

# **Montclair Health System, LLC**

Consolidated Financial Statements with Report of Independent Auditors

December 31, 2023

**Montclair Health System, LLC**  
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December 31, 2023

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## **Report of Independent Auditors**

To the Board of Directors of Montclair Health System, LLC

### **Opinion**

We have audited the consolidated financial statements of Montclair Health System, LLC (the Company), which comprise the consolidated balance sheet as of December 31, 2023, and the related consolidated income statement, statement of changes in equity, and statement of cash flows for the year then ended, and the related notes (collectively referred to as the “financial statements”).

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2023, 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.

### **Basis for Opinion**

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

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

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

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

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

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

In performing an audit in accordance with GAAS, we:

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

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

*Ernst & Young LLP*

May 30, 2024

Montclair Health System, LLC  
Consolidated Balance Sheet  
December 31, 2023  
(In Thousands)

	<b>December 31, 2023</b>
<b>Assets</b>	
Current assets:	
Accounts receivable	\$ 52,934
Inventories	6,031
Prepaid expenses	2,190
Other current assets	9,295
Total current assets	<u>70,450</u>
Property and equipment, net	55,943
Operating lease right of use assets	46,936
Goodwill	126,317
Other intangible assets	5,600
Amounts due from affiliate	22,960
Other assets	2,659
Total assets	<u><u>\$ 330,865</u></u>
<b>Liabilities and equity</b>	
Current liabilities:	
Accounts payable	22,187
Accrued salaries and benefits	8,919
Other accrued expenses and liabilities	9,381
Current installments of long-term debt	497
Total current liabilities	<u>40,984</u>
Long-term debt, less current installments	2,545
Long-term operating lease liability	44,666
Other long-term liabilities	545
Total liabilities	<u>88,740</u>
Equity:	
Common units	63,276
Accumulated earnings	178,849
Total equity	<u>242,125</u>
Total liabilities and equity	<u><u>\$ 330,865</u></u>

*See accompanying notes.*

Montclair Health System, LLC  
Consolidated Income Statement  
Year Ended December 31, 2023  
*(In Thousands)*

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	<b>Year Ended December 31, 2023</b>
Total revenue	\$ 343,675
Expenses:	
Salaries and benefits	130,765
Professional fees	37,615
Supplies	54,348
Other operating expenses	46,951
Depreciation and amortization	8,310
Management fees	7,441
Total operating expenses	<u>285,430</u>
Income from operations	58,245
Interest income, net	1,715
Net income	<u><u>\$ 59,960</u></u>

*See accompanying notes.*

Montclair Health System, LLC  
Consolidated Statement of Changes in Equity  
Year Ended December 31, 2023  
(Dollars In Thousands)

	<b>Units</b>	<b>Amount</b>	<b>Accumulated Earnings</b>	<b>Total</b>
Balance at December 31, 2022	1,900	\$ 63,276	\$ 169,519	\$ 232,795
Distributions made to:				
LHP Montclair, LLC	—	—	(40,504)	(40,504)
Hackensack UMC	—	—	(10,126)	(10,126)
Net income	—	—	59,960	59,960
<b>Balance at December 31, 2023</b>	<b>1,900</b>	<b>\$ 63,276</b>	<b>\$ 178,849</b>	<b>\$ 242,125</b>

*See accompanying notes.*

Montclair Health System, LLC  
Consolidated Statement of Cash Flow  
Year Ended December 31, 2023  
(In Thousands)

	<b>Year Ended December 31, 2023</b>
<b>Cash flows from operating activities:</b>	
Net income	\$ 59,960
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation and amortization	8,310
Change in cash from operating assets and liabilities	
Accounts receivable	(15,492)
Inventories and other assets	1,745
Accounts payable and other accrued expenses and liabilities	5,265
<b>Net cash provided by operating activities</b>	<u>59,788</u>
<b>Cash flows from investing activities:</b>	
Purchases of property and equipment	(11,738)
<b>Net cash used in investing activities</b>	<u>(11,738)</u>
<b>Cash flows from financing activities:</b>	
Proceeds from long-term debt	1,045
Payments on borrowings	(226)
Distributions to members	(50,630)
Payments from affiliates, net	1,761
<b>Net cash used in financing activities</b>	<u>(48,050)</u>
Change in cash and cash equivalents	—
Cash and cash equivalents at beginning of period	—
<b>Cash and cash equivalents at end of period</b>	<u><u>\$ —</u></u>

*See accompanying notes.*



## 1. **Organization and Basis of Presentation**

Montclair Health System, LLC (the “Company”) is a privately held New Jersey limited liability company that operates Hackensack Meridian Health Mountainside Medical Center. The term the Company, as used in these consolidated financial statements, refers to Montclair Health System, LLC and its subsidiaries, Montclair Hospital, LLC and Montclair Health Services, LLC and its subsidiaries. Membership units in the Company are owned by an affiliate of Ardent Health Services, LLC (“Ardent”), LHP Montclair, LLC, and Hackensack UMC (“Hackensack”), collectively, the Members. The Members of the Company are not personally liable for the debts and liabilities of the Company in accordance with the LLC agreement and applicable statutes.

