoption will have on prospective combined financial statements.

In June 2016, the FASB issued Accounting Standards Update No. 2016-13, *Financial Instruments – Credit Losses* (Topic 326): *Measurement of Credit Losses on Financial Instruments* ("ASU 2016-13"). The new credit losses standard changes the impairment model for most financial assets and certain other instruments. For trade and other receivables, contract assets recognized as a result of applying Accounting Standards Codification 606, loans and certain other instruments, entities will be required to use a new forward looking "expected loss" model that generally will result in earlier recognition of credit losses than under today's incurred loss model. ASU 2016-13 is effective for SMC for fiscal years beginning after December 31, 2022. SMC is in the process of evaluating the impact of ASU 2016-13 on its combined financial statements.

Salem County Hospital Corp. (D/B/A Salem Medical Center) and Affiliate
Notes to Combined Financial Statements
December 31, 2021 and 2020

In September 2020, the FASB issued ASU 2020-07, *Not-for-Profit Entities* (Topic 958): *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets* ("ASU 2020-07"). ASU 2020-07 clarifies the presentation and disclosure of contributed nonfinancial assets to non-for-profit entities, including land, buildings, use of fixed assets or utilities, materials and supplies, intangible assets, services, and unconditional promises of those assets applicable. The contribution revenue associated with the contributed nonfinancial assets needs to be presented in the statement of operations on a separate line item. ASU 2020-07 also contains expanded disclosure requirements. ASU 2020-07 does not change existing recognition and measurement requirements for contributed nonfinancial assets. ASU 2020-07 should be applied on a retrospective basis and is effective for SMC for fiscal years beginning after June 15, 2021, and interim periods within the fiscal years beginning after June 15, 2022. Early adoption is permitted, including adoption in any interim period. SMC is in the process of evaluating the impact of ASU 2020-07 on its combined financial statements.

COVID-19 Pandemic

In connection with the outbreak of COVID-19, the Medical Center continues to monitor developments and the directives of federal, state, and local officials to determine what precautions and procedures may need to be implemented by the Medical Center. COVID-19's continued impact on social interaction, travel, economies and financial markets has, and may continue to, materially impact the Medical Center's finances and operations. Due to these uncertainties, the full impact of COVID-19 and the scope of any cumulative impact on the Medical Center cannot be fully determined at this time and largely depends on the ongoing severity, duration and spread of COVID-19. Patient volumes and related revenues were impacted due to governmental precautions and restrictions.

Legislative actions taken by the federal government include the Coronavirus Aid, Relief and Economic Security Act (the "CARES Act"), which was signed into law on March 27, 2020, the Paycheck Protection Program and Health Enhancement Act ("PPP Act"), which was signed into law on April 24, 2020, the Continuing Appropriations Act, 2021 and Other Extensions Act ("Continuing Appropriations Act"), which was signed into law October 1, 2020, and the Consolidated Appropriations Act, 2021 ("Consolidated Appropriations Act") which was signed into law on December 27, 2020 (collectively the "COVID Acts"). Through the COVID Acts the federal government has authorized payments to be distributed to hospitals and other health care providers to help mitigate the shortfalls due to delays in non-essential procedures, as well as staffing and billing disruptions. The Medical Center's participation in these programs and the related accounting policies are summarized below.

On April 20, 2020, SMC issued an unsecured promissory note ("PPP Loan") for \$4,251,352 through the Paycheck Protection Program administered by the U.S. Small Business Administration ("SBA"). On September 2, 2021, the full amount of the PPP Loan was forgiven by the SBA. See Note 5 for further details.

On April 19, 2020, Salem Physician Practice, P.C., a consolidated subsidiary, issued an unsecured promissory note ("PPP Loan") for \$485,094 through the Paycheck Protection Program administered by the U.S. Small Business Administration. On August 11, 2021, the full amount of the PPP Loan was forgiven by the SBA. See Note 5 for further details.

