

**NJMHMC LLC AND AFFILIATE
(d/b/a Hudson Regional Hospital)**

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2018

**NJMHMC LLC AND AFFILIATE
(d/b/a Hudson Regional Hospital)**

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INDEPENDENT AUDITORS' REPORT

To the Members
NJMHMC LLC and Affiliate
(d/b/a Hudson Regional Hospital)

We have audited the accompanying financial statements of NJMHMC LLC and Affiliate, d/b/a Hudson Regional Hospital (the Hospital), which comprise the consolidated balance sheet as of December 31, 2018 and the related consolidated statements of income and changes in members' equity, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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 consolidated financial position of NJMHMC LLC and Affiliate as of December 31, 2018, and the consolidated 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.

Marcum LLP

Hartford, CT
April 30, 2019

NJMHMC LLC AND AFFILIATE
(d/b/a Hudson Regional Hospital)

CONSOLIDATED BALANCE SHEET

DECEMBER 31, 2018

Assets

Current Assets

Cash	\$ 777,069
Patient accounts receivable, net of allowances for doubtful accounts, contractual and other adjustments of approximately \$321,000,000	33,186,510
Supplies inventory	1,544,251
Prepaid expenses and other current assets	<u>306,599</u>

Total Current Assets 35,814,429

Other Assets

Deposits	7,176
Property, plant and equipment, net	37,865,899
Due from affiliates	1,806,890
Loan to affiliate	303,750
Goodwill	<u>741,245</u>

Total Other Assets 40,724,960

Total Assets \$ 76,539,389

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

NJMHMC LLC AND AFFILIATE
(d/b/a Hudson Regional Hospital)

CONSOLIDATED BALANCE SHEET (CONTINUED)

DECEMBER 31, 2018

Liabilities and Members' Equity

Current Liabilities

Accounts payable and accrued expenses	\$ 18,035,513
Current portion of capital lease obligation	319,795
Current portion of note payable	1,160,160
Current portion of long-term debt	5,267,598
Estimated third-party settlements	<u>200,000</u>

Total Current Liabilities 24,983,066

Long-Term Liabilities

Capital lease obligation, net of current portion	758,155
Note payable	5,751,030
Long-term debt, net of current portion	12,832,099
Loan from affiliate	16,340,721
Line of credit	<u>3,000,000</u>

Total Long-Term Liabilities 38,682,005

Total Liabilities 63,665,071

Members' Equity

Controlling interest	8,788,644
Non-controlling interest	<u>4,085,674</u>

Total Members' Equity 12,874,318

Total Liabilities and Members' Equity \$ 76,539,389

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

NJMHMC LLC AND AFFILIATE
(d/b/a Hudson Regional Hospital)

**CONSOLIDATED STATEMENT OF INCOME AND
CHANGE IN MEMBERS' EQUITY**

FOR THE YEAR ENDED DECEMBER 31, 2018

Operating Revenue	
Patient service revenue, net of contractual and bad debt allowances	\$ 83,885,881
Other revenue	<u>1,198,100</u>
Total Operating Revenue	<u>85,083,981</u>
Operating Expense	
Salaries and wages	25,972,967
Payroll taxes and employee benefits	3,338,405
Physician fees	8,057,750
Supplies and other expenses	38,570,010
Interest	1,333,194
Depreciation and amortization	<u>1,347,118</u>
Total Operating Expenses	<u>78,619,444</u>
Income from Operations	6,464,537
Gain on Acquisition of Business	<u>1,516,053</u>
Net Income	7,980,590
Less: Net income attributable to non-controlling interest	<u>(4,085,674)</u>
Net Income Attributable to NJMHMC LLC	3,894,916
Members' Contributions	<u>4,893,728</u>
Members' Equity - NJMHMC LLC at End of Year	<u>\$ 8,788,644</u>
Members' Equity - Non-Controlling Interest at End of Year	<u>\$ 4,085,674</u>

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

NJMHMC LLC AND AFFILIATE
(d/b/a Hudson Regional Hospital)