On March 31, 2014, the Company sold the real estate associated with Mountainside Hospital, LLC and, thereafter, leased the land and buildings from the acquirer for a term of 15 years. In March 2017, Ardent completed a merger with LHP Montclair, LLC, an indirect wholly owned subsidiary of LHP Hospital Group, Inc. (“LHP”), pursuant to the Agreement and Plan of Merger. Through the transaction, LHP became a wholly-owned subsidiary of Ardent. Under the terms of the agreement, Ardent assumed LHP’s management and operational responsibilities within the Company. At December 31, 2023, Ardent owned 80% of the Company and Hackensack owned 20%.

The consolidated financial statements include the accounts of the Company and all subsidiaries and entities controlled by the Company through the Company’s direct or indirect ownership of a majority interest and exclusive rights granted to the Company as the sole general partner or controlling member of such entities. All intercompany balances and transactions have been eliminated in consolidation.

## 2. **Summary of Significant Accounting Policies**

### ***Cybersecurity Incident***

In November 2023, Ardent determined that a ransomware cybersecurity incident had impacted and disrupted a number of its operational and information technology systems (the “Cybersecurity Incident”), including the operational and information technology systems of the Company. During this time, the Company’s hospital remained operational and continued to deliver patient care utilizing established downtime procedures. Ardent immediately suspended user access to impacted information technology applications, executed cybersecurity protection protocols, and took steps to restrict further unauthorized activity. Additionally, because of the time taken to contain and remediate the Cybersecurity Incident, online electronic billing systems were not functioning at their full capacities and certain billing, reimbursement and payment functions were delayed, which had an adverse impact on Ardent’s and the Company’s results of operations and cash flows for 2023.

Ardent and the Company’s hospital continued to deliver patient care at varying levels during the disruption and remediation periods and Ardent’s and the Company’s business is no longer materially disrupted as of December 31, 2023. Ardent has incurred, and will continue to incur, certain expenses related to the Cybersecurity Incident, including expenses to respond to, remediate and investigate the matter. As a result, Ardent is unable to predict the full impact of this Cybersecurity Incident, including its future impact on Ardent’s and the Company’s financial condition and results of operations, as well as the extent to which these costs will be offset by cybersecurity insurance.

### ***Coronavirus Disease 2019 Pandemic***

In March 2020, the World Health Organization declared the outbreak of Coronavirus Disease 2019 (“COVID-19”), a disease caused by a novel strain of coronavirus, a global pandemic. As a provider of healthcare services, the Company has been and may continue to be affected by the public health and economic effects of the COVID-19 pandemic.

The extent of the COVID-19 pandemic's impact on the Company's operations, cash flows and financial position was driven by many factors, most of which were beyond the Company's control or ability to forecast as of the date of the respective consolidated financial statements. Such factors included, but were not limited to, the duration and severity of the pandemic and negative economic conditions arising from the pandemic, the volume of canceled or rescheduled procedures at the Company's facilities, the volume of COVID-19 patients cared for across the Company's hospital and facilities, the demand for clinical personnel and its corresponding impact on labor costs and hospital availability, the timing, availability, pace of administration, efficacy and adoption of medical treatments and vaccines, including the ongoing rollout of currently available vaccines, the spread of potentially more contagious and/or virulent forms of the virus, supply chain disruptions, including shortages, delays, and significant price increases for medical supplies, and the effect of government actions and administrative regulation on the healthcare industry and broader economy, including through existing and any future stimulus efforts. Any future impact of the pandemic on the Company's cash flows and operations could affect assumptions used in significant accounting estimates, including estimates of implicit price concessions related to uninsured or underinsured patients, reserves for professional and general liabilities, and impairment of goodwill and long-lived assets.

Federal and state governments enacted legislation and administrative actions to assist healthcare facilities in providing care to patients during the pandemic. On March 27, 2020, the Coronavirus Aid, Relief and Economic Security Act ("CARES Act") was enacted. Among other provisions, the CARES Act authorized relief funding to healthcare providers through the Public Health and Social Services Emergency Fund ("Provider Relief Fund") and expanded the Medicare Accelerated and Advance Payment Program through which eligible providers could request accelerated Medicare payments of up to 100% of historical Medicare payments for a six-month period to be repaid through withholdings against future Medicare fee-for-services payments. The CARES Act also permitted the deferred payment of the employer portion of Social Security payroll taxes incurred between March 27, 2020 and December 31, 2020.

#### CARES Act Provider Relief Funding

Distributions from the Provider Relief Fund were intended to reimburse healthcare providers for lost revenue and increased expenses related to the pandemic and were not subject to repayment, provided recipients attested to and complied with applicable terms and conditions set forth by legislation. Such terms and conditions included, among other things, that distributions received were used for expenses and to replace lost revenue resulting from COVID-19. Distributions provided by the Provider Relief Fund were accounted for as government grants and were recognized in the consolidated income statement once the grant was received and there was reasonable assurance that the applicable terms and conditions required to retain the distributions were met.

Management performs ongoing analyses of the impact of the pandemic on the Company's operations and considers the compliance and reporting requirements set forth by the CARES Act, including subsequent issuance of all Frequently Asked Questions and interpretive guidance issued by the U.S. Department of Health and Human Services, to determine the amount of government funds to recognize.