During the year ended December 31, 2020, the Medical Center received Coronavirus Aid, Relief, and Economic Security Act Provider Relief Fund ("PRF") payments totaling \$6,348,273. PRF payments are not loans and, therefore, are not subject to repayment. As a condition to receiving distributions, providers must agree to certain terms and conditions.

Salem County Hospital Corp. (D/B/A Salem Medical Center) and Affiliate
Notes to Combined Financial Statements
December 31, 2021 and 2020

Because PRF payments are conditioned upon having incurred health care-related expenses or lost revenues that are attributable to COVID-19, and because noncompliance with the terms and conditions is grounds for recoupment by the Department of Health and Human Services of some or all of the payments, PRF payments are recorded as conditional contributions. Contribution revenue is recognized to the extent that health care-related expenses or lost revenues have been incurred and not reimbursed from other sources. Accordingly, the Medical Center recognized PRF grant revenue in the amount of \$6,711,385, which is included in other revenue on the accompanying combined statement of operations and changes in net assets (deficit) for the year ended December 31, 2020.

During the year ended December 31, 2020, the Medical Center received \$7,445,797 under the Medicare accelerated and advance payment program. Recipients may retain the accelerated payments for one year from the date of receipt before recoupment commences, which will be effectuated by a 25% offset of claims payments for 11 months, followed by a 50% offset for the succeeding six months. At the end of the 29-month period, interest on the unpaid balance will be assessed at 4% per annum. At December 31, 2021, advances totaling \$4,070,823 are included in current liabilities and \$993,109 are included in long-term liabilities as refundable advances in the accompanying combined balance sheets. At December 31, 2020, advances totaling \$2,536,272 are included in current liabilities and \$4,909,525 are included in long-term liabilities as refundable advances in the accompanying combined balance sheets.

During 2020, the Medical Center received another \$10,000,000 in loans from SHWF (See Note 5), and a loan from the New Jersey Health Care Facilities Financing Authority of approximately \$1,400,000 (See Note 5 for further details).

During the year ended December 31, 2020, SMC was awarded a Public Assistance (Presidentially Declared Disasters) grant from the Department of Homeland Security Federal Emergency Management Agency ("FEMA") in the amount of \$12,434,776. The FEMA assistance is not a loan and, therefore, is not subject to repayment. As a condition to receiving distributions, recipients must agree to certain terms and conditions. Because the FEMA payments are conditioned upon having incurred expenses to respond to the COVID-19 pandemic, and because SMC is not entitled to payment by FEMA until SMC has paid for expenses in compliance with the terms and conditions of the grant, the grant is deemed to be a conditional contribution. Contribution revenue is recognized to the extent that allowable costs have been incurred and not reimbursed from other sources. As of December 31, 2021, \$836,579 of the grant remained outstanding.

The above COVID-19 funding and grants are subject to audit and may be recouped if it is determined the Medical Center is noncompliant with the terms and conditions of the respective agreements. Compliance with the agreements have not been audited as of the date of these financial statements and the combined financial statements do not include any adjustments that might result from such audits.

2. CHARITY CARE

The Medical Center provides care to patients who meet certain criteria 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 charity care guidelines require participation and cooperation of the patient in order to be identified as a charity care account.

The Medical Center maintains records to identify and monitor the level of charity care it provides. In 2021 and 2020, the amount of gross charges forgone for services provided to patients under its charity care policy, net of the Health Care Subsidy Fund was approximately \$8,679,370 and \$2,422,819, respectively.

Salem County Hospital Corp. (D/B/A Salem Medical Center) and Affiliate
Notes to Combined Financial Statements
December 31, 2021 and 2020

Management believes that the present charity care guidelines understate the Medical Center'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 gross charges applied to the gross uncompensated charges associated with providing charity care. The cost of charity care provided during the years ended December 31, 2021 and 2020 was approximately \$1,497,930 and \$403,814, respectively. The Medical Center 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 Medical Center expects to be entitled in exchange for providing patient care, in accordance with Accounting Standards Codification ("ASC") 606. These amounts are due from patients, third-party payors (including health insurers and government programs), and others and include variable consideration (reductions to revenue) in determining a transaction price.

