



Audited Financial Statements Year Ending December 31, 2017

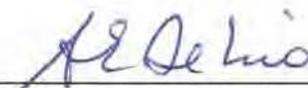
## CERTIFICATE OF COMPLIANCE

<p>California Municipal Finance Authority Revenue Bonds (NorthBay Healthcare Group), <b>Series 2013 B</b> \$20,420,000</p>	<p>California Municipal Finance Authority Revenue Bonds (NorthBay Healthcare Group), <b>Series 2015</b> \$31,960,000</p>
<p>California Municipal Finance Authority Refunding Revenue Bonds (NorthBay Healthcare Group), <b>Series 2016 A</b> \$34,895,000</p>	<p>California Municipal Finance Authority Refunding Revenue Bonds (NorthBay Healthcare Group), <b>Series 2017 A</b> \$203,800,000</p>

The undersigned hereby certifies that he is the Vice President/Chief Financial Officer of NorthBay Healthcare Corporation, a nonprofit public benefit corporation organized and existing under the laws of the State of California (the "Corporation"), and hereby further certifies as follows:

1. Pursuant to the provisions of that certain Continuing Disclosure Agreement, dated October 24, 2013 and April 30 2015 (the "Disclosure Agreement"), among the Corporation, NorthBay Healthcare Group and Digital Assurance Certification LLC, as dissemination agent (the "Dissemination Agent"), I am the Disclosure Representative as such term is defined in the Disclosure Agreement. All capitalized terms used and not otherwise defined in this Certificate of Compliance (this "Certificate") shall have the meanings assigned to such terms in the Disclosure Agreement.
2. I hereby certify that the Report of Independent Auditors and Consolidated Financial Statements with Supplementary Consolidating Information of the Corporation and its affiliates, including the Members of the Obligated Group (the "Disclosure Document"), which is being submitted to the Dissemination Agent concurrently with this Certificate, is the Audited Financial Statements required to be submitted to the Repository under the Disclosure Agreement with respect to the above-referenced Bonds (the "Bonds").
3. I hereby further certify that the full name of the Bonds is set forth above and the 9-digit CUSIP Numbers for all the Bonds to which the Disclosure Document applies are set forth on Attachment I hereto.

Dated: April 24, 2018

By:   
Arthur E. DeNio, Vice President/Chief Financial Officer  
NorthBay Healthcare Corporation

*Compassionate Care,  
Advanced Medicine,  
Close to Home.*

4500 Business Center Drive  
Fairfield, CA 94534

Attachment I

CUSIP Numbers

California Municipal Finance Authority  
and NorthBay Healthcare Group

Series 2013 B <i>Dated October 24, 2013</i>		Series 2015 <i>Dated April 30, 2015</i>		Series 2016 A <i>Dated August 4, 2016</i>		Series 2017 A <i>Dated January 11, 2017</i>	
13048T	QR7*	13048T	UT8*	13048T	ZM8*	13048T	M59
13048T	QS5*	13048T	UU5*	13048T	ZN6	13048T	M67
13048T	QT3*	13048T	UV3	13048T	ZP1	13048T	M75
13048T	QU0*	13048T	UW1	13048T	ZQ9	13048T	M83
13048T	QV8	13048T	UX9	13048T	ZR7	13048T	M91
13048T	QW6	13048T	UY7	13048T	ZS5	13048T	N25
		13048T	UZ4	13048T	ZT3	13048T	N33
		13048T	VA8	13048T	ZU0	13048T	N41
		13048T	VB6	13048T	ZV8	13048T	N58
		13048T	VC4	13048T	ZW6	13048T	N66
		13048T	VD2	13048T	ZX4	13048T	N74
		13048T	VE0	13048T	ZY2	13048T	N82
		13048T	VF7			13048T	N90
		13048T	VG5			13048T	P23
		13048T	VH3			13048T	P31
		13048T	VJ9			13048T	P49
		13048T	VK6				
		13048T	VL4				

\*Matured

**Audited Financial Statements Year Ending December 31, 2017**

**Attachments**

The following statements are included on this disclosure:

Agreement Section	Statement
<b>SECTION 3.11 (I)</b>	Audited Financial Statements



*Report of Independent Auditors and  
Consolidated Financial Statements with  
Supplementary Information*



**NorthBay Healthcare Corporation and its Affiliates**

*Years Ended December 31, 2017 and 2016*



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## **Report of Independent Auditors**

To the Board of Directors  
NorthBay Healthcare Corporation and its Affiliates

### **Report on Financial Statements**

We have audited the accompanying consolidated financial statements of NorthBay Healthcare Corporation and its Affiliates (the "System"), which comprise the consolidated balance sheets as of December 31, 2017 and 2016, and the related consolidated statements of operations and changes in net assets, and cash flows for the years then ended, and the related notes to the financial statements.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these 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.

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on these 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 the auditor's 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, the auditor considers internal control relevant to the entity'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 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 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 NorthBay Healthcare Corporation and its Affiliates as of December 31, 2017 and 2016, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

***Other Matter***

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying supplementary schedules of consolidating balance sheets as of December 31, 2017 and 2016, and consolidating statements of operations for the years ended December 31, 2017 and 2016, presented as supplementary information, are presented for the purpose of additional analysis and are not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the consolidated statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.

A handwritten signature in black ink that reads "Moss Adams LLP". The signature is written in a cursive, flowing style.

San Francisco, California  
April 12, 2018

**Consolidated Financial Statements**

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**NorthBay Healthcare Corporation and its Affiliates**  
**Consolidated Balance Sheets**  
**December 31, 2017 and 2016 (In Thousands)**

	<u>2017</u>	<u>2016</u>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 18,142	\$ 10,590
Assets whose use is limited, required for current liabilities	7,467	7,958
Patient accounts receivable, less allowance for doubtful accounts of \$47,934 in 2017 and \$42,143 in 2016	62,342	63,683
Inventories	4,459	3,598
Hospital quality assurance fee receivable	16,144	10,535
Prepaid expenses and other	24,227	23,570
Total current assets	<u>132,781</u>	<u>119,934</u>
<b>ASSETS WHOSE USE IS LIMITED</b> , less current portion	417,219	232,632
<b>PROPERTY AND EQUIPMENT</b> , net	232,686	194,716
<b>PREPAID HOSPITAL QUALITY ASSURANCE FEE</b>	15,063	8,123
<b>OTHER ASSETS</b>	8,292	4,413
Total assets	<u>\$ 806,041</u>	<u>\$ 559,818</u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 33,145	\$ 26,530
Amounts payable to third-party payors	10,925	5,366
Accrued payroll and related liabilities	39,277	34,048
Other current liabilities	20,136	15,242
Deferred hospital quality assurance fee revenue	34,598	-
Current maturities of long-term obligations	23,372	12,702
Total current liabilities	<u>161,453</u>	<u>93,888</u>
<b>LONG-TERM OBLIGATIONS</b> , less current maturities	316,193	133,336
<b>OTHER LONG-TERM LIABILITIES</b>	15,687	10,676
Total liabilities	<u>493,333</u>	<u>237,900</u>
<b>COMMITMENTS AND CONTINGENCIES (NOTE 12)</b>		
<b>NET ASSETS</b>		
Unrestricted	307,939	317,535
Temporarily restricted	3,879	3,493
Permanently restricted	890	890
Total net assets	<u>312,708</u>	<u>321,918</u>
Total liabilities and net assets	<u>\$ 806,041</u>	<u>\$ 559,818</u>

**NorthBay Healthcare Corporation and its Affiliates**  
**Consolidated Statements of Operations and Changes in Net Assets**  
**Years Ended December 31, 2017 and 2016 (In Thousands)**

	<u>2017</u>	<u>2016</u>
<b>UNRESTRICTED REVENUES, GAINS, AND OTHER SUPPORT</b>		
Net patient service revenue, net of contractual allowances and discounts	\$ 459,681	\$ 485,448
Less: Provision for bad debts related to patient service revenue	(23,044)	(24,513)
Net patient service revenue	436,637	460,935
Capitation revenue	98,308	100,944
Other revenue	7,390	3,784
Net assets released from restrictions used for operations	689	693
Total revenues, gains, and other support	<u>543,024</u>	<u>566,356</u>
<b>OPERATING EXPENSES</b>		
Salaries and wages	257,870	235,351
Employee benefits	63,878	57,986
Professional fees	72,946	68,553
Supplies	52,503	49,149
Purchased services	35,667	34,354
Referred claims	20,255	27,708
Facility and equipment rental	14,994	14,885
Depreciation and amortization	19,729	15,968
Other	16,037	13,620
Hospital quality assurance fee	6,198	14,884
Interest	13,563	2,666
Total operating expenses	<u>573,640</u>	<u>535,124</u>
<b>(LOSS) INCOME FROM OPERATIONS</b>	<u>(30,616)</u>	<u>31,232</u>
<b>OTHER INCOME, net</b>		
Investment income	39,533	4,228
Gain on interest rate swap	218	266
Other (loss) gain, net	(16)	85
Total other income, net	<u>39,735</u>	<u>4,579</u>
<b>EXCESS OF REVENUES OVER EXPENSES</b>	9,119	35,811
Change in net unrealized (loss) gain on other-than-trading securities	(18,715)	6,082
Loss from early retirement of debt	-	(1,002)
<b>(DECREASE) INCREASE IN UNRESTRICTED NET ASSETS</b>	<u>(9,596)</u>	<u>40,891</u>
<b>TEMPORARILY RESTRICTED NET ASSETS</b>		
Contributions	1,075	1,115
Net assets released from restrictions	(689)	(693)
<b>INCREASE IN TEMPORARILY RESTRICTED NET ASSETS</b>	<u>386</u>	<u>422</u>
<b>CONTRIBUTIONS TO PERMANENTLY RESTRICTED NET ASSETS</b>	<u>-</u>	<u>13</u>
<b>(DECREASE) INCREASE IN NET ASSETS</b>	(9,210)	41,326
<b>NET ASSETS, beginning of year</b>	<u>321,918</u>	<u>280,592</u>
<b>NET ASSETS, end of year</b>	<u>\$ 312,708</u>	<u>\$ 321,918</u>

