# HUMC – OPCO, LLC
# (d/b/a Hoboken University Medical Center)

## 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
HUMC - OPCO, LLC
(d/b/a Hoboken University Medical Center)
Hoboken, New Jersey

We have audited the accompanying financial statements of HUMC - OPCO, LLC (d/b/a Hoboken University Medical Center) (the "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 HUMC - OPCO, LLC (d/b/a Hoboken University Medical Center) 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

# HUMC – OPCO, LLC
# (d/b/a Hoboken University Medical Center)

## Balance Sheets

| *December 31,* | **2017** | 2016 |
|---|---|---|
| **Assets** | | |
| **Current:** | | |
| Cash and cash equivalents | **$ 8,072,642** | $ 5,934,090 |
| Net patient accounts receivable, current portion | **39,797,794** | 35,154,195 |
| Other receivables, current portion | **16,325,656** | 7,096,844 |
| Other assets | **3,114,975** | 3,331,063 |
| **Total Current Assets** | **67,311,067** | 51,516,192 |
| **Assets Limited as to use** | **4,949,293** | 4,946,737 |
| **Net Patient Accounts Receivable, Less Current Portion** | **23,871,428** | 21,086,114 |
| **Other Receivables, Less Current Portion** | **26,119,385** | 26,167,428 |
| **Investments in Unconsolidated Affiliates** | **739,318** | 739,318 |
| **Intangible Assets, Net** | **26,435,000** | 26,615,000 |
| **Property, Plant and Equipment, Net** | **49,322,811** | 55,941,529 |
| | **$198,748,302** | $187,012,318 |
| **Liabilities and Members' Equity** | | |
| **Current Liabilities:** | | |
| Accounts payable | **$ 9,381,230** | $ 9,591,585 |
| Accrued compensation and other accrued expenses | **19,482,945** | 18,334,846 |
| Deferred revenue | **883,372** | 244,333 |
| Due to third party payors, current portion | **586,823** | 2,869,539 |
| Current portion of capital lease | **3,976,465** | 5,988,671 |
| Current portion of notes payable | **3,114,852** | 210,539 |
| **Total Current Liabilities** | **37,425,687** | 37,239,513 |
| **Due to Third-Party Payors, Less Current Portion** | **6,005,853** | 4,079,934 |
| **Line of Credit** | **23,778,979** | 24,341,081 |
| **Capital Lease Payable, Less Current Portion** | **38,202,816** | 42,221,437 |
| **Notes Payable, Less Current Portion** | **1,642,196** | 9,957,529 |
| **Total Liabilities** | **107,055,531** | 117,839,494 |
| **Commitments and Contingencies** | | |
| **Members' Equity** | **91,692,771** | 69,172,824 |
| | **$198,748,302** | $187,012,318 |

*See accompanying notes to financial statements.*

# HUMC – OPCO, LLC
# (d/b/a Hoboken University Medical Center)

## Statements of Income

| *Year ended December 31,* | **2017** | 2016 |
|---|---|---|
| **Revenues:** | | |
| Net patient service revenue | **$218,750,835** | $194,418,470 |
| Charity care subsidy | **6,766,230** | 5,612,406 |
| Other revenue | **5,605,275** | 9,260,836 |
| **Total Revenues** | **231,122,340** | 209,291,712 |
| **Expenses:** | | |
| Salaries and wages | **62,318,356** | 61,225,756 |
| Fringe benefits | **13,108,137** | 13,262,459 |
| Physician fees | **13,248,371** | 17,291,066 |
| Supplies and other expenses | **90,754,492** | 81,965,167 |
| **Total Expenses** | **179,429,356** | 173,744,448 |
| **Income From Operations Before Interest Expense, Depreciation and Amortization, and Loss in Equity of Unconsolidated Affiliates** | **51,692,984** | 35,547,264 |
| **Interest Expense** | **5,835,840** | 6,664,133 |
| **Depreciation and Amortization** | **8,651,338** | 9,966,387 |
| **Net Income Before Loss in Equity of Unconsolidated Affiliates** | **37,205,806** | 18,916,744 |
| **Loss in Equity of Unconsolidated Affiliates** | **-** | (59,115) |
| **Net Income** | **$ 37,205,806** | $ 18,857,629 |