During the year ended December 31, 2023, the Company recognized no distributions from the Provider Relief Fund and state and local grant programs as government stimulus income, a reduction of operating expenses, on its consolidated income statement. Issuance of new guidance, as well as government compliance audits, may result in changes to management's estimate of government stimulus income and, in certain cases, may result in derecognition of amounts previously recognized and repayment of such amounts. Prior to 2023, the Company has received \$43.3 million of distributions from the Provider Relief Fund and state and local grant programs and recognized \$32.1 million as government stimulus income on its consolidated income statements. Pursuant to Accounting Standards Update ("ASU") 2021-10, *Disclosures by Business Entities about Government Assistance*, as an accounting policy election, the Company has utilized International Accounting Standards ("IAS") 20, *Accounting for Government Grants and Disclosure of Government Assistance*, by analogy to recognize funds received under the CARES Act from the Provider Relief Fund as revenue, given no direct authoritative guidance is available to for-profit

organizations to recognize revenue for government contributions and grants. CARES Act revenues may be subject to future adjustments based on future changes to statutes. Prior to 2023, the Company has transferred \$11.2 million of unrecognized general and targeted Provider Relief distributions to affiliates of Ardent in accordance with interpretive guidance issued by the U.S. Department of Health and Human Services. At December 31, 2023, the Company had no unrecognized distributions remaining.

#### Medicare Accelerated and Advance Payments

In April 2020, the Company received Medicare accelerated payments of \$32.8 million. No additional Medicare accelerated payments were received, or are expected to be received, by the Company. Payments under the Medicare Accelerated and Advance Payment Program represent consideration that must be repaid. Effective October 1, 2020, providers were required to repay Medicare accelerated payments beginning one year after the date of payment issuance via recoupment against future claims for Medicare beneficiaries in accordance with the repayment terms. The recoupment of the advance payments by the Center for Medicare and Medicaid Services ("CMS") began in April 2021 and was applied to services provided and revenue recognized during the period in which the recoupment occurred, which impacted the Company's cash receipts for services provided during the period in which the amounts were recouped. As of December 31, 2022, all Medicare accelerated payments were repaid to CMS. As of December 31, 2022, the Company had no outstanding Medicare accelerated payments and, therefore, no outstanding liability to CMS for such amounts.

#### ***Accounting Estimates***

The preparation of financial statements in conformity with accounting principles generally accepted in the United States ("GAAP") requires management to make estimates and judgments that affect the amounts reported in the consolidated financial statements and accompanying notes. On an ongoing basis, the Company evaluates its estimates. The Company bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

#### ***Revenue Recognition***

The Company's revenue generally relates to contracts with patients in which its performance obligations are to provide health care services to the patients. Revenue is recorded during the period the Company's obligations to provide health care services are satisfied. Revenue for performance obligations satisfied over time is recognized based on charges incurred in relation to total expected charges. The Company's performance obligations for inpatient services are generally satisfied over periods that average approximately five days. The Company's performance obligations for outpatient services are generally satisfied over a period of less than one day. As the Company's performance obligations relate to contracts with a duration of one year or less, the Company elected the optional exemption under ASC Topic 606, *Revenue from Contracts with Customers*, and, therefore, is not required to disclose the transaction price for the remaining performance obligations at the end of the reporting period or when the Company expects to recognize revenue. Additionally, the Company is not required to adjust the consideration for the existence of a significant financing component when the period between the transfer of the services and the payment for such services is one year or less.

Contractual relationships with patients, in most cases, involve a third-party payer (Medicare, Medicaid, and managed care health plans), and the transaction prices for services provided are dependent upon the terms provided by (Medicare and Medicaid) or negotiated with (managed care health plans) the third-party payers. The payment

arrangements with third-party payers for the services provided to the related patients typically specify payments at amounts less than the Company's standard charges.

The Company's revenue is based upon the estimated amounts the Company expects to be entitled to receive from patients and third-party payers. Estimates of contractual discounts under managed care insurance plans are based upon the payment terms specified in the related contractual agreements. Revenue related to uninsured patients and copayment and deductible amounts for patients who have health care insurance coverage may have discounts applied (uninsured and other discounts). The Company also records estimated implicit price concessions (based primarily on historical collection experience) related to uninsured accounts to record self-pay revenue at the estimated amounts expected to be collected.

The Medicare and Medicaid regulations and various managed care contracts, under which the discounts from the Company's standard charges must be calculated, are complex and are subject to interpretation and adjustment. The Company estimates contractual adjustments on a payer-specific basis based on its interpretation of the applicable regulations or contract terms. However, the necessity of the services authorized and provided, and resulting reimbursements, are often subject to interpretation. These interpretations may result in payments that differ from the Company's estimates. Additionally, updated regulations and contract renegotiations occur frequently, necessitating continual review and assessment of the estimates by management.

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. Estimated reimbursement amounts are adjusted in subsequent periods as cost reports are prepared and filed and as final settlements are determined (in relation to certain government programs, primarily Medicare, this is generally referred to as the "cost report" filing and settlement process). Settlements under reimbursement agreements with third-party payers are estimated and recorded in the period in which the related services are rendered and are adjusted in future periods as final settlements are determined. Final determination of amounts earned under the Medicare, Medicaid and other third-party payer programs often occurs in subsequent years because of audits by the programs, rights of appeal, and the application of technical provisions. Settlements are considered in the recognition of net patient service revenue on an estimated basis in the period the related services are rendered, and such amounts are subsequently adjusted in future periods as adjustments become known or as years are no longer subject to such audits and reviews. Differences between original estimates and subsequent revisions, including final settlements, are included in the results of operations of the period in which the revisions are made. These adjustments resulted in an increase to total revenue of \$1.3 million for the year ended December 31, 2023.

