HUMC-OPCO, LLC
(d/b/a HOBOKEN UNIVERSITY MEDICAL CENTER)

Financial Statements
Years Ended December 31, 2019 and 2018
With Independent Auditor's Report

MITCHELL TITUS
ACHIEVING EXCELLENCE TOGETHER

HUMC-OPCO, LLC
(d/b/a HOBOKEN UNIVERSITY MEDICAL CENTER)
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Years Ended December 31, 2019 and 2018

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MITCHELL TITUS

INDEPENDENT AUDITOR'S REPORT

Board of Directors
HUMC-OPCO, LLC
(d/b/a Hoboken University Medical Center)

Report on the Financial Statements

We have audited the accompanying financial statements of HUMC-OPCO, LLC (d/b/a Hoboken University Medical Center) (HUMC Hospital), which comprise the balance sheet as of December 31, 2019, the related statements of income, changes in members' equity, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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MITCHELL TITUS

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

Basis for Qualified Opinion

HUMC Hospital contracts with a related-party physicians' practice groups. The balance sheet includes a due from its physicians' practice group of approximately $30,500,145 at December 31, 2019 and the statement of income includes related physician fees to the physicians' practice group of $19,986,116 for the year then ended. We were unable to obtain documentation to support the collectability of the balance due from the physicians' practice group, nor were we able to reconcile the activity recorded during the year by other auditing procedures.

Qualified Opinion

In our opinion, except for the effects of the matter described in the Basis for Qualified Opinion paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of HUMC-OPCO, LLC (d/b/a Hoboken University Medical Center) as of December 31, 2019, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Prior-Period Financial Statements

The financial statements of HUMC-OPCO, LLC (d/b/a Hoboken University Medical Center) for the year ended December 31, 2018, were audited by another auditor whose report dated August 15, 2019, expressed an unmodified opinion on those statements.

Emphasis of Matter

The accompanying financial statements have been prepared assuming that HUMC Hospital will continue as a going concern. As discussed in Notes 2 and 8 to the financial statements, the Hospital has entered into significant financing transactions that bring into questions its ability to meet its obligations. Management's evaluation of the events and conditions and management's plans regarding this matter is also described in Note 2. The 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.

Mitchell & Titus, LLP

July 25, 2022

HUMC-OPCO, LLC
(d/b/a HOBOKEN UNIVERSITY MEDICAL CENTER)
Balance Sheets
As of December 31, 2019 and 2018

	2019	2018
ASSETS		
Current assets		
Cash and cash equivalents	$ 17,949,097	$ 5,432,813
Net patient accounts receivable, current portion	36,444,103	36,376,349
Due from related parties, current portion, net	112,222	642,521
Other receivables	491,779	11,627,556
Due from third-party payors	1,766,375	-
Other assets	4,685,060	3,615,733
Total current assets	61,448,636	57,694,972
Assets limited as to use	4,960,163	5,616,511
Net patient accounts receivable, less current portion	36,314,196	31,582,596
Due from related parties, less current portion	33,547,270	30,350,208
Investments in unconsolidated entities	1,002,804	1,002,804
Intangible assets, net	20,926,000	23,680,500
Property and equipment, net	43,432,524	45,587,346
Total assets	$ 201,631,593	$ 195,514,937
LIABILITIES AND MEMBERS' EQUITY		
Current liabilities		
Accounts payable	$ 8,187,419	$ 9,639,078
Line of credit	-	24,788,019
Accrued compensation and other accrued expenses	10,326,668	9,755,059
Deferred revenue	1,745,948	970,591
Due to related parties	13,269,808	11,273,231
Due to third-party payors, current portion	415,873	1,402,486
Current portion of capital lease	4,342,216	4,229,102
Loans payable	38,706,553	-
Current portion of note payable	119,910	115,472
Total current liabilities	77,114,395	62,173,038
Due to third-party payors, less current portion	3,417,670	5,103,367
Capital lease payable, less current portion	29,568,159	33,930,622
Note payable, less current portion	1,403,063	1,524,859
Total liabilities	111,503,287	102,731,886
Members' equity	90,128,306	92,783,051
Total liabilities and members' equity	$ 201,631,593	$ 195,514,937

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

HUMC-OPCO, LLC
(d/b/a HOBOKEN UNIVERSITY MEDICAL CENTER)
Statements of Income
For the Years Ended December 31, 2019 and 2018

	2019	2018
REVENUE		
Net patient service revenue	$ 182,619,726	$ 201,294,942
Charity care subsidy	11,236,734	11,123,778
Other revenue	6,196,791	5,271,002
Total revenue	200,053,251	217,689,722
EXPENSES		
Salaries and wages	64,168,294	64,301,171
Fringe benefits	13,836,386	13,222,680
Physician fees	1,273,256	1,194,954
Supplies and other expenses	77,388,167	85,809,024
Interest expense	7,090,315	5,441,152
Depreciation and amortization	7,909,401	9,249,730
Reserve for related-party receivable	5,789,429	9,058,711
Other transfers – funding to physician practice groups	19,986,116	16,773,032
Total expenses	197,441,364	205,050,454
Net income	$ 2,611,887	$ 12,639,268

