Pascack Valley Health System, LLC

Consolidated Financial Statements
December 31, 2016 and 2015

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December 31, 2016 and 2015

Report of Independent Auditors

To the Board of Directors of
Pascack Valley Health System, LLC

We have audited the accompanying consolidated financial statements of Pascack Valley Health System, LLC (the "Company"), which comprise the consolidated balance sheets as of December 31, 2016 and 2015, and the related consolidated statements of operations, members' equity, and cash flows for the years then ended.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on the consolidated 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 audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Company's preparation and fair presentation of the consolidated 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 Company'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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Pascack Valley Health System, LLC at December 31, 2016 and 2015 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.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
March 17, 2017

Pascack Valley Health System, LLC
Consolidated Balance Sheets
December 31, 2016 and 2015

(in thousands of dollars)	**2016**	**2015**
Assets		
Current assets		
Cash	$ -	$ 52
Due from Corporate - cash management	784	456
Accounts receivable, less allowance for doubtful accounts of $13,730 and $5,505 in 2016 and 2015, respectively	18,437	16,864
Inventories	4,614	4,366
Other receivables, net	1,004	1,119
Other current assets	564	456
Total current assets	25,403	23,313
Property and equipment, at cost		
Land	15,955	15,955
Buildings and improvements	95,027	84,122
Furniture and equipment	49,573	40,457
Construction-in-progress	1,059	3,045
	161,614	143,579
Accumulated depreciation and amortization	(30,524)	(21,906)
Property and equipment, net	131,090	121,673
Intangible assets	810	489
Notes receivable	-	206
Total assets	$ 157,303	$ 145,681
Liabilities and Members' Equity		
Current liabilities		
Accounts payable	$ 7,865	$ 10,277
Accrued salaries, wages, and benefits	2,905	2,105
Other accrued expenses	615	494
Current portion of long-term debt	203	-
Current portion of capital lease obligations	107	-
Total current liabilities	11,695	12,876
Long-term liabilities		
Long-term debt, less current portion	810	-
Capital lease obligations, less current portion	20	-
Other long-term liabilities	716	814
Total long-term liabilities	1,546	814
Commitments and contingencies		
Members' equity	144,062	131,991
Total liabilities and members' equity	$ 157,303	$ 145,681

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

Pascack Valley Health System, LLC
Consolidated Statements of Operations
Years Ended December 31, 2016 and 2015

(in thousands of dollars)	**2016**	**2015**
Patient revenues before provision for doubtful accounts	$ 106,628	$ 89,461
Provision for doubtful accounts	8,787	1,755
Net patient revenues	97,841	87,706
Other revenue	1,019	1,208
Net revenues	98,860	88,914
Operating expenses		
Salaries and benefits	39,423	35,572
Supplies	13,605	12,602
Other operating expenses	18,295	19,586
Contract services	14,537	13,709
Depreciation	8,617	8,581
Management fees	2,299	1,983
Energy improvement incentive income	(1,137)	-
Electronic health record incentive income	(654)	(836)
Gain on sale of asset	-	(2)
Total operating expenses	94,985	91,195
Income (loss) from operations	3,875	(2,281)
Interest expense, net	(121)	(61)
Net income (loss)	$ 3,754	$ (2,342)

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

Pascack Valley Health System, LLC
Consolidated Statements of Members' Equity
Years Ended December 31, 2016 and 2015

(in thousands of dollars)	Units	Amount	Accumulated Deficit	Total
December 31, 2014	1,477	$ 162,677	$ (32,555)	$ 130,122
Contributions from				
LHP Pascack Valley, LLC	-	2,737	-	2,737
Hackensack UMC	-	1,474	-	1,474
Net loss	-	-	(2,342)	(2,342)
December 31, 2015	1,477	166,888	(34,897)	131,991
Contributions from				
LHP Pascack Valley, LLC	-	5,406	-	5,406
Hackensack UMC	-	2,911	-	2,911
Net income	-	-	3,754	3,754
December 31, 2016	1,477	$ 175,205	$ (31,143)	$ 144,062

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

Pascack Valley Health System, LLC
Consolidated Statements of Cash Flows
Years Ended December 31, 2016 and 2015

