Hudson Hospital – Opco, LLC (d/b/a Christ Hospital)

Financial Statements
Years Ended December 31, 2017 and 2016

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Contents

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Independent Auditor's Report

Board of Directors
Hudson Hospital - Opco, LLC
(d/b/a Christ Hospital)
Jersey City, New Jersey

We have audited the accompanying financial statements of Hudson Hospital - Opco, LLC (d/b/a Christ Hospital), which comprise the balance sheets as of December 31, 2017 and 2016, and the related statements of income, members' equity and cash flows for the years 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 audits. We conducted our audits 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.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Hudson Hospital – Opco, LLC (d/b/a Christ Hospital) as of December 31, 2017 and 2016, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

BDO USA, LLP

April 27, 2018

Hudson Hospital – Opco, LLC
(d/b/a Christ Hospital)

Balance Sheets

December 31,	**2017**	2016
Assets		
Current:		
Cash and cash equivalents	**$ 6,912,450**	$ 4,396,601
Net patient accounts receivable, current portion	**24,709,937**	41,572,701
Other receivables, current portion	**8,934,462**	5,151,935
Other assets	**4,905,097**	4,851,625
Total Current Assets	**45,461,946**	55,972,862
Net Patient Accounts Receivable, Less Current Portion	**25,657,943**	31,361,043
Intangible Assets, Net	**10,661,000**	10,901,000
Other Receivables, Less Current Portion	**17,104,697**	16,448,371
Investments in Unconsolidated Affiliates	**739,318**	739,318
Property, Plant and Equipment, Net	**59,466,138**	67,868,214
	$159,091,042	$183,290,808
Liabilities and Members' Equity		
Current Liabilities:		
Accounts payable	**$ 11,085,330**	$ 17,054,963
Accrued compensation and other accrued expenses	**8,686,076**	8,948,932
Other current liabilities	**40,759,109**	46,155,326
Due to third party payors, current portion	**981,975**	468,999
Capital lease payable, current portion	**4,593,727**	5,425,341
Total Current Liabilities	**66,106,217**	78,053,561
Due to Third Party Payors, Less Current Portion	**3,254,039**	1,264,000
Line of Credit	**22,033,860**	22,938,026
Capital Lease Payable, Less Current Portion	**49,848,388**	54,442,115
Total Liabilities	**141,242,504**	156,697,702
Commitments and Contingencies		
Members' Equity	**17,848,538**	26,593,106
	$159,091,042	$183,290,808

See accompanying notes to financial statements.

Hudson Hospital – Opco, LLC
(d/b/a Christ Hospital)

Statements of Income

Year ended December 31,	**2017**	2016
Revenues:		
Net patient service revenue	**$191,236,037**	$210,792,187
Charity care subsidy	**9,420,426**	9,384,636
Other revenue	**3,864,673**	1,194,422
Total Revenues	**204,521,136**	221,371,245
Expenses:		
Salaries and wages	**67,766,300**	67,198,867
Fringe benefits	**13,619,050**	16,333,043
Physician fees	**13,210,683**	16,946,571
Supplies and other expenses	**97,400,157**	87,771,354
Total Expenses	**191,996,190**	188,249,835
Income From Operations Before Interest Expense, Depreciation and Amortization and Loss in Equity of Unconsolidated Affiliates	**12,524,946**	33,121,410
Interest Expense	**4,460,255**	4,438,877
Depreciation and Amortization	**9,644,229**	10,274,927
Net (Loss) Income From Operations Before Loss in Equity of Unconsolidated Affiliates	**(1,579,538)**	18,407,606
Loss in Equity of Unconsolidated Affiliates	**-**	(129,115)
Net (Loss) Income	**$ (1,579,538)**	$ 18,278,491

See accompanying notes to financial statements.

Hudson Hospital – Opco, LLC
(d/b/a Christ Hospital)

Statements of Members' Equity

Years ended December 31, 2017 and 2016	
Members' Equity, December 31, 2015	**$13,613,391**
Net income	**18,278,491**
Member distributions	**(5,298,776)**
Members' Equity, December 31, 2016	**26,593,106**
Net loss	**(1,579,538)**
Member distributions	**(7,165,030)**
Members' Equity, December 31, 2017	**$17,848,538**

See accompanying notes to financial statements.