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

HUMC-OPCO, LLC
(d/b/a HOBOKEN UNIVERSITY MEDICAL CENTER)
Statements of Members' Equity
For the Years Ended December 31, 2019 and 2018

Members' equity, December 31, 2017	$ 91,692,771
Net income	12,639,268
Member distributions	(11,548,988)
Members' equity, December 31, 2018	92,783,051
Net income	2,611,887
Member distributions	(5,266,632)
Members' equity, December 31, 2019	$ 90,128,306

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

HUMC-OPCO, LLC
(d/b/a HOBOKEN UNIVERSITY MEDICAL CENTER)
Statements of Cash Flows
For the Years Ended December 31, 2019 and 2018

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 2,611,887	$ 12,639,268
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	5,154,901	6,495,230
Amortization	2,754,500	2,754,500
Reserve for related party receivable	5,789,429	9,058,711
Changes in assets and liabilities		
(Increase) decrease in		
Net patient accounts receivable	(4,799,354)	(4,289,723)
Due from related parties	(6,459,615)	2,587,093
Other receivable	11,135,777	(10,114,802)
Other assets	(1,069,327)	(413,789)
Increase (decrease) in		
Accounts payable and accrued expenses	(1,451,659)	257,848
Accrued compensation and other accrued expenses	571,609	(247,870)
Deferred revenue	775,357	87,219
Due to third party	(4,438,685)	(86,823)
Net cash provided by operating activities	10,574,820	18,726,862
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(3,000,079)	(2,759,765)
Investments in unconsolidated entity	-	(263,486)
Decrease (increase) in assets limited as to use	656,348	(667,218)
Net cash used in investing activities	(2,343,731)	(3,690,469)
CASH FLOWS FROM FINANCING ACTIVITIES		
Member distributions	(5,266,632)	(11,548,988)
(Repayment of) proceeds from line of credit	(24,788,019)	1,009,040
Proceeds from loan	38,706,553	-
Repayment of long-term debt	(117,358)	(3,116,717)
Repayment of capital lease obligation	(4,249,349)	(4,019,557)
Net cash provided by (used in) financing activities	4,285,195	(17,676,222)
Net increase (decrease) in cash and cash equivalents	12,516,284	(2,639,829)
Cash and cash equivalents, beginning of year	5,432,813	8,072,642
Cash and cash equivalents, end of year	$ 17,949,097	$ 5,432,813
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the year for interest	$ 6,572,858	$ 5,477,078

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

NOTE 1 DESCRIPTION OF THE ORGANIZATION

HUMC-OPCO, LLC (d/b/a Hoboken University Medical Center) (the Hospital) is a majority-owned subsidiary of HUMC Holdco, LLC (Holdco). The Hospital facilitates the operations of Hoboken University Medical Center (HUMC), which was acquired out of bankruptcy through an asset purchase agreement in 2011. The Hospital is a licensed 348-bed acute care facility that provides inpatient and outpatient services.

NOTE 2 FINANCIAL CONSIDERATION

During 2019, the Hospital refinanced its line of credit by entering into a Term Loan in the amount of $30,000,000 with a financial institution and a demand loan in the amount of $8,706,553 funded by a private group (collectively, the Loans). In addition to providing the funds to make the final debt service payment on the line of credit ($19,469,378), the Loans provided a $19,237,175 cash infusion to the Hospital. Subsequent to year end, the Hospital paid $3,512,082 of the outstanding balance on the Term Loan and has modified the forbearance agreement for the Term Loan, extending the maturity date to June 4, 2021. The lender has extended the loan in 45-day increments through November 19, 2021 and management is working with the lender to expedite an extension.

NOTE 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The financial statements of the Hospital have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

Cash and Cash Equivalents

The Hospital considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents with the exceptions of amounts limited as to use as required by the letter of credit agreement with a financial institution.

Net Patient Accounts Receivable

Net patient accounts receivable are reported at estimated net realizable value. Management’s estimate of net realizable value is based on historical collection patterns and does not distinguish between contractual allowances and allowances for doubtful accounts. Individual patient accounts are written off when they are determined to be uncollectible based upon management’s periodic review of the accounts receivable aging, payor classifications and application of historical write-off percentages.

NOTE 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Net Patient Accounts Receivable *(continued)*

Net patient accounts receivable primarily consist of balances due from third-party insurers for services to patients. Management performs periodic analyses to evaluate the net realizable value of accounts receivable. These estimates were calculated based on the Hospital's previous subsequent collections history and ongoing collection efforts. The timing of collections and the ultimate amounts collected may materially differ from such estimates. The Hospital does not impute interest on its accounts receivable.