The Medical Center 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 payor classes and types of services provided for outpatient revenue. Based on historical collection trends and other analyses, the Medical Center 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 Medical Center'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 Medical Center's standard charges.

The Medical Center 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 adjustments and discounts are based on contractual agreements, the Medical Center's discount policies and historical experience of their predecessor. For uninsured and under-insured patients who do not qualify for charity care, the Medical Center determines the transaction price associated with the services rendered on the basis of charges reduced by an implicit price concession.

Generally, the Medical Center 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 Medical Center. Net patient service revenue for performance obligations satisfied over time is recognized based on actual charges incurred in relation to total charges. The Medical Center 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. All of the Medical Center's performance obligations are satisfied over time. The Medical Center measures the performance obligation from admission into the Medical Center 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.

Salem County Hospital Corp. (D/B/A Salem Medical Center) and Affiliate
Notes to Combined Financial Statements
December 31, 2021 and 2020

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 Medical Center'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) are generally recorded as adjustments to patient service revenue in the period of the change.

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) are recorded as bad debt expense. Bad debt expense for the years ended December 31, 2021 and 2020 was not significant.

The Medical Center 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. Details of these factors are presented below.

Net patient service revenue disaggregated by payor for the years ended December 31, 2021 and 2020 is as follows:

	<u>2021</u>	<u>2020</u>
Medicare	\$ 19,948,868	\$ 18,906,551
Medicaid	646,083	896,223
Commercial insurance	21,380,820	19,505,911
Self-pay patients	1,833,772	1,737,958
Other third-party payors	<u>3,424,864</u>	<u>3,245,917</u>
	<u>\$ 47,234,407</u>	<u>\$ 44,292,560</u>

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

Net patient service revenue for the years ended December 31, 2021 and 2020, disaggregated by lines of service is as follows:

	<u>2021</u>	<u>2020</u>
Hospital	\$ 44,468,974	\$ 39,975,589
Physician practices	<u>2,765,433</u>	<u>4,316,971</u>
	<u>\$ 47,234,407</u>	<u>\$ 44,292,560</u>

Salem County Hospital Corp. (D/B/A Salem Medical Center) and Affiliate
Notes to Combined Financial Statements
December 31, 2021 and 2020

At December 31, patient accounts receivable is comprised of the following components:

	<u>2021</u>	<u>2020</u>	<u>2019</u>
Patient receivables	\$ 5,691,901	\$ 5,608,743	\$ 6,478,018
Contract assets	<u>295,577</u>	<u>319,309</u>	<u>113,272</u>
	<u>\$ 5,987,478</u>	<u>\$ 5,928,052</u>	<u>\$ 6,591,290</u>

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

Settlements with third-party payors (see description of third-party payor payment programs below) for cost report filings and retroactive adjustments due to ongoing (currently, no ongoing audits) 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, and correspondence from the payor, 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. Once the Medical Center has historical settlement activity (for example, cost report final settlements or repayments related to recovery audits), the estimate will also be based on that historical activity. 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 will be 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.

Third Party Payment Programs

The Medical Center 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 Medical Center 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 payment rates, based on industry-wide and hospital-specific data. The Medical Center filed its Medicare cost reports for 2020 and 2021 and the 2019 and 2020 Medicare cost reports are currently under audit.

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 Medical Center 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 Medical Center filed its Medicaid cost reports for 2020 and 2021 and the 2019 and 2020 Medicaid cost reports are currently under audit.

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

Salem County Hospital Corp. (D/B/A Salem Medical Center) and Affiliate
Notes to Combined Financial Statements
December 31, 2021 and 2020

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

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 Medical Center 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 combined financial statements. Noncompliance with such laws and regulations could result in fines, penalties, and exclusion from such programs.

The Health Care Reform Act of 1992 (Chapter 160) established the Health Care Subsidy Fund to provide a mechanism and funding source to compensate certain hospitals for charity care. For the years ended December 31, 2021 and 2020, the Medical Center received approximately \$64,498 and \$21,133, respectively, for charity care (included in net patient service revenue). This amount is subject to change from year to year based on available state amounts and allocation methodologies.

