

Pascack Valley Health System, LLC
Consolidated Financial Statements
December 31, 2018

Pascack Valley Health System, LLC
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December 31, 2018

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Ernst & Young LLP
Suite 2100
222 2nd Avenue South
Nashville, TN 37201

Tel: +1 615 252 2000
ey.com

Report of Independent Auditors

The Board of Directors of
Pascack Valley Health System, LLC

We have audited the accompanying consolidated financial statements of Pascack Valley Health System, LLC, which comprise the consolidated balance sheet as of December 31, 2018 and the related consolidated statements of operations, cash flows, and changes in members' equity for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Pascack Valley Health System, LLC as of December 31, 2018 and the consolidated results of its operations and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

April 30, 2019

Pascack Valley Health System, LLC
Consolidated Balance Sheet
As of December 31, 2018
(in thousands)

	December 31, 2018
Assets	
Current assets:	
Accounts receivable	\$ 15,773
Inventories	4,189
Other current assets	1,712
Total current assets	<u>21,674</u>
Property and equipment, net	123,893
Goodwill	582
Amounts due from affiliate	15,095
Other assets	826
Total assets	<u><u>\$ 162,070</u></u>
Liabilities and members' equity	
Current liabilities:	
Accounts payable	\$ 11,952
Accrued salaries and benefits	2,159
Other accrued expenses and liabilities	84
Current portion of long-term debt	361
Total current liabilities	<u>14,556</u>
Long-term debt, less current portion	792
Other long-term liabilities	430
Total liabilities	<u>15,778</u>
Members' equity:	
Common units	175,205
Accumulated deficit	<u>(28,913)</u>
Members' equity	<u>146,292</u>
Total liabilities and members' equity	<u><u>\$ 162,070</u></u>

See accompanying notes.

Pascack Valley Health System, LLC
Consolidated Statement of Operations
Year Ended December 31, 2018
(in thousands)

	Year Ended December 31, 2018
Total net revenue	\$ 131,475
Expenses:	
Salaries and benefits	43,603
Professional fees	18,666
Supplies	19,313
Other operating expenses	10,542
Depreciation and amortization	10,259
Management fees	2,670
Total operating expenses	<u>105,053</u>
Income from operations	26,422
Interest income, net	<u>357</u>
Net income	<u>\$ 26,779</u>

See accompanying notes.

Pascack Valley Health System, LLC
Consolidated Statement of Members' Equity
Year Ended December 31, 2018
(dollars in thousands)

	<u>Units</u>	<u>Amount</u>	<u>Accumulated Deficit</u>	<u>Total</u>
Balance at December 31, 2017	1,477	\$ 175,205	\$ (32,304)	\$ 142,901
Distributions made to:				
LHP Pascack Valley, LLC	-	-	(15,202)	(15,202)
Hackensack UMC	-	-	(8,186)	(8,186)
Net Income	-	-	26,779	26,779
Balance at December 31, 2018	<u>1,477</u>	<u>\$ 175,205</u>	<u>\$ (28,913)</u>	<u>\$ 146,292</u>

See accompanying notes.

Pascack Valley Health System, LLC
Consolidated Statement of Cash Flows
Year Ended December 31, 2018
(in thousands)

	Year Ended December 31, 2018
	<hr/>
Cash flows from operating activities:	
Net income	\$ 26,779
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation and amortization	10,259
Change in cash from operating assets and liabilities	
Accounts receivable	(1,726)
Inventories and other assets	526
Accounts payable and accrued expenses	2,291
Other	240
Net cash provided by operating activities	<hr/> 38,369
Cash flows from investing activities:	
Purchases of property and equipment	(6,671)
Net cash used in investing activities	<hr/> (6,671)
Cash flows from financing activities:	
Payments on borrowings	(362)
Distributions to members	(23,388)
Payments to affiliate	(7,948)
Net cash used in financing activities	<hr/> (31,698)
Change in cash and cash equivalents	-
Cash and cash equivalents at beginning of period	-
Cash and cash equivalents at end of period	<hr/> <hr/> \$ -

See accompanying notes.

Pascack Valley Health System, LLC

Notes to Consolidated Financial Statements

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1. Organization and Basis of Presentation

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

In March 2017, Ardent completed a merger with LHP Pascack Valley, LLC, an indirect wholly owned subsidiary of LHP Hospital Group, Inc. (LHP), pursuant to the Agreement and Plan of Merger. Through the transaction, LHP became a wholly-owned subsidiary of Ardent. Under the terms of the agreement, Ardent assumed LHP’s management and operational responsibilities within the Company. At December 31, 2018, Ardent owned 65% of the Company and Hackensack owned 35%.