The Hospital's experience indicates that the normal collection cycle for certain accounts extends beyond 12 months. Accordingly, the estimate of accounts expected to settle after 12 months from the balance sheet dates are classified as noncurrent assets.

Investments in Unconsolidated Entities

The Hospital records its investment in unconsolidated entities, using the cost method of accounting where its investment is less than 20%. Any earnings distributions received are included in the net income or loss during the year. The Hospital has other investments that are not accounted for in accordance with U.S. GAAP.

Property and Equipment

Property and equipment are recorded at their aggregate purchase cost, apportioned to individual assets on the basis of fair market value at the date of acquisition. Depreciation is provided over the estimated useful life for each class of depreciable asset and is computed using the straight-line method. The estimated useful lives of various asset classes are as follows:

Building and building improvements	5–15 years
Fixed equipment	10 years
Major moveable equipment	5–7 years

Intangible Assets

Intangible assets arising from business combinations are recognized at fair value at the date of acquisition. Effective January 1, 2018, the Hospital adopted the provisions of Accounting Standards Update (ASU) 2014-02, *Intangibles-Goodwill and Other: Accounting for Goodwill (A Consensus of the Private Company Council)* and ASU 2016-03, *Intangibles-Goodwill and Other (Topic 350), Business Combinations, Consolidation, Derivatives and Hedging: Effective Date and Transition Guidance (A Consensus of Private Company Council)*, which allow a private company to elect the accounting alternative for amortizing intangible assets. Intangible assets are being amortized using the straight-line method for a period of 10 years.

NOTE 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Revenue Recognition

Net operating revenue is recognized in the period services are performed and consist primarily of the net patient service revenue that is reported at estimated net realizable amounts from patients, third-party payors and others for services rendered, including retroactive adjustments under reimbursement agreements with third-party payors. Retroactive reimbursement adjustments are estimated in the period in which the related services are rendered and adjusted in future periods as final settlements are determined. Payment arrangements with third-party payors include prospectively determined rates per discharge, reimbursed costs, charges, discounted charges and per diem payments.

Income Taxes

As a limited liability company, the net income of the Hospital passes through to the tax returns of the respective owners, and income tax expense is not reported as an element of expense in the Hospital's financial statements. In addition, the Hospital has not taken an uncertain tax position that would require provision of a liability in accordance with U.S. GAAP.

Use of Estimates

The preparation of the financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, as well as the disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

Concentration of Credit Risk

The Hospital is located in the State of New Jersey. The Hospital extends credit for all customers without collateral, most of who are local residents that are insured under various third-party payor insurance programs. Credit losses are provided for in the financial statements and consistently have been within management's expectations.

The mix of receivables from primary payor sources, including patients and third parties, are as follows:

	December 31,	
	2019 (%)	**2018 (%)**
Medicare	4	8
Medicaid	2	7
Other third-party payors	94	85

NOTE 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Concentration of Credit Risk *(continued)*

Financial instruments which potentially subject the Hospital to concentrations of credit risk consist primarily of cash and cash equivalents in excess of Federal Deposit Insurance Corporation (FDIC) insurance limits. At various times during the year, the Hospital may have cash deposits at financial institutions in excess of FDIC insurance limits. These financial institutions have strong credit ratings, and management believes that credit risk related to these accounts is minimal.

Reclassifications

Certain prior-year amounts have been reclassified to conform to the current-year presentation.

Adopted Accounting Pronouncements

Classification of Certain Cash Receipts and Cash Payments (Topic 230)

In August 2016, the Financial Accounting Standards Board (FASB) issued ASU 2016-15, *Classification of Certain Cash Receipts and Cash Payments (Topic 230)*, which clarifies how certain cash receipts and cash payments are presented and classified in the statement of cash flows. The amendments are intended to reduce diversity in practice. This ASU contains additional guidance clarifying when an entity should separate cash receipts and cash payments and classify them into more than one class of cash flows (including when reasonable judgment is required to estimate and allocate cash flows) versus when an entity should classify the aggregate amount into one class of cash flows on the basis of predominance. The adoption of ASU 2016-15 did not have an impact on the Hospital's financial statements for the year ended December 31, 2019.

Statement of Cash Flows: Restricted Cash (Topic 230)

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows: Restricted Cash (Topic 230)*, to address the classification and presentation of changes in restricted cash on the statement of cash flows. The ASU requires that the statement of cash flows explain the change in the total cash, cash equivalents, and amounts generally described as restricted cash and restricted cash equivalents. Thus, amounts generally described as restricted cash or restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The adoption of ASU 2016-18 did not have an impact on the Hospital's financial statements for the year ended December 31, 2019.