Hudson Hospital – Opco, LLC
(d/b/a Christ Hospital)

Statements of Cash Flows

Year ended December 31,	**2017**	2016
Cash Flows From Operating Activities:		
Net (loss) income	**$ (1,579,538)**	$ 18,278,491
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Depreciation and amortization	**9,644,229**	10,274,927
Loss on disposal of fixed assets	**-**	443,315
Change in present value of other receivables	**1,826,271**	(317,637)
Loss in equity investments	**-**	129,115
Changes in assets and liabilities:		
(Increase) decrease in:		
Net patient accounts receivable	**22,565,864**	(11,075,514)
Other receivables	**(6,265,124)**	3,206,032
Other assets	**(53,472)**	344,718
Increase (decrease) in:		
Accounts payable	**(5,969,633)**	485,728
Accrued compensation and other accrued expenses	**(262,856)**	(4,369,055)
Other current liabilities	**(5,396,217)**	(541,461)
Due to third-party payors	**2,503,015**	(1,804,193)
Net Cash Provided By Operating Activities	**17,012,539**	15,054,466
Cash Flows From Investing Activities:		
Purchase of property and equipment	**(1,002,153)**	(850,151)
Cash Flows From Financing Activities:		
Member distributions	**(7,165,030)**	(5,298,776)
Payments on line of credit, net	**(904,166)**	(2,061,973)
Repayment of capital lease obligation, net of payments	**(5,425,341)**	(6,371,700)
Net Cash Used In Financing Activities	**(13,494,537)**	(13,732,449)
Net Increase in Cash and Cash Equivalents	**2,515,849**	471,866
Cash and Cash Equivalents, Beginning of Year	**4,396,601**	3,924,735
Cash and Cash Equivalents, End of Year	**$ 6,912,450**	$ 4,396,601
Supplemental Disclosure of Cash Flow Information:		
Cash paid during the year for interest	**$ 4,446,381**	$ 4,439,325

See accompanying notes to financial statements.

1. Description of the Organization

Hudson Hospital - Opco, LLC (d/b/a Christ Hospital) (the "Hospital") is a wholly-owned subsidiary of CH Hudson Holdco, LLC ("CH Hudson Holdco"). The Hospital facilitates the operations of Christ Hospital which was acquired out of bankruptcy through an asset purchase agreement. The Hospital is a licensed 381-bed acute care facility that provides inpatient and outpatient services.

2. Summary of Significant Accounting Policies

(a) 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 ("GAAP"). In the balance sheets, assets and liabilities are presented in order of liquidity or conversion to cash and their maturity resulting in the use of cash, respectively.

(b) 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.

(c) Fair Value Measurements

Professional standards establish a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that inputs that are most observable be used when available. Observable inputs are inputs that market participants operating within the same marketplace as the Hospital would use in pricing the Hospital's assets or liabilities based on independently derived and objectively determinable market data. Unobservable inputs are inputs that cannot be sourced from a broad active market in which assets or liabilities identical or similar to those of the Hospital are traded. The Hospital estimates the price of any assets for which there are only unobservable inputs by using assumptions that market participants that have investments in the same or similar assets would use as determined by the money managers administering each investment based on the best information available in the circumstances. The input hierarchy is broken down into three levels based on the degree to which the exit price is independently observable or determinable as follows:

Level 1 - Valuation based on quoted market prices in active markets for identical assets or liabilities. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these products does not entail a significant degree of judgment.

Level 2 - Valuation based on quoted market prices of investments that are not actively traded or for which certain significant inputs are not observable, either directly or indirectly.

Level 3 - Valuation based on inputs that are unobservable and reflect management's best estimate of what market participants would use as fair value.

(d) 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 receivable 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.

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 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 twelve months. Accordingly, the estimates of accounts expected to settle after twelve months from the balance sheet dates have been reclassified from current to noncurrent assets.

(e) Investments in Unconsolidated Affiliates

The Hospital records its investments in unconsolidated affiliates utilizing the equity method of accounting, reporting its economic interest in the affiliates' assets and liabilities as a non-current asset on the balance sheets. That amount is either increased or decreased by the Hospital's proportionate share of the affiliates' net income or loss and any distributions made during the year.

(f) Property, Plant and Equipment

Property, plant 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 assets 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

(g) Intangible Assets

Intangible assets arising from business combinations are initially recognized at fair value at the date of acquisition. Where an intangible asset has a finite life, it is amortized over its useful life using the straight-line method. The intangible assets with indefinite useful lives are reviewed whenever events or circumstances arise indicating that an impairment loss may exist. For indefinite-lived intangible assets, when the asset's carrying amount exceeds its respective recoverable amount, an impairment charge is recorded for the excess of the carrying amount over the fair value of the asset.

Licenses	Indefinite life
Trade name	10 years
Medical records	Indefinite life

(h) Revenue Recognition

Net operating revenues are 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 for other 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.