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

**NorthBay Healthcare Corporation and its Affiliates**  
**Consolidated Statements of Cash Flows**  
**Years Ended December 31, 2017 and 2016 (In Thousands)**

	<u>2017</u>	<u>2016</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ (9,210)	\$ 41,326
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization	19,729	15,968
Provision for bad debts	23,044	24,513
Equity in (gain) loss of affiliates	(3,280)	975
Net unrealized and realized gain on investments	(10,748)	(6,082)
Change in fair value of interest rate swap	(218)	(266)
Loss (gain) on disposal of fixed assets	183	(5)
Change in operating assets and liabilities		
Patient accounts receivable	(21,703)	(44,792)
Inventories	(861)	(552)
Prepaid expenses and other	(8,196)	(6,509)
Hospital quality assurance fee receivable	(5,609)	(7,663)
Accounts payable	6,615	1,086
Amounts payable to third-party payors	5,559	(819)
Accrued payroll and related liabilities	5,229	4,852
Other current liabilities	4,894	(903)
Deferred hospital quality assurance fee revenue	34,598	-
Other long-term liabilities	5,229	(1,127)
Net cash from operating activities	<u>45,255</u>	<u>20,002</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of property and equipment	(57,927)	(45,358)
Proceeds from the sale of property and equipment	45	-
Proceeds from sale of assets whose use is limited	119,844	122,983
Purchase of assets whose use is limited	(294,267)	(107,177)
Net cash used in investing activities	<u>(232,305)</u>	<u>(29,552)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Principal payments on long-term debt	(15,825)	(47,622)
Proceeds from the issuance of debt	2,619	52,551
Proceeds from the issuance of Series 2017 revenue bonds	210,294	-
Payments made for debt issuance costs	(3,561)	(796)
Proceeds from restricted contributions	1,075	1,115
Net cash from financing activities	<u>194,602</u>	<u>5,248</u>
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	7,552	(4,302)
<b>CASH AND CASH EQUIVALENTS, beginning of year</b>	<u>10,590</u>	<u>14,892</u>
<b>CASH AND CASH EQUIVALENTS, end of year</b>	<u>\$ 18,142</u>	<u>\$ 10,590</u>
<b>SUPPLEMENTAL CASH FLOW INFORMATION</b>		
Cash paid during the year for interest (net of capitalized interest)	\$ 13,958	\$ 3,010
Acquisition of equipment financed with a capital lease	\$ 1,025	\$ 35,000

# NorthBay Healthcare Corporation and its Affiliates

## Notes to Consolidated Financial Statements

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### NOTE 1 – ORGANIZATION

**NorthBay Healthcare Corporation (“NBHC”)** – NBHC and its affiliates, d.b.a. NorthBay Healthcare System (the “System”), is a healthcare delivery system headquartered in Fairfield, Solano County, California. The System provides services to residents of Fairfield, Vacaville, and surrounding cities within Solano County. The individual affiliates of the System are listed below. NBHC is the sole corporate member of these not-for-profit affiliates.

**NorthBay Healthcare Group (“NBHG” or the “Group”)** – The Group is responsible for the operations of two nonprofit hospitals: NorthBay Medical Center (“NorthBay”) in Fairfield, California, and VacaValley Hospital (“VacaValley”) in Vacaville, California. Each hospital provides both inpatient and outpatient health care services.

Health care services also include physician services through NBHG’s medical foundation, doing business as NorthBay Medical Group (“NBMG”), a network of multi-specialty clinics located in Fairfield, California and Vacaville, California. NBMG contracts with physicians for professional medical services. NBMG operates under section 1206(l) of the California Health and Safety Code.

The Group owns 100% of the equity interest of NorthBay Physicians Surgery Center, LLC (“NBPSC”). NBPSC is a California limited liability company that operates an Ambulatory Surgery Center in Vacaville, California.

The Group’s interest in Western Health Advantage (“WHA”), a nonprofit, full-service health care plan, at December 31, 2017 and 2016, was one-half and one-third, respectively. This interest is accounted for under the equity method (see Note 11).

**NorthBay Healthcare Foundation (“NBHF”)** – NBHF provides fundraising services for NBHG and its affiliated organizations.

**NorthBay Health Advantage (“NBHA”)** – NBHA supports and carries out the purposes and functions of the Group by managing satellite diagnostic imaging centers located near the two hospitals. NBHA’s ownership interest in Solano Diagnostic Partners (“SDP”), the facility operator, is 95% at December 31, 2017 and 2016. NBHC’s ownership interest in SDP is 5% at December 31, 2017 and 2016.

### NOTE 2 – ACCOUNTING POLICIES

**Basis of consolidation** – The consolidated financial statements include the accounts of the organizations listed in Note 1 except for the beneficial interest in WHA. All significant intercompany accounts and transactions have been eliminated in consolidation.

**Use of estimates** – The preparation of the consolidated 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 disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

## NorthBay Healthcare Corporation and its Affiliates

### Notes to Consolidated Financial Statements

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**Income tax status** – The System has applied for and received tax determination letters from governmental authorities advising that they are exempt from federal income and state franchise taxes under Section 501(c)(3) of the Internal Revenue Code and Section 23701d of the Revenue and Taxation Code of the State of California, respectively. Therefore, there has been no provision for income taxes included in the accompanying consolidated financial statements.

**Cash and cash equivalents** – Cash and cash equivalents include certain investments in highly liquid debt instruments with original maturities of three months or less. The System routinely invests its surplus operating funds in money market funds. These funds generally invest in highly liquid U.S. government and agency obligations. Financial instruments potentially subjecting the System to concentrations of credit risk consist primarily of bank demand deposits in excess of FDIC limits.

**Assets whose use is limited** – Assets whose use is limited consist principally of money market funds, cash equivalents, and debt and equity securities held through managed mutual funds pursuant to the System's investment policy. Debt and equity securities are recorded at fair value. Certain assets are held by trustees in accordance with the indentures relating to long-term debt. In addition, certain investments are set aside by the System's governing board for future capital improvement. The Board retains control of these assets and may, at its discretion, use these amounts for other purposes.

Investment income or loss (including realized gains and losses on investments, interest, and dividends) is included in the excess of revenues over expenses unless the income or loss is restricted by donor or law. Unrealized gains and losses on investments are excluded from the excess of revenues over expenses unless the investments are classified as trading securities.

Upon determination that the market value of securities is other than temporarily impaired, adjustments are made to revalue the securities to the current fair market value. Any adjustments required by this policy for unrestricted assets are charged to investment income. Any adjustments required for temporarily restricted assets are charged to the appropriate net assets category. No such adjustments were made during the years ended December 31, 2017 and 2016.

**Fair value of financial instruments** – Unless otherwise indicated, the fair values of all reported assets and liabilities, which represent financial instruments, approximate their carrying values. The System's policy is to recognize transfers in and transfers out of Level 1 and 2 as of the end of the reporting period.

## NorthBay Healthcare Corporation and its Affiliates Notes to Consolidated Financial Statements

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**Patient accounts receivable, amounts payable to third-party payors, and net patient service revenue –**

Accounts receivable are reduced by an allowance for doubtful accounts. In evaluating the collectability of accounts receivable, the System 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 provision for bad debts on a consolidated basis. Management regularly reviews data about these major payor sources of revenue in evaluating the sufficiency of the allowance for doubtful accounts. For receivables associated with services provided to patients with third-party insurance coverage, the System analyzes contractually due amounts and provides an allowance for doubtful accounts and a provision for bad debts, if necessary (for example, for expected uncollectable deductibles and copayments on accounts for which the third-party payor has not yet paid, or for payors who are known to be having financial difficulties that make the realization of amounts due unlikely). For receivables associated with self-pay patients (those without third-party insurance coverage) and receivables representing deductibles and copayments required from patients by their insurance plans, the System records a provision for bad debts in the period of service on the basis of its past experience. The difference between the standard rates (or discounted rates if negotiated) and the amounts historically collected after all reasonable collections have been exhausted is the estimated uncollectable rate. This rate is applied to existing accounts to record an estimate for uncollectable accounts.

The System's allowance for doubtful accounts for self-pay patients was 99% of self-pay accounts receivable at December 31, 2017 and 2016. The System has not changed its charity care or uninsured discount policies during the years ended December 2017 and 2016. The System does not maintain a material allowance for doubtful accounts from third-party payors, nor did it have significant write-offs from third-party payors.

**Concentration of credit risk** – The System derives significant portions of its revenues from Medicare, Medicaid ("Medi-Cal"), and other third-party payor programs. The receipt of future revenues by the System is subject to, among other factors, federal and state policies affecting the health care industry.

Contracts with two health plans accounted for 100% and 99% of premiums received under capitation arrangements during the years ended December 31, 2017 and 2016, respectively.

In addition, as part of the System's mission to serve the community, the System provides care to patients who come into the hospitals through emergency situations. As a result, the System is exposed to certain credit risks. The System manages its risks by regularly reviewing accounts and contracts and by providing for appropriate allowances for doubtful amounts.

The mix of net patient accounts receivable at December 31, 2017 and 2016, is as follows:

	<u>2017</u>	<u>2016</u>
Commercial insurance	65 %	73 %
Medicare	19	11
Medi-Cal	11	10
Self-pay/other	<u>5</u>	<u>6</u>
Total	<u><u>100 %</u></u>	<u><u>100 %</u></u>

## NorthBay Healthcare Corporation and its Affiliates

### Notes to Consolidated Financial Statements

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**Inventories** – Inventories are stated using a consolidation of first-in, first-out (“FIFO”) and current pricing. All stock inventories, except for pharmaceuticals, are valued using FIFO methodology. Because of the high turnover rate for pharmaceutical inventory, it is valued using current pricing, which approximates the lower of cost or market.