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2018

Cash Flows from Operating Activities	
Net income	\$ 7,980,590
Adjustments to reconcile net income to net cash used in operating activities	
Depreciation and amortization	1,347,118
Gain on acquisition of business	(1,516,053)
Changes in operating assets and liabilities:	
Patient accounts receivable	(33,186,510)
Supplies inventory	(1,544,251)
Prepaid expenses and other current assets	(306,599)
Deposits	(7,176)
Accounts payable and accrued expenses	18,035,513
Estimated third-party settlements	<u>200,000</u>
Net Cash Used in Operating Activities	<u>(8,997,368)</u>
Cash Flows from Investing Activities	
Net value of assets acquired in acquisitions	(35,165,755)
Purchases of property and equipment	<u>(3,985,735)</u>
Net Cash Used in Investing Activities	<u>(39,151,490)</u>
Cash Flows from Financing Activities	
Borrowings on long term debt	45,429,558
Payments on long term debt	(841,537)
Members' contributions	4,893,728
Payment of deferred financing costs	<u>(555,822)</u>
Net Cash Provided by Financing Activities	<u>48,925,927</u>
Net Increase in Cash	777,069
Cash - Beginning	<u> --</u>
Cash - End	<u><u>\$ 777,069</u></u>
Supplemental Disclosure of Cash Flow Information	
Cash paid for interest	<u><u>\$ 1,333,194</u></u>
Supplemental Disclosure of Noncash Financing Activities	
Equipment purchased under capital leases	<u><u>\$ 1,018,882</u></u>

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

NJMHMC LLC AND AFFILIATE
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2018

NOTE 1 - ORGANIZATION

On December 29, 2017, NJMHMC LLC purchased the operations, building and certain other physical assets of Meadowlands Hospital Medical Center from MHA LLC (the Seller) for a total purchase price of \$12,200,000 with an effective date of January 1, 2018 (inception of operations). In addition, NJMHMC LLC also assumed various leases from the Seller.

NJMHMC LLC d/b/a Hudson Regional Hospital (the Hospital), is a for-profit acute care hospital with 204 licensed beds located in Secaucus, New Jersey. The Hospital provides inpatient, outpatient and emergency care services to residents of Secaucus, New Jersey and surrounding communities in New Jersey. The Hospital leases its space from 55 Meadowlands Holding LLC (the Landlord), which is a related party through common ownership.

The Landlord was formed for the purpose of owning and leasing a healthcare facility located in Secaucus, New Jersey and is considered to be a variable interest entity (VIE). On June 6, 2018, the Landlord acquired the lease option for the land the Hospital is located on. The purchase was financed through a mortgage with Popular Bank (see Note 7). As a result of the acquisition, the land and building were transferred to the Landlord.

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the financial statements of the Hospital and the Landlord. All significant intercompany balances and transactions have been eliminated in consolidation. The Hospital is the primary beneficiary of the Landlord, which qualifies as a VIE. The determination was based on the fact that the Hospital absorbs a majority of the VIE's expected losses and receives a majority of its expected residual returns. Except for amounts contractually required under the lease agreement between the Hospital and the Landlord, the Hospital did not provide any further financial or other support to the Landlord. The Hospital could be required to provide additional financial support to assist the Landlord in meeting its financial obligations if contractually required amounts were insufficient. Financing of the Landlord is accomplished through a mortgage loan as described in Note 7 to the consolidated financial statements. The Hospital's involvement with the Landlord is limited to leasing the real estate and guaranteeing the mortgage loan payable.

The assets, liabilities, revenues and expenses of the Landlord have been included in the accompanying consolidated financial statements. As of December 31, 2018, amounts included in consolidated assets and liabilities are as follows:

Assets:

Cash	\$ 24,910
Property, plant and equipment	\$ 34,218,836

NJMHMC LLC AND AFFILIATE
(d/b/a Hudson Regional Hospital)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2018

NOTE 1 - ORGANIZATION (CONTINUED)

PRINCIPLES OF CONSOLIDATION (CONTINUED)

Liabilities:

Accrued and other liabilities	\$ 118,870
Long term debt	\$ 21,941,177

NOTE 2 - ACQUISITIONS

As stated in Note 1, on December 29, 2017, NJMHMC LLC entered into an asset purchase agreement with the Seller to purchase the Meadowland Hospital Medical Center's operations and facility (effective date of January 1, 2018). The assets and liabilities of the acquired business have been included in the Hospital's consolidated balance sheet based upon estimated fair values on the date of acquisition as determined in the purchase price allocation, using available information and making assumptions management believes are reasonable.