(in thousands of dollars)	2016	2015
Operating activities		
Net income (loss)	$ 3,754	$ (2,342)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities		
Provision for doubtful accounts	8,787	1,755
Depreciation	8,617	8,581
Amortization of physician income guarantees	335	616
Gain on sale of asset	-	(2)
(Decrease) increase in cash from operating assets and liabilities		
Accounts receivable	(10,360)	(7,767)
Inventories and other assets	(327)	(973)
Accounts payable and accrued expenses	(1,506)	3,784
Other long-term liabilities	(141)	700
Net cash provided by operating activities	9,159	4,352
Investing activities		
Purchases of property and equipment	(17,571)	(4,460)
Proceeds received on sale of assets	-	2
Acquisitions, net of cash acquired	(642)	-
Net cash used in investing activities	(18,213)	(4,458)
Financing activities		
Proceeds from borrowings	1,013	-
Proceeds from members' contributions	8,317	4,211
Increase in due from Corporate–cash management	(328)	(4,286)
Net cash provided by (used in) financing activities	9,002	(75)
Change in cash and cash equivalents	(52)	(181)
Cash and cash equivalents		
Beginning of year	52	233
End of year	$ -	$ 52
Supplemental disclosures		
Cash paid for interest	$ 146	$ 100
Change in fixed assets included in accounts payable	15	132

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

1. Business Overview

Organization

Pascack Valley Health System, LLC (the Company) is a privately held New Jersey limited liability company. Membership units in the Company are owned by LHP Pascack Valley, LLC (the Parent), an indirectly wholly owned subsidiary of LHP Hospital Group, Inc. (LHP), and Hackensack UMC (Hackensack), collectively, the Members. The Parent owns a 65% interest in the Company and Hackensack owns a 35% interest. The Company was formed on January 16, 2009, and subsequently capitalized on March 23, 2012 (Inception), to renovate, own, manage, and operate an acute care hospital and other health care-related businesses in the greater Bergen County, New Jersey, and Rockland County, New York, areas. On June 1, 2013, the Company began to provide health care services at Hackensack UMC at Pascack Valley (the Hospital), a 128-bed, full-service, acute-care community hospital.

The terms “we,” “our,” “the Company,” and “us” refer to the business of Pascack Valley Health System, LLC and its subsidiaries Pascack Valley Hospital, LLC and Pascack Valley Health Services, LLC.

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

Basis of Presentation

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

Unless otherwise indicated, all numbers are in thousands, except unit and per-unit amounts.

2. Summary of Significant Accounting Policies

Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect amounts reported in the consolidated financial statements and the accompanying notes. Actual results could differ from those estimates.

Cash and Cash Equivalents

The Company considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. Cash and cash equivalents consist of cash on hand.
The Company places its cash in financial institutions that are federally insured.

Revenue Recognition and Accounts Receivable
The Company recognizes revenues in the period in which services are performed. Accounts receivable primarily consist of amounts due from third-party payors and patients. The Company's ability to collect outstanding receivables is critical to its results of operations and cash flows. Amounts the Company receives for treatment of patients covered by governmental programs such as Medicare and Medicaid and other third-party payors such as health maintenance organizations, preferred provider organizations, and other private insurers are generally less than the Company's established billing rates. Additionally, to provide for accounts receivable that could become uncollectible in the future, the Company establishes an allowance for doubtful accounts to reduce the carrying value of such receivables to their estimated net realizable value. Accordingly, the revenues and accounts receivable reported in the Company's consolidated financial statements are recorded at the net amount expected to be received.

The Company's revenues by payor and approximate percentages of revenues were as follows for the years ended December 31:

	2016		2015	
Revenue by Payor	**Amount**	**Ratio**	**Amount**	**Ratio**
Medicare	$ 25,934	26.5 %	$ 27,096	30.9 %
Medicaid	5,212	5.3	2,694	3.1
Other insured	73,632	75.3	58,858	67.1
Self-pay	1,850	1.9	813	0.9
Patient revenues before provision for doubtful accounts	106,628	109.0	89,461	102.0
Provision for doubtful accounts	(8,787)	(9.0)	(1,755)	(2.0)
Net patient revenues	$ 97,841	100.0 %	$ 87,706	100.0 %

Contractual Discounts and Cost Report Settlements
The Company derives a significant portion of its revenues from Medicare, Medicaid, and other payors that receive discounts from its established billing rates. The Company must estimate the total amount of these discounts to prepare its consolidated financial statements. The Medicare and Medicaid regulations and various managed care contracts under which these discounts must be calculated are complex and are subject to interpretation and adjustment. The Company estimates the allowance for contractual discounts on a payor-specific basis given its interpretation of the applicable regulations or contract terms. These interpretations sometimes result in payments that differ from the Company's estimates. Additionally, updated regulations and contract renegotiations occur frequently, necessitating regular review and assessment of the estimation process by management. Changes in estimates related to the allowance for contractual discounts affect revenues reported in the Company's accompanying consolidated statements of operations.