NOTE 3 SUMMARY OF SIGNIFICANT *ACCOUNTING* POLICIES *(continued)*

Recent Accounting Pronouncements Issued but Not Yet Adopted

Revenue from Contracts with Customers

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606), which is comprehensive new revenue recognition guidance. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The FASB issued ASU 2020-05, which deferred the effective date for the Hospital until annual periods beginning after December 15, 2019.

Earlier adoption is permitted, subject to certain limitations. The amendments in this update are required to be applied retrospectively to each prior reporting period presented or with the cumulative effect being recognized at the date of initial application. The Hospital does not believe the pending adoption of ASU 2014-09 will have a material impact on the Hospital's financial statements.

Leases

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*, which will require lessees to recognize a lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis; and a right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. The FASB issued ASU 2020-05, which deferred the effective date for the Hospital until annual periods beginning after December 15, 2021. Management is currently evaluating the impact of ASU 2016-02 on the Hospital's financial statements.

Intangible Assets

In January 2017, the FASB issued ASU 2017-04, *Intangibles-Goodwill and Other (Topic 350)*, to simplify how all entities assess goodwill for impairment by eliminating Step 2 from the goodwill impairment test. As amended, the goodwill impairment test will consist of one step comparing the fair value of a reporting unit with its carrying amount. An entity should recognize a goodwill impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value. The standard is effective for non-public business entities for fiscal years beginning after December 15, 2021. The Hospital does not believe the pending adoption of ASU 2017-04 will have a material impact on the financial statements.

NOTE 4 NET PATIENT SERVICE REVENUE

The Hospital has agreements with Medicare, Medicaid and other third-party payors that provide for payments to the Hospital at amounts different from its established rates. A summary of the payment arrangements with third-party payors follows:

Medicare

Under the Medicare program, the Hospital receives reimbursement under a prospective payment system for inpatient and outpatient services. The Hospital's reimbursements from Medicare are subject to certain variations under Medicare's single bundled payment rate system, whereby reimbursements can be adjusted for certain patient characteristics and other factors. Federal regulations provide for certain adjustments to current and prior years' payment rates, based on industry wide and hospital specific data. The Hospital has been audited and received final settlements on its Medicare cost reports through 2018 and tentative settlements through 2020.

Non-Medicare Payments

Services rendered to Medicaid program beneficiaries are paid at prospectively determined rates that vary based on clinical, diagnostic and other factors. Revenues associated with commercial health plans and health maintenance organizations are based on contractual terms. Non-contracted health plan revenues are based on historical collection experience.

Regulation and Reimbursement Contingencies

Regulations require annual retroactive settlements for cost-based reimbursements through cost reports filed by the Hospital. These retroactive settlements are estimated and recorded in the financial statements in the year in which they become known. The estimated settlements recorded at December 31, 2019 and 2018 could differ from actual settlements based on the results of the cost report audits.

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 Hospital is not aware of any allegations of noncompliance that could have a material adverse effect on the accompanying financial statements and believes it is in compliance, in all material respects, with the applicable laws and regulations. Action for noncompliance could result in repayment of amounts improperly reimbursed, fines, penalties, and exclusion from Medicare and Medicaid programs.

NOTE 5 INTANGIBLE ASSETS, NET

The composition of the intangible assets, net is summarized as follows:

	December 31, 2019			
	Gross Balance	Accumulated Amortization	Net Value	Useful Life
Licenses	$ 24,000,000	$ 4,800,000	$ 19,200,000	10 years
Trade name	1,800,000	1,470,000	330,000	10 years
Medical records	1,745,000	349,000	1,396,000	10 years
Total	$ 27,545,000	$ 6,619,000	$ 20,926,000	

	December 31, 2018			
	Gross Balance	Accumulated Amortization	Net Value	Useful Life
Licenses	$ 24,000,000	$ 2,400,000	$ 21,600,000	10 years
Trade name	1,800,000	1,290,000	510,000	10 years
Medical records	1,745,000	174,500	1,570,500	10 years
Total	$ 27,545,000	$ 3,864,500	$ 23,680,500	

During the years ended December 31, 2019 and 2018, amortization expense was $2,754,500. Finite lived intangible assets are amortized under the straight-line method.

NOTE 6 PROPERTY AND EQUIPMENT, NET

Property and equipment, net consists of the following as of December 31:

	2019	2018
Building	$ 54,844,332	$ 54,844,332
Building improvements	19,015,040	16,910,551
Movable and fixed equipment	32,557,091	31,729,059
	106,416,463	103,483,942
Less: Accumulated depreciation	63,051,496	57,896,596
	43,364,967	45,587,346
Construction in progress	67,557	-
	$ 43,432,524	$ 45,587,346

During 2019 and 2018, the Hospital had property and equipment additions of $3,000,079 and $2,759,765, respectively.