4. PROPERTY, PLANT AND EQUIPMENT

Property, plant, and equipment at December 31 consists of the following:

	<u>2021</u>	<u>2020</u>
Equipment	\$ 12,150,068	\$ 11,674,149
Leasehold improvements	6,523,447	6,249,962
Furniture and fixtures	<u>779,238</u>	<u>760,871</u>
	19,452,753	18,684,982
Less: Accumulated depreciation and amortization	<u>6,874,201</u>	<u>3,867,638</u>
	<u>\$ 12,578,552</u>	<u>\$ 14,817,344</u>

Leasehold improvements are depreciated over the shorter of their useful life or the life of the lease which expires in 2025. Furniture and fixtures are depreciated over a life of seven years. Equipment is depreciated over a life of five years. Depreciation expense for the years ended December 31, 2021 and 2020 amounted to \$3,006,567 and \$2,501,260, respectively.

5. LONG-TERM DEBT

On January 31, 2019, SHWF made a term loan to SMC in a single advance of \$14,500,000 with an interest rate of 3% payable monthly. The first 35 months are an interest only period with months 36-180 including principal payments.

On March 24, 2020, SHWF made a term loan to SMC in a single advance of \$4,000,000 with an interest rate of 3% payable monthly. The first year (12 months) interest is accrued with principal and interest payments commencing on May 1, 2021. The loan has a maturity date of April 1, 2041.

Salem County Hospital Corp. (D/B/A Salem Medical Center) and Affiliate
Notes to Combined Financial Statements
December 31, 2021 and 2020

On November 1, 2020, SHWF made a term loan to SMC in two advances of \$3,000,000 each, \$6,000,000 in total, with an interest rate of 3% payable monthly. The first year (12 months) interest is accrued with principal and interest payments commencing on November 1, 2021. The loan has a maturity date of October 1, 2041.

On May 4, 2020, SMC received a loan under the New Jersey Health Care Facilities Financing Authority ("NJHCFFA") in the amount of \$1,420,789. This loan has a 0% interest rate, provided that there is no event of default, and is due in April 2025. At December 31, 2021 and 2020, the outstanding loan balance was \$0 and \$1,216,749 respectively.

On April 20, 2020, SMC issued an unsecured promissory note for \$4,251,352 and SPP issued an unsecured promissory note for \$485,094 (the "PPP Loans") through the Paycheck Protection Program ("PPP") established under the CARES Act, and administered by the U.S. Small Business Administration ("SBA"). The PPP Loans are guaranteed by the SBA. The PPP Loans may be forgiven, in whole or in part, if the Medical Center was eligible for the PPP Loans at the time of application, used the loan proceeds for eligible expenses within the defined 24-week period after the PPP Loans were disbursed ("Covered Period"), and otherwise satisfied PPP requirements. The PPP Loans were made through TD Bank N.A. (the "Lender"), have a two-year term, bear interest at 1.00% per annum, and mature on April 20, 2022. If the PPP Loans are not forgiven, monthly principal and interest payments are deferred until ten months after the end of the Covered Period. The PPP Loans were fully forgiven in 2021. Accordingly, the PPP Loans are reflected as other income in the accompanying combined statement of operations during the year ended December 31, 2021. Since SMC's PPP loan was over \$2,000,000, the loan forgiveness application will be subject to potential audit by the SBA.

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

2022	\$ 1,097,291
2023	1,196,608
2024	1,233,004
2025	1,270,507
2026	1,168,022
Thereafter	<u>18,534,568</u>
	<u>\$ 24,500,000</u>

Interest expense under long-term debt for the years ended December 31, 2021 and 2020 amounted to \$689,189 and \$509,042, respectively.