Cost report settlements under reimbursement agreements with Medicare and Medicaid are estimated and recorded in the period the related services are rendered and are adjusted in future periods as final settlements are determined. There is a reasonable possibility that recorded estimates will change by a material amount in the near term. Pascack Valley Hospital's initial Medicare and Medicaid cost reports for fiscal year ended June 30, 2014 have not been settled as of December 31, 2016. Net adjustments to estimated cost report settlements were $134 and $0 for the years ended December 31, 2016 and 2015, respectively. The net cost report settlements payable to the Company included in other receivables, net on the accompanying consolidated balance sheets were approximately $224 and $7 at December 31, 2016 and 2015, respectively. The Company's management believes that adequate provisions have been made for adjustments that may result from final determination of amounts earned under these programs.

Laws and regulations governing Medicare and Medicaid programs are complex and subject to interpretation. The Company believes that it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing that would have a material effect on the Company's consolidated financial statements. Compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory action, including fines, penalties, and exclusion from the Medicare and Medicaid programs.

Charity Care

Self-pay revenues are derived primarily from patients who do not have any form of health care coverage. The revenues associated with self-pay patients are generally reported at the Company's gross charges. The Company evaluates these patients, after the patient's medical condition is determined to be stable, for their ability to pay based upon federal and state poverty guidelines, and qualifications for Medicaid or other governmental assistance programs, as well as the local hospital's policy for charity care. The Company provides care without charge to certain patients who qualify under the local charity care policy. For the years ended December 31, 2016 and 2015, the Company estimates that its costs of care provided under its charity care programs were $511 and $608, respectively.

The Company's management estimates its costs of care provided under its charity care programs utilizing a calculated ratio of costs to gross charges multiplied by the Company's gross charity care charges provided. The Company's gross charity care charges include only services provided to patients who are unable to pay and qualify under the Company's local charity care policies. To the extent the Company receives reimbursement through the various governmental assistance programs in which it participates to subsidize its care of indigent patients; the Company does not include these patients' charges in its cost of care provided under its charity care program. Additionally, the Company does not report a charity care patient's charges in revenues or in the provision for doubtful accounts as it is the Company's policy not to pursue collection of amounts related to these patients.

Other Discounts

We provide discounts to uninsured patients who do not qualify for Medicare, Medicaid, or charity care. These discounts are similar to discounts provided to many local managed care plans and totaled $1,227 and $8,794 for the years ended December 31, 2016 and 2015, respectively. In implementing our discount policy, we first attempt to qualify uninsured patients for Medicare or Medicaid, other federal or state assistance, or charity care. If an uninsured patient does not qualify for these programs, the uninsured discount is applied. The decrease in discounts as of December 31, 2016, as compared to December 31, 2015 is the result of providing a lower discount percentage for certain uninsured patients.

Provision and Allowance for Doubtful Accounts

To provide for accounts receivable that could become uncollectible in the future, the Company establishes an allowance for doubtful accounts to reduce the carrying value of such receivables to their estimated net realizable value. The primary uncertainty lies with uninsured patient receivables and deductibles, copayments, or other amounts due from individual patients.

The Company has an established process to determine the adequacy of the allowance for doubtful accounts that relies on a number of analytical tools and benchmarks to arrive at a reasonable allowance. No single statistic or measurement determines the adequacy of the allowance for doubtful accounts. Some of the analytical tools that the Company utilizes include, but are not limited to, historical cash collection experience, revenue trends by payor classification, and revenue days in accounts receivable. Accounts receivable are written off after collection efforts have been followed in accordance with the Company's policies.

Allowance for doubtful accounts balance at December 31, 2014	$	4,573
Additions recognized as reductions to revenues		1,755
Accounts written off, net of recoveries		(823)
Allowance for doubtful accounts balance at December 31, 2015		5,505
Additions recognized as reductions to revenues		8,787
Accounts written off, net of recoveries		(562)
Allowance for doubtful accounts balance at December 31, 2016	$	13,730

The allowances for doubtful accounts as a percentage of gross accounts receivable, net of contractual discounts, were 42.7% and 24.6% as of December 31, 2016 and 2015, respectively. Receivables related to uninsured patients are reserved at 96% (between discount for self-pay and reserve for bad debt) and 96.3% as of December 31, 2016 and 2015, respectively. Deductibles, copayments, or other amounts due from individual patients are reserved at 78.9% and 60.6% as of December 31, 2016 and 2015, respectively.

Concentration of Revenues

During the years ended December 31, 2016 and 2015, approximately 31.8% and 34.0%, respectively, of the Company's revenues were related to patients participating in the Medicare and Medicaid programs collectively. The Company's management recognizes that revenues and receivables from government agencies are significant to the Company's operations, but it does not believe that there are significant credit risks associated with these government agencies.