**Property and equipment** – Property and equipment are carried at historical cost, except for donated property, which is recorded at the fair market value at date of donation. The cost of maintenance and repairs is charged to expense as incurred; significant renewals and betterments are capitalized. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, which range from 5 to 35 years for buildings, 5 to 25 years for land improvements, and 3 to 25 years for equipment. Leasehold improvements are amortized on a straight-line basis over lives not exceeding the related lease terms up to 20 years. When assets are retired, sold, or otherwise disposed of, the cost and related accumulated depreciation and amortization are removed from the accounts and any resulting gain or loss is recognized as other income or expense. Interest costs incurred on borrowed funds during the period of construction of capital assets, net of related interest income, are capitalized as a component of the cost of acquiring those assets.

Gifts of long-lived assets such as buildings or equipment are reported as unrestricted support within contributions, and are excluded from the excess of revenues over expenses, unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

**Asset impairment** – The System evaluates the carrying value of its long-lived assets for potential impairment whenever events or changes in circumstances indicate that the assets’ carrying amount may not be recoverable. The evaluations estimate the recoverability of the assets’ carrying value principally based on projected undiscounted cash flows generated by the assets. No impairment was recognized in 2017 and 2016.

**Prepaid expenses and other accounts receivable** – Prepaid expenses and other accounts receivable include estimated stop loss recoveries for capitation plans, quality incentives receivables, prepaid service contracts, and subordinated debt from WHA (see Note 11).

**Other current liabilities** – Other current liabilities mainly consist of the current portion of the System’s deferred rent, hospital medical malpractice, and capitation arrangement liabilities.

**Bond issuance costs, bond discounts, and bond premiums** – Bond issuance costs, are amortized over the life of the bonds using the effective interest rate method and are netted against the long term debt balance. During the years ending December 31, 2017 and 2016, interest expense related to bond issuance costs was \$338,000 and \$219,000, respectively. Bond discounts are netted against the long-term debt balance and are amortized over the life of the bonds using the interest method. Bond premiums are netted against the long-term debt balance and are amortized over the life of the bonds using the interest method. The amortization of bond premium revenue was \$1,255,000 and \$680,000 for the years ended December 31, 2017 and 2016, respectively.

**Other long-term liabilities** – Other long-term liabilities consist mainly of deferred rent, the long-term portion of workers’ compensation and medical malpractice liabilities, and deferred income from the sale-leaseback of medical office buildings recognized over the life of the leaseback.

## NorthBay Healthcare Corporation and its Affiliates

### Notes to Consolidated Financial Statements

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**Interest rate swap** – The System uses interest rate swaps as part of its overall debt management policy. The System accounts for interest rate swaps in accordance with ASC Topic 815, *Derivatives and Hedging* (see Notes 4 and 7).

**Derivative financial instruments** – In February 2009, the System entered into a swap transaction to hedge its variable rate financing risk. One feature of the swap contract was the System's option to terminate the transaction at 1% of the notional amount on certain dates commencing in July 2011. In April 2012, the System and counterparty agreed to suspend this provision through and including December 2013 in exchange for a cash payment from the counterparty. In January 2013, the System and the counterparty again agreed to suspend this provision through December 2015 in exchange for a cash payment from the counterparty. In May 2015, the System and the counterparty again agreed to suspend this provision through December 2017 in exchange for a cash payment from the counterparty. The payments are deferred revenue, recognized in other income over the period of the suspension agreement.

All derivatives are recognized on the consolidated balance sheet at their fair value. On the date that the System entered into the derivative contract, it designated the derivative as a hedge of the variability of cash flows that are to be received or paid in connection with a recognized asset or liability (a cash flow hedge). During 2012, the hedge became completely ineffective and all changes in fair value have since been recorded in other income.

**Workers' compensation** – The System participates in a large deductible insurance program to manage the risk cost of workers' compensation claims. The System has a reinsurance agreement with an insurance company to limit its losses to \$250,000 per claim for losses prior to October 1, 2003, and to \$350,000 per claim for claims after that date. Losses from claims incurred but not reported ("IBNR") during the coverage period have been accrued. An actuarial estimate of losses from reported and unreported incidents has been used by management to record a liability and receivable. As of December 31, 2017 and 2016, the System had accrued total liabilities of \$4,860,000 and \$4,470,000, respectively, related to these claims. As of December 31, 2017 and 2016, the System had reported total receivables of \$1,219,000 and \$1,108,000, respectively. The current portion of workers' compensation liability and receivable (\$2,994,000 and \$768,000 at December 31, 2017, respectively, and \$3,048,000 and \$698,000 at December 31, 2016, respectively) was estimated based on the claims expected to be paid within one year. The liability is recorded in accrued payroll and related liabilities and the receivable is recorded in prepaid expenses and other. The long-term portion of the workers' compensation liability and receivable (\$1,865,000 and \$451,000 at December 31, 2017, respectively, and \$1,422,000 and \$410,000 at December 31, 2016, respectively), is reported in other long-term liabilities and other assets, respectively.

# NorthBay Healthcare Corporation and its Affiliates

## Notes to Consolidated Financial Statements

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**Hospital medical malpractice liability** – The System purchases insurance coverage from a third-party insurer to cover medical malpractice claims. The policy, which went into effect on October 1, 2003, is a claims-made policy covering losses in excess of \$100,000 per claim with a coverage limit of \$15,000,000. Losses prior to October 1, 2003, are covered in excess of \$50,000 per claim with a coverage limit of \$25,000,000. Losses from IBNR claims during the coverage period have been accrued. These accruals are based on historical claims experience. As of December 31, 2017 and 2016, the System had accrued \$4,721,000 and \$3,581,000, respectively, related to these claims. The current portion of the liability (\$373,000 and \$254,000 at December 31, 2017 and 2016, respectively) was estimated based on the claims expected to be paid within one year and is included in other current liabilities. The long-term portion of the liability (\$4,348,000 and \$3,327,000 at December 31, 2017 and 2016, respectively) is included in other long-term liabilities. Additionally, the System had reported total receivables of \$2,308,000 and \$1,669,000 at December 31, 2017 and 2016, respectively. The current portion of the receivable (\$182,000 and \$119,000 at December 31, 2017 and 2016, respectively) was estimated based on the claims expected to be paid within one year and is included in prepaids and other on the consolidated balance sheets. The long-term portion of the receivable (\$2,126,000 and \$1,551,000 at December 31, 2017 and 2016, respectively) is included in other assets.

**Net assets** – All contributions that are not restricted by donors are included in unrestricted net assets. Contributions temporarily restricted by donors for a specific time period or purpose are initially reported as temporarily restricted net assets and are transferred to unrestricted net assets when the restrictions have been met.

Temporarily restricted net assets are to be used as of December 31, 2017 and 2016, for the following purposes (in thousands):

	<u>2017</u>	<u>2016</u>
Specific health care programs	\$ 3,182	\$ 2,873
Education	440	369
Buildings and equipment	<u>257</u>	<u>251</u>
	<u>\$ 3,879</u>	<u>\$ 3,493</u>

Permanently restricted net assets (endowments) have been restricted by donors to be maintained by the System in perpetuity. Permanently restricted net assets remain intact with earnings on such funds providing an ongoing source of revenue to be used primarily for indigent medical care and research. Total endowments at December 31, 2017 and 2016, were \$890,000. Permanently restricted net assets are commingled with the System's other investments and returns and are allocated to the permanently restricted fund on a pro-rata basis. Unrealized gains and investment income allocated to the permanently restricted fund are classified as temporarily restricted net assets, as supported by associated agreements, until those amounts are appropriated for expenditure by the System in a manner consistent with the standard of prudence by the Uniform Prudent Management of Institutional Funds Act ("UPMIFA").

## NorthBay Healthcare Corporation and its Affiliates Notes to Consolidated Financial Statements

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**Capitation arrangements** – NBHG has entered into capitation contracts with prepaid health plans to provide medical services to subscribing participants. Under these agreements, NBHG receives monthly capitation payments based on the number of health plan participants, regardless of services actually performed by NBHG. NBHG is in turn responsible for certain covered medical services for these capitated patients. NBHG maintains a stop loss insurance policy to cover payment for commercial subscribers whose medical costs exceed a certain level (\$250,000 per member in 2017 and 2016). NBHG also has a stop-loss contractual arrangement to cover payment for governmental subscribers whose medical costs exceed \$50,000 per member in 2017 and 2016. Premiums paid under this policy were \$511,000 and \$388,000 as of December 31, 2017 and 2016, respectively. NBHG has recorded a liability for referred services authorized and unpaid at year end, including IBNR claims. As of December 31, 2017 and 2016, the System had accrued \$6,687,000 and \$7,958,000, respectively, related to these claims, which is included in other current liabilities. Additionally, NBHG has recorded a receivable for stop-loss recoveries related to these claims for \$13,916,000 and \$10,443,000 as of 2017 and 2016, respectively.

**Referred claims** – Referred claims represent the incurred costs relating to providing capitation services which have not been otherwise included in the System's other expense. These include costs of services for covered members rendered by other healthcare providers, as well as the costs of stop loss insurance and the recoveries from those policies relating to capitated plans.

**Charity care** – NBHG provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Information identified throughout the collection process is used to determine a patient's eligibility for charity care. As NBHG does not pursue collection of amounts once they are determined to qualify as charity care, they are not reported as patient service revenue (see Note 9).

**Contributions** – Contributions are recorded as operating gains when received, unless restricted as to use. Resources restricted as to use for additions to operating plant and equipment or specific operating purposes are recorded as additions to restricted net assets. Externally restricted funds may be utilized only in accordance with the purposes established by the donor. Funds are transferred from restricted net assets to the unrestricted net assets when expenditures are made for the purpose intended by the donor.

**Functional expenses** – The System provides general health care services to residents within its geographic location. Expenses related to providing these services as of December 31, 2017 and 2016, are as follows (in thousands):

	2017	2016
Health care services	\$ 497,450	\$ 453,334
General and administrative	69,992	66,906
Hospital quality assurance fee	6,198	14,884
	\$ 573,640	\$ 535,124

**Hospital fee receivables** – Hospital fee receivables include amounts due to the System under the California Hospital Fee Program.