Salem County Hospital Corp. (D/B/A Salem Medical Center) and Affiliate
Notes to Combined Financial Statements
December 31, 2021 and 2020

6. CAPITAL LEASE OBLIGATIONS

During 2019 and 2020, SMC entered into multiple capital leases for various medical equipment, which expire in 2025. Interest rates on the capital leases range from 1.91% - 7%. Future minimum lease payments for the next five years are as follows:

2022	\$ 143,388
2023	143,388
2024	133,783
2025	62,912
Thereafter	-
	<hr/> 483,471
Less: Amounts representing interest	<hr/> (43,492)
	439,979
Less: Current portion	<hr/> (120,469)
	<hr/> \$ 319,510

At December 31, 2021 and 2020, the total cost of assets acquired under the capital leases was \$572,847. Accumulated amortization on the assets under capital lease at December 31, 2021 and 2020 was \$39,702 and \$24,859, respectively. Amortization expense for each of the years ended December 31, 2021 and December 31, 2020 was \$14,843. Interest expense for the capital leases was \$32,881 and \$32,443 for the years ended December 31, 2021 and December 31, 2020, respectively.

7. LINE OF CREDIT

The Medical Center has a revolving credit line in place with a financial institution for \$7,500,000 with the interest rate based on the bank's prime rate plus 150 basis points (4.75% at December 31, 2021) adjustable every 30 days which matures on September 30, 2022. The balance as of December 31, 2021 and 2020 was \$3,263,263 and \$2,142,204, respectively. Interest expense for the years ended December 31, 2021 and 2020 amounted to \$175,380 and \$107,233, respectively. The line of credit is secured by all accounts and related property of the Medical Center. The Medical Center is subject to various financial and non-financial covenants as part of their agreement with the financial institution and was not in compliance with those covenants at December 31, 2021. The Medical Center received a forbearance agreement on June 29, 2022 for the financial covenant violations. The forbearance agreement terminates on November 18, 2022. The financial institution is still honoring the terms of the line of credit and hasn't called the loan.

8. INSURANCE

The Medical Center maintains claims-made professional liability coverage through a commercial insurance carrier. The Medical Center has evaluated the ultimate cost of its malpractice claims and, as necessary, a liability has been recognized in accrued expenses for the estimated exposure to losses arising from such claims.

The Medical Center has determined, based on its own experience and industry experience data that its potential liability for unreported claims is insignificant, and as such, no liability for unreported claims is included in the accompanying combined financial statements.

Salem County Hospital Corp. (D/B/A Salem Medical Center) and Affiliate
Notes to Combined Financial Statements
December 31, 2021 and 2020

9. PENSION PLAN

The Medical Center sponsors a defined contribution plan which includes only employee contributions. The plan is a participant directed, defined contribution plan covering all eligible employees of the Medical Center. An employee of the Medical Center becomes an eligible participant in the plan on the day which they meet the criteria for an eligible employee as defined by the plan document. For employees entering the plan through acquisitions of entities made by the Medical Center, an exclusion period may apply as determined by the Medical Center or with requirements of the Internal Revenue Code. Participants may enter the plan immediately following eligibility.

10. CONCENTRATIONS OF CREDIT RISK

At December 31, 2021 and 2020, the Medical Center had its cash deposited in two banking institutions. Accounts at these institutions are insured by the Federal Deposit Insurance Corporation ("FDIC") up to \$250,000. At times, balances in these accounts may exceed the insured limit. Management considers the credit risk related to these deposits to be minimal.

The Medical Center grants 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 at December 31 were as follows:

	<u>2021</u>	<u>2020</u>
Medicare	26%	29%
Medicaid	20%	24%
Commercial insurance	27%	24%
Other third-party payors	4%	4%
Self-pay patients	<u>23%</u>	<u>19%</u>
	<u>100%</u>	<u>100%</u>

11. COMMITMENTS AND CONTINGENCIES

The Medical Center rents buildings and certain equipment under various noncancelable operating lease agreements with lease terms ending through 2025. The following is a schedule by year of future minimum lease payments under noncancelable operating building and equipment leases as of December 31, 2021:

2022	\$ 4,991,603
2023	5,021,445
2024	5,000,194
2025	<u>3,394</u>
	<u>\$ 15,016,636</u>

Rental expense charged to operations was approximately \$4,518,288 and \$4,503,419 for the years ended December 31, 2021 and 2020, respectively.