The Company's management does not believe that there are any other significant concentrations of revenues from any particular payor that would subject the Company to any significant credit risks in the collection of its accounts receivable.

The Company's revenues are particularly sensitive to regulatory and economic changes in the state of New Jersey, where the Company generates its revenues.

Electronic Health Record Incentives

The American Recovery and Reinvestment Act of 2009 (ARRA) provides for incentive payments under the Medicare and Medicaid programs for certain hospitals and physician practices that demonstrate meaningful use of certified electronic health record (EHR) technology. These provisions of ARRA, collectively referred to as the Health Information Technology for Economic and Clinical Health Act (the HITECH Act), are intended to promote the adoption and meaningful use of interoperable health information technology and qualified EHR technology.

The Company accounts for EHR incentive payments in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification Topic (ASC) 450-30, *Contingencies - Gain Contingencies*. In accordance with ASC 450-30, the Company recognizes a gain for EHR incentive payments when it has demonstrated meaningful use of certified EHR technology for the applicable period and when the cost report information for the full cost report year that determines the final calculation of the EHR incentive payment is available. The demonstration of meaningful use is based on meeting a series of objectives and varies among hospitals and physician practices, between the Medicare and Medicaid programs, and within the Medicaid program from state to state. Additionally, meeting the series of objectives in order to demonstrate meaningful use becomes progressively more stringent as its implementation is phased in through stages as outlined by the Centers for Medicare & Medicaid Services (CMS).

For the year ended December 31, 2016, the Company recognized $255 and $399 in EHR incentive payments under the Medicaid and Medicare programs, respectively. For the year ended December 31, 2015, the Company recognized $168 and $668 in EHR incentive payments under the Medicaid and Medicare programs, respectively. These payments are reflected separately in the accompanying consolidated statement of operations as electronic health records incentive income within operating expenses. Income from incentive payments is subject to retrospective adjustment as the incentive payments are calculated using Medicare cost report data that is subject to audit. Additionally, the Company's compliance with the meaningful use criteria is subject to audit by the federal government.

The Company incurs both capital expenditures and operating expenses in connection with the implementations of its various EHR initiatives. The amount and timing of these expenditures do not directly correlate with the timing of the Company's receipt or recognition of the EHR incentive payments.

Inventories

Inventory is carried at the lower of cost or market and consists mainly of drugs and medical supplies. Cost is determined based on the weighted-average method.

Property and Equipment

Property and equipment are recorded at cost. Property and equipment acquired in connection with asset acquisitions are recorded at their relative fair value in accordance with the cost accumulation approach of accounting as prescribed in FASB ASC 805-50, *Business Combinations – Related Issues.* Routine maintenance and repairs are charged to expense when incurred. Expenditures that increase capacities or extend useful lives of assets are capitalized.

Depreciation expense is computed by applying the straight-line method over the estimated useful lives of the assets. The estimated useful lives of buildings and improvements generally range from 10 to 40 years, while the estimated useful lives of furniture and equipment range from 3 to 10 years. Total depreciation for the years ended December 31, 2016 and 2015, was $8,617 and $8,581, respectively.

Long-Lived Assets

When events, circumstances, or operating results indicate the carrying values of certain long-lived assets (excluding indefinite-lived intangibles) expected to be held and used might be impaired, we prepare projections of the undiscounted cash flows expected to result from the use and eventual disposition of the assets. If the projections indicate the recorded amounts are not expected to be recoverable, such amounts are reduced to estimated fair value.

Internal Use Software

The Company capitalizes qualifying computer software costs incurred during the “application development stage” and other costs as permitted. Capitalized software costs included internal direct costs and internal direct labor and related employee benefits costs of developing software for internal use. Amortization of these costs begins once the product is ready for its intended use. These costs are amortized on a straight-line basis over the estimated useful life of the product, typically 3 to 5 years. The amount of costs capitalized within any period is dependent on the nature of software development activities and projects in each period.

The Company periodically evaluates the remaining useful lives and carrying values of internal use software. If management determines that all or a portion of the asset will no longer be used, or the estimated remaining useful life differs from existing estimates, an abandonment will be recorded to reduce the carrying value or adjust the remaining useful life to reflect revised estimates. In addition, if the carrying value of the software exceeds the estimated future cash flows, an impairment will be recorded to reduce the carrying value to the expected realizable value.