## NorthBay Healthcare Corporation and its Affiliates

### Notes to Consolidated Financial Statements

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**California Hospital Fee Program** – The first California Hospital Fee Program (the “Program”) was signed into California state law in 2009 and became effective in late 2010. The Program provides supplemental Medi-Cal payments to California hospitals that provide a disproportionately large share of medical services to low-income patients. The Program is funded by a quality assurance fee paid by participating hospitals and by matching federal funds. Hospitals receive supplemental payments from either the California Department of Health Care Services (“DHCS”), Medi-Cal managed care plans, or a combination of both.

The program includes a Fee-for-Service component and a Managed Care component. The Centers for Medicare and Medicaid Services (“CMS”) must approve each component before it becomes effective. The System recognizes net patient revenues and expenses related to each component in the System’s fiscal year on a straight line basis. Revenue and expense are recognized by the System when both components of the program have been approved and granted by CMS, and the period of time that the program relates to has occurred. Often the approval of the programs by CMS comes after the time period that the program related to.

Senate Bill 239 (signed into law on October 8, 2013), extended the program by two program periods. The first program period began January 1, 2014, and ended December 31, 2016. As of December 31, 2017, CMS has approved the Fee-for-Service component through December 2016, the Managed Care component’s non-expansion population (approximately 60% of the Managed Care component’s total) through June 2015 and the Managed Care component’s expansion population (approximately 40% of the total) through December 2014. The second program period began January 1, 2017, and ends June 30, 2019. CMS has approved the Fee-for-Service component through June 2019. The Managed Care component has not yet been approved.

Due to federal claiming limits, the California Department of Health Care Services had to make supplemental managed care payments, for the first program period, to the health plans in advance of receiving CMS approval. These payments covered January 1, 2015 through June 30, 2016 for the expansion population and July 1, 2015 through June 30, 2016 for the non-expansion population. The system received these payments and recorded \$34,598,000 as deferred revenue on the consolidated balance sheet as of December 31, 2017.

California Proposition 52, approved in the November 2016 general election, made the Hospital Fee Program permanent in California.

## NorthBay Healthcare Corporation and its Affiliates

### Notes to Consolidated Financial Statements

The following table presents California Hospital Fee Program revenues and expenses recognized during the years ended December 31, 2017 and 2016, by program component (in thousands):

	<b>2017</b>	<b>2016</b>
Fee-for-service component		
Net patient service revenues	\$ 13,035	\$ 6,207
Expenses	(6,198)	(3,052)
Net benefit (expense)	\$ 6,837	\$ 3,155
Managed care component		
Net patient service revenues	\$ -	\$ 25,097
Expenses	-	(11,832)
Net benefit	\$ -	\$ 13,265
Combined		
Net patient service revenues	\$ 13,035	\$ 31,304
Expenses	(6,198)	(14,884)
Net benefit	\$ 6,837	\$ 16,420

**Excess of revenues over expenses** – The statement of operations includes excess of revenues over expenses. Excess of revenues over expenses is considered the performance indicator. Consistent with industry practice, this includes all changes in unrestricted net assets other than losses upon the early retirement of debt and unrealized gains, and losses on available for sale and held to maturity investments.

**Early retirement offer** – In 2017, the System offered an early retirement package to one hundred sixteen employees meeting specified age and tenure requirements. Fifty-nine employees accepted the offer with separation dates ranging from December 29, 2017 through June 29, 2018. An expense of \$6,600,000 was recorded during the year ended December 31, 2017.

**New accounting pronouncements** – In May 2014, the FASB issued Accounting Standards Update (“ASU”) No. 2014-09, *Revenue from Contracts with Customers* (“ASU 2014-09”), which provides that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services by identifying the contract(s) with a customer, identifying the performance obligations in the contract, determining the transaction price, allocating the transaction price to the performance obligations in the contract, and recognizing revenue when (or as) the entity satisfied a performance obligation. ASU No. 2014-09, is effective for the System beginning January 1, 2018.

## NorthBay Healthcare Corporation and its Affiliates

### Notes to Consolidated Financial Statements

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In January 2016, the FASB issued ASU No. 2016-01, *Financial Instruments* (“ASU 2016-01”) which requires an entity to: (i) measure equity investments at fair value through net income, with certain exceptions; (ii) present in other comprehensive income the changes in instrument-specific credit risk for financial liabilities measured using the fair value option; (iii) present financial assets and financial liabilities by measurement category and form of financial asset; (iv) calculate the fair value of financial instruments for disclosure purposes based on an exit price and; and (v) assess a valuation allowance on deferred tax assets related to unrealized losses of available for sale debt securities in combination with other deferred tax assets. The update provides an election to subsequently measure certain nonmarketable equity investments at cost less any impairment and adjusted for certain observable price changes. The update also requires a qualitative impairment assessment of such equity investments and amends certain fair value disclosure requirements. The adoption of ASU 2016-01 is effective for the System beginning January 1, 2019. Management is evaluating the potential impact of this new pronouncement.

In February 2016, the FASB issued ASU No. 2016-02, *Leases* (“ASU 2016-02”), which will require an entity to report a right-of-use asset and a liability for the obligation to make payments for all leases with the exception of those leases with a term of 12 months or less. The adoption of ASU 2016-02 is effective for the System beginning January 1, 2019. Management is evaluating the potential impact of this new pronouncement.

In November 2016, the FASB issued ASU No. 2016-18, *Restricted Cash* (“ASU 2016-18”), which will require that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The adoption of ASU 2016-18 is effective for the System beginning January 1, 2019. The adoption is not expected to have a material impact on the System’s consolidated financial statements.

In April 2016, the FASB issued ASU No. 2016-14, *Not-for-Profit Entities (Topic 958)* (“ASU 2016-14”), to improve the current net asset classification requirements and the information presented in financial statements and notes about not-for-profit-entities liquidity, financial performance, and cash flows. The adoption of ASU 2016-14 is effective for System beginning January 1, 2018. Management is evaluating the potential impact of this new pronouncement.

**Reclassifications** – Certain prior year amounts were reclassified to conform to the current year presentation. There was no change in reported excess of revenues over expenses or net assets related to these reclassifications.

## NorthBay Healthcare Corporation and its Affiliates

### Notes to Consolidated Financial Statements

#### NOTE 3 – ASSETS WHOSE USE IS LIMITED

In 2017 and 2016, assets whose use is limited consists primarily of mutual funds, time certificates of deposit, and money market funds. Assets whose use is limited are held at December 31, 2017 and 2016, for the following purposes (in thousands):

	<b>2017</b>	<b>2016</b>
Designated by board of directors, for capital improvements	\$ 214,916	\$ 192,275
Designated by board of directors, for self-insurance liabilities	5,599	5,591
Designated by board of directors, other	18,237	20,560
Under financing agreement, held by bank trustees	185,934	22,164
Total assets whose use is limited	424,686	240,590
Less assets whose use is limited required for current liabilities	(7,467)	(7,958)
Total assets whose use is limited, net of current portion	\$ 417,219	\$ 232,632

Investment results for the years ended December 31, 2017 and 2016, are as follows (in thousands):

	<b>2017</b>	<b>2016</b>
Income:		
Interest and dividend income	\$ 10,070	\$ 4,647
Realized gain (loss) on investments	29,463	(419)
Total investment income	\$ 39,533	\$ 4,228
Other changes in unrestricted net assets:		
Unrealized (loss) gain on other-than-trading securities	\$ (18,715)	\$ 6,082

#### NOTE 4 – FAIR VALUE MEASUREMENTS

FASB Topic ASC 820, *Fair Values Measurements and Disclosures* (“ASC 820”), defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. ASC 820 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

**Level 1** – Quoted prices in active markets for identical assets or liabilities.

**Level 2** – Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

# NorthBay Healthcare Corporation and its Affiliates

## Notes to Consolidated Financial Statements

**Level 3** – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

**Assets whose use is limited** – Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities include highly liquid government bonds and exchange traded equities. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics, or discounted cash flows. Level 2 securities include certain collateralized debt obligations, certain municipal securities, and certificates of deposit.

**Interest rate swap agreement** – The fair value is estimated by a third party using inputs that are observable or that can be corroborated by observable market data and, therefore, are classified within Level 2 of the valuation hierarchy.

The following table presents the fair value measurements of assets and liabilities recognized in the accompanying consolidating balance sheets measured at fair value on a recurring basis and the level within the ASC 820 fair value hierarchy in which the fair value measurements fall at December 31, 2017 and 2016 (in thousands):

Description	Level 1	Level 2	Level 3	Balance at December 31, 2017
Assets whose use is limited				
Money market funds and other cash equivalents	\$ 199,351	\$ -	\$ -	\$ 199,351
Certificates of deposit	-	5,599	-	5,599
Equity mutual funds				
U.S. large cap	27,568	-	-	27,568
U.S. small cap	17,522	-	-	17,522
Total equity mutual funds	<u>45,090</u>	<u>-</u>	<u>-</u>	<u>45,090</u>
Fixed income mutual funds				
Domestic	115,953	-	-	115,953
Foreign	58,628	-	-	58,628
Total fixed income mutual funds	<u>174,581</u>	<u>-</u>	<u>-</u>	<u>174,581</u>
Corporate equity securities	65	-	-	65
Total assets whose use is limited	<u>419,087</u>	<u>5,599</u>	<u>-</u>	<u>424,686</u>
Interest rate swap	-	(150)	-	(150)
Total	<u>\$ 419,087</u>	<u>\$ 5,449</u>	<u>\$ -</u>	<u>\$ 424,536</u>

**NorthBay Healthcare Corporation and its Affiliates**  
**Notes to Consolidated Financial Statements**

Description	Level 1	Level 2	Level 3	Balance at December 31, 2016
Assets whose use is limited				
Money market funds and other cash equivalents	\$ 36,284	\$ -	\$ -	\$ 36,284
Certificates of deposit	-	5,593	-	5,593
Equity mutual funds				
U.S. large cap	29,780	-	-	29,780
U.S. small cap	15,430	-	-	15,430
Total equity mutual funds	45,210	-	-	45,210
Fixed income mutual funds				
Domestic	104,352	-	-	104,352
Foreign	49,029	-	-	49,029
Total fixed income mutual funds	153,381	-	-	153,381
Corporate equity securities	122	-	-	122
Total assets whose use is limited	234,997	5,593	-	240,590
Interest rate swap	-	(368)	-	(368)
Total	\$ 234,997	\$ 5,225	\$ -	\$ 240,222

There were no transfers in and out of Level 1 and Level 2 fair value measurements.