Salem County Hospital Corp. (D/B/A Salem Medical Center) and Affiliate
Notes to Combined Financial Statements
December 31, 2021 and 2020

12. OTHER REVENUE

Other revenue consists of the following for the year ended December 31, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Grant income	\$ 1,268,937	\$ 18,783,050
Rental income	274,311	282,296
PPP loan forgiveness	4,736,446	-
Other income	<u>109,100</u>	<u>118,608</u>
	<u>\$ 6,388,794</u>	<u>\$ 19,183,954</u>

13. RENTAL INCOME

SMC and SPP sublease their facilities under long-term lease agreements, with expiration dates through 2025. Future minimum sublease payments to be received on the non-cancelable operating leases at December 31, 2021 are as follows:

2022	\$ 170,793
2023	115,530
2024	117,840
2025	<u>6,988</u>
	<u>\$ 411,151</u>

14. RELATED PARTIES

The Medical Center entered into an agreement with a related party from February 1, 2019 through January 31, 2024 for the use of professional management personnel services. The Medical Center pays the related party a management fee of \$55,000 a month for the use of those services.

15. LIQUIDITY AND OTHER AVAILABLE RESOURCES

The table below represents financial assets available for general expenditures within one year of the combined balance sheet date:

	<u>2021</u>	<u>2020</u>
Financial assets at December 31:		
Cash and cash equivalents	\$ 1,058,346	\$ 235,366
Patient accounts receivable, net	5,987,478	5,928,052
Grants receivable	<u>1,849,770</u>	<u>12,434,776</u>
Total financial assets available within one year	<u>\$ 8,895,594</u>	<u>\$ 18,598,194</u>

As part of the Medical Center's liquidity management plan, cash in excess of daily requirements, if any, is invested in short-term investments and money market funds.

The Medical Center has a line of credit available to meet short-term needs. See Note 7 for information about this arrangement.

Salem County Hospital Corp. (D/B/A Salem Medical Center) and Affiliate
Notes to Combined Financial Statements
December 31, 2021 and 2020

16. SUBSEQUENT EVENTS

Subsequent events have been evaluated through November 14, 2022, which is the date the combined financial statements were available to be issued. Based on this evaluation, the Medical Center has determined that in addition to the forbearance agreement identified in Note 7, the following subsequent events have occurred that require disclosure in the combined financial statements.

Throughout 2022, the Medical Center continued to perform due diligence relative to definitive agreement to turn control of the board through a single member substitution to Inspira Health Network, a large, profitable, South Jersey healthcare system. This transaction consists of a single member transfer agreement. The State of New Jersey committed monies to Inspira Health Network in 2021 to assist with the purchase price of the Medical Center and the paydown of Medical Center debt. The transaction has not been finalized as of the date of these financial statements and is expected to be finalized in late 2022.

In October 2022, the Medical Center applied for additional FEMA funding for emergency labor resources for the treatment of COVID-19 patients in 2021. In November 2022, the Medical Center was awarded \$774,127. This award was recorded in 2022.

SUPPLEMENTARY INFORMATION

Salem County Hospital Corp. (D/B/A Salem Medical Center) and Affiliate
Combining Balance Sheet
December 31, 2021