(i) Income Taxes

As a limited liability company, the 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. Furthermore, as the Hospital is a solely owned LLC, it is regarded as a Disregarded Entity under the tax code. As such, it does not file a tax return and its operations are combined for tax purposes with its sole member, CH Hudson Holdco, which then passes through net income to its members. In addition, the Hospital has not taken an uncertain tax position that would require provision of a liability in accordance with GAAP.

(j) Use of Estimates

The preparation of the financial statements in conformity with 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.

(k) 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 and are insured under various third-party payor insurance carriers. 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, at December 31, 2017 and 2016 is as follows:

December 31,	**2017**	2016
Medicare	**8%**	7%
Medicaid	**7**	6
Other third-party payors	**85**	87

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.

(l) Recent Pronouncements

(i) Revenue From Contracts With Customers

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09, "Revenue from Contracts with Customers (Topic 606)," which is a comprehensive new revenue recognition standard that will supersede existing 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 2015-14 which deferred the effective date for the Hospital until annual periods beginning after December 15, 2018. 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 financial statements.

(ii) Leases

On February 25, 2016, the FASB issued ASU 2016-02, "Leases," 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 standard is effective for non-public business entities for fiscal years beginning after December 15, 2019. The Hospital is currently evaluating the impact of the pending adoption of ASU 2016-02.

(iii) Intangible Assets

On January 2017, the FASB issued ASU 2017-04, "Intangibles-Goodwill and Other," 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.

3. 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:

(a) 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 2014 and a tentative settlement through 2016.

(b) Non-Medicare Payments

Service rendered to Medicaid program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. Revenues associated with commercial health plans and health maintenance organizations are estimated based on contractual terms for the patients under healthcare plans with which the Hospital has formal agreements, non-contracted health plan coverage terms, if known, estimated secondary collections, historical collection experience and historical trends of refunds and payor payment adjustments.

(c) 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, 2017 and 2016 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.

4. Intangible Assets, Net

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

December 31, 2017

	Gross Balance	Accumulated Amortization	Net Value	Useful Life
Licenses	**$ 5,000,000**	**$ -**	**$ 5,000,000**	**Indefinite life**
Trade name	**2,400,000**	**1,310,000**	**1,090,000**	**10 years**
Medical records	**4,571,000**	**-**	**4,571,000**	**Indefinite life**
Total	**$11,971,000**	**$1,310,000**	**$10,661,000**	

December 31, 2016

	Gross Balance	Accumulated Amortization	Net Value	Useful Life
Licenses	$ 5,000,000	$ -	$ 5,000,000	Indefinite life
Trade name	2,400,000	1,070,000	1,330,000	10 years
Medical records	4,571,000	-	4,571,000	Indefinite life
Total	$11,971,000	$1,070,000	$10,901,000	

Intangible assets are subject to annual impairment testing. No impairment was recorded during the years ended December 31, 2017 and 2016. Finite lived intangible assets are amortized under the straight-line method.

5. Property, Plant and Equipment, Net

Property, plant and equipment, net at December 31, 2017 and 2016 consists of the following:

December 31,	**2017**	2016
Land and building	**$ 78,053,827**	$ 78,053,827
Building improvements	**1,186,158**	638,663
Movable and fixed equipment	**27,883,013**	27,088,757
Construction-in-progress	**1,509,981**	1,849,579
	108,632,979	107,630,826
Less: Accumulated depreciation	**49,166,841**	39,762,612
Property, plant and equipment, net	**$ 59,466,138**	$ 67,868,214

During 2017, the Hospital had property, plant and equipment additions of $1,002,153 and no disposals of property, plant and equipment.

Costs incurred to date on projects included in construction-in-progress as of December 31, 2017 represent approximately 32% of the project construction costs.

The Hospital is obligated under capital leases covering building and equipment that expire at various dates through 2027. At December 31, 2017 and 2016, the gross amount of building and equipment and related accumulated depreciation recorded under capital lease were as follows:

December 31,	**2017**	2016
Land and building	**$75,611,105**	$75,611,105
Equipment	**6,533,503**	6,533,503
Less: Accumulated depreciation	**31,731,990**	25,717,966
	$50,412,618	$56,426,642

6. Line of Credit

At December 31, 2017 and 2016, the Hospital had the ability to borrow from a financial institution up to $25,000,000. The line is secured by the Hospital's related assets, permits, operating agreements and accounts receivable. Interest on outstanding advances under the line is due and payable on a monthly basis at an annual interest rate of the London Interbank Offered Rate ("LIBOR") plus 3.50%. At December 31, 2017 and 2016, the outstanding amount on the line was $22,033,860 and $22,938,026, respectively.

7. Capital Lease Obligations

The Hospital leases buildings and equipment under capital leases that expire at various dates through July 2027. The leases, which are secured by buildings and the underlying equipment, require monthly payments of principal and interest, with rates ranging from 3.3% to 8% per annum. The following is a 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, as of December 31, 2017.