The Hospital's allocation of the purchase price and consideration paid for this acquisition is included in the table below, which summarizes the estimated fair value of the assets acquired, the liabilities assumed and the consideration paid at the date of acquisition:

Assets acquired:	
Building and improvements	\$ 9,374,595
Major movable equipment	2,271,623
Supplies inventory	<u>583,296</u>
Total assets acquired	12,229,514
Liabilities assumed:	
Capital lease liabilities	156,518
Other liabilities	<u>614,241</u>
Total liabilities assumed	770,759
Net value of assets acquired	<u>11,458,755</u>
Consideration:	
Promissory note payable to seller	7,200,000
Cash paid and loans made by member	<u>5,000,000</u>
	<u>12,200,000</u>
Goodwill	<u>\$ 741,245</u>

NJMHMC LLC AND AFFILIATE
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2018

NOTE 2 - ACQUISITIONS (CONTINUED)

As stated in Note 1, on June 6, 2018, the Landlord acquired from the Hospital the lease option for the land the Hospital is located on. The assets and liabilities associated with the acquisition were included in the Landlord's balance sheet based upon estimated fair values on the date of the acquisition as determined in the purchase price allocation, using available information and making assumptions management believes are reasonable.

The Landlord's allocation of the purchase price and consideration paid for this acquisition is included in the table below, which summarizes the estimated fair value of the assets acquired and the consideration paid at the date of acquisition:

Assets acquired:	
Land	\$ 23,707,000
Consideration:	
Mortgage payable to bank	\$ 16,000,000
Cash paid and loans made by member	<u>6,190,947</u>
	<u>\$ 22,190,947</u>
Gain on acquisition of business	<u>\$ 1,516,053</u>

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION

The Hospital's consolidated financial statements are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America, whereby revenues are recognized when they are earned and expenses are recognized when they are incurred.

NJMHMC LLC AND AFFILIATE
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2018

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

USE OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

CASH

The Hospital maintains its cash in major financial institutions that insure deposits with the Federal Deposit Insurance Corporation (FDIC). At times, balances may exceed the FDIC limits.

PATIENT ACCOUNTS RECEIVABLE

Patient accounts receivable are recorded at established rates net of contractual and other allowances and do not bear interest. The Hospital grants credit to patients and generally does not require collateral or other security. However, it routinely obtains assignment of patients' benefits under the patients' health insurance policies. The allowance for doubtful accounts is the Hospital's best estimate of the amount of probable credit losses in the existing patient accounts receivable. The Hospital reviews its allowance for doubtful accounts periodically and determines the estimated allowance based on its write-off experience and expected net collections, business and economic conditions, trends in Medicare and Medicaid health care coverage and other collection indicators.

It is the Hospital's policy to provide an allowance for a significant portion of its receivables from third party payors that are subject to a lengthy collection and adjudication process. Account balances are charged off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote.

Further, in evaluating the collectability of accounts receivable, the Hospital analyzes its past history and identifies trends for each of its major payor sources of revenue to estimate the appropriate allowance for doubtful accounts and contractual and other adjustments. Management regularly reviews data about its major payor sources of revenue in evaluating the sufficiency of the allowances. For receivables associated with self-pay patients which include both patients without insurance and patients with deductible and

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2018

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

PATIENT ACCOUNTS RECEIVABLE (CONTINUED)

copayment balances due for which third-party coverage exists for part of the bill, the Hospital records a provision for bad debts in the period of service on the basis of its past experience. The estimated amount for the allowance for doubtful accounts is based on management's assessment of historical and expected collections, business economic conditions, trends in health care coverage and other collection indicators. The difference between discounted rates and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for doubtful accounts.

SUPPLIES INVENTORY

Supplies inventory is recorded at the lower of cost, using the first-in, first-out method, or net realizable value.

INTANGIBLE ASSETS

Intangible assets primarily consist of goodwill and capitalized computer software costs. Goodwill is included in other noncurrent assets and capitalized computer software costs are included in property, plant and equipment, net on the accompanying consolidated balance sheet.