The following table presents a rollforward of capitalized internal use software for the years ended December 31:

	2014	Additions	2015	Additions	2016
Capitalized Internal Use Software	$ 1,236	$ 353	$ 1,589	$ 603	$ 2,192
Accumulated amortization	(461)	(319)	(780)	(444)	(1,224)
	$ 775	$ 34	$ 809	$ 159	$ 968

Amortization expense related to capitalized software was $444 and $319 for the years ended December 31, 2016 and 2015, respectively.

Indefinite-Lived Intangible Assets

Under FASB ASC 350, *Intangibles – Goodwill and Other*, intangibles with indefinite lives are not amortized, but tested for impairment annually or more frequently if certain indications of impairment arise. The fair value of intangible assets with indefinite lives is estimated using the income or cost approach, as applicable, and an impairment loss is recognized when the estimated fair value of the indefinite-lived intangible asset is less than its carrying value. The acquired indefinite-lived intangible assets include a certificate of need. No impairments were recognized for the years ended December 31, 2016 or 2015.

Other Accrued Expenses

Other accrued expenses consist of the following as of December 31:

	2016	2015
Taxes other than income	$ 615	$ 399
Physician recruitment	-	20
Other	-	75
	$ 615	$ 494

Professional and General Liability

LHP maintains, on behalf of its affiliates, an insurance policy with a commercial insurer. The professional and general liability policy has combined limits of $1,000 per claim and $4,000 annual aggregate for claims. The deductible is $100 per occurrence. In addition to the primary coverage, umbrella and excess coverage is maintained with shared limits of $15,000. LHP maintains reserves for estimates of loss that will ultimately be incurred on claims that have been reported but not paid and claims that have been incurred but not reported. These reserves are established based on consultation with independent actuaries and billed as premiums to each affiliate. At December 31, 2016 and 2015, the Company has recorded an accrued liability to LHP for professional risk liabilities of $648 and $519, respectively, which is included in the amounts due to Corporate on the consolidated balance sheets. Expenses for professional and general liability coverage allocated to the Company were approximately $120 and $136 for the years ended December 31, 2016 and 2015, respectively, and are included in other operating expense within the consolidated statements of operations.

Self-Insured Liabilities

LHP is self-insured for substantially all of the medical benefits of its employees. LHP maintains reserves for medical benefits that reflect known claims and an estimate of incurred but not reported claims based upon an actuarial analysis as of the December 31 and are billed as premiums to each affiliate. At December 31, 2016 and 2015, the Company recorded an accrued liability to LHP for self-insured medical benefits of $296 and $272, respectively, which is included in the amounts due to Corporate on the consolidated balance sheets. Expenses for medical benefit coverage allocated to the Company were approximately $1,961 and $2,171 for the years ended December 31, 2016 and 2015, respectively, and is included in salary and benefits expense on the consolidated statements of operations.

LHP is self-insured for workers' compensation claims with a stop-loss limit of $250 per occurrence. Estimated liabilities included in due to Corporate for workers' compensation claims were $679 and $340 and anticipated recoveries of $140 and $83 were included in due to Corporate at December 31, 2016 and 2015, respectively. Expenses for workers' compensation allocated to the Company were approximately $581 and $345 for the years ended December 31, 2016 and 2015, respectively, and are included in other operating expenses on the accompanying consolidated statements of operations.

Recently Adopted Accounting Standards

Effective December 16, 2016, the Company adopted ASU 2014-15, *Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern* (ASU 2014-15). ASU 2014-15 requires management to assess an entity's ability to continue as a going concern. Management should evaluate whether conditions or events, considered in the aggregate, exist that raise substantial doubt about the entity's ability to continue as a going concern within one year after the date that the financial statements are issued. The adoption of ASU 2014-15 had no impact on the Company's financial position, results of operation, cash flows or financial disclosures.

Effective January 1, 2016, the Company adopted ASU 2015-02 *Consolidation* (ASU 2015-2) issued by the FASB. ASU 2015-02 includes amendments that are intended to improve targeted areas of consolidation for legal entities including reducing the number of consolidation models from four to two and simplifying the FASB ASC. The adoption of ASU 2015-02 had no impact on the Company's financial position, results of operation, cash flows or financial disclosures.

Effective January 1, 2016, the Company adopted ASU 2015-16, *Business Combinations: Simplifying the Accounting for Measurement-Period Adjustments* (ASU 2015-16). ASU 2015-16 eliminates the requirement for an acquirer to retrospectively adjust its financial statements for changes to provisional amounts that are identified during the measurement-period following the consummation of a business combination. Instead, ASU 2015-16 requires these types of adjustments to be made during the reporting period in which they are identified and would require additional disclosure or separate presentation of the portion of the adjustment that would have been recorded in the previously reported periods as if the adjustment to the provisional amounts had been recognized as of the acquisition date. The adoption of ASU 2015-16 had no impact on the Company's financial position, results of operation, cash flows or financial disclosures.