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

2. Summary of Significant Accounting Policies

Adoption of Recently Issued Accounting Standards

Effective January 1, 2018, the Company early adopted the provisions of the Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) 606, Revenue from Contracts with Customers (“ASC 606”), which supersedes most existing revenue recognition guidance, including industry-specific healthcare guidance. ASC 606 provides for a single comprehensive model for recognizing revenue as performance obligations, defined in a contract with a customer as goods or services transferred to the customer in exchange for consideration, are satisfied.

The standard also requires expanded disclosures regarding the Company’s revenue recognition policies and significant judgements employed in the determination of revenue. The Company applied the modified retrospective approach to all contracts when adopting ASC 606. As a result, upon the adoption of ASC 606, the majority of what was previously classified as the provision for doubtful accounts in the statement of operations is now reflected as implicit price concessions (as defined in ASC 606) and, therefore, included as a reduction to total net revenue in 2018. For the current year presentation, the Company has eliminated the presentation of the allowance for doubtful accounts on the consolidated balance sheet as a result of the adoption of the new standard.

Other than these changes in presentation on the consolidated statement of operations and consolidated balance sheet, the adoption of ASC 606 did not have a material impact on the consolidated financial position and results of operations as of and for the year ended December 31, 2018, and the Company does not expect it to have a material impact on its financial position and consolidated results of operations on a prospective basis. As part of the adoption of ASC 606, the Company elected three of the available practical expedients provided for in the standard. First, the Company applied the new revenue standard to a portfolio of contracts with similar characteristics. Second, the Company did not disclose the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied or partially unsatisfied at the end of the reporting period. These unsatisfied or partially unsatisfied performance obligations are primarily related to inpatient services at the end

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of the reporting period and are part of contracts that have an original duration of one year or less. Third, the Company did not adjust the transaction price for any financing components as the period of time between the service being provided and the time that the patient pays for service is typically one year or less. The Company's revenue recognition and accounts receivable policies are more fully described below under the section titled "Revenue Recognition."

In January 2017, the FASB issued ASU 2017-04, Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment ("ASU 2017-04"). ASU 2017-04 simplifies the measurement of goodwill by eliminating the requirement to calculate the implied fair value of goodwill (step 2 of the prior impairment test) to measure the goodwill impairment charge. Instead, entities will record impairment charges based on the excess of a reporting unit's carrying amount over its fair value. ASU 2017-04 is effective for fiscal years beginning after December 15, 2021. Early adoption is permitted. The Company early adopted ASU 2017-04 effective January 1, 2018. The adoption of the standard had no impact on the Company's consolidated financial position or results of operations.

In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments ("ASU 2016-15"). ASU 2016-15 addresses treatment of how certain cash receipts and cash payments are presented and classified in the statement of cash flows to reduce the diversity in practice. ASU 2016-15 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2018. The Company early adopted ASU 2016-15 on January 1, 2018. The adoption of the standard had no impact on the Company's consolidated financial position or results of operations.

Accounting Standards Not Yet Adopted

In March 2016, the FASB issued ASU 2016-02, Leases ("ASU 2016-02"). ASU 2016-02 aims to increase transparency and comparability among organizations by recognizing lease assets and liabilities on the consolidated balance sheet and disclosing key information. ASU 2016-02 is effective for annual reporting periods beginning after December 15, 2019, including interim periods within those years. Early adoption is permitted. ASU 2016-02 requires the application using either a full retrospective approach to each prior reporting period presented in the financial statements or a modified retrospective approach at the beginning of the period of adoption.

The Company will adopt ASU 2016-02 using a modified retrospective approach at the beginning of the period of adoption and, accordingly, prior period presentation will not be adjusted. The Company expects to elect the package of practical expedients offered in the transition guidance which allows management to not reassess lease identification, lease classification and initial direct costs. The Company also expects to elect the accounting policy practical expedients by class of underlying asset to: (i) combine associated lease and non-lease components into a single lease component; and (ii) exclude recording short-term leases as right-of-use assets and liabilities on the consolidated balance sheet.

The Company has substantially completed its evaluation of the financial impact of the new standard as it relates to the Company's lease portfolio, which primarily consists of real estate leases integral for facility operations. Management believes the effect of adopting the new standard will be to record material right-of-use assets and liabilities for current operating leases. Management continues to evaluate the impact ASU 2016-02 will have on the Company's internal controls, policies and procedures.

The Company is continuing to refine its approach under ASU 2016-02, including finalizing its transition calculations, controls and disclosure policies. The Company will finalize its accounting assessment and quantitative impact of adoption of ASU 2016-02 during 2019. The Company will continue to monitor industry

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activities and any additional accounting guidance and will adjust the Company's assessment and implementation plans accordingly.

Accounting Estimates

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

Revenue Recognition

The Company's revenues generally relate to contracts with patients in which its performance obligations are to provide health care services to the patients. Revenues are recorded during the period the Company's obligations to provide health care services are satisfied. Revenue for performance obligations satisfied over time is recognized based on charges incurred in relation to total expected charges. The Company's performance obligations for inpatient services are generally satisfied over periods that average approximately five days. The Company's performance obligations for outpatient services are generally satisfied over a period of less than one day. The contractual relationships with patients, in most cases, also involve a third-party payer (Medicare, Medicaid, and managed care health plans) and the transaction prices for the services provided are dependent upon the terms provided by (Medicare and Medicaid) or negotiated with (managed care health plans) the third-party payers. The payment arrangements with third-party payers for the services provided to the related patients typically specify payments at amounts less than the Company's standard charges.

The Company's revenues are based upon the estimated amounts the Company expects to be entitled to receive from patients and third-party payers. Estimates of contractual allowances under managed care insurance plans are based upon the payment terms specified in the related contractual agreements. Revenues related to uninsured patients and uninsured copayment and deductible amounts for patients who have health care coverage may have discounts applied (uninsured discounts and contractual discounts). The Company also records estimated implicit price concessions (based primarily on historical collection experience) related to uninsured accounts to record self-pay revenues at the estimated amounts expected to be collected. At December 31, 2018, estimated implicit price concessions of \$13.6 million had been recorded as reductions to the Company's accounts receivable balances to enable the Company to record accounts receivable at the estimated amounts the Company expects to collect.

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

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At December 31, 2018, the Company's settlements under reimbursement agreements with third-party payers were a net receivable of \$0.4 million of which a receivable of \$0.5 million was included in other current assets and a payable of \$0.1 million was included in other accrued expenses and liabilities.

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

Subsequent adjustments that are determined to be the result of an adverse change in the patient's or the payer's ability to pay are recognized as bad debt expense. With the adoption of ASC 606, bad debt expense is included under the caption "Other operating expenses" in the accompanying consolidated statement of operations for 2018, instead of separately as a deduction to arrive at net revenue. Bad debt expense for the year ended December 31, 2018 was not material for the Company.

The Company's total net revenue during the year ended December 31, 2018 has been presented in the following table (in thousands):

	<u>Year Ended</u> <u>December 31, 2018</u>	
	<u>Amount</u>	<u>% of Total</u> <u>Net Revenue</u>
Medicare	\$ 35,982	27.4%
Medicaid	6,339	4.8%
Other managed care.....	84,268	64.1%
Self-pay and other	<u>3,464</u>	<u>2.6%</u>
Net patient service revenue	130,053	98.9%
Other revenue	<u>1,422</u>	<u>1.1%</u>
Total net revenue	<u>\$ 131,475</u>	<u>100.0%</u>

The Company provides care without charge to certain patients that qualify under its local charity care policy. The Company estimates that its costs of care provided under its charity care programs approximated \$0.4 million for the year ended December 31, 2018. The Company does not report a charity care patient's charges in revenues as it is the Company's policy not to pursue collection of amounts related to these patients, and therefore contracts with these patients do not exist.

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

Patient Accounts Receivable

Patient accounts receivable are recorded at net realizable value based on certain assumptions applicable to each payer. For third-party payers including Medicare, Medicaid and managed care, the net realizable value is based on the estimated contractual reimbursement percentage, which is based on current contract prices or historical paid claims data by payer. For self-pay accounts receivable, which includes patients who are uninsured and the patient responsibility portion for patients with insurance, the net realizable value is determined using estimates

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of historical collection experience. These estimates are adjusted for expected recoveries and any anticipated changes in trends.

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

Patient accounts receivable is the Company's primary concentration of credit risk, which consists of amounts owed by various governmental agencies, managed care payers, commercial insurance companies, employers and patients. The Company manages its patient accounts receivable by regularly reviewing its accounts and contracts and by providing appropriate allowances for uncollectible amounts. The number of patients and payers limits concentration of credit risk from any one payer.

Concentration of revenues

Revenue related to patients participating in the Medicare and Medicaid programs, collectively, represented 32.2% of the Company's total net revenue for the year ended December 31, 2018. 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.