*See accompanying notes to financial statements.*

# HUMC – OPCO, LLC
# (d/b/a Hoboken University Medical Center)

## Statements of Members' Equity

| *Years ended December 31, 2017 and 2016* | |
|---|---|
| **Members' Equity, December 31, 2015** | **$ 54,989,658** |
| Net income | **18,857,629** |
| Conversion of notes payable to equity | **3,351,832** |
| Member distributions | **(8,026,295)** |
| **Members' Equity, December 31, 2016** | **69,172,824** |
| Net income | **37,205,806** |
| Member distributions | **(14,685,859)** |
| **Members' Equity, December 31, 2017** | **$ 91,692,771** |

*See accompanying notes to financial statements.*

# HUMC – OPCO, LLC
# (d/b/a Hoboken University Medical Center)

## Statements of Cash Flows

| *Year ended December 31,* | **2017** | 2016 |
|---|---|---|
| **Cash Flows From Operating Activities:** | | |
| Net income | **$ 37,205,806** | $ 18,857,629 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | **8,651,338** | 9,966,387 |
| Loss on disposal of fixed assets | **312,535** | - |
| Change in present value of other receivable | **2,235,143** | 2,147,681 |
| Loss in equity investments | **-** | 59,115 |
| Changes in assets and liabilities: | | |
| (Increase) decrease in: | | |
| Net patient accounts receivable | **(7,428,913)** | (3,659,099) |
| Other receivable | **(11,415,912)** | 3,163,176 |
| Other assets | **216,088** | 327,658 |
| (Decrease) increase in: | | |
| Accounts payable | **(210,355)** | (5,998,256) |
| Accrued compensation and other accrued expenses | **1,148,099** | (1,137,727) |
| Deferred revenue | **639,039** | (446,793) |
| Due to third party payors | **(356,797)** | (2,568,962) |
| **Net Cash Provided By Operating Activities** | **30,996,071** | 20,710,809 |
| **Cash Flows From Investing Activities:** | | |
| Purchase of property, plant and equipment | **(2,165,155)** | (1,017,746) |
| (Decrease) increase in assets limited as to use | **(2,556)** | 103,971 |
| **Net Cash Used In Investing Activities** | **(2,167,711)** | (913,775) |
| **Cash Flows From Financing Activities:** | | |
| Member distributions | **(14,685,859)** | (8,026,295) |
| Proceeds from line of credit, net of payments | **(562,102)** | 594,631 |
| Repayment of long-term debt | **(5,411,020)** | (4,712,279) |
| Repayment of capital lease obligation | **(6,030,827)** | (7,044,065) |
| **Net Cash Used In Financing Activities** | **(26,689,808)** | (19,188,008) |
| **Net (Decrease) Increase in Cash and Cash Equivalents** | **2,138,552** | 609,026 |
| **Cash and Cash Equivalents, Beginning of Year** | **5,934,090** | 5,325,064 |
| **Cash and Cash Equivalents, End of Year** | **$ 8,072,642** | $ 5,934,090 |
| **Supplemental Disclosures of Cash Flow Information:** | | |
| Noncash transactions related to capital leases | **$ -** | $ 2,147,071 |
| Conversion of notes payable to equity | **-** | 3,351,832 |
| Cash paid for interest | **5,817,472** | 6,614,828 |

*See accompanying notes to financial statements.*

## 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. The Hospital is a licensed 364-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 sheet, 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 with the exceptions of amounts limited as to use as required by the letter of credit agreement with a financial institution.

### *(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 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 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 twelve months. Accordingly, the estimate of accounts expected to settle after twelve months from the balance sheet dates has 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 asset and is computed using the straight-line method. The estimated useful lives of various asset classes is 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 |
| Trade name | 10 years |
| Medical records | Indefinite |

### *(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 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.

### *(i) Income Taxes*

As a limited liability company, the income of the Hospital passes through to the tax returns of the respective owners. Therefore, the entity does not record income tax expense. 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 are as follows:

| *December 31,* | **2017** | 2016 |
|---|---|---|
| Medicare | **9%** | 6% |
| Medicaid | **7** | 7 |
| Other third-party payors | **84** | 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) Reclassifications*

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

*(m) 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 2015 and a tentative settlement for 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 | **$24,000,000** | **$ -** | **$24,000,000** | **Indefinite life** |
| Trade name | **1,800,000** | **1,110,000** | **690,000** | **10 years** |
| Medical records | **1,745,000** | **-** | **1,745,000** | **Indefinite life** |
| Total | **$27,545,000** | **$1,110,000** | **$26,435,000** | |