**NOTE 5 – PROPERTY AND EQUIPMENT**

Property and equipment at December 31, 2017 and 2016, consist of the following (in thousands):

	2017	2016
Land	\$ 23,070	\$ 22,959
Buildings	132,458	122,947
Equipment	126,573	120,219
Leasehold improvements	25,844	24,589
Buildings and equipment under capital lease obligations	47,149	44,544
Construction-in-progress	71,509	37,237
	426,603	372,495
Less accumulated depreciation	(193,917)	(177,779)
Property and equipment, net	\$ 232,686	\$ 194,716

Interest expense capitalized in 2017 and 2016, was \$2,100,625 and \$1,961,000, respectively.

# NorthBay Healthcare Corporation and its Affiliates

## Notes to Consolidated Financial Statements

### NOTE 6 – LONG-TERM OBLIGATIONS

Long-term obligations at December 31, 2017 and 2016, consists of the following (in thousands):

	<u>2017</u>	<u>2016</u>
California Municipal Finance Authority		
2013 Series B Bonds	\$ 7,490	\$ 10,970
2015 Bonds	30,905	31,445
2016 Bonds	32,445	34,895
2017 Bonds	203,800	-
Unamortized premium for above bonds	12,946	7,707
Bank of America Note Payable	12,855	15,110
Banc of America Equipment Financing Schedule 1 and 2	-	240
Siemens Phase II	1,265	1,322
Siemens Financial Services	-	200
Huntington Lease	869	-
Capitalized Lease - Wellness Center	32,316	34,066
Capitalized Lease - Bank of America	10,816	12,535
	<u>345,707</u>	<u>148,490</u>
Current maturities	(23,372)	(12,702)
Net unamortized cost of issuance	<u>(6,142)</u>	<u>(2,452)</u>
	<u>\$ 316,193</u>	<u>\$ 133,336</u>

In March 2007, the System entered into a lease with Siemens Financial Services, Inc., to install cogeneration and other energy-saving equipment at the Fairfield and Vacaville hospitals. The lease had an initial principal amount of \$2,612,000 and interest rate of 4.15% and amortizes ratably over a ten-year period ending January 2018, with quarterly payments. The lease obligation is collateralized by the leased equipment.

In December 2010, the System entered into a capital lease with Banc of America Leasing and Capital, LLC, to install a 64 channel CT scanner at VacaValley. The lease obligation is collateralized by the equipment. The lease had an initial principal amount of \$1,470,000 and imputed interest rate of 3.72% with monthly installments of \$26,882 through December 2015. In August 2012, the System entered into Schedule 2 for an additional financing of \$2,276,000 and imputed interest rate of 2.74% with quarterly installments of \$121,331 through May 2017.

In 2012, the System entered into a \$25,000,000 variable rate loan with Bank of America. At December 31, 2017 bank loan is collateralized by \$27,500,000 of board-designated investments. In March 2015, the loan was extended through March 31, 2018. The loan bears interest at LIBOR + 0.73% with annual principal installments of \$2,065,000 in 2015, \$2,155,000 in 2016, \$2,255,000 in 2017, and the remaining principal balance is due in 2018.

In 2013, NBHG entered into a Master Lease and Sublease Agreement with Siemens Public, Inc., as lessor; ABAG Finance Authority for Nonprofit Corporations as lessee; and NBHG as sublessee to acquire and install water conservation and energy saving equipment at the Fairfield hospital. The lease (Schedule 1 to the Master Lease) had an initial principal amount of \$2,163,521 with an interest rate of 3.76% and amortizes ratably over a 16-year period ending September 2029, with monthly payments beginning May 2015. The lease obligation is collateralized by the leased equipment.

## NorthBay Healthcare Corporation and its Affiliates Notes to Consolidated Financial Statements

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In 2013, 2015, 2016, and 2017, NBHC and the Group (collectively the “Obligated Group”) issued tax-exempt municipal bonds through the California Municipal Finance Authority.

Series 2013 B Bonds were issued in the principal amount of \$20,420,000. The Series 2013 B Bonds were sold at a premium of \$1,541,000, resulting in total proceeds of \$21,961,000. The purpose of the net proceeds from the sale of the Series 2013 B Bonds, together with \$9,659,000 on deposit in the funds and accounts held by U.S. Bank National Association as trustee for the Intercommunity Hospital Financing Authority Certificates of Participation (“Certificates of Participation”), were used in October 2013 to defease the Series 1998 Certificates of Participation in the amount of \$29,238,000, to establish a debt service reserve fund for the Series 2013 B Bonds in the amount of \$2,042,000, and to pay certain costs to issue the Series 2013 B Bonds in the amount of \$341,000. Interest on the Series 2013 B Bonds is fixed at 5.00% per annum. Principal will be repaid beginning in 2014 and annually thereafter until 2019. The issuance premium is being amortized over the life of the Series 2013 B Bonds using the effective-interest method. The Series 2013 B Bonds are secured by the revenues of the Obligated Group, a deed of trust dated October 1, 2013, and other amounts held in any fund or account established by the Indenture to the Series 2013 B Bonds.

Series 2015 Bonds were issued in the principal amount of \$31,960,000. The Series 2015 Bonds were sold at a premium of \$2,849,000 and included additional borrower funds of \$178,000, resulting in total proceeds of \$34,987,000 of which \$32,000,000 will be used for to finance certain preconstruction costs related to the planned expansion of NorthBay Medical Center. Of the remaining proceeds, \$2,113,000 was used to establish a debt service reserve fund for the Series 2015 Bonds, and \$874,000 was used to pay certain costs to issue the Series 2015 Bonds. Interest on the Series 2015 Bonds is fixed at 5.00% per annum. Principal will be repaid beginning in 2016 and annually thereafter until 2044. The issuance premium is being amortized over the life of the Series 2015 Bonds using the effective-interest method. The Series 2015 Bonds are secured by the revenues of the Obligated Group, a deed of trust dated October 1, 2013, and other amounts held in any fund or account established by the Indenture to the Series 2015 Bonds.

Series 2016 Bonds were issued in April 2016 in the principal amount of \$34,895,000. The Series 2016 Bonds were sold at a premium of \$4,934,000 and included the balance of Series 2013 A unspent funds of \$4,049,000, resulting in total proceeds of \$43,878,000 of which \$39,593,000 will be used to refund the variable rate Series 2013 A Bonds. Of the remaining proceeds, \$3,489,000 was used to establish a debt service reserve fund for the Series 2016 Bonds, and \$796,000 was used to pay certain costs to issue the Series 2016 Bonds. Interest on the Series 2016 Bonds is fixed at rates varying from 2.00% - 5.00% per annum. Principal will be repaid beginning in 2016 and annually thereafter until 2028. The issuance premium is being amortized over the life of the Series 2016 Bonds using the effective-interest method. The Series 2016 Bonds are secured by the revenues of the Obligated Group, a deed of trust dated October 1, 2013, and other amounts held in any fund or account established by the Indenture to the Series 2016 Bonds.

## NorthBay Healthcare Corporation and its Affiliates

### Notes to Consolidated Financial Statements

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Series 2017 A Bonds were issued in January 2017 in the principal amount of \$203,800,000. The Series 2017 A Bonds were sold at a premium of \$6,494,000, resulting in total proceeds of \$210,294,000. Of the proceeds, \$166,000,000 are to be used for expansion and renovation projects. Of the remaining proceeds, \$14,764,000 was used to establish a debt service reserve fund for the Series 2017 A Bonds, \$25,969,000 was used to establish a capitalized interest fund and \$3,561,000 was used to pay certain costs to issue the Series 2017 A Bonds. Interest on the Series 2017 A Bonds is fixed at rates varying from 5.00% - 5.25% per annum. Principal will be repaid beginning in 2020 and annually thereafter until 2047. The issuance premium is being amortized over the life of the Series 2017 A Bonds using the effective-interest method. The Series 2017 A Bonds are secured by the revenues of the Obligated Group, a deed of trust dated October 1, 2013, and other amounts held in any fund or account established by the Indenture to the Series 2017 A Bonds.

Series 2013 Bonds, Series 2015 Bonds, Series 2016 Bonds, and Series 2017 Bonds are governed by a Master Indenture dated October 2013 that contains certain covenants which require the Obligated Group to maintain, among other things, certain financial ratios.

In January 2015, NBHG entered into a Master Lease Agreement with Macquarie Equipment Finance, Inc., to acquire various computer and medical equipment. Schedule 1 and 2 to the Master Lease Agreement were accepted in September 2015 and July 2016, respectively, in the amounts of \$673,000 and \$935,000. The lease term for Schedule 1 is five years and the lease term for Schedule 2 is three years. The Master Lease Agreement was subsequently assigned to Huntington Technology Finance, Inc.

In May 2009, NBHG entered into a Master Lease Agreement with Banc of America Leasing & Capital, LLC. In October 2016, NBHG entered into a seven-year lease pursuant to this Master Lease Agreement to finance various medical equipment and tenant improvements at its Fairfield and Vacaville facilities. The lease created an acquisition fund of \$12,958,000 and monthly rent installments of \$169,068 beginning October 2016.

In July 2016, the System took occupancy of the 110,260 square foot VacaValley Wellness Center ("VWVC"), a medical office building built on vacant land owned by NBHA at the VacaValley campus. The System has entered into an agreement (the "Space Lease") with an unrelated real estate developer with a term of twenty years followed by two renewal options of ten years each. In 2016, the System made lease payments to the developer based upon the rentable square footage of the completed building. The space lease is classified as a capital lease; the System recognized a liability of \$35,000,000.