Inventories

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

Property and Equipment

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

When events, circumstances or operating results indicate the carrying values of certain long-lived assets expected to be held and used might be impaired, the Company prepares projections of the undiscounted future cash flows expected to result from the use of the assets and their eventual disposition. If the projections indicate the recorded amounts are not expected to be recoverable, such amounts are reduced to estimated fair value. Fair value may be estimated based upon internal evaluations that include quantitative analyses of revenues and cash flows, reviews of recent sales of similar assets and independent appraisals. No impairment was recorded during the year ended December 31, 2018.

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Goodwill and Indefinite-Lived Intangible Assets

Goodwill represents the excess of costs over fair value of net assets of businesses acquired. In accordance with ASC 350, Intangibles — Goodwill and Other, goodwill and intangible assets acquired in a purchase business combination and determined to have an indefinite useful life are not amortized, but are subject to annual impairment tests. Refer to Note 4 for further information.

Goodwill is evaluated for impairment annually and when an event occurs or circumstances change that, more likely than not, reduce the fair value of the reporting unit below its carrying value. During 2018, the Company adopted ASU 2017-04, which simplifies the measurement of goodwill by eliminating the requirement to calculate the implied fair value of goodwill (step 2 of the prior impairment test). Instead, the new standard allows a company to record a goodwill impairment when the reporting unit's carrying value exceeds the fair value determined in step one with the impairment equal to the amount of excess. The Company performed its most recent annual impairment evaluation as of October 1, 2018. There was no goodwill or other intangible impairment charges in the year ended December 31, 2018. The Company bases its estimates of fair value of a reporting unit on various assumptions on a qualitative and, when necessary, quantitative basis that are believed to be reasonable under the circumstances including the income approach, which estimates fair value based on discounted cash flows and the market approach, which estimates fair value based on comparable market prices. Actual results may differ from these estimates, which may require a future impairment charge that could have a material adverse impact on the Company's financial position and results of operations.

Self-Insured Liabilities

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

Leases

The Company leases real estate properties, buildings, vehicles and equipment under cancelable and non-cancelable leases. The leases expire at various times and have various renewal options. Certain leases that meet the lease capitalization criteria in accordance with ASC 840-10, Leases, have been recorded as an asset and liability at the lower of the net present value of the minimum lease payments at the inception of the lease or the fair value of the asset at the inception date. Interest rates used in computing the net present value of the lease payments are based on the Company's incremental borrowing rate at the inception of the lease.

Income Taxes

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

Fair Value Disclosures of Financial Instruments

The Company applies the provisions of ASC 820, Fair Value Measurements and Disclosures ("ASC 820"), which provides a single definition of fair value, establishes a framework for measuring fair value, and expands disclosures concerning fair value measurements. The Company applies these provisions to the valuation and

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disclosure of certain financial instruments. ASC 820 establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value. These tiers include: (i) Level 1, which is defined as quoted prices in active markets that can be accessed at the measurement date; (ii) Level 2, which is defined as inputs other than quoted prices in active markets that are observable, either directly or indirectly; and (iii) Level 3, which is defined as unobservable inputs resulting from the existence of little or no market data, therefore potentially requiring an entity to develop its own assumptions.

Accounts receivable, inventories, other current assets, accounts payable, accrued salaries and benefits, and other accrued expenses and liabilities are reflected in the accompanying consolidated financial statements at amounts that approximate fair value because of the short-term nature of these instruments. The fair value of the Company's long-term liabilities approximates their carrying value based on current interest rate assumptions and remaining term to maturity. The fair value of amounts due from affiliate cannot be determined due to the uncertainty of timing of payment.

3. Property and Equipment

Property and equipment as of December 31, 2018, consists of the following (in thousands):

Land and improvements	\$	15,955
Buildings and improvements.....		100,415
Equipment		56,797
Leasehold improvements		497
Construction-in-progress.....		610
		<u>174,274</u>
Less accumulated depreciation and amortization.....		<u>(50,381)</u>
Property and equipment, net.....	\$	<u>123,893</u>

Depreciation of property and equipment was \$10.3 million for the year ended December 31, 2018.