Intangible assets are comprised of the following at December 31, 2018:

Capitalized computer software costs	\$ 849,834
Less: Accumulated amortization	<u>359,391</u>
Capitalized computer software costs, net	490,443
Goodwill	<u>741,245</u>
Total intangible assets, net	<u>\$ 1,231,688</u>

Intangible assets whose lives are indefinite, primarily goodwill, are not amortized and are evaluated for impairment at least annually or when circumstances indicate a possible impairment may exist, while intangible assets with definite lives, primarily capitalized computer software costs, are amortized over their expected useful lives.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2018

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

DEFERRED FINANCING COSTS

Financing costs of \$555,822 associated with the issuance of long-term obligations have been capitalized and are being amortized evenly over the term of the debt using the straight line amortization method. Debt issuance costs related to the mortgage loan are presented as a reduction of the carrying amount of the loan with the amortization of these costs to be included with interest expense.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment acquired in business combinations are recorded at fair market value at the time of acquisition. All other property and equipment are recorded at cost less accumulated depreciation. Property acquired under capital lease obligations is recorded at the net present value of required total minimum lease payments at the date of acquisition and depreciated over the lease term or estimated useful life, whichever is shorter. The cost of maintenance and repairs is charged to expense as incurred. Significant renewals and betterments that increase the value of, or extend the life of, the related asset are capitalized. Depreciation and amortization is computed using the straight line method over the estimated useful lives of the related assets as follows:

	<u>Useful Lives</u>
Building and improvements	39 years
Leasehold improvements	15 years
Computer software	3 – 5 years
Major movable equipment	5 – 7 years

IMPAIRMENT OF LONG-LIVED ASSETS

The Hospital reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. Recoverability of these assets is determined by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If such assets are considered impaired, the long-lived assets are then written down to fair value. Fair value is determined based on discounted cash flows or appraised values, depending on the nature of the assets. Management believes no impairments have occurred and, therefore, no write-downs of the assets were necessary for the year ended December 31, 2018.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2018

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

CHARITY CARE

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

The Hospital commits substantial resources to sponsor a broad range of services to the community. Community benefits provided to the indigent include the cost of providing services to persons who cannot afford health care due to inadequate resources and/or who are uninsured or underinsured. This type of community benefit includes the costs of traditional charity care, unpaid costs of care provided to beneficiaries of Medicaid and other indigent public programs, and services such as free clinics and meal programs for which a patient is not billed or for which a nominal fee has been assessed.

Traditional charity care is provided by the Hospital to patients who meet certain criteria defined by the State of New Jersey Department of Health and Senior Services (DOHSS) without charge or at amounts less than established rates.

The Health Care Subsidy Fund was established by the State of New Jersey for various purposes including the distribution of charity care payments to hospitals statewide. During the year ended December 31, 2018, the Hospital received approximately \$31,989 from this fund, which is included in patient service revenue in the accompanying consolidated statement of income and changes in Members' equity.

The Hospital'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 Hospital's gross charity care charges provided. The Hospital's gross charity care charges include only services provided to patients who are unable to pay and qualify under the Hospital's charity care policy. To the extent the Hospital receives reimbursement through the various governmental assistance programs in which it participates to subsidize its care of indigent patients, the Hospital does not include these patients' charges in its cost of care provided under its charity care program. The amount of charity care provided was approximately \$447,000 for the year ended December 31, 2018.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2018

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

NET PATIENT SERVICE REVENUE

Most of the Hospital's net patient service revenue is derived from third-party payment programs with governmental and commercial insurance carriers. The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges and per diem payments (see Note 4).

Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors due to future audits, reviews and investigations. Contractual allowance adjustments and third-party settlements are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as adjustments become known or as years are no longer subject to such audits, reviews or investigations. Contracts, laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates may change by a material amount in the future. The Hospital believes that it is in compliance with all applicable Medicare and Medicaid laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing that could have a material adverse effect on its consolidated financial statements. Noncompliance with such laws and regulations could result in fines, penalties and exclusion from such programs.

INCOME TAXES

The Members of the Hospital and Landlord have elected to be treated as a Partnership for federal and state income tax purposes. Accordingly, any income or loss generated by the Hospital and the Landlord is passed through to the Members. As a result, the accompanying financial statements do not reflect a provision for federal and state income taxes.

Management has concluded that the Hospital and the Landlord are pass-through entities for income tax purposes and there are no uncertain tax positions that would require recognition in the consolidated financial statements. If the Hospital or Landlord were to incur an income tax liability in the future, interest on any income tax liability would be reported as interest expense and penalties on any income tax would be reported as income taxes. Management's conclusions regarding uncertain tax positions may be subject to review and adjustment at a later date based upon ongoing analysis of tax laws, regulations and interpretations thereof as well as other factors.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2018

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

SUBSEQUENT EVENTS

Management has evaluated subsequent events through April 30, 2019, which is the date these consolidated financial statements were available to be issued.