Accounting Standards Not Yet Adopted

In January 2017, the FASB issued ASU No. 2017-01, *Business Combinations (Topic 805): Clarifying the Definition of a Business* (ASU 2017-01). ASU 2017-01 clarifies the definition of a business and affects different areas of accounting, such as business combinations. This standard will be effective for the Company for annual periods beginning after December 15, 2018, and interim periods within annual periods beginning after December 15, 2019. The Company is in the process of evaluating this guidance to determine the impact it will have on the results of operations, cash flows and financial position.

In August 2016, the FASB issued ASU No. 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*. ASU 2016-15 clarifies certain aspects of the statement of cash flows, including the classification of debt prepayment or debt extinguishment costs or other debt instruments with coupon interest rates that are insignificant in relation to the effective interest rate of the borrowing, contingent consideration payments made after a business combination, proceeds from the settlement of insurance claims, proceeds from the settlement of corporate-owned life insurance policies, distributions received from equity method investees and beneficial interests in securitization transactions. This new standard also clarifies that an entity should determine each separately identifiable source of use within the cash receipts and payments on the basis of the nature of the underlying cash flows. In situations in which cash receipts and payments have aspects of more than one class of cash flows and cannot be separated by source or use, the appropriate classification should depend on the activity that is likely to be the predominant source or use of cash flows for the item. This standard will be effective for the Company for annual periods beginning after December 31, 2017. The Company is in the process of evaluating this guidance to determine the impact it will have on the results of operations, cash flows and financial position.

In March 2016, the FASB issued ASU No. 2016-08, *Revenue Recognition: Clarifying the new Revenue Standard's Principal-Versus-Agent Guidance* (ASU 2016-18). The standard amends the principal-versus-agent implementation guidance and illustrations in the FASB's new revenue standard (ASU 2014-09). ASU 2016-08 clarifies that an entity should evaluate whether it is the principal or the agent for each specified good or service promised in a contract with a customer. As defined in the ASU, a specified good or service is "a distinct good or service (or a distinct bundle of goods or services) to be provided to the customer". Therefore, for contracts involving more than one specified good or service, the Company may be the principal in one or more specified goods or services and the agent for others. The new standard has the same effective date as ASU 2014-09, as amended by the one-year deferral and early adoption provisions in ASU 2015-14. In addition, entities are required to adopt ASU 2016-08 by using the same transition method they used to adopt the new revenue standard. We are currently evaluating the impact that the adoption of this new accounting guidance will have on our results of operations, cash flows and financial position.

In March 2016, the FASB issued ASU No. 2016-07, *Investments - Equity Method and Joint Ventures* (Topic 323): *Simplifying the Transition to the Equity Method of Accounting*. ASU 2016-07 eliminates the requirement that when an investment qualifies for use of the equity method as a result of an increase in the level of ownership interest or degree of influence, an adjustment must be made to the investment, results of operations and retained earnings retroactively on a step-by-step basis as if the equity method had been in effect during all previous periods that the investment has been held. This standard will be effective for the Company for annual periods beginning after December 31, 2017. The Company is in the process of evaluating this guidance to determine the impact it will have on the consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases* (ASU 2016-02). ASU 2016-02 establishes a right-of-use (ROU) model that requires a lessee to record a ROU asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. ASU 2016-02 is effective for annual periods beginning after December 15, 2018, including interim periods within those annual years. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. Early adoption is permitted and modified retrospective application is required. The Company is in the process of evaluating this guidance to determine the impact it will have on the consolidated financial statements.

In January 2016, the FASB issued ASU No. 2016-01, *Financial Instruments - Overall* (Subtopic 825-10): *Recognition and Measurement of Financial Assets and Financial Liabilities*. ASU 2016-01 amends certain aspects of accounting and disclosure requirements of financial instruments, including the requirement that equity investments with readily determinable fair values be measured at fair value with changes in fair value recognized in our results of operations. This new standard does not apply to investments accounted for under the equity method of accounting or those that result in consolidation of the investee. Equity investments that do not have readily determinable fair values may be measured at fair value or at cost minus impairment adjusted for changes in observable prices. A financial liability that is measured at fair value in accordance with the fair value option is required to be presented separately in other comprehensive income for the portion of the total change in the fair value resulting from change in the instrument-specific credit risk. In addition, a valuation allowance should be evaluated on deferred tax assets related to available-for-sale debt securities in combination with other deferred tax assets. This standard will be effective for the Company for annual periods beginning after December 31, 2017.
The Company is in the process of evaluating this guidance to determine the impact it will have on the consolidated financial statements.