NOTE 6 PROPERTY AND EQUIPMENT, NET *(continued)*

The Hospital is obligated under capital leases covering building and equipment that expire at various dates through 2026. The gross amount of building and equipment and related accumulated depreciation recorded under capital lease were as follows at December 31:

	2019	2018
Building	$ 54,844,332	$ 54,844,332
Building improvements	2,885,276	2,885,276
Movable and fixed equipment	15,765,938	15,888,381
	73,495,546	73,617,989
Less: Accumulated depreciation	46,896,236	42,654,730
	$ 26,599,310	$ 30,963,259

NOTE 7 LINE OF CREDIT

At December 31, 2018, the Hospital had the ability to borrow from a financial institution up to $25,000,000. The line was secured by the Hospital's related assets, permits, operating agreements and accounts receivable. Interest on outstanding advances under the line was due and payable on a monthly basis at an annual interest rate of the London Interbank Offered Rate plus 3.50%. At December 31, 2018, the outstanding amount on the line was $24,788,019. This line of credit was subsequently replaced by term loans. See Note 8.

NOTE 8 LOANS PAYABLE

On August 8, 2019, the Hospital as the borrower entered into a multi draw Senior Secured-Term Loan facility (Term Loan) with a principal amount of $30,000,000. The Term Loan requires no amortization and a stated maturity date of June 26, 2020. The lender granted consecutive 45-day extensions through November 19, 2021, and management is pursuing a current extension.

Interest on the Term Loan accrues at 9.00% per year and is payable in cash monthly in arrears. At December 31, 2019, the outstanding amount of the term loans was $38,706,533. At December 31, 2019, various covenants were not complied with nor waived by the financial institution. Therefore, the Hospital loans payable was in default and was classified as current liabilities.

In addition to a closing fee of 0.5% of the principal amount of the Term Loan, the Hospital incurred an administrative fee of $50,000, and a one-time processing fee of $10,000.

NOTE 8 LOANS PAYABLE *(continued)*

The Term Loan is collateralized primarily by the Hospital's eligible accounts receivable and contains affirmative and negative covenants usual and customary for transactions of this type. As of July 25, 2022, the Hospital has made all required principal and interest payments and is compliant with the covenant ratios. The Hospital has not provided timely audited financial statements in compliance with this agreement.

In addition, on June 1, 2019, the Hospital entered a multi draw demand promissory note (Note) in an aggregate amount of $8,706,533 funded by a private group. The Note requires no amortization and bears an interest rate of 10% in arrears. The holder of the Term Loan has precluded the Hospital from paying the interest on the Note, and the Hospital has accrued this interest in the accompanying balance sheet in the amount of $442,556.

In conjunction with entering the Tern Loan and Note, the Hospital paid in full its previous line of credit with a financial institution and terminated all commitments and discharged all related guarantees. The Hospital deemed the refinancing to be an extinguishment of the old debt in accordance with FASB Accounting Standards Codification 470, *Debt*, which resulted in a write-off of the prior issuance costs and recognition of new issuance costs.

As of July 25, 2022, the Hospital has paid down $3,512,082 of the amount loaned under the Term Loan.

NOTE 9 CAPITAL LEASE OBLIGATIONS

The Hospital leases a building and equipment under capital leases that expire at various dates through November 2026. The leases, which are secured by the underlying assets, require monthly payments of principal and interest rates ranging from 3% to 8% per year. The schedule of future minimum lease payments, including interest under the term of the leases, together with the present value of the net minimum lease payments, is as follows as of December 31, 2019.

NOTE 9 CAPITAL LEASE OBLIGATIONS *(continued)*

Years Ending	Amount
2020	$ 7,779,003
2021	7,232,459
2022	7,377,109
2023	7,524,651
2024	7,675,144
Thereafter	15,148,431
Total minimum lease payments	52,736,797
Less: Amount representing interest	18,826,422
Present value of net minimum lease payments	33,910,375
Less: Current portion	4,342,216
Long-term payable	$ 29,568,159

The Hospital is required to comply with certain covenants under its major lease agreement and annual audited financial statements have not been provided.

The Hospital has allocated a letter of credit in the amount of $4,946,209 at December 31, 2019 as security to the lease property. The letter of credit expires on October 29, 2022.

NOTE 10 NOTE PAYABLE

Promissory Note

In accordance with the asset purchase agreement transacted with the Hoboken Municipal Hospital Authority (the Authority), the Hospital was to pay $2,500,000 for pension withdrawal liability obligations through execution of a promissory note to be paid in full within 20 years from inception of the asset purchase agreement.

Required principal payments on the note payable at December 31, 2019 are as follows:

Years Ending	Amount
2020	$ 119,910
2021	123,090
2022	126,395
2023	129,826
2024	133,390
Thereafter	890,362
Total	$ 1,522,973

NOTE 11 CHARITY CARE

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

The estimated cost of charity care provided was $14,445,001 and $15,039,130 for the years ended December 31, 2019 and 2018, respectively. The estimated cost of charity care is based on the ratio of cost-to-charges, as determined by hospital-specific data.