The System has also entered into a ground lease (the "Ground Lease") with the same real estate developer for VWVC's underlying land. The Ground Lease commenced on December 31, 2014, and has a term of 77 years. Under the terms of the Ground Lease, the developer will make lease payments to NBHA based upon the completed building's rentable square footage. The Ground Lease also includes an option to purchase the building from the developer on December 31, 2029, at terms to be negotiated at that time.

**NorthBay Healthcare Corporation and its Affiliates**  
**Notes to Consolidated Financial Statements**

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Required principal payments on long-term debt and capital leases subsequent to December 31, 2017, are as follows (in thousands):

<u>Years Ending December 31,</u>	<u>Long-term Debt</u>	<u>Capital Lease Obligations</u>
2018	\$ 19,662	\$ 3,710
2019	7,058	3,769
2020	3,394	3,830
2021	3,521	3,892
2022	3,637	3,728
Thereafter	<u>245,347</u>	<u>25,071</u>
Total required payments	<u>282,619</u>	<u>44,000</u>
Unamortized premium	<u>12,946</u>	<u>-</u>
Total long-term debt and capital lease obligations	<u>\$ 295,565</u>	<u>\$ 44,000</u>

At December 31, 2017, management believes that the System is in compliance with all debt covenants.

**NOTE 7 – INTEREST RATE SWAP**

In March 2009, the System entered into an interest rate swap transaction with Deutsche Bank AG (“DBAG”) of \$30,000,000 notional amount and a termination date of November 1, 2022. The terms of this swap agreement obligate the System to make monthly interest payments at a fixed rate of 2.62% to DBAG in exchange for a monthly variable interest rate payment from DBAG to the System based upon the three-month LIBOR-BBA rate. The agreement provided a first call option effective January 1, 2013. During 2012, the hedged debt was paid off and the interest rate swap no longer qualified for hedge accounting. In April 2012, the System received a payment from DBAG in exchange for extending the first call option to January 1, 2014. At this time, it was determined that the hedging activity was no longer effective. In February 2013, the System received a payment from DBAG in exchange for extending the first call option to January 2016. In May 2015, the System received a payment from DBAG in exchange for extending the first call option to January 2018.

The change in the value of the interest rate swap is included in unrestricted net assets above the performance indicator in other income, net, and was a net profit of \$218,000 for the year ended December 31, 2017, and a net profit of \$266,000 for the year ended December 31, 2016.

## NorthBay Healthcare Corporation and its Affiliates

### Notes to Consolidated Financial Statements

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In order to determine the market value of the interest rate swap, management begins with a mid-market valuation using the LIBOR swap curve quoted on Bloomberg as the discount curve and then applies a credit risk spread to this mid-market curve. The difference between the swap value as calculated using the mid-market LIBOR discount curve and the swap value using the LIBOR curve plus a credit spread is the value of the credit risk. A summary of the fair value of the interest rate swap as of December 31, 2017 and 2016, is as follows (in thousands):

	<u>2017</u>	<u>2016</u>
Fair value of interest rate swap, beginning of year	\$ (368)	\$ (634)
Increase in fair value	<u>218</u>	<u>266</u>
Fair value of interest rate swap, end of year	<u>\$ (150)</u>	<u>\$ (368)</u>

#### NOTE 8 – NET PATIENT SERVICE REVENUE

Net patient service revenue is recorded based on net realizable amounts from the Medicare and Medi-Cal programs, private insurance contracts, and others under applicable law, regulation, and program instructions. A summary of the payment arrangements with major third-party payors is as follows.

**Medicare** – Acute inpatient services and outpatient services rendered to Medicare program beneficiaries are paid primarily at prospectively determined rates. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Cost reimbursable items are reimbursed at a tentative rate with final settlement determined after submission of annual cost reports and audits thereof by the Medicare fiscal intermediaries.

**Medi-Cal** – For inpatient medical services rendered to Medi-Cal program beneficiaries up to June 30, 2013, the System was reimbursed at a tentative rate with final settlement determined after submission of annual cost reports and audits thereof by the Medi-Cal fiscal intermediary. Inpatient services rendered to Medi-Cal program beneficiaries subsequent to June 30, 2013, were paid at prospectively determined rates. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. For outpatient medical services rendered, the System is reimbursed on a fee schedule basis.

**Other** – Reimbursement for services rendered to certain patients is received from certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for reimbursement includes prospectively determined rates per discharge, per diem payments, and discounts from established charges.

On September 18, 2016, Kaiser Foundation Health Plan (“Kaiser”) terminated its contract with NBHG to provide acute care hospital services to its members. On December 1, 2016, Blue Shield of California (“Blue Shield”) terminated its contract with NBHG to provide acute care hospital services to its insured. NBHG has filed lawsuits in federal and state court against Kaiser and Blue Shield and continues to pursue those cases in order to secure fair reimbursement for the provision of services to patients of these payors. Both lawsuits are ongoing. In addition, NBHG has initiated arbitration against Kaiser for underpayments related to acute care hospital services provided to Kaiser insureds during the pendency of the contract.

## NorthBay Healthcare Corporation and its Affiliates Notes to Consolidated Financial Statements

Laws and regulations governing the Medicare and Medi-Cal programs are extremely complex and subject to interpretation. As a result, there is a reasonable possibility that recorded estimates could change by a material amount in the near term. Adjustments from finalization of prior-year cost reports from both Medicare and Medi-Cal resulted in increases in patient service revenues of approximately \$1,531,000 and \$344,000 for the years ended December 31, 2017 and 2016, respectively. Medicare and Medi-Cal cost reports have been audited through December 31, 2013.

The System believes that it is in compliance with all applicable laws and regulations and is not aware of any significant pending or threatened investigations involving allegations of potential wrongdoing. While no such significant regulatory inquiries have been made, 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 Medi-Cal programs. As of December 31, 2017 and 2016, the following table reflects the estimated percentage of net patient service revenue, net of contractual allowances and discounts, and provision for bad debts by major payor groups:

	2017	2016
Medicare program	30 %	28 %
Medi-Cal program	21	24
Commercial insurance	49	47
Self-pay/other	-	1
	100 %	100 %

### NOTE 9 – CHARITY CARE

The System maintains records to identify and monitor the level of charity care it provides. These records include the amount of charges foregone for services and supplies furnished under its charity care policy, the estimated cost of those services and supplies, and equivalent service statistics. The costs are calculated using information accumulated from a cost accounting system. The following information measures the level of charity care provided (in thousands) during the years ended December 31, 2017 and 2016:

	2017	2016
Estimated costs and expenses incurred to provide charity care	\$ 8,522	\$ 7,962
Days of inpatient charity care provided	393	648

### NOTE 10 – RETIREMENT PLAN

The System participated in a single defined contribution plan (the "Plan"). The Plan is exempt from the Employee Retirement Income Security Act of 1974 ("ERISA"). The Plan provides, among other things, that the employer will contribute 2.00% to 7.50% of an employee's wages depending on the number of years of continuous employment. All full-time or part-time employees on their first day of employment are eligible for participation in the Plan. Employer contributions are included in the consolidated statements of operations and changes in net assets as part of employee benefits expense in the amount of \$8,694,000 and \$7,834,000 for the years ended December 31, 2017 and 2016, respectively.

## NorthBay Healthcare Corporation and its Affiliates

### Notes to Consolidated Financial Statements

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#### NOTE 11 – RELATED-PARTY TRANSACTIONS

WHA is a nonprofit, full-service healthcare plan sponsored by the System and one other healthcare organization. Through June 23, 2017, the System was one-third sponsor along with two other healthcare organizations. At June 23, 2017, the third sponsor withdrew from its sponsorship and governance role. Per WHA's bylaws, that organization's initial contribution was allocated pro rata to the remaining sponsors. This resulted in the System's beneficial interest in WHA increasing by \$1,535,000 to \$4,292,000.

WHA serves 13 Northern California counties (Sacramento, El Dorado, Placer, Yolo, Colusa, Solano, Napa, Sonoma, Marin, San Francisco, San Mateo, Alameda, and Contra Costa). The System accounts for its capital contribution in WHA as a beneficial interest in WHA's net assets. At December 31, 2017 and 2016, the System's beneficial interest in WHA was \$5,082,000 and \$1,801,000, respectively, which is included in other assets. For the years ended December 31, 2017 and 2016, the System recognized income/(losses) of \$3,280,000 and (\$975,000), respectively, as other income representing its share of WHA's losses. The 2017 income includes the aforementioned increase of the third sponsor's pro rata initial contribution. The System recorded capitation revenue from WHA in 2017 and 2016 of \$34,113,000 and \$30,583,000, respectively. During June 2015, WHA issued a note payable to the System in the amount of \$6,500,000. Subsequently in August 2017 and 2016, WHA made a principal payment of \$1,962,000 and \$2,200,000, respectively. The note is payable upon demand and is subject to an annual interest rate of 3%. This amount is included in prepaid and other on the consolidated balance sheets.

On June 21, 2017, WHA announced that they had been accepted by the California Public Employees' Retirement System (CalPERS) to offer health coverage to CalPERS members during open enrollment in September, with coverage starting in January 2018. On July 19, 2017, WHA announced a new agreement between Canopy Health and WHA. HMO benefit plans for employer group health coverage from WHA will offer access to the Canopy Health alliance of providers and hospitals effective January 1, 2018.