At December 31, 2023, the Company's settlements under reimbursement agreements with third-party payers was a net receivable of \$0.7 million, of which a receivable of \$1.8 million was included in other current assets and a payable of \$1.1 million was included in other accrued expenses and liabilities on the consolidated balance sheet.

Final determination of amounts earned under prospective payment and other reimbursement activities is subject to review by appropriate governmental authorities or their agents. In the opinion of the Company's management, adequate provision has been made for any adjustments that may result from such reviews.

Subsequent adjustments that are determined to be the result of an adverse change in the patient's or the payer's ability to pay are recognized as bad debt expense. Bad debt expense for the year ended December 31, 2023 was not material for the Company.

The Company's total revenue is presented in the following table (dollars in thousands):

	<b>Year Ended December 31, 2023</b>	
	Amount	% of Total Revenue
Medicare .....	\$ 131,992	38.4 %
Medicaid .....	33,220	9.7 %
Other managed care .....	171,998	50.0 %
Self-pay and other .....	5,685	1.7 %
Net patient service revenue .....	342,895	99.8 %
Other revenue .....	780	0.2 %
Total revenue .....	<u>\$ 343,675</u>	<u>100.0 %</u>

The Company provides care without charge to certain patients that qualify under its local charity care policy. The Company estimates that its costs of care provided under its charity care programs were approximately \$276,000 for the year ended December 31, 2023. The Company does not report a charity care patient's charges in revenue as it is the Company's policy not to pursue collection of amounts related to these patients, and, therefore, contracts with these patients do not exist.

The Company's management estimates its costs of care provided under its charity care programs utilizing a calculated ratio of costs to gross charges multiplied by the Company's gross charity care charges provided. The Company's gross charity care charges include only services provided to patients who are unable to pay and qualify under the Company's local charity care policies. To the extent the Company receives reimbursement through the various governmental assistance programs in which it participates to subsidize its care of indigent patients, the Company does not include these patients' charges in its cost of care provided under its charity care program.

***Patient Accounts Receivable***

Patient accounts receivable are recorded at net realizable value based on certain assumptions applicable to each payer. For third-party payers including Medicare, Medicaid and managed care, the net realizable value is based on the estimated contractual reimbursement percentage, which is based on current contract prices or historical paid claims data by payer. For self-pay accounts receivable, which includes patients who are uninsured and the patient responsibility portion for patients with insurance, the net realizable value is determined using estimates of historical collection experience. These estimates are adjusted for estimated conversions of patient responsibility portions, expected recoveries and anticipated changes in business and economic conditions, trends in federal, state and private employer healthcare coverage and other collection indicators.

Patient accounts receivable can be impacted by the effectiveness of the Company's collection efforts. Additionally, significant changes in payer mix, business office operations, economic conditions or trends in federal, state and private employer healthcare coverage could affect the net realizable value of accounts receivable. The Company also continually reviews the net realizable value of accounts receivable by monitoring historical cash collections as a percentage of trailing operating revenues and retrospective reviews of historical reserve accuracy, as well as by analyzing current period revenue and admissions by payer classification, aged accounts receivable by payer, days revenue outstanding, the composition of self-pay receivables between pure self-pay patients and the patient responsibility portion of third-party insured receivables and the impact of recent acquisitions and dispositions.

Patient accounts receivable is the Company's primary concentration of credit risk, which consists of amounts owed by various governmental agencies, managed care payers, commercial insurance companies, employers and patients. The Company manages its patient accounts receivable by regularly reviewing its accounts and contracts and by

providing appropriate allowances for uncollectible amounts. The number of patients and payers limits concentration of credit risk from any one payer.

### ***Concentration of Revenue***

Revenue related to patients participating in the Medicare and Medicaid programs, collectively, represented 48.1% of the Company's total revenue for the year ended December 31, 2023. The Company's management recognizes that revenue and receivables from government agencies are significant to the Company's operations, but it does not believe that there are significant credit risks associated with these government agencies. Management does not believe that there are any other significant concentrations of revenue from any particular payer that would subject the Company to any significant credit risks in the collection of its accounts receivable.

### ***Inventories***

Inventories consist primarily of hospital supplies and pharmaceuticals and are stated at the lower of cost (first-in, first-out method) or market. These inventory items are primarily operating supplies used in the direct or indirect treatment of patients.

### ***Property and Equipment***

Property and equipment additions are recorded at cost. Property and equipment acquired in connection with business combinations are recorded at estimated fair value in accordance with the acquisition method of accounting as prescribed in ASC 805-10, *Business Combinations*. Routine maintenance and repairs are charged to expense as incurred. Expenditures that increase values, change capacities or extend useful lives are capitalized. Depreciation is computed by applying the straight-line method over the lesser of the estimated useful lives of the assets or lease term, ranging generally from five to forty years for buildings and improvements, one to twenty years for equipment, four to seven years for software, and three to ten years for leasehold improvements.

When events, circumstances or operating results indicate the carrying values of certain long-lived assets expected to be held and used might be impaired, the Company prepares projections of the undiscounted future cash flows expected to result from the use of the assets and their eventual disposition. If the projections indicate the recorded amounts are not expected to be recoverable, such amounts are reduced to estimated fair value. Fair value may be estimated based upon internal evaluations that include quantitative analyses of revenues and cash flows, reviews of recent sales of similar assets and independent appraisals. No impairment was recorded during the year ended December 31, 2023.