NOTE 12 MALPRACTICE CONTINGENCIES

Effective June 15, 2014, the Hospital purchased a claims-made policy from CarePoint Health Captive Assurance Company, LLC (the Captive), a related captive insurance provider. The policy includes no deductible for the Hospital and a $250,000 per claim and $750,000 in the aggregate deductible covered by the Captive, which is shared with related healthcare providers IJKG-Opco, LLC and Hudson Hospital – Opco, LLC, such that losses from all three entities would erode the $750,000 aggregate deductible. The Hospital has also purchased excess coverage of up to $15,000,000 from the Captive with limits being shared among all three entities. The Captive reinsures 100% for the limits of the excess liability coverage.

Estimated malpractice liabilities are based upon actuarial valuation of the estimated effect of probable loss contingencies and determined policy deductibles. In the opinion of management, the final disposition of such claims will be within the available insurance coverage and will not have a material adverse effect on the Hospital's financial position, results of operations or liquidity.

NOTE 13 RETIREMENT PLAN

The Hospital sponsors a voluntary 401(k) profit-sharing plan (the Plan). All employees of the Hospital are eligible to participate in the Plan. Employees can contribute any amount of their compensation each pay period subject to annual limits imposed by the Internal Revenue Service and additional limits imposed by law. The employees' accounts are fully and immediately vested from their date of participation in the Plan. The Hospital also makes employer matching contributions to all eligible employees who have completed one year of service. However, the employer matching contribution is discretionary and is based on the financial performance of the Hospital for the year. During the year ended December 31, 2019 and 2018, the maximum allocation that a participant can receive is 3% of the participant's compensation. Total employer contributions for the years ended December 31, 2019 and 2018 were $877,196 and $828,599, respectively.

NOTE 14 RELATED-PARTY TRANSACTIONS

Due from (to) Related Parties

Amounts due from (to) related parties are as follows:

	2019	2018
Jersey Health Alliance, LLC	$ 30,500,145	$ 30,537,246
CarePoint Health Medical Group	259,289	262,019
CarePoint Health Management Associates, LLC	2,666,125	-
Hoboken University Medical Center-Propco	233,933	193,464
	$ 33,659,492	$ 30,992,729

	2019	2018
Quality Care Associates, LLC	$ (5,995,056)	$ (4,281,342)
Bayonne Medical Center	(1,893,709)	(4,587,275)
Sequoia Healthcare Management, LLC	(3,991,207)	(673,854)
CarePoint Health Management Associates, LLC	-	(340,923)
Other related parties	(1,389,836)	(1,389,836)
	$ (13,269,808)	$ (11,273,230)

Reserve for Related-Party Receivable

The Hospital analyzed the amounts due from a related party relative to the ability of the Hospital to collect amounts due. This review resulted in a reserve, not related to the operations of the Hospital, in the amount of $5,789,429 and $9,058,711 at December 31, 2019 and 2018, respectively, against the receivable from Hudson Hospital Opco, LLC, reducing the carrying value to $0 as of December 31, 2019 and 2018. The Hospital retains its rights to collect amounts due from Hudson Hospital Opco, LLC should its financial situation change in the future.

Capital Lease

On November 4, 2011, the Hospital entered into a capital lease agreement with a healthcare real estate investment trust that has a non-controlling interest in the Hospital for use of the buildings attained through a separate asset purchase agreement. Effective November 8, 2019, the land and buildings of the Hospital were sold to another entity who assumed the lessor's rights of the lease agreement, as amended, dated November 4, 2011. Lease payments made by the Hospital totaled $7,024,143 and $4,019,557 for the years ended December 31, 2019 and 2018, respectively. The lease also provides for annual increases of the Consumer Price Index, which the Hospital estimates to be 2%.

NOTE 14 RELATED-PARTY TRANSACTIONS *(continued)*

Investment in McCabe Ambulance Service, Inc.

On November 1, 2013, the Hospital entered into a stock purchase agreement to attain ownership in McCabe Ambulance Services, Inc. (McCabe). McCabe is a comprehensive provider of emergency medical services, including both emergency and non-emergency ambulance transportation services. The Hospital invested $1,441,731, which equated to ownership of approximately 23% of McCabe's outstanding stock. The investment is recorded in investments in unconsolidated entities in the accompanying balance sheets. While U.S. GAAP requires the equity method of accounting be used, Management views the investment in McCabe as strategic and the services provided critical to Hospital operations. Some of the operating losses of McCabe have not been recorded against the investment in an effort to show the intrinsic value of McCabe.

Investment in Fresenius

On June 11, 2018, the Hospital entered into a contribution agreement with a medical provider to obtain a 10% interest in a joint venture for the provision of outpatient dialysis services. The investment in the amount of $263,486 is accounted for using the cost method of accounting and is included in investments in unconsolidated entities in the accompanying balance sheets.