## NorthBay Healthcare Corporation and its Affiliates Notes to Consolidated Financial Statements

The following is summarized financial information of WHA for the years ended December 31, 2017 and 2016 (in thousands):

	<b>2017</b>	<b>2016</b>
Current assets	\$ 54,142	\$ 61,243
Noncurrent assets	5,828	5,027
	\$ 59,970	\$ 66,270
Current liabilities	\$ 42,668	\$ 47,346
Noncurrent liabilities	7,038	13,083
Unrestricted net assets	10,264	5,841
	\$ 59,970	\$ 66,270
Revenues	\$ 759,838	\$ 688,618
Expenses	(755,322)	(690,362)
Operating income	4,516	(1,744)
Income taxes	81	(1,663)
Net income (loss)	\$ 4,597	\$ (3,407)

### NOTE 12 – COMMITMENTS AND CONTINGENCIES

At December 31, 2017, future minimum rentals under existing building lease and other noncancellable operating leases having initial terms in excess of one year are as follows (in thousands):

#### Years Ending December 31,

2018	\$ 10,670
2019	9,967
2020	9,122
2021	8,676
2022	8,410
Thereafter	37,036
	\$ 83,881

Total lease expense incurred in 2017 and 2016, was \$17,183,000 and \$15,782,000, respectively.

# NorthBay Healthcare Corporation and its Affiliates

## Notes to Consolidated Financial Statements

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The healthcare industry is subject to numerous laws and regulations of federal, state, and local governments. Compliance with these laws and regulations can be subject to government review and interpretation, as well as regulatory actions unknown and unasserted at this time. Recently, government activity has increased with respect to investigations and allegations concerning possible violations of regulations by healthcare providers, which could result in the imposition of significant fines and penalties as well as significant repayment of previously billed and collected revenues for patient services. Management believes that the System is in substantial compliance with current laws and regulations.

The System has available Letters of Credit as of December 31, 2017 and 2016, of \$3,057,000 and \$2,857,000, respectively, securing workers' compensation claims. No amounts were drawn against these Letters of Credit as of December 31, 2017 and 2016.

### NOTE 13 – FAIR VALUES OF FINANCIAL INSTRUMENTS

The following methods and assumptions were used to estimate the fair value disclosures for financial instruments.

**Cash and cash equivalents** – The carrying amounts reported in the balance sheet for cash and cash equivalents approximate those assets' fair values. Cash and cash equivalents are classified as Level 1.

**California Municipal Finance Authority** – The total estimated fair value of the System's California Municipal Finance Authority Series A, Series B, and Revenue Bonds is approximately \$308,524,000 and \$80,576,000 at December 31, 2017 and 2016, respectively. The amounts are estimated based upon a valuation of quoted prices of securities with similar characteristics. California Municipal Finance Authority bonds are classified as Level 2.

**All other long-term debt** – The total estimated fair value of the System's Banc of America Equipment Financing Schedule 1 and 2, the Siemens financings, the Bank of the West term loan, and the Bank of America note payable materially approximate the carrying value at December 31, 2017 and 2016, respectively. All other long-term debt is classified as Level 2.

### NOTE 14 – SUBSEQUENT EVENTS

Subsequent events are events or transactions that occur after the balance sheet date but before the consolidated financial statements are available to be issued. The System recognizes in the consolidated financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the balance sheet, including the estimates inherent in the process of preparing the consolidated financial statements. The System's consolidated financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the balance sheet but arose after the balance sheet date and before the consolidated financial statements are available to be issued.

In February 2018, the real estate developer that owns VVWC announced their intention to sell the building. The System has a right of first refusal on the purchase of the building but does not intend to make an offer. Upon sale, the Space Lease will be assumed by the new owner. Terms of the original Space Lease prohibit the real estate developer from selling VVWC to competitors within the System's service area without the permission of the Group.

## **NorthBay Healthcare Corporation and its Affiliates**

### **Notes to Consolidated Financial Statements**

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In March 2018, the System repaid the remaining balance of \$12,855,000 for the 2012 variable rate loan with Bank of America.

The System has evaluated subsequent events through April 12, 2018, which is the date the consolidated financial statements are issued.

## **Supplementary Information**

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**NorthBay Healthcare Corporation and its Affiliates**  
**Consolidating Balance Sheets**  
**December 31, 2017 (In Thousands)**

	NBHG	NBHC	Eliminating Intercompany Adjustments	Obligated Group Balance	NBHF	NBHA	Eliminating Intercompany Adjustments	Consolidated Balance
<b>ASSETS</b>								
<b>CURRENT ASSETS</b>								
Cash and equivalents	\$ 15,301	\$ 388	\$ -	\$ 15,689	\$ -	\$ 2,453	\$ -	\$ 18,142
Assets whose use is limited, required for current liabilities	7,467	-	-	7,467	-	-	-	7,467
Patient accounts receivable, net	60,910	-	-	60,910	-	1,432	-	62,342
Inventories	4,459	-	-	4,459	-	-	-	4,459
Hospital quality assurance fee receivable	16,144	-	-	16,144	-	-	-	16,144
Prepaid expenses and other	21,411	23,571	-	44,982	123	3,952	(24,830)	24,227
Total current assets	125,692	23,959	-	149,651	123	7,837	(24,830)	132,781
<b>ASSETS WHOSE USE IS LIMITED, less current portion</b>	410,679	1,931	-	412,610	4,609	-	-	417,219
<b>PROPERTY AND EQUIPMENT, net</b>	221,268	8,275	-	229,543	-	3,143	-	232,686
<b>PREPAID HOSPITAL QUALITY ASSURANCE FEE</b>	15,063	-	-	15,063	-	-	-	15,063
<b>OTHER ASSETS</b>	7,822	40	-	7,862	426	4	-	8,292
Total assets	<u>\$ 780,524</u>	<u>\$ 34,205</u>	<u>\$ -</u>	<u>\$ 814,729</u>	<u>\$ 5,158</u>	<u>\$ 10,984</u>	<u>\$ (24,830)</u>	<u>\$ 806,041</u>

**NorthBay Healthcare Corporation and its Affiliates**  
**Consolidating Balance Sheets**  
**December 31, 2017 (In Thousands)**

	NBHG	NBHC	Eliminating Intercompany Adjustments	Obligated Group Balance	NBHF	NBHA	Eliminating Intercompany Adjustments	Consolidated Balance
<b>LIABILITIES AND NET ASSETS</b>								
<b>CURRENT LIABILITIES</b>								
Accounts payable	\$ 29,230	\$ 3,079	\$ -	\$ 32,309	\$ 4	\$ 832	\$ -	\$ 33,145
Amounts payable to third-party payors	10,925	-	-	10,925	-	-	-	10,925
Accrued payroll and related liabilities	30,475	8,483	-	38,958	-	319	-	39,277
Other current liabilities	41,298	130	-	41,428	85	3,453	(24,830)	20,136
Deferred hospital quality assurance fee revenue	34,598	-	-	34,598	-	-	-	34,598
Current maturities of long-term obligations	23,349	23	-	23,372	-	-	-	23,372
Total current liabilities	<u>169,875</u>	<u>11,715</u>	<u>-</u>	<u>181,590</u>	<u>89</u>	<u>4,604</u>	<u>(24,830)</u>	<u>161,453</u>
<b>LONG-TERM OBLIGATIONS</b> , less current maturities	316,122	71	-	316,193	-	-	-	316,193
<b>OTHER LONG-TERM LIABILITIES</b>	11,713	3,446	-	15,159	-	528	-	15,687
Total liabilities	<u>\$ 497,710</u>	<u>\$ 15,232</u>	<u>\$ -</u>	<u>\$ 512,942</u>	<u>\$ 89</u>	<u>\$ 5,132</u>	<u>\$ (24,830)</u>	<u>\$ 493,333</u>
<b>COMMITMENTS AND CONTINGENCIES (NOTE 12)</b>								
<b>NET ASSETS</b>								
Unrestricted	\$ 282,755	\$ 18,973	\$ -	\$ 301,728	\$ 359	\$ 5,852	\$ -	\$ 307,939
Temporarily restricted	59	-	-	59	3,820	-	-	3,879
Permanently restricted	-	-	-	-	890	-	-	890
Total net assets	<u>282,814</u>	<u>18,973</u>	<u>-</u>	<u>301,787</u>	<u>5,069</u>	<u>5,852</u>	<u>-</u>	<u>312,708</u>
Total liabilities and net assets	<u>\$ 780,524</u>	<u>\$ 34,205</u>	<u>\$ -</u>	<u>\$ 814,729</u>	<u>\$ 5,158</u>	<u>\$ 10,984</u>	<u>\$ (24,830)</u>	<u>\$ 806,041</u>

**NorthBay Healthcare Corporation and its Affiliates**  
**Consolidating Balance Sheets**  
**December 31, 2016 (In Thousands)**

	NBHG	NBHC	Eliminating Intercompany Adjustments	Obligated Group Balance	NBHF	NBHA	Eliminating Intercompany Adjustments	Consolidated Balance
<b>ASSETS</b>								
<b>CURRENT ASSETS</b>								
Cash and equivalents	\$ 9,247	\$ 98	\$ -	\$ 9,345	\$ -	\$ 1,245	\$ -	\$ 10,590
Assets whose use is limited, required for current liabilities	7,958	-	-	7,958	-	-	-	7,958
Patient accounts receivable, net	62,033	-	-	62,033	-	1,650	-	63,683
Inventories	3,598	-	-	3,598	-	-	-	3,598
Hospital quality assurance fee receivable	10,535	-	-	10,535	-	-	-	10,535
Prepaid expenses and other	20,325	19,907	-	40,232	147	2,114	(18,923)	23,570
Total current assets	113,696	20,005	-	133,701	147	5,009	(18,923)	119,934
<b>ASSETS WHOSE USE IS LIMITED, less current portion</b>	226,903	1,507	-	228,410	4,222	-	-	232,632
<b>PROPERTY AND EQUIPMENT, net</b>	182,490	8,558	-	191,048	-	3,668	-	194,716
<b>PREPAID HOSPITAL QUALITY ASSURANCE FEE</b>	8,123	-	-	8,123	-	-	-	8,123
<b>OTHER ASSETS</b>	3,949	36	-	3,985	425	3	-	4,413
Total assets	<u>\$ 535,161</u>	<u>\$ 30,106</u>	<u>\$ -</u>	<u>\$ 565,267</u>	<u>\$ 4,794</u>	<u>\$ 8,680</u>	<u>\$ (18,923)</u>	<u>\$ 559,818</u>