### ***Goodwill and Indefinite-Lived Intangible Assets***

Goodwill represents the excess of the purchase price over the estimated fair value of identifiable net assets acquired in business combinations. In accordance with ASC 350, *Intangibles — Goodwill and Other*, goodwill and intangible assets acquired in a purchase business combination and determined to have an indefinite useful life are not amortized but are subject to annual impairment tests. The Company tests for goodwill impairment at the reporting unit level and has determined that it has one reporting unit for purposes of the assessment of goodwill impairment.

In addition to an annual impairment test, the Company evaluates goodwill and intangible assets for impairment whenever circumstances indicate a possible impairment may exist. In accordance with ASU 2017-04, *Simplifying the Test for Goodwill Impairment*, the Company first assesses qualitative factors to determine whether it is more likely than not (that is, a likelihood of more than 50%) that the fair value of a reporting unit is less than its carrying amount, including goodwill. If, after assessing qualitative factors, the Company determines that it is more likely than

not that the fair value of a reporting unit is less than its carrying amount, a quantitative impairment test is performed to identify potential goodwill impairment and measure the amount of goodwill impairment loss to be recognized, if any.

The Company completed its most recent qualitative goodwill impairment assessment as of October 1, 2023. After evaluating the results, events and circumstances of the Company, the Company concluded that sufficient evidence existed to assert qualitatively that it was more likely than not that the estimated fair value of the reporting unit remained in excess of its carrying value. Therefore, a quantitative impairment assessment was not necessary. There were no goodwill or other intangible impairment charges in 2023. The Company bases its estimates of fair value of the reporting unit on various assumptions on a qualitative and, when necessary, quantitative basis that are believed to be reasonable under the circumstances. Such assumptions include estimates using the income approach, which estimates fair value based on discounted cash flows, and the market approach, which estimates fair value based on comparable market prices. Actual results may differ from the estimates used in the Company's assumptions, which may require a future impairment charge that could have a material adverse impact on the Company's financial position and results of operations. Refer to Note 4 for additional information.

Intangible assets consist of a tradename, certificate of need and Medicare and Medicaid licenses, all of which are expected to have an indefinite life. Indefinite-lived identifiable intangible assets are not amortized but are subject to annual impairment tests, and impairment reviews are performed whenever circumstances indicate a possible impairment may exist.

#### ***Self-Insured Liabilities***

Ardent maintains a professional and general liability policy and workers' compensation insurance on behalf of its affiliates. Additionally, Ardent is self-insured for substantially all of the medical benefits of its employees. Ardent maintains reserves for these self-insured liabilities reflective of known claims and estimated incurred but not reported claims. These amounts are billed as premiums to each affiliate.

#### ***Income Taxes***

The Company is organized as a limited liability company and taxed as a partnership for federal and state income tax purposes under the Internal Revenue Code and various state statutes. All income is taxable directly to its members; therefore, no federal or state income tax provision is recorded in the Company's financial statements. Additionally, no deferred tax assets or liabilities are recorded in the consolidated balance sheet. Management is not aware of any course of action or series of events that has occurred that might adversely affect the Company's tax status.

#### ***Fair Value Disclosures of Financial Instruments***

The Company applies the provisions of ASC 820, *Fair Value Measurements and Disclosures* ("ASC 820"), which provides a single definition of fair value, establishes a framework for measuring fair value, and expands disclosures concerning fair value measurements. The Company applies these provisions to the valuation and disclosure of certain financial instruments. ASC 820 establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value. These tiers include: (i) Level 1, which is defined as quoted prices in active markets that can be accessed at the measurement date; (ii) Level 2, which is defined as inputs other than quoted prices in active markets that are observable, either directly or indirectly; and (iii) Level 3, which is defined as unobservable inputs resulting from the existence of little or no market data, therefore potentially requiring an entity to develop its own assumptions.

Accounts receivable, inventories, prepaid expenses, other current assets, accounts payable, accrued salaries and benefits and other accrued expenses and liabilities (other than those pertaining to lease liabilities) are reflected in the accompanying consolidated balance sheet at amounts that approximate fair value because of the short-term nature of

these instruments. The fair value of the Company’s long-term liabilities (other than those pertaining to lease liabilities) approximates their carrying value based on current interest rate assumptions and remaining term to maturity. The fair value of amounts due from affiliate cannot be determined due to the uncertainty of timing of payment.

### 3. Property and Equipment

Property and equipment as of December 31, 2023 consists of the following (in thousands):

Land and improvements .....	\$	4,985
Buildings and improvements, including leasehold improvements .....		39,308
Equipment .....		67,684
Construction in progress .....		920
		<u>112,897</u>
Less accumulated depreciation .....		(56,954)
Property and equipment, net .....	\$	<u>55,943</u>

Financing leases included in equipment were \$4.3 million at December 31, 2023. Accumulated amortization related to equipment financing leases was \$2.6 million at December 31, 2023. Amortization expense related to equipment financing leases was \$0.3 million for the year ended December 31, 2023.

Depreciation of property and equipment (including finance leases) was \$8.3 million for the year ended December 31, 2023.