Practice Management

The Hospital provided advances to Jersey Health Alliance, LLC (JHA), predecessor to Quality Care Associates, LLC (collectively, Practice Management), related to the Hospital through ownership. These advances include the provision for working capital needs of the physician groups managed by Practice Management. These groups include Garden State Healthcare Associates LLC, which employs all of the traditional hospital-based physician specialties working full-time at the Hospital, and New Jersey Medical and Health Associates LLC (d/b/a CarePoint Health Medical Group), which employs physicians acquired to provide continuity of care to the Hospital's patients. The Hospital believes that the services provided by Practice Management have been beneficial to both the Hospital and its patients. Practice Management is a management service organization formed to provide both healthcare and technology expertise to affiliated physician groups, as discussed below under Quality Care Associates, LLC. There is no contract in place with Practice Management covering this funding process.

The Hospital and Practice Management have entered into agreements defining the method of repayment of advances made to JHA by the Hospital. These agreements include interest at an annual rate of 4.94%.

NOTE 14 RELATED-PARTY TRANSACTIONS *(continued)*

Practice Management *(continued)*

To secure the payment and performance in full, mandated by the agreements, they are collateralized by a continuing security interest in and lien upon all of its right, title and interest in the patient accounts receivable of Practice Management. The following is a schedule of maturities of the loans receivable:

Years Ending	Amount
2020	$ 112,222
2021	462,977
2022	486,373
2023	510,951
2024	28,927,622
Total	$ 30,500,145

Management Agreement

The Hospital has entered into a management service agreement with Sequoia Healthcare Management, LLC, which has common majority ownership as the parent company of the Hospital. The manager is responsible for the operations and economics of the Hospital in compliance with all applicable laws, statutes, ordinances and regulations. In return for these services, the Hospital pays a management fee of 4% of net patient service revenue. As of July 2019, the Hospital ceased the management fee. For the years ended December 31, 2019 and 2018, management fees payable were $3,991,207 and $673,853, respectively. Management fee expense was $3,917,353 and $8,052,499 for the years ended December 31, 2019 and 2018, respectively.

CarePoint Health Management Associates

CarePoint Health Management Associates (CarePoint) is related through ownership and provides administrative and accounting services, including revenue cycle, financial reporting, payroll, accounts payable, etc. to the Hospital. The Hospital pays a professional services fee based on operating expenses and approximates 31% of CarePoint’s annual expenses. The amount charged to the Hospital for these services was $21,513,902 and $29,114,729 for the years ended December 31, 2019 and 2018, respectively. At December 31, 2019 and 2018, $2,666,125 and $(340,923), respectively, was due from/(to) CarePoint.

NOTE 14 RELATED-PARTY TRANSACTIONS *(continued)*

Quality Care Associates, LLC

Quality Care Associates, LLC (Quality) is related through ownership and provides revenue cycle, office staff and other administrative functions to CarePoint Health Medical Group, Garden State Healthcare Associates, LLC, among others (collectively, Physician Practice Groups). The Hospital has committed to varying levels of subsidy to Quality to cover the monthly expenses of the Physician Practice Groups, when their expenses exceed cash collections. The Physician Practice Groups are not related to the Hospital through ownership and have a verbal agreement with the Hospital to exclusively provide physician services that support patient care at the Hospital. The Hospital transferred funds totaling $19,986,116 and $16,773,302 to Quality during the years ended December 31, 2019 and 2018, respectively, which are included in the statements of operations as Other Transfers – funding to Physician Practice Groups. The debt holders do not consider these payments to be a violation of any of the debt covenants.

NOTE 15 OPERATING LEASES

The Hospital has entered into various operating lease agreements for equipment expiring in varying years through 2023. Rental expense for the years ended December 31, 2019 and 2018 was $5,197,497 and $5,746,374, respectively. Future minimum payments on noncancelable leases are:

Years Ending	Amount
2020	$ 5,159,300
2021	4,955,677
2022	4,274,303
2023	2,938,272
2024	1,645,285
Total	$ 18,972,837

NOTE 16 COMMITMENTS AND CONTINGENCIES

The healthcare industry is subject to numerous laws and regulations of federal, state, and local governments. Compliance with these laws and regulations is subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time. Government activity continues to increase with respect to investigations and allegations concerning possible violations by healthcare providers of fraud and abuse statutes and regulations, which would result in the imposition of significant fines and penalties as well as significant repayments for patient services previously billed. Even if the Hospital were to ultimately prevail, a significant governmental inquiry or action under one of the above laws, regulations or rules could have a material adverse impact on it. The Hospital is involved in various other claims and legal actions arising in the ordinary course of business. In the opinion of management, the ultimate disposition of these matters will not have a material adverse effect on the Hospital’s financial position, results of operations, or liquidity.