In July 2015, the FASB issued ASU 2015-11, *Simplifying the Measurement of Inventory* (ASU 2015-11). ASU 2015-11 requires the measurement of inventory at the lower of cost or net realizable value. Net realizable value is the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal and transportation. This ASU is effective for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. Early adoption is permitted. The adoption of ASU 2015-11 is not expected to have a material impact on the Company’s financial position, results of operation, cash flows or financial disclosures.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers* (ASU 2014-09), that introduces a new five-step revenue recognition model in which 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. ASU 2014-09 also requires disclosures sufficient to enable users to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers, including qualitative and quantitative disclosures about contracts with customers, significant judgments and changes in judgments, and assets recognized from the costs to obtain or fulfill a contract. Numerous updates, including ASU 2016-08, ASU 2016-10, ASU 2016-12, ASU 2016-19 and ASU 2016-20 were issued in 2016 to provide clarification on a number of specific issues as well as requiring additional disclosures. The new standard is effective for fiscal years beginning after December 15, 2017, including interim periods within that reporting period. The Company is in the process of evaluating this guidance to determine the impact it will have on the consolidated financial statements.

3. Fair Value of Financial Instruments

The Company currently has no financial instruments subject to fair value measurement on a recurring basis. Disclosures about fair value of financial instruments require disclosure of fair value information about those financial instruments, whether or not recognized in the balance sheets, but would be practicable to estimate that value. Management believes the carrying value of cash, due from and due to Corporate – cash management, accounts receivable, other receivables, accounts payable, and accrued expenses approximates fair value due to their short-term maturity. Management believes the fair value of notes receivable approximates fair value based on current interest rate assumptions and the remaining term to maturity. Management believes the carrying amounts of the Company’s long-term debt (including current portion) approximate fair value based on consideration of the Company’s credit standing and current interest rate. Management believes the fair value of long-term liabilities approximates fair value based on current interest rate assumptions and remaining term to maturity.

4. Members’ Equity

Pursuant to the Amended and Restated Limited Liability Company Agreement (LLC Agreement), each member’s interest in the Company is denominated in membership units or fractions thereof, of which 1,477 have been issued, with each unit representing an initial capital contribution of $100 consisting of cash, note receivable from Parent, and property and equipment.

5. Long-Term Debt

The Company entered into an agreement with Public Service Electric and Gas Company (PSE&G) to implement various energy cost-reduction strategies and measures to improve the hospital’s energy efficiency. Pursuant to the terms of the agreement, PSE&G funds a portion of certain energy-reducing capital projects without requiring repayment from the Company (the Permanent Incentive). The portion of the funding received from PSE&G that is required to be repaid, $1,013, is repaid over five years and does not bear interest. As of December 31, 2016, the Company received $2,150 from PSE&G pursuant to this agreement. The Company accounts for the permanent incentive portion of the PSE&G contract in accordance with ASC 450-30, *Contingencies – Gain Contingencies*.

For the years ended December 31, 2016 and 2015, the Company recognized $1,137 and $0 in permanent incentive under the PSE&G contract reflected separately in the accompanying consolidated statements of operations as energy improvement incentives within operating expenses. The remaining balance of the loan at December 31, 2016 was $1,013.

6. Retirement Plan

The Company participates in LHP's contributory benefit plan that is available to employees who meet certain minimum requirements. The plan requires the Company to match 100% of a participant's contributions up to the first 3% of the participant's compensation. The Company recorded contribution expense of $463 and $410 for the years ended December 31, 2016 and 2015, respectively.

7. Transactions With Related Parties

LHP Management Services, LLC (Corporate), an indirectly wholly owned subsidiary of LHP, provides services to the Company with regard to management and administration, financial management, clinical and patient care, medical staff relations, group purchasing programs, information technology, and other services.

The Company reimburses Corporate for these services based on a management fee arrangement. Additionally, HUMC provides managed care services to the Company based on a management fee arrangement. The annual fee under that arrangement is $100.

The Company recorded management fee expense of $2,199 and $1,886 to the Parent and $100 and $97 to HUMC for the years ended December 31, 2016 and 2015, respectively.

The amount due from Corporate of $784 and $456 at December 31, 2016 and 2015, respectively, represent the net shortage of amounts paid by Corporate on behalf of the Company under the amounts transferred by the Company into the centralized cash management account. Amounts paid by Corporate on behalf of the Company generally include operating expenses and fees and services provided by Corporate to the Company.