	Salem Medical Center	Salem Physician Practices	Eliminations	Combined Total
Assets				
Current assets				
Cash and cash equivalents	\$ 992,926	\$ 65,420	\$ -	\$ 1,058,346
Patient accounts receivable, net	5,370,824	616,654	-	5,987,478
Supplies	1,861,979	98,183	-	1,960,162
Grants receivable	1,849,770	-	-	1,849,770
Prepaid expenses and other current assets	1,315,403	123,350	-	1,438,753
Total current assets	11,390,902	903,607	-	12,294,509
Property, plant and equipment, net	12,551,903	26,649	-	12,578,552
Due from Salem Physician Practices	12,238,771	-	(12,238,771)	-
Other assets	140,000	-	-	140,000
Intangible assets, net	651,386	-	-	651,386
Total assets	\$ 36,972,962	\$ 930,256	\$ (12,238,771)	\$ 25,664,447
Liabilities and Net Assets (Deficit)				
Current liabilities				
Line of credit	\$ 3,263,263	\$ -	\$ -	\$ 3,263,263
Accounts payable	21,934,882	3,456,605	-	25,391,487
Accrued expenses	1,604,084	422,714	-	2,026,798
Current portion of CARES Act Medicare advancements	3,981,290	89,533	-	4,070,823
Long term debt, current portion	1,097,291	-	-	1,097,291
Estimated settlements due to third-party payors	515,000	-	-	515,000
Capital leases payable	120,469	-	-	120,469
Due to Salem Medical Center	-	12,238,771	(12,238,771)	-
Total current liabilities	32,516,279	16,207,623	(12,238,771)	36,485,131
Long-term debt, net of current portion	23,402,709	-	-	23,402,709
CARES Act Medicare advancements, net of current portion	993,109	-	-	993,109
Capital leases payable, net of current portion	319,510	-	-	319,510
Total liabilities	57,231,607	16,207,623	(12,238,771)	61,200,459
Net assets (deficit)				
Without donor restrictions	(20,258,645)	(15,277,367)	-	(35,536,012)
Total liabilities and net assets (deficit)	\$ 36,972,962	\$ 930,256	\$ (12,238,771)	\$ 25,664,447

See Independent Auditor's Report

Salem County Hospital Corp. (D/B/A Salem Medical Center) and Affiliate
Combining Balance Sheet
December 31, 2020

	Salem Medical Center	Salem Physician Practices	Eliminations	Combined Total
Assets				
Current assets				
Cash and cash equivalents	\$ 37,037	\$ 198,329	\$ -	\$ 235,366
Patient accounts receivable, net	5,008,409	919,643	-	5,928,052
Supplies	2,001,296	99,168	-	2,100,464
Grant receivable	12,434,776	-	-	12,434,776
Prepaid expenses and other current assets	<u>1,568,008</u>	<u>54,518</u>	-	<u>1,622,526</u>
Total current assets	21,049,526	1,271,658	-	22,321,184
Property, plant and equipment, net	14,763,678	53,666	-	14,817,344
Due from Salem Physician Practices	7,675,087	-	(7,675,087)	-
Other assets	140,000	-	-	140,000
Intangible assets, net	<u>744,159</u>	<u>-</u>	<u>-</u>	<u>744,159</u>
Total assets	<u>\$ 44,372,450</u>	<u>\$ 1,325,324</u>	<u>\$ (7,675,087)</u>	<u>\$ 38,022,687</u>
Liabilities and Net Assets (Deficit)				
Current liabilities				
Line of credit	\$ 2,142,204	\$ -	\$ -	\$ 2,142,204
Accounts payable	9,186,344	2,939,683	-	12,126,027
Accrued expenses	1,468,745	233,725	-	1,702,470
Current portion of CARES Act Medicare advancements	2,443,326	92,946	-	2,536,272
Long term debt, current portion	5,468,101	485,094	-	5,953,195
Estimated settlements due to third-party payors	250,000	-	-	250,000
Capital leases payable	117,160	-	-	117,160
Due to Salem Medical Center	-	<u>7,675,087</u>	<u>(7,675,087)</u>	-
Total current liabilities	21,075,880	11,426,535	(7,675,087)	24,827,328
Long-term debt, net of current portion	24,500,000	-	-	24,500,000
CARES Act Medicare advancements, net of current portion	4,819,992	89,533	-	4,909,525
Capital leases payable, net of current portion	<u>387,188</u>	<u>-</u>	<u>-</u>	<u>387,188</u>
Total liabilities	50,783,060	11,516,068	(7,675,087)	54,624,041
Net assets (deficit)				
Without donor restrictions	<u>(6,410,610)</u>	<u>(10,190,744)</u>	-	<u>(16,601,354)</u>
Total liabilities and net assets (deficit)	<u>\$ 44,372,450</u>	<u>\$ 1,325,324</u>	<u>\$ (7,675,087)</u>	<u>\$ 38,022,687</u>