### 4. Goodwill and Other Intangible Assets

#### *Goodwill*

The following table summarizes the changes in the carrying amount of goodwill for the following period (in thousands):

	<b>Gross</b>	<b>Accumulated Impairment</b>	<b>Net</b>
Balance at December 31, 2022 .....	\$ 126,317	\$ —	\$ 126,317
Goodwill acquired .....	—	—	—
Balance at December 31, 2023 .....	<u>\$ 126,317</u>	<u>\$ —</u>	<u>\$ 126,317</u>

#### *Other Intangible Assets*

Other intangible assets consist of the unamortized Mountainside Hospital trade name, a certificate of need, and Medicare and Medicaid licenses. At December 31, 2023, the carrying amount of unamortized trade name was \$4.6 million, the unamortized certificate of need was \$0.9 million, and the unamortized Medicare and Medicaid licenses were \$0.1 million. No amortization expense was recorded for intangible assets for the year ended December 31, 2023.



## 5. Internal-Use Software

The Company has been allocated certain costs from Ardent related to implementation costs incurred associated with the Company's conversion to a new patient accounting system in 2019. The costs were either capitalized or expensed by the Company in accordance with ASC 350-40, *Internal-Use Software* ("ASC 350-40-25").

Under the guidance of ASC 350-40-25, costs incurred during the implementation stage are generally capitalizable, subject to the conditions detailed in the accounting standard. Additionally, costs incurred for clearly identifiable upgrades and enhancements after implementation are also generally capitalizable to the extent they provide additional functionality. Costs incurred prior to implementation, and costs for training, maintenance, and support services are expensed as incurred.

Costs capitalized by Ardent and allocated to the Company are included in other assets on the consolidated balance sheet and are amortized over a seven year period. At December 31, 2023, the Company had other assets related to allocated capitalized software costs of \$2.5 million. Amortization expense for software was \$1.1 million and is included in other operating expenses on the consolidated income statement for the year ended December 31, 2023.

## 6. Related Party Transactions

Ardent provides services to the Company with regard to management and administration, financial management, clinical and patient care, medical staff relations, group purchasing programs, information technology, and other services. The Company reimburses Ardent and its affiliates for these services based on a management fee arrangement. The Company recorded management fee expense of \$7.4 million to Ardent and its affiliates for the year ended December 31, 2023.

MPV New Jersey MD Services, P.C. ("NJ MD"), a New Jersey non-profit corporation licensed by the New Jersey State Board of Medical Examiners and a wholly-owned subsidiary of Ardent, provides the Company with the following services: (1) acquisition or establishment, and operation of physician practice sites in the community; (2) employment of physicians, as needed, to provide professional health care services to patients and to provide additional administrative and supervisory services relating to the clinical operations of the practice sites; and (3) recruitment, employment, or other engagement of the services of (a) clinical personnel to provide health care services to patients under the supervision of the physicians and of (b) administrative personnel to provide certain practice management services and carry out the day-to-day operations of the practice sites and the physicians' practices. The Company reimburses NJ MD for these services based on an Affiliation Agreement, which was effective March 2013. During the year ended December 31, 2023, the Company recorded \$2.0 million for reimbursement of services provided by NJ MD, which was included in professional fees on the Company's consolidated income statement for the year ended December 31, 2023.

Amounts due from affiliate of \$23.0 million at December 31, 2023, represent the excess of amounts transferred by the Company to an affiliate of Ardent over the amounts paid by an affiliate of Ardent on behalf of the Company. Amounts paid by affiliate on behalf of the Company generally include operating expenses and fees and services provided by Ardent to the Company. Outstanding amounts due from affiliate bear interest at a rate per annum equal to LIBOR applicable for an interest period of three months. In August 2023, the Company replaced LIBOR with Secured Overnight Financing Rate ("SOFR") as the reference interest rate. During the year ended December 31, 2023, the Company recorded interest income on amounts due from affiliate of \$1.8 million.

## 7. Leases

The Company leases property and equipment under operating leases and finance leases. The Company's operating leases are comprised primarily of real estate, including hospital buildings, medical office buildings and other administrative office buildings, and finance leases are comprised primarily of medical equipment. The Company assesses the terms of each lease to determine its classification as operating or financing. The Company determines if an arrangement is or contains a lease at inception by assessing whether the arrangement contains an identified asset and whether it has the right to control the identified asset. Right-of-use assets represent the Company's right to use an underlying asset for the lease term and lease liabilities represent the Company's obligation to make lease payments arising from the lease. Lease liabilities are recognized at the lease commencement date based on the present value of future lease payments over the lease term. Right-of-use assets are based on the measurement of the lease liability and also include any lease payments made prior to or on lease commencement and exclude lease incentives and initial direct costs incurred, as applicable.

As the implicit rate in the Company's leases is generally unknown, the Company uses its incremental borrowing rate based on the information available at the lease commencement date in determining the present value of future lease payments. In calculating the incremental borrowing rate, consideration is given to the Company's credit risk, the term of the lease, the total lease payments and adjustments for the impacts of collateral, as necessary. Many of the Company's leases include rental escalation clauses and renewal options that are factored into the determination of lease payments, when appropriate.