Net operating funds provided by the Company earn interest based on the three-month London Interbank Offered Rate (LIBOR), adjusted monthly. The interest rate at December 31, 2016, was 1.00%. The Company recorded interest income of $25 and $39 for the years ended December 31, 2016 and 2015, respectively.

Net operating funds required by the Company incur interest expense based on the Prime Rate, adjusted monthly. The interest rate at December 31, 2016 was 4.25% for the $1,000 threshold as described in the Cash Management Agreement. For amounts due to Corporate over the $1,000 threshold, interest was charged at a rate of 9.00% throughout 2015 and June 2016 and 3.61% for the last six months of 2016. The Company recorded interest expense of $146 and $100 for the years ended December 31, 2016 and 2015, respectively.

8. Leases

The Company leases real estate, buildings, vehicles, and equipment under cancelable and noncancelable leases. Rental expense on operating leases was $200 and $1,132 for the years ended December 31, 2016 and 2015, respectively.

Future minimum lease payments at December 31, 2016, are as follows:

2017	$	77
2018		25
2019		-
2020		-
2021		-
	$	102

The Company leases certain medical office space to physicians under noncancelable leases. Sublease income, included in other revenues, was $781 and $920 in the years ended December 31, 2016 and 2015, respectively.

9. Income Taxes

The Company was formed as a limited liability company and is intended to be treated as a partnership for federal and state income tax purposes. As such, taxable income of the Company is the direct obligation of its members; therefore, no federal or state income tax provision is recorded in the Company's financial statements. Management is not aware of any course of action or series of events that has occurred that might adversely affect the Company's tax status.

10. Regulatory Matters

All health care providers are required to comply with a significant number of laws and regulations at the federal and state government levels. These laws are extremely complex, and in many instances, providers do not have the benefit of significant regulatory or judicial interpretation as to how to interpret and/or apply these laws and regulations. The U.S. Department of Justice and other federal and state agencies are increasing resources dedicated to regulatory investigations and compliance audits of health care providers. As a health care provider, the Company is subject to these regulatory efforts. Health care providers that do not comply with these laws and regulations may be subject to civil or criminal penalties, the loss of their licenses, or restrictions on their ability to participate in various federal and state health care programs. We endeavor to conduct our business in compliance with applicable laws and regulations, including health care fraud and abuse laws.

As a result of our hospital's state licensures and certifications under the Medicare and various Medicaid programs, we are subject to regular reviews, surveys, audits, and investigations conducted by, or on behalf of, federal and state agencies, including the CMS, which are responsible for the oversight of these programs. These agencies' reviews may include reviews or surveys of our compliance with required conditions of participation regulations. The purpose of these surveys is to ensure that health care providers are in compliance with governmental requirements, including requirements such as adequacy of medical care, equipment, personnel, operating policies and procedures, maintenance of adequate records, compliance with building codes and environmental protection, and health care fraud and abuse. These surveys may identify deficiencies with conditions of participation that require corrective actions to be made by the hospital within a given time frame.

If a hospital is not successful in addressing the deficiencies and conditions in a timely manner, CMS reserves the right to deem the hospital to be out of compliance with Medicare conditions of participation and may terminate the hospital from participation in the Medicare program. Termination of a hospital from the Medicare program would have a material adverse effect on our consolidated results of operations and cash flows.

Additionally, these agencies may review our compliance with various payment regulations and conduct audits under CMS's Recovery Audit Contractor (RAC) program. The RAC program has been made permanent and was required to be expanded broadly to health care providers pursuant to the Tax Relief and Health Care Act of 2006. The results of the enhanced medical necessity reviews and the RAC program audits could have an adverse effect on our consolidated business, financial position, results of operations, and liquidity. To the extent these reviews result in an adverse finding, we may contest the adverse finding vigorously; however, these matters can result in significant legal expense and consume our resources.

11. Commitments and Contingencies

Legal

The Company is, from time to time, subject to claims and suits arising in the ordinary course of business, including claims for damage for personal injuries, breach of contract, and employment-related claims. In certain of these actions, plaintiffs request payment for damages, including punitive damages that may not be covered by insurance. The Company is currently not a party to any pending or threatened proceedings that, in management's opinion, would have a material adverse effect on the Company's consolidated business, financial condition, or results of operations.

12. Subsequent Events

In March 2017, LHP Hospital Group, Inc. completed its merger with Ardent Health Services (Ardent), pursuant to the Agreement and Plan of Merger. As a result of the transaction, LHP is now a wholly owned subsidiary of Ardent. Under the terms of the agreement, Ardent will assume LHP's management and operational responsibilities within the Company.