See Independent Auditor's Report

Salem County Hospital Corp. (D/B/A Salem Medical Center) and Affiliate
Combining Statement of Operations and Changes in Net Assets (Deficit)
Year Ended December 31, 2021

	<u>Salem Medical Center</u>	<u>Salem Physician Practices</u>	<u>Eliminations</u>	<u>Combined Total</u>
Revenue				
Net patient service revenue	\$ 44,468,974	\$ 2,765,433	\$ -	\$ 47,234,407
Other revenue	<u>5,736,771</u>	<u>652,023</u>	<u>-</u>	<u>6,388,794</u>
Total revenue	<u>50,205,745</u>	<u>3,417,456</u>	<u>-</u>	<u>53,623,201</u>
Expenses				
Salaries and contract labor	20,233,367	4,250,640	-	24,484,007
Employee benefits	4,267,447	641,786	-	4,909,233
Physician fees	2,987,386	776,284	-	3,763,670
Supplies and other expenses	32,596,340	2,807,819	-	35,404,159
Depreciation and amortization	3,072,323	27,017	-	3,099,340
Interest	<u>896,917</u>	<u>533</u>	<u>-</u>	<u>897,450</u>
Total expenses	<u>64,053,780</u>	<u>8,504,079</u>	<u>-</u>	<u>72,557,859</u>
Changes in net assets (deficit) without donor restrictions	(13,848,035)	(5,086,623)	-	(18,934,658)
Net assets (deficit) without donor restrictions				
Beginning of year	<u>(6,410,610)</u>	<u>(10,190,744)</u>	<u>-</u>	<u>(16,601,354)</u>
End of year	<u>\$ (20,258,645)</u>	<u>\$ (15,277,367)</u>	<u>\$ -</u>	<u>\$ (35,536,012)</u>

See Independent Auditor's Report

Salem County Hospital Corp. (D/B/A Salem Medical Center) and Affiliate
Combining Statement of Operations and Changes in Net Assets (Deficit)
Year Ended December 31, 2020

	<u>Salem Medical Center</u>	<u>Salem Physician Practices</u>	<u>Eliminations</u>	<u>Combined Total</u>
Revenue				
Net patient service revenue	\$ 39,975,589	\$ 4,316,971	\$ -	\$ 44,292,560
Other revenue	<u>18,756,534</u>	<u>427,420</u>	<u>-</u>	<u>19,183,954</u>
Total revenue	<u>58,732,123</u>	<u>4,744,391</u>	<u>-</u>	<u>63,476,514</u>
Expenses				
Salaries and contract labor	22,056,145	3,406,827	-	25,462,972
Employee benefits	4,643,643	614,142	-	5,257,785
Physician fees	3,553,117	4,757,621	-	8,310,738
Supplies and other expenses	30,463,753	2,308,240	-	32,771,993
Depreciation and amortization	2,567,016	27,017	-	2,594,033
Interest	<u>647,143</u>	<u>1,575</u>	<u>-</u>	<u>648,718</u>
Total expenses	<u>63,930,817</u>	<u>11,115,422</u>	<u>-</u>	<u>75,046,239</u>
Changes in net assets (deficit) without donor restrictions	(5,198,694)	(6,371,031)	-	(11,569,725)
Net assets (deficit) without donor restrictions				
Beginning of year	<u>(1,211,916)</u>	<u>(3,819,713)</u>	<u>-</u>	<u>(5,031,629)</u>
End of year	<u>\$ (6,410,610)</u>	<u>\$ (10,190,744)</u>	<u>\$ -</u>	<u>\$ (16,601,354)</u>

See Independent Auditor's Report