NOTE 4 - NET PATIENT SERVICE REVENUE

The Hospital has agreements with third-party payors that provide for payments at amounts different from its established rates. A summary of the principal payment arrangements with major third-party payors is as follows:

Medicare: Inpatient acute care and nonacute services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. Outpatient services provided to Medicare program beneficiaries are paid at prospectively determined amounts. These rates vary according to patient classification systems that are based on clinical, diagnostic and other factors. Federal regulations provide for certain adjustments to the current and prior years' payment rates based on industry-wide and hospital-specific data. The Hospital has filed its Medicare cost report for the year ended December 31, 2018.

Medicaid: Inpatient acute care services rendered to Medicaid program beneficiaries are paid at prospectively determined rates per discharge. Outpatient services rendered to Medicaid program beneficiaries are reimbursed under cost-based and fee schedule methodologies. The Hospital is reimbursed for outpatient services at a tentative rate with final settlement determined after submission of annual cost reports and audits thereof by the Medicaid fiscal intermediary. The Hospital has filed its Medicaid cost report for the year ended December 31, 2018.

Other third-party payors: The Hospital also has entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, preferred provider organizations and other organizations. The basis for payment under these agreements includes prospectively determined rates per discharge, discounts from established charges, published fee schedules and prospectively determined daily rates.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2018

NOTE 4 - NET PATIENT SERVICE REVENUE (CONTINUED)

Total revenue from the Medicare and Medicaid programs accounted for approximately 21.1 percent and 10.5 percent, respectively, of the Hospital's net patient service revenue for the year ended December 31, 2018.

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

Patient service revenue for the year ended December 31, 2018, net of contractual allowances, discounts and bad debts is as follows:

Gross inpatient and outpatient charges	\$ 644,007,059
Contractual, bad debt and other allowances	<u>(560,121,178)</u>
Net patient service revenue	<u>\$ 83,885,881</u>

NOTE 5 - PROPERTY, PLANT AND EQUIPMENT

A summary of property, plant and equipment at December 31, 2018 is as follows:

Land	\$ 23,707,000
Building and building improvements	10,693,105
Computer equipment, software	1,009,764
Major movable equipment	<u>3,677,399</u>
	39,087,268
Less accumulated depreciation and amortization	<u>(1,221,369)</u>
	<u>\$ 37,865,899</u>

Depreciation and amortization expense on property, plant and equipment for the year ended December 31, 2018 was \$1,347,117 which includes \$125,748 related to the Hospital building, prior to being transferred to the Landlord.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2018

NOTE 6 - LEASE COMMITMENTS

CAPITAL LEASES

The Hospital finances certain equipment under capital leases. Obligations under the capital leases are recorded in the accompanying consolidated financial statements at the present value of future minimum lease payments. The leases mature from May 2019 through December 2023 and have effective interest rates ranging from 4.25 percent to 12.6 percent. The net book value of this leased equipment at December 31, 2018 was \$1,260,216. Future minimum lease payments for the years ending December 31 are as follows:

	2019	\$ 394,395
	2020	246,114
	2021	237,894
	2022	226,422
	2023	<u>173,738</u>
		1,278,563
Less, amounts representing interest		<u>(200,612)</u>
Present value of minimum lease payments		1,077,951
Less, current portion		<u>(319,796)</u>
Capital lease obligation, net of current portion		<u>\$ 758,155</u>

Interest expense associated with the above capital lease obligations for the year ended December 31, 2018 was \$18,923.