2018	$ 7,495,965
2019	7,495,965
2020	7,495,965
2021	7,495,965
2022	7,495,965
Thereafter	33,731,847
Total minimum lease payments	71,211,672
Less: Amount representing interest	16,769,557
Present value of net minimum lease payments	54,442,115
Less: Current portion	4,593,727
	$49,848,388

The Hospital is required to comply with certain covenants under its major lease agreement. All such covenants were complied with or waived by the lessor.

8. 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 $19,682,934 and $18,166,836 for the years ended December 31, 2017 and 2016, respectively. The estimated cost of charity care is based on the ratio of cost to charges, as determined by hospital-specific data.

9. Malpractice Contingencies

Effective June 15, 2014, the Hospital purchased a claims-made policy from the related captive insurance provider, CarePoint Health Captive Assurance Company, LLC (the “Captive”). 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 HUMC-Opco, LLC, such that losses from all three entities would erode the $750,000 aggregate retention. 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.

10. Related Party Transactions

(a) Capital Lease

The Hospital signed a 15-year lease agreement with Hudson Hospital – Propco, LLC ("Propco") for use of the building attained through the asset purchase on July 13, 2012. Lease payments made by the Hospital to Propco totaled $7,495,965 and $7,341,157 for the years ended December 31, 2017 and 2016, respectively. The lease also provides for annual increases of the Consumer Price Index which the Hospital estimates to be 2%.

(b) Management Agreement

The Hospital has entered into a management service agreement with a related party, Sequoia Healthcare Management, LLC. 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 patient service revenue. The management fees were $7,571,200 and $8,525,229 in 2017 and 2016, respectively.

Certain other expenses, shared among the Hospital and certain of its affiliates, are incurred by a separate company and are allocated accordingly.

(c) Guaranty of Debt Service Payments

The Hospital has entered into Guaranty and Security agreements, whereby the Hospital, identified as the Guarantor, irrevocably and unconditionally guarantees the full, prompt and unconditional payment, when due, whether by acceleration or otherwise, of any and all obligations of Propco under the respective financing agreements.

(d) Investment in McCabe Ambulance Services, Inc.

On November 1, 2013, the Hospital entered into a stock purchase agreement to attain ownership of McCabe Ambulance Services, Inc. ("McCabe"). The Hospital invested $1,441,731, which equated to ownership of approximately 23% of McCabe's outstanding stock. McCabe is a comprehensive provider of emergency medical services, including both emergency and non-emergency ambulance transportation services. The investment is accounted for using the equity method of accounting and is recorded in investments in unconsolidated affiliates in the accompanying balance sheets.

(e) Investment in Pampered Pregnancy of Hudson County, LLC

In April 2013, the Hospital invested $117,567 for a 50% interest in Pampered Pregnancy of Hudson County, LLC ("Pampered Pregnancy"), a partnership that operates a boutique baby and mother clothing store. The investment is accounted for using the equity method of accounting. During 2016, Pampered Pregnancy ceased operations and the Hospital wrote off the balance of its non-controlling interest and recorded a loss from the write-off in the amount of $129,115. This loss was recorded in investments in unconsolidated affiliates in the accompanying statements of income.

(a) Practice Management

The Hospital has provided advances to Quality Care Associates LLC and its predecessor, Jersey Health Alliance LLC (collectively, "Practice Management"). These advances include the provision for the working capital needs of the physician groups managed by the Practice Management. This includes 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 the Practice Management have been beneficial to both the Hospital and its patients. The Practice

Management is a management service organization formed to provide both healthcare and technology expertise to affiliated physician groups.

The Hospital and the Practice Management have entered into agreements defining how advances are made by the Hospital and the method of repayment by the Practice Management. These agreements include interest at an annual rate of 7.5%. The Practice Management is expected to commence repayment of the loans in 2018. At December 31, 2017 and 2016, the Hospital has reported the outstanding balance of $23,487,373 and $21,580,123, respectively, which is net of a present value discount as due from the Practice Management at December 31, 2017 and 2016. The discount was calculated at a rate of 5.29% and 4.88% at December 31, 2017 and 2016, respectively. These two rates represent the current borrowing rate of the Hospital for the respective years.

11. 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 service 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.

12. 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, 2017, the maximum allocation that a participant can receive is 3% of the participant’s compensation. Total employer contributions for the years ended December 31, 2017 and 2016 were $780,000 and $794,799, respectively.

13. Subsequent Events

The Hospital has performed subsequent events procedures through April 27, 2018, which is the date the financial statements were available to be issued. No events arose during the period which would require adjustment or additional disclosure.