Certain of the Company's lease agreements contain options to extend or terminate the lease. The Company evaluates these options on a lease-by-lease basis, and if the Company determines it is reasonably certain to exercise an option to extend or reasonably certain not to exercise an option to terminate, the lease term includes the period covered by the option. Lease costs for the Company's operating leases are recognized on a straight-line basis within operating expenses over the lease term. Finance lease assets are amortized on a straight-line basis over the shorter of the estimated useful lives of the assets or the lease term. The interest component of finance leases is included in interest expense and recognized using the effective interest method over the lease term.

The Company has elected to not separate lease and non-lease components for any leases within its existing classes of assets and, as a result, accounts for any lease and non-lease components as a single lease component. The Company has also elected to not apply the recognition requirement to any leases within its existing classes of assets with a term of 12 months or less.

During the year ended December 31, 2023, the Company recognized no additional right-of-use assets associated with operating leases.

The following table presents lease-related assets and liabilities (dollars in thousands):

	<b>Balance Sheet Classification</b>	<b>December 31, 2023</b>
<b>Assets:</b>		
Operating leases .....	Operating lease right of use assets .....	\$ 46,936
Finance leases .....	Property and equipment, net .....	\$ 1,664
Total lease assets .....		<u>\$ 48,600</u>
<b>Liabilities:</b>		
<b>Current:</b>		
Operating leases .....	Other accrued expenses and liabilities .....	6,404
Finance leases .....	Current installments of long-term debt .....	393
<b>Noncurrent:</b>		
Operating leases .....	Long-term operating lease liability .....	44,666
Finance leases .....	Long-term debt, less current installments .....	1,605
Total lease liabilities .....		<u>\$ 53,068</u>
<b>Operating leases:</b>		
Weighted-average remaining term .....		7.1 years
Weighted-average discount rate <sup>(a)</sup> .....		12.6 %

- a) As most of the Company's leases do not provide a readily determinable implicit interest rate, the Company uses an incremental borrowing rate commensurate with the respective terms of the leases to discount the lease payments. The Company evaluates the discount rate throughout the year to determine whether changes in facts and circumstances should result in a change to the discount rate used for leases.

The following table provides information related to operating lease expense for the year ended December 31, 2023 (in thousands):

Operating leases .....	\$ 12,121
Short-term lease expense .....	1,199
Variable lease expense .....	1,116
Total lease expense <sup>(b)</sup> .....	<u>\$ 14,436</u>

- b) Lease expense is included in other operating expenses on the Company's consolidated income statement.

The following table presents supplemental cash flow information for the year ended December 31, 2023 (in thousands):

<b>Cash paid for amounts included in the measurement of lease liabilities:</b>	
Operating cash flows for operating leases .....	\$ 12,166

***Maturities of Lease Liabilities***

Undiscounted cash flows for operating leases recorded on the consolidated balance sheet were as follows at December 31, 2023 (in thousands):

2024 .....	\$	12,327
2025 .....		12,400
2026 .....		12,563
2027 .....		12,728
2028 .....		12,662
Thereafter .....		17,222
Total rental payments .....		<u>79,902</u>
Less: Amount of lease payments representing interest .....		28,832
Present value of future minimum lease payments .....		<u>51,070</u>
Less: Current portion of lease liabilities .....		6,404
Noncurrent lease liabilities .....	\$	<u><u>44,666</u></u>

**8. Long-Term Debt**

In October 2018, the Company entered into an agreement with Public Service Electric and Gas Company (“PSE&G”) to implement various energy cost-reduction strategies and measures to improve the hospital’s energy efficiency. Pursuant to the terms of the agreement, PSE&G funded a portion of certain energy-reducing capital projects without requiring repayment from the Company. The portion of the funding received from PSE&G that is required to be repaid over five years and does not bear interest was \$1.2 million. At December 31, 2023, no outstanding balance was owed by the Company.

The Company entered into a new agreement with PSE&G to implement various energy cost-reduction strategies and measures to improve the hospital’s energy efficiency. Pursuant to the terms of the agreement, PSE&G funded a portion of certain energy-reducing capital projects without requiring repayment from the Company. In March 2023, the Company received \$1.0 million of the \$2.7 million of total funding from PSE&G that is required to be repaid over five years and does not bear interest. The remaining funding from PSE&G that is required to be repaid will be received upon project completion in 2024, at which time the payments will begin. At December 31, 2023, the outstanding balance owed by the Company was \$1.0 million.

The Company’s remaining outstanding debt consists of various finance lease agreements for equipment. Debt related to finance lease liabilities was \$2.0 million at December 31, 2023 and is included in debt on the Company’s consolidated balance sheet.

***Future Installments***

Future scheduled installments of long-term debt at December 31, 2023 are as follows (in thousands):

2024 .....	\$	497
2025 .....		696
2026 .....		714
2027 .....		733
2027 .....		298
Thereafter .....		104
Total .....	\$	<u><u>3,042</u></u>

**9. Other Accrued Expenses and Liabilities**

A summary of other accrued expenses and liabilities as of December 31, 2023 is as follows (in thousands):

Third-party settlements payable .....	\$	1,136
Current operating lease liabilities .....		6,404
Other .....		1,841
Other accrued expenses and liabilities .....	<u>\$</u>	<u>9,381</u>

**10. Self-Insured Liabilities**

***Professional and General Liability***

Ardent maintains claims-made professional liability insurance coverage and occurrence-based general liability insurance coverage with independent third-party carriers on behalf of its affiliates. During the year ended December 31, 2023, third party policies cover claims totaling up to \$100.0 million, per occurrence and in the aggregate, subject, in most cases, to a \$7.5 million self-insured retention per occurrence.