OPERATING LEASES

The Hospital leases equipment under various operating leases, expiring at various dates throughout 2023. Future minimum rental commitments as of December 31, 2018 are as follows:

	2019	\$ 451,873
	2020	442,270
	2021	360,359
	2022	195,094
	2023	<u>144,635</u>
		<u>\$ 1,594,231</u>

Rent expense related to the operating leases was \$458,349 for the year ended December 31, 2018.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2018

NOTE 6 - LEASE COMMITMENTS

OPERATING LEASES (CONTINUED)

As disclosed in Note 1, the Hospital leases its space from the Landlord under a lease that expires in April 2048 for \$300,000 per month. The rental income for the Landlord and rental expense for the Hospital was \$3,600,000 for the year ended December 31, 2018. These amounts have been eliminated in consolidation. The future minimum rental payments under the above lease is as follows:

<u>Year ending December 31,</u>	
2019	\$ 3,672,000
2020	3,745,440
2021	3,820,349
2022	3,896,756
2023	3,974,691
Thereafter	<u>129,856,751</u>
	<u>\$ 148,965,987</u>

In addition, the Hospital and the Landlord are lessors under certain operating lease agreements and lease space in the Hospital building.

Future minimum rental receipts under all noncancellable operating leases, excluding leases with related-parties, for properties owned by the Hospital and the Landlord with terms of one year or more are as follows:

<u>Year ending December 31,</u>	
2019	\$ 60,000
2020	60,000
2021	60,000
2022	<u>55,000</u>
	<u>\$ 235,000</u>

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2018

NOTE 7 - LONG-TERM DEBT

The Hospital has a \$7,200,000 note payable with the Seller. This note was issued as part of the acquisition that occurred on December 29, 2017 as disclosed in Note 1. This note carries an interest rate of 2.18%, matures in 2024, and began amortization on October 1, 2018. The monthly principal and interest payments are \$108,445. The balance outstanding under this note payable is \$6,913,225 at December 31, 2018.

Future minimum payments by year and in the aggregate under the note payable are as follows:

<u>Year Ending December 31,</u>	
2019	\$ 1,162,195
2020	1,187,785
2021	1,213,939
2022	1,240,669
2023	1,267,988
2024	<u>840,649</u>
	<u>\$ 6,913,225</u>

The above note payable is secured by a guarantee of the member of the Hospital.

The Hospital and Landlord have entered into a mortgage, assignment of leases and rents and security agreement (the Mortgage) with Popular Bank for \$18,655,000. The Mortgage is a five year loan with interest only payments due for the first six months. Interest rate at December 31, 2018 was 4.75%. As of December 31, 2018, the balance on the Mortgage was \$18,653,484.

Future minimum payments by year and in the aggregate under the Mortgage are as follows:

<u>Year Ending December 31,</u>	
2019	\$ 3,808,647
2020	3,993,549
2021	4,187,427
2022	4,390,718
2023	<u>2,273,143</u>
	18,653,484
Unamortized deferred financing costs	<u>(555,822)</u>
	<u>\$ 18,097,662</u>

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NOTE 7 - LONG-TERM DEBT (CONTINUED)

The above debt agreement is secured by a guarantee by the member of the Hospital and Landlord as well as various affiliated entities with common ownership. The Mortgage is subject to certain financial and non-financial covenants and other restrictions similar in financings of this type.

The Hospital and Landlord have three loans outstanding with a related party. All three of these loans bear interest at 5.0% and have 5 year terms (starting at the July 2019 payment date). Amortization on these loans begins in July 2019. The outstanding balance on these loans at December 31, 2018 is \$16,340,721, \$12,498,721 due from the Hospital and \$3,842,000 due from the Landlord.

Future minimum payments by year and in the aggregate under these loans are as follows:

<u>Year Ending December 31,</u>	
2019	\$ 1,456,915
2020	3,025,172
2021	3,179,947
2022	3,342,638
2023	3,513,654
2024	<u>1,822,395</u>
	<u>\$ 16,340,721</u>

The Hospital and the Landlord have a \$10 million credit line with Popular Bank to be used for operating expenses. The line matures on July 31, 2020 and bears interest at a floating rate equal to the greater of (i) LIBOR plus the applicable margin (3.25%) and (ii) the floor rate (4.75%). The interest rate at December 31, 2018 was 5.76%. As of December 31, 2018, the Hospital has a \$3 million outstanding balance under the line.

NOTE 8 - EMPLOYEE BENEFIT PLANS

The Hospital sponsors a defined contribution 401(k) plan for its employees. This plan was established on May 1, 2011. All full-time and part-time employees who are at least 21 years of age are eligible for participation in the plan after completion of three months of employment and are encouraged to make contributions. The Hospital did not make contributions to the plan during the year ended December 31, 2018.