The Hospital is a party in a lawsuit with related parties and, at this time, management and counsel have not determined if an unfavorable outcome will have a material or adverse impact on the financial statements of the Hospital.

NOTE 17 SUBSEQUENT EVENTS

The Hospital has performed subsequent events procedures through July 25, 2022, which is the date the financial statements were available to be issued. There were no other subsequent events requiring adjustment to the financial statements or disclosures, except for the following:

On March 11, 2020, the World Health Organization declared the novel coronavirus (COVID-19) a global pandemic. The COVID-19 pandemic substantially impacted the global economy, including significant volatility in financial markets. As a result of the COVID-19 pandemic, patient volumes and associated patient net revenues at the Hospital were significantly reduced in the months of March through June 2020. The Hospital began experiencing gradual and continued improvement in patient volumes in late June as stay-at-home restrictions were eased and hospitals were permitted to resume elective surgeries and procedures.

The full impact of the COVID-19 outbreak continues to evolve as of the date of this report. It is uncertain what effect the pandemic will have on the Hospital’s financial condition, liquidity and future results of operations. Management is actively monitoring the impact of the global situation on its financial condition, liquidity, operations, suppliers, industry and workforce.

NOTE 17 SUBSEQUENT EVENTS *(continued)*

On March 27, 2020, the President signed into law the CARES Act. The CARES Act, among other things, authorized $100 billion in funding to hospitals and other healthcare providers to be distributed through the Provider Relief Fund (PRF). These funds are not required to be repaid, provided the recipients attest to, and comply with, certain terms and conditions, including among other things, that the funds are being used for lost operating revenues and COVID-19-related expenses. The U.S. Department of Health and Human Services (HHS) initially distributed $30 billion of this funding based on each provider's share of total Medicare fee-for-service reimbursement in 2019.

Subsequently, HHS distributed an additional $20 billion in CARES Act funding based on an allocation proportional to the providers' share of 2018 net patient revenue. Distributions of the additional $50 billion were targeted primarily to hospitals in COVID-19 high-impact areas, to rural providers, safety net hospitals, skilled nursing facilities and to reimburse providers for COVID-19-related treatment of uninsured patients. During the calendar year 2020, the Hospital received payments of $47,843,000 from the general stimulus and safety net distributions of the PRF. The funds received from HHS are subject to specific terms, conditions and audit by HHS. Noncompliance with any of the terms or conditions is grounds for HHS to recoup some or all of the payments received by the Hospital. Management has attested that the funds are being used appropriately and believes it has complied with all other terms and conditions.

The CARES Act also made other forms of financial assistance available to healthcare providers, including through Medicare and Medicaid payment adjustments and an expansion of the Medicare Accelerated and Advanced Payment Program, which makes available accelerated payments of Medicare funds in order to increase cash flow to providers. In April 2020, the Hospital received $9,406,000 of accelerated payments, which will be recorded as a liability given that recoupment will occur at some point in the future. Recoupment of these funds by Medicare began in April 2021 and is still ongoing as of July 25, 2022 with $532,000 to go.

On September 19, 2020, HHS issued a Post-Payment Notice of Reporting Requirements for the PRF payments that were disbursed under the CARES Act. This notice changed guidance that had previously been communicated in June and July 2020. Key differences include introduction of the concept of calendar year measurement as opposed to quarterly measurement, the requirement to first apply stimulus monies received to healthcare-related expenses attributable to COVID-19 (net of reimbursements from other sources), and change (negative change comparing 2020 over 2019) from lost revenue as defined as net patient care operating income, net of healthcare related expenses previously applied.

NOTE 17 SUBSEQUENT EVENTS (continued)

On January 15, 2021, HHS issued a Reporting Requirements Policy Update reverting back to the initial definition of lost revenues. These changing requirements may result in a change in the amount of CARES Act stimulus funds that the Hospital will be able to retain based on the terms and conditions. The Hospital had until June 30, 2021 to use the PRF toward expenses attributable to COVID-19 and complied with this requirement. The Hospital has reported their use of the PRF payments by submitting healthcare related expenses attributable to coronavirus that another source has not reimbursed and believes is not obligated to repay PRF amounts. The Hospital chose to apply PRF payments toward lost revenue based on the difference between 2019 and 2020 actual patient care revenue and incremental covid related expenses.

On May 9, 2022, the majority member of HUMC HoldCo donated it's equity in that entity to CarePoint Health System, Inc. (System), a non-profit organization incorporated on November 12, 2021 for the purpose of holding the CarePoint Hospitals. System is qualified under Internal Revenue Service code section 501(c)3. Certain of the minority owners of HUMC HoldCo are in various stages of completing their donation to the non-profit, while other minority owners could retain their equity in HUMC HoldCo separate from CarePoint Health Systems, Inc.