**NorthBay Healthcare Corporation and its Affiliates**  
**Consolidating Balance Sheets**  
**December 31, 2016 (In Thousands)**

	<u>NBHG</u>	<u>NBHC</u>	<u>Eliminating Intercompany Adjustments</u>	<u>Obligated Group Balance</u>	<u>NBHF</u>	<u>NBHA</u>	<u>Eliminating Intercompany Adjustments</u>	<u>Consolidated Balance</u>
<b>LIABILITIES AND NET ASSETS</b>								
<b>CURRENT LIABILITIES</b>								
Accounts payable	\$ 24,772	\$ 956	\$ -	\$ 25,728	\$ 8	\$ 794	\$ -	\$ 26,530
Amounts payable to third-party payors	5,366	-	-	5,366	-	-	-	5,366
Accrued payroll and related liabilities	27,064	6,625	-	33,689	-	359	-	34,048
Other current liabilities	32,323	1,296	-	33,619	85	461	(18,923)	15,242
Current maturities of long-term obligations	12,702	-	-	12,702	-	-	-	12,702
Total current liabilities	<u>102,227</u>	<u>8,877</u>	<u>-</u>	<u>111,104</u>	<u>93</u>	<u>1,614</u>	<u>(18,923)</u>	<u>93,888</u>
<b>LONG-TERM OBLIGATIONS</b> , less current maturities	133,336	-	-	133,336	-	-	-	133,336
<b>OTHER LONG-TERM LIABILITIES</b>	8,143	2,155	-	10,298	-	378	-	10,676
Total liabilities	<u>243,706</u>	<u>11,032</u>	<u>-</u>	<u>254,738</u>	<u>93</u>	<u>1,992</u>	<u>(18,923)</u>	<u>237,900</u>
<b>COMMITMENTS AND CONTINGENCIES (NOTE 12)</b>								
<b>NET ASSETS</b>								
Unrestricted	291,414	19,074	-	310,488	359	6,688	-	317,535
Temporarily restricted	41	-	-	41	3,452	-	-	3,493
Permanently restricted	-	-	-	-	890	-	-	890
Total net assets	<u>291,455</u>	<u>19,074</u>	<u>-</u>	<u>310,529</u>	<u>4,701</u>	<u>6,688</u>	<u>-</u>	<u>321,918</u>
Total liabilities and net assets	<u>\$ 535,161</u>	<u>\$ 30,106</u>	<u>\$ -</u>	<u>\$ 565,267</u>	<u>\$ 4,794</u>	<u>\$ 8,680</u>	<u>\$ (18,923)</u>	<u>\$ 559,818</u>

**NorthBay Healthcare Corporation and its Affiliates**  
**Consolidating Statement of Operations**  
**Year Ended December 31, 2017 (In Thousands)**

	<u>NBHG</u>	<u>NBHC</u>	<u>Eliminating Intercompany Adjustments</u>	<u>Obligated Group Balance</u>	<u>NBHF</u>	<u>NBHA</u>	<u>Eliminating Intercompany Adjustments</u>	<u>Consolidated Balance</u>
<b>UNRESTRICTED REVENUES, GAINS, AND OTHER SUPPORT</b>								
Net patient service revenue, net of contractual allowances and discounts	\$ 455,150	\$ -	\$ -	\$ 455,150	\$ -	\$ 9,604	\$ (5,073)	\$ 459,681
Less: Provision for bad debts related to patient service revenue	<u>(22,589)</u>	<u>-</u>	<u>-</u>	<u>(22,589)</u>	<u>-</u>	<u>(455)</u>	<u>-</u>	<u>(23,044)</u>
Net patient service revenue	432,561	-	-	432,561	-	9,149	(5,073)	436,637
Capitation revenue	98,308	-	-	98,308	-	-	-	98,308
Other revenue	6,479	70,393	(68,783)	8,089	-	2,699	(3,398)	7,390
Net assets released from restrictions used for operations	<u>689</u>	<u>-</u>	<u>-</u>	<u>689</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>689</u>
Total revenues, gains, and other support	<u>538,037</u>	<u>70,393</u>	<u>(68,783)</u>	<u>539,647</u>	<u>-</u>	<u>11,848</u>	<u>(8,471)</u>	<u>543,024</u>
<b>OPERATING EXPENSES</b>								
Salaries and wages	225,029	29,418	-	254,447	-	3,423	-	257,870
Employee benefits	53,872	9,087	-	62,959	-	919	-	63,878
Professional fees	65,715	5,403	-	71,118	-	1,828	-	72,946
Supplies	51,451	490	-	51,941	-	562	-	52,503
Purchased services	19,587	15,175	-	34,762	-	3,180	(2,275)	35,667
Referred claims	23,053	-	-	23,053	-	-	(2,798)	20,255
Facility and equipment rental	10,822	3,526	-	14,348	-	2,835	(2,189)	14,994
Depreciation and amortization	16,115	2,839	-	18,954	-	775	-	19,729
Other	10,457	4,453	-	14,910	-	1,127	-	16,037
Hospital quality assurance fee	6,198	-	-	6,198	-	-	-	6,198
Interest	12,612	2	-	12,614	-	949	-	13,563
Noncontrolling interest in joint venture	-	-	-	-	-	-	-	-
Management services	<u>68,783</u>	<u>-</u>	<u>(68,783)</u>	<u>-</u>	<u>-</u>	<u>1,209</u>	<u>(1,209)</u>	<u>-</u>
Total operating expenses	<u>563,694</u>	<u>70,393</u>	<u>(68,783)</u>	<u>565,304</u>	<u>-</u>	<u>16,807</u>	<u>(8,471)</u>	<u>573,640</u>
<b>INCOME (LOSS) FROM OPERATIONS</b>	<u>(25,657)</u>	<u>-</u>	<u>-</u>	<u>(25,657)</u>	<u>-</u>	<u>(4,959)</u>	<u>-</u>	<u>(30,616)</u>
<b>OTHER INCOME, net</b>								
Investment income	39,533	-	-	39,533	-	-	-	39,533
Gain on interest rate swaps	218	-	-	218	-	-	-	218
Other (loss) gain	<u>(161)</u>	<u>-</u>	<u>-</u>	<u>(161)</u>	<u>-</u>	<u>145</u>	<u>-</u>	<u>(16)</u>
Total other income, net	<u>39,590</u>	<u>-</u>	<u>-</u>	<u>39,590</u>	<u>-</u>	<u>145</u>	<u>-</u>	<u>39,735</u>
<b>EXCESS (DEFICIT) OF REVENUES OVER EXPENSES</b>	<u>\$ 13,933</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 13,933</u>	<u>\$ -</u>	<u>\$ (4,814)</u>	<u>\$ -</u>	<u>\$ 9,119</u>

**NorthBay Healthcare Corporation and its Affiliates**  
**Consolidating Statement of Operations**  
**Year Ended December 31, 2016 (In Thousands)**

	NBHG	NBHC	Eliminating Intercompany Adjustments	Obligated Group Balance	NBHF	NBHA	Eliminating Intercompany Adjustments	Consolidated Balance
<b>UNRESTRICTED REVENUES, GAINS, AND OTHER SUPPORT</b>								
Net patient service revenue, net of contractual allowances and discounts	\$ 481,414	\$ -	\$ -	\$ 481,414	\$ -	\$ 8,040	\$ (4,006)	\$ 485,448
Less: Provision for bad debts related to patient service revenue	(24,446)	-	-	(24,446)	-	(67)	-	(24,513)
Net patient service revenue	456,968	-	-	456,968	-	7,973	(4,006)	460,935
Capitation revenue	100,944	-	-	100,944	-	-	-	100,944
Other revenue	3,527	66,963	(66,906)	3,584	-	1,096	(896)	3,784
Net assets released from restrictions used for operations	693	-	-	693	-	-	-	693
Total revenues, gains, and other support	562,132	66,963	(66,906)	562,189	-	9,069	(4,902)	566,356
<b>OPERATING EXPENSES</b>								
Salaries and wages	205,230	27,070	-	232,300	-	3,051	-	235,351
Employee benefits	48,892	8,303	-	57,195	-	791	-	57,986
Professional fees	59,320	7,724	-	67,044	-	1,509	-	68,553
Supplies	47,969	527	-	48,496	-	653	-	49,149
Purchased services	20,410	13,649	-	34,059	-	2,275	(1,980)	34,354
Referred claims	29,734	-	-	29,734	-	-	(2,026)	27,708
Facility and equipment rental	10,591	3,519	-	14,110	-	1,672	(897)	14,885
Depreciation and amortization	13,009	2,081	-	15,090	-	878	-	15,968
Other	8,821	4,351	-	13,172	-	448	-	13,620
Hospital quality assurance fee	14,884	-	-	14,884	-	-	-	14,884
Interest	2,168	-	-	2,168	-	498	-	2,666
Management services	65,961	-	(65,961)	-	-	945	(945)	-
Total operating expenses	526,989	67,224	(65,961)	528,252	-	12,720	(5,848)	535,124
<b>INCOME (LOSS) FROM OPERATIONS</b>	<b>35,143</b>	<b>(261)</b>	<b>(945)</b>	<b>33,937</b>	<b>-</b>	<b>(3,651)</b>	<b>946</b>	<b>31,232</b>
<b>OTHER INCOME, net</b>								
Investment income	4,219	3	-	4,222	-	6	-	4,228
Gain on interest rate swaps	266	-	-	266	-	-	-	266
Other (losses) gains	(518)	260	-	(258)	-	343	-	85
Total other income, net	3,967	263	-	4,230	-	349	-	4,579
<b>EXCESS (DEFICIT) OF REVENUES OVER EXPENSES</b>	<b>\$ 39,110</b>	<b>\$ 2</b>	<b>\$ (945)</b>	<b>\$ 38,167</b>	<b>\$ -</b>	<b>\$ (3,302)</b>	<b>\$ 946</b>	<b>\$ 35,811</b>