4. Goodwill and Other Intangible Assets

Goodwill

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

	<u>Gross</u>	<u>Accumulated Impairment</u>	<u>Net</u>
Balance at December 31, 2017.....	\$ 582	\$ —	\$ 582
Goodwill acquired	<u>—</u>	<u>—</u>	<u>—</u>
Balance at December 31, 2018.....	<u>\$ 582</u>	<u>\$ —</u>	<u>\$ 582</u>

5. Related Party Transactions

Ardent provides services to the Company with regard to management and administration, financial management, clinical and patient care, medical staff relations, group purchasing programs, information technology, and other services. The Company reimburses Ardent and its affiliates for these services based on a management fee arrangement. The Company recorded management fee expense of \$2.7 million to Ardent and its affiliates for the year ended December 31, 2018.

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Amounts due from affiliate of \$15.1 million at December 31, 2018, represents the net shortage of amounts paid by an affiliate of Ardent on behalf of the Company under the amounts transferred by the Company. Amounts paid by affiliate on behalf of the Company generally include operating expenses and fees and services provided by Ardent to the Company.

6. 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 portion of the funding received from PSE&G that is required to be repaid is \$1.2 million at December 31, 2018, to be repaid over five years, and does not bear interest.

Future Installments

Future scheduled installments of long-term debt at December 31, 2018 are as follows (in thousands):

2019	\$	361
2020		361
2021		292
2022		129
2023		10
Total	\$	<u>1,153</u>

7. 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.

8. Other Accrued Expenses and Liabilities

A summary of other accrued expenses and liabilities as of December 31, 2018 is as follows (in thousands):

Third-party settlements payable.....	\$	37
Unclaimed checks		25
Other		22
		<u>\$ 84</u>

9. Self-Insured Liabilities

Professional and General Liability

Ardent maintains, on behalf of its affiliates, an insurance policy with a commercial insurer. The professional and general liability policy has combined limits of \$1.0 million per claim and \$6.0 million annual aggregate for claims. The deductible is \$100,000 per occurrence. In addition to the primary coverage, umbrella and excess coverage is maintained with shared limits of \$15.0 million. Ardent maintains reserves for estimates of

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

The costs of professional and general liability coverage are allocated to the Company based on actuarially determined estimates. Expenses for professional and general liability coverage allocated to the Company were approximately \$0.3 million for the year ended December 31, 2018, and are included in other operating expense within the consolidated statement of operations.

Workers Compensation and Occupational Injury Liability

Ardent is self-insured for workers' compensation claims with a stop-loss limit of \$500,000 per occurrence and maintains associated reserves. The cost of the self-insured coverage is allocated to the Company based, in part, on actual claims experience. Based on valuations from the Company's independent actuary, a benefit of \$0.2 million for workers' compensation was allocated to the Company for the year ended December 31, 2018.

10. Employee Benefit Plans

Defined Contribution Plan

The Company participates in Ardent'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 incurred total contribution costs related to the retirement plan of \$0.8 million for the year ended December 31, 2018.

Employee Health Plan

Ardent is self-insured for substantially all of the medical benefits of its employees. Ardent maintains reserves for medical benefits that reflect known claims and an estimate of incurred but not reported claims based on an actuarial analysis as of December 31 and are billed as premiums to each affiliate. The cost of the self-insured coverage is allocated to the Company based, in part, on actual claims incurred. The reserve for incurred but not paid claims is maintained by Ardent and adjusted as necessary through additional allocations. Expenses for medical benefit coverage allocated to the Company were approximately \$0.6 million for the year ended December 31, 2018, and are included in salaries and benefits expense within the consolidated statement of operations.

11. Commitments and Contingencies

Litigation and Regulatory Matters

From time to time, claims and suits arise in the ordinary course of the Company's business. In certain of these actions, plaintiffs request punitive or other damages against the Company that may not be covered by insurance. The Company does not believe that it is a party to any proceeding that, in management's opinion, would have a material adverse effect on the Company's business, financial condition, results of operations or cash flows. The Company has acquired and plans to continue to acquire businesses with prior operating histories. Acquired companies may have unknown or contingent liabilities, including liabilities for failure to comply with healthcare laws and regulations, such as billing and reimbursement, fraud and abuse and anti-kickback laws.

The Company has from time to time identified certain past practices of acquired companies that do not conform to its standards. Although the Company institutes policies designed to conform such practices to its standards following completion of acquisitions, there can be no assurance that the Company will not become liable for

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the past activities of these acquired facilities that may later be asserted to be improper by private plaintiffs or government agencies. Although the Company generally seeks to obtain indemnification from prospective sellers covering such matters, there can be no assurance that any such matter will be covered by indemnification, or if covered, that such indemnification will be adequate to cover potential losses and fines.

12. Subsequent Events

The Company has evaluated its financial statements and disclosures for the impact of subsequent events through April 30, 2019, the date these consolidated financial statements were available for issuance.