Ardent maintains reserves for estimates of loss that will ultimately be incurred on claims that have been reported but not paid and claims that have been incurred but not reported. These reserves are established based on consultation with independent actuaries and billed as premiums to each affiliate. No reserve for professional and general liability losses is recorded on the accompanying consolidated balance sheet.

Expenses for professional and general liability coverage allocated to the Company were \$1.5 million for the year ended December 31, 2023, and are included in other operating expenses on the consolidated income statement. Allocated expenses for professional and general liability coverage include expenses to reflect the results of the actuarial review performed by a third party as well as management’s consideration of material developments in the Company’s active claims.

***Workers Compensation and Occupational Injury Liability***

Ardent maintains workers’ compensation liability insurance with statutory limits and employer liability policy limits of \$1.0 million for each occurrence from an unrelated commercial insurance carrier subject, in most cases, to a \$500,000 deductible per occurrence. Ardent maintains the associated reserves for its workers’ compensation and employer liabilities and allocates the cost of the self-insured coverage to the Company based, in part, on actual claims experience.

Expenses for workers’ compensation and occupational injury liabilities allocated to the Company were \$0.1 million for the year ended December 31, 2023, and are included in other operating expenses on the consolidated income statement. Allocated expenses include workers’ compensation and occupational injury liability expenses to reflect the results of an actuarial review performed by a third party as well as management’s consideration of material developments in the Company’s active claims.

## 11. Employee Benefit Plans

### *Defined Contribution Plan*

The Company participates in Ardent's contributory benefit plan that is available to eligible employees. The plan requires the Company to match 100% of a participant's contributions up to the first 3% of the participant's compensation. The Company incurred total contribution costs related to the retirement plan of \$2.5 million for the year ended December 31, 2023.

### *Employee Health Plan*

Ardent is self-insured for substantially all of the medical benefits of its employees and maintains reserves for medical benefits that reflect known claims and an estimate of incurred but not reported claims as of December 31, 2023 and are billed as premiums to each affiliate. The reserve for incurred but not paid claims is maintained by Ardent and adjusted as necessary through additional allocations. Expenses for medical benefit coverage allocated to the Company were approximately \$7.5 million for the year ended December 31, 2023, and are included in salaries and benefits expense on the consolidated income statement. Expenses allocated to the Company for medical benefit coverage are based on actual claim activity as well as management's consideration of material developments that may impact the Company's active claims and historical claim trends.

## 12. Commitments and Contingencies

From time to time, claims and suits arise in the ordinary course of the Company's business. The Company has been, is currently, and may in the future be subject to claims, lawsuits, qui tam actions, civil investigative demands, subpoenas, investigations, audits and other inquiries related to its operations. In certain of these actions, plaintiffs request punitive or other damages against the Company that may not be covered by insurance. These claims, lawsuits, and proceedings are in various stages of adjudication or investigation and involve a wide variety of claims and potential outcomes. Depending on whether the underlying conduct in these or future inquiries or investigations could be considered systemic, their resolution could have a material, adverse effect on the Company's results of operations, financial position or liquidity.

The Company records accruals for such contingencies to the extent that the Company concludes it is probable that a liability has been incurred and the amount of the loss can be reasonably estimated. The Company does not believe that it is party to any proceeding that, either individually or in the aggregate, in the opinion of management, could have a material adverse effect on the business, financial condition, results of operations, or liquidity.

As a result of the Cybersecurity Incident, Ardent is subject to lawsuits purporting to represent various classes of persons whose personal information was affected by the Cybersecurity Incident. Ardent believes it is reasonably possible that losses may be incurred in connection with this lawsuit, but it is not possible to estimate the amount of loss or range of loss, if any, that might result from an adverse judgement, settlement, or other resolution given the stage of the proceedings, the absence of specific allegations regarding the alleged damages, the uncertainty as to the certification of a class or classes and the size of any certified class, if applicable, and/or the lack of resolution of significant factual and legal issues. Additional lawsuits and claims related to the Cybersecurity Incident may be asserted by or on behalf of persons seeking damages or other related relief, and governmental agencies may open inquiries or investigations into the Cybersecurity Incident. Ardent is pursuing insurance coverage in relation to costs and liabilities incurred due to the Cybersecurity Incident.

The Company has acquired and plans to continue to acquire businesses with prior operating histories. Acquired companies may have unknown or contingent liabilities, including liabilities for failure to comply with health care laws and regulations, such as billing and reimbursement, fraud and abuse and anti-kickback laws. The Company has from time to time identified certain past practices of acquired companies that do not conform to its standards. Although the Company institutes policies designed to conform such practices to its standards following completion

of acquisitions, there can be no assurance that the Company will not become liable for the past activities of these acquired facilities that may later be asserted to be improper by private plaintiffs or government agencies. Although the Company generally seeks to obtain indemnification from prospective sellers covering such matters, there can be no assurance that any such matter will be covered by indemnification, or if covered, that such indemnification will be adequate to cover potential losses and fines.

### **13. Subsequent Events**

The Company has evaluated its financial statements and disclosures for the impact of subsequent events through May 30, 2024, the date these consolidated financial statements were available for issuance.