*December 31, 2016*

| | Gross Balance | Accumulated Amortization | Net Value | Useful Life |
|---|---|---|---|---|
| Licenses | $24,000,000 | $ - | $24,000,000 | Indefinite life |
| Trade name | 1,800,000 | 930,000 | 870,000 | 10 years |
| Medical records | 1,745,000 | - | 1,745,000 | Indefinite life |
| Total | $27,545,000 | $930,000 | $26,615,000 | |

Indefinite-lived 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 |
|---|---|---|
| Building | **$ 54,844,332** | $54,844,332 |
| Building improvements | **15,299,935** | 13,739,994 |
| Movable and fixed equipment | **30,579,909** | 30,176,469 |
| Construction-in-progress | **-** | 110,761 |
| | **100,724,176** | 98,871,556 |
| Less: Accumulated depreciation | **51,401,365** | 42,930,027 |
| Property, plant and equipment, net | **$ 49,322,811** | $55,941,529 |

During 2017, the Hospital had property, plant and equipment additions of $2,165,155.

The Hospital is obligated under capital leases covering building and equipment that expire at various dates through 2026. 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 |
|---|---|---|
| Building | **$54,844,332** | $54,844,332 |
| Building improvements | **2,885,276** | 2,986,778 |
| Movable and fixed equipment | **15,885,606** | 15,647,817 |
| | **73,615,214** | 73,478,927 |
| Less: Accumulated depreciation | **38,257,072** | 32,243,404 |
| | **$35,358,142** | $41,235,523 |

## 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 $23,778,979 and $24,341,081, respectively.

## 7. 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 1.34% to 10.5% per annum. 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, 2017.

| | |
|---|---|
| 2018 | $ 7,117,036 |
| 2019 | 7,103,657 |
| 2020 | 6,917,454 |
| 2021 | 6,289,452 |
| 2022 | 6,289,452 |
| Thereafter | 24,633,687 |
| Total minimum lease payments | 58,350,738 |
| Less: Amount representing interest | 16,171,457 |
| Present value of net minimum lease payments | 42,179,281 |
| Less: Current portion | 3,976,465 |
| | $38,202,816 |

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. Notes Payable

### *(a) Working Capital Note*

On November 4, 2011, the Hospital entered into a contract with a healthcare real estate investment trust for a working capital note up to $20,000,000 to finance capital and operational needs. The note is secured by all of the Hospital's assets. The note bears interest of 10.40% payable on the first day of each calendar month. The principal amount will be due at maturity on November 3, 2018. Under the term of the note, the Hospital has agreed to comply with certain covenants. All such covenants were complied with or waived by the investment trust. The outstanding loan balance at December 31, 2017 and 2016 is $3,002,328 and $8,091,277, respectively.

### *(b) Promissory Note*

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

Required principal payments on the notes payable at December 31, 2017 are as follows:

| *Year ending December 31,* | |
|---|---|
| 2018 | $ 112,524 |
| 2019 | 115,472 |
| 2020 | 118,535 |
| 2021 | 121,719 |
| 2022 | 125,028 |
| Thereafter | 1,161,442 |
| | $1,754,720 |

## 9. 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 $16,024,233 and $13,998,124 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.

## 10. 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 Hudson Hospital 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.

## 11. 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 $737,754 and $644,163, respectively.

## 12. Related Party Transactions

### *(a) Capital Lease*

The Hospital signed a 15-year 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. Lease payments made by the Hospital to a healthcare real estate investment trust totaled $6,036,595 and $6,606,196 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) Investment in McCabe Ambulance Service, 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 approximated the 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.

### *(c) 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 of Hudson County, LLC ceased operations and the Hospital wrote off the remaining balance of its non-controlling interest and recorded a loss from the write-off in the amount of $59,115 in investment in unconsolidated affiliates in the accompanying consolidated statement of income.

### *(d) 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 Hospitals' 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 Hospitals and the method of repayment by the Practice Management organizations. 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 $30,537,246 and $29,788,116, respectively, which is net of a present value discount as due from JHA 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.

### *(e) Management Agreement*

The Hospital has entered into a management services 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 $8,316,888 and $8,014,731 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.

## 13. 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.

## 14. 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. There were no subsequent events requiring adjustment to the financial statements or disclosures as stated herein.