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NOTE 8 - EMPLOYEE BENEFIT PLANS (CONTINUED)

The Hospital contributes to a union pension plan under a collective bargaining agreement with the Operating Engineers Local No. 68 Union. Union pension expense included in payroll taxes and employee benefits in the accompanying consolidated statement of income and changes in Members' equity for the year ended December 31, 2018 was \$16,913.

NOTE 9 - TRANSACTIONS WITH AFFILIATED ENTITIES

On November 15, 2018, the Hospital entered into a \$50,000 three month non-interest bearing loan with an affiliated entity. The entire balance was outstanding as of December 31, 2018 and is included in prepaid expenses and other current assets in the accompanying consolidated balance sheet.

On September 27, 2018, the Hospital entered into a \$300,000 credit line and security agreement with Alliance Community Healthcare, Inc. The secured credit line bears interest at a rate of 7.5% and matures on December 31, 2020. Payments of principal and interest are \$12,500 per month and commence on December 31, 2018. The balance due to the Hospital was \$303,750 at December 31, 2018.

The Hospital has unsecured amounts due from various affiliated entities related by common ownership. Amounts due from affiliates at December 31, 2018 amounted to \$1,806,890.

NOTE 10 - COMMITMENTS AND CONTINGENCIES

The Hospital is involved in various litigation and regulatory inspections arising in the normal course of business. Management estimates that ongoing legal matters will be resolved without material adverse effect on the Hospital's future financial position or results of operations.

The health care industry is subject to numerous laws and regulations of federal, state and local government. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, and healthcare fraud and abuse. Activity continues to increase with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by health care providers. Violations of these laws and regulations could result in expulsion from government health care programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed.

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FOR THE YEAR ENDED DECEMBER 31, 2018

NOTE 11 - MEDICAL MALPRACTICE RESERVES

The Hospital has an internal risk management program and carries claims insurance coverage through a commercial carrier. The Hospital also has excess umbrella liability coverage, which provides coverage above the basic policy limits up to the amounts specified in the umbrella coverage. The Hospital reviewed the adequacy of its professional liability insurance coverage and has determined that a provision for estimated malpractice claims for both reported and incurred but not reported is not necessary at December 31, 2018. Management believes that any claims, if asserted, would be settled within the limits of its insurance coverage.

NOTE 12 - HEALTH INSURANCE

The Hospital self-insures its employee health insurance coverage and accrues the estimated costs of incurred and reported and incurred and unreported claims, after consideration of its stop-loss insurance coverage, based upon data provided by the third-party administrator of the program and its historical claims experience. The insurance health plan has a stop loss policy for the employee health insurance claims, which covers the amount of each claim in excess of \$175,000. The Hospital's estimated liability of \$100,000 at December 31, 2018 is included in accounts payable and accrued expenses in the accompanying consolidated balance sheet.

NOTE 13 - CONCENTRATIONS OF CREDIT RISK

The Hospital grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. Concentrations of accounts receivable as a percentage from patients and third-party payors were as follows as of December 31, 2018:

Medicare	21%
Medicaid	11%
Other third party payors	64%
Self Pay	<u>4%</u>
	<u>100%</u>

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NOTE 14 - UPCOMING ACCOUNTING PRONOUNCEMENTS

In February 2016, the Financial Accounting Standards Board (FASB) issued ASU No. 2016-02, *Leases*, which requires that a lessee recognize the assets and liabilities that arise from operating leases. A lessee should recognize in the balance sheet a liability to make lease payments (the lease liability) and a right-of-use asset representing its right to use the underlying asset for the lease term. Entities that are not public business entities should apply the amendments for fiscal years beginning after December 15, 2019. The Hospital is currently evaluating the impact this standard will have on its consolidated financial statements.

In May 2014, the FASB issued ASU No 2014-09, *Revenue from Contracts with Customers*. The core principle of ASU 2014-09 is that an entity should recognize revenue to depict the transfer of goods and services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. The requirements of ASU 2014-09 will result in changes to the presentation and disclosure of revenue. Under ASU 2014-09, the uncollectible amounts due from patients will generally be reported as a direct reduction to revenue and will result in a significant reduction in the amounts presented separately as the provision for doubtful accounts. The guidance in ASU 2014-09 is effective for annual reporting periods beginning after December 15, 2018 for entities that are not public business entities. The Hospital is currently evaluating the impact this standard will have on its consolidated financial statements.