



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



NorthBay Healthcare Corporation and its Affiliates

Years Ended December 31, 2019 and 2018



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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, 2019 and 2018, 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, 2019 and 2018, 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.

Emphasis of a Matter

As discussed in Note 2 to the consolidated financial statements, as of January 1, 2019, the System adopted Financial Accounting Standards Board (“FASB”) Accounting Standards Update (“ASU”) No. 2016-01, *Financial Instruments – Overall (Subtopic 825-10)*. The ASU has been applied through a modified-retrospective approach. Our opinion is not modified with respect to this matter.

As discussed in Note 2 to the consolidated financial statements, as of January 1, 2019, the System adopted FASB ASU No. 2016-02, *Leases (Topic 842)*. The ASU has been applied using the modified-retrospective approach. Our opinion is not modified with respect to this matter.

As discussed in Note 2 to the consolidated financial statements, as of and for the year ended December 31, 2019, the System adopted FASB ASU No. 2016-18, *Restricted Cash*. The ASU has been applied retrospectively to all periods presented. Our opinion is not modified with respect to this matter.

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, 2019 and 2018, and consolidating statements of operations for the years ended December 31, 2019 and 2018, 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 consolidated 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.



San Francisco, California

April 9, 2020

Consolidated Financial Statements

NorthBay Healthcare Corporation and its Affiliates
Consolidated Balance Sheets
December 31, 2019 and 2018 (In Thousands)

| | <u>2019</u> | <u>2018</u> |
|--|-------------------|-------------------|
| ASSETS | | |
| CURRENT ASSETS | | |
| Cash and cash equivalents | \$ 39,544 | \$ 46,104 |
| Assets whose use is limited, required for current liabilities | 3,674 | 11,502 |
| Patient accounts receivable, net | 82,620 | 72,714 |
| Inventories | 3,848 | 3,759 |
| Amounts receivable from third-party payors | - | 272 |
| Hospital quality assurance fee receivable | 8,772 | 6,471 |
| Prepaid hospital quality assurance fee | 9,230 | 22,713 |
| Prepaid expenses and other | 27,301 | 13,336 |
| Total current assets | <u>174,989</u> | <u>176,871</u> |
| ASSETS WHOSE USE IS LIMITED, less current portion | 312,760 | 334,984 |
| PROPERTY AND EQUIPMENT, net | 361,646 | 304,948 |
| OPERATING LEASE RIGHT-OF-USE ASSETS | 51,730 | - |
| OTHER ASSETS | <u>13,225</u> | <u>8,050</u> |
| Total assets | <u>\$ 914,350</u> | <u>\$ 824,853</u> |
| LIABILITIES AND NET ASSETS | | |
| CURRENT LIABILITIES | | |
| Accounts payable | \$ 23,127 | \$ 38,481 |
| Accrued payroll and related liabilities | 40,247 | 37,264 |
| Amounts payable to third-party payors | 4,861 | - |
| Other current liabilities | 15,817 | 21,053 |
| Deferred hospital quality assurance fee revenue | 27,155 | 42,727 |
| Current maturities of long-term debt obligations | 8,033 | 11,249 |
| Current maturities of operating lease liabilities | 8,593 | - |
| Total current liabilities | <u>127,833</u> | <u>150,774</u> |
| LONG-TERM DEBT OBLIGATIONS, less current maturities | 307,568 | 306,267 |
| OPERATING LEASE LIABILITIES | 50,939 | - |
| OTHER LONG-TERM LIABILITIES | <u>4,855</u> | <u>15,831</u> |
| Total liabilities | <u>491,195</u> | <u>472,872</u> |
| NET ASSETS | | |
| Without donor restrictions | 415,005 | 347,377 |
| With donor restrictions | 8,150 | 4,604 |
| Total net assets | <u>423,155</u> | <u>351,981</u> |
| Total liabilities and net assets | <u>\$ 914,350</u> | <u>\$ 824,853</u> |

NorthBay Healthcare Corporation and its Affiliates
Consolidated Statements of Operations and Changes in Net Assets
Years Ended December 31, 2019 and 2018 (In Thousands)

| | 2019 | 2018 |
|--|-------------------|-------------------|
| NET ASSETS WITHOUT DONOR RESTRICTIONS | | |
| Revenues, gains, and other support | | |
| Net patient service revenue | \$ 545,448 | \$ 486,690 |
| Capitation revenue | 105,544 | 103,206 |
| Other revenue | 17,847 | 9,355 |
| Net assets released from restrictions used for operations | 3,107 | 814 |
| Total revenues, gains, and other support | 671,946 | 600,065 |
| OPERATING EXPENSES | | |
| Salaries and wages | 271,491 | 244,195 |
| Employee benefits | 66,046 | 63,256 |
| Professional fees | 80,329 | 78,803 |
| Supplies | 63,272 | 54,351 |
| Purchased services | 40,438 | 35,946 |
| Referred claims | 25,771 | 23,062 |
| Facility and equipment rental | 14,217 | 15,218 |
| Depreciation and amortization | 23,602 | 21,353 |
| Other | 16,336 | 14,615 |
| Interest | 8,235 | - |
| Hospital quality assurance fee | 24,872 | 8,634 |
| Total operating expenses | 634,609 | 559,433 |
| INCOME FROM OPERATIONS | 37,337 | 40,632 |
| OTHER INCOME, net | | |
| Investment income | 10,388 | 8,322 |
| Change in net unrealized gains on investments | 17,237 | - |
| Gain on interest rate swap | - | 20 |
| Other gain, net | 85 | 626 |
| Total other income, net | 27,710 | 8,968 |
| EXCESS OF REVENUES OVER EXPENSES | 65,047 | 49,600 |
| Other | 2,581 | - |
| Change in net unrealized loss on investments | - | (10,162) |
| INCREASE IN NET ASSETS WITHOUT DONOR RESTRICTIONS | 67,628 | 39,438 |
| NET ASSETS WITH DONOR RESTRICTIONS | | |
| Contributions | 6,653 | 649 |
| Net assets released from restrictions | (3,107) | (814) |
| INCREASE (DECREASE) IN NET ASSETS WITH DONOR RESTRICTIONS | 3,546 | (165) |
| INCREASE IN NET ASSETS | 71,174 | 39,273 |
| NET ASSETS, beginning of year | 351,981 | 312,708 |
| NET ASSETS, end of year | \$ 423,155 | \$ 351,981 |

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, 2019 and 2018 (In Thousands)

| | <u>2019</u> | <u>2018</u> |
|--|-------------------|-------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Change in net assets | \$ 71,174 | \$ 39,273 |
| Adjustments to reconcile change in net assets to net cash provided by operating activities | | |
| Depreciation and amortization | 23,602 | 21,353 |
| Equity in (gain) loss of affiliates | (1,699) | 63 |
| Net unrealized and realized (gain) loss on investments | (17,395) | 9,774 |
| Amortization of bond issuance costs | 331 | 353 |
| Amortization of bond premium | (1,066) | (1,167) |
| Change in fair value of interest rate swap | - | (20) |
| Loss on disposal of fixed assets | 721 | 121 |
| Proceeds from restricted contributions | (1,653) | (649) |
| Change in operating assets and liabilities | | |
| Patient accounts receivable | (9,906) | (10,372) |
| Inventories | (89) | 700 |
| Amounts receivable from third-party payors | 272 | (272) |
| Prepaid expenses and other | (3,958) | 3,420 |
| Operating lease right-of-use assets | (51,730) | - |
| Hospital quality assurance fee receivable | (2,301) | 9,673 |
| Accounts payable | (16,474) | (3,188) |
| Amounts payable to third-party payors | 4,861 | (10,925) |
| Accrued payroll and related liabilities | 2,983 | (2,013) |
| Other current liabilities | (5,236) | 917 |
| Deferred hospital quality assurance fee revenue | (15,572) | 8,129 |
| Operating lease liabilities | 59,532 | - |
| Other long-term liabilities | (10,976) | 164 |
| Net cash from operating activities | <u>25,421</u> | <u>65,334</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchases of property and equipment | (70,120) | (78,019) |
| Proceeds from the sale of property and equipment | 182 | 33 |
| Proceeds from sale of assets whose use is limited | 12,264 | 20,799 |
| Purchase of assets whose use is limited | (14,020) | (6,670) |
| Net cash used in investing activities | <u>(71,694)</u> | <u>(63,857)</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Principal payments on long-term debt | (7,059) | (26,887) |
| Principal payments on capital lease obligations | (4,084) | (3,786) |
| Proceeds from the issuance of debt | - | 2,212 |
| Proceeds from restricted contributions | 1,653 | 649 |
| Net cash used in financing activities | <u>(9,490)</u> | <u>(27,812)</u> |
| NET CHANGE IN CASH AND CASH EQUIVALENTS AND RESTRICTED CASH | <u>(55,763)</u> | <u>(26,335)</u> |
| CASH AND CASH EQUIVALENTS AND RESTRICTED CASH, beginning of year | <u>177,741</u> | <u>204,076</u> |
| CASH AND CASH EQUIVALENTS AND RESTRICTED CASH, end of year | <u>\$ 121,978</u> | <u>\$ 177,741</u> |
| SUPPLEMENTAL CASH FLOW INFORMATION | | |
| Cash paid during the year for interest (net of capitalized interest) | \$ 8,280 | \$ - |
| Acquisition of equipment financed with a finance lease | \$ 8,520 | \$ 6,873 |
| Property and equipment included in accounts payable | \$ 1,120 | \$ 8,524 |
| Capital expenditures funded by note payable | \$ 32,010 | \$ - |
| Termination of finance lease | \$ 30,567 | \$ - |

NorthBay Healthcare Corporation and its Affiliates

Notes to Consolidated Financial Statements

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. 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; Vacaville, California; and Napa, 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, 2019 and 2018, was 50%. 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 HealthSpring Fitness, a medical fitness center located on the VacaValley campus, and 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, 2019 and 2018. NBHC’s ownership interest in SDP is 5% at December 31, 2019 and 2018.

NBHA owns 100% of the equity interest of NorthBay Health Advantage LLC (“NBHA LLC”). NBHA LLC is a single purpose entity established to hold legal title of the VacaValley Wellness Center (“VWVC”).

NOTE 2 – ACCOUNTING POLICIES

Basis of consolidation – The consolidated financial statements include the accounts of the organizations listed in Note 1 except for the equity 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

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 (see Note 13). 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, time certificates of deposit, and debt and equity securities held through managed mutual fund 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.

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 net assets without donor restrictions are charged to investment income. Any adjustments required for net assets with donor restrictions are charged to the appropriate net assets category. No such adjustments were made during the years ended December 31, 2019 and 2018.

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.

Patient accounts receivable, amounts payable to third-party payors, and net patient service revenue – At December 31, 2019 and 2018, accounts receivable are reported at the estimated amount to which the System believes it is entitled in exchange for patient care provided (see Note 8).

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% of premiums received under capitation arrangements during the years ended December 31, 2019 and 2018.

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.

NorthBay Healthcare Corporation and its Affiliates Notes to Consolidated Financial Statements

The mix of net patient accounts receivable at December 31, 2019 and 2018, is as follows:

| | 2019 | 2018 |
|----------------------|------|------|
| Commercial insurance | 66% | 65% |
| Medicare | 17% | 17% |
| Medi-Cal | 9% | 9% |
| Self-pay/other | 8% | 9% |
| Total | 100% | 100% |

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 40 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 net assets without donor restrictions 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 net assets with donor restrictions. 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 2019 and 2018.

Prepaid expenses and other – Prepaid expenses and other 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.

NorthBay Healthcare Corporation and its Affiliates

Notes to Consolidated Financial Statements

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, 2019 and 2018, interest expense related to bond issuance costs was \$331,000 and \$353,000, 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 was \$1,066,000 and \$1,167,000 for the years ended December 31, 2019 and 2018, respectively.

Leases – Transactions give rise to leases when the System receives substantially all of the economic benefits from and has the ability to direct the use of the specified property and equipment. The System primarily has lessee activity that is classified as operating leases. Operating leases are including in operating lease right-of-use assets, current maturities of operating lease liabilities, and operating lease liabilities in the consolidated balance sheets. Finance leases are included in property and equipment, net, current maturities of long-term debt obligations, and long-term debt obligations, less current maturities in the consolidated balance sheets.

Right-of-use assets represents the right to use an underlying asset for the lease term and lease liabilities represent obligations to make lease payments arising from the lease. Operating lease right-of-use assets and liabilities are recognized at the commencement date based on the present value of lease payments over the lease term. When discount rates implicit in leases cannot be readily determined, the System uses the applicable incremental borrowing rate at lease commencement to perform lease classification tests and to measure lease liabilities and right-of-use assets. Lease expense for operating leases is recognized on a straight-line basis over the lease term.

The System has agreements with lease and non-lease components, such as common area maintenance, and has elected to account for the lease and non-lease components as a separate lease component. The System has elected not to recognize right-of-use assets and lease liabilities for leases of terms less than 12 months.

Other long-term liabilities – Other long-term liabilities consist mainly of 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.

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 Accounting Standards Codification ("ASC") Topic 815, *Derivatives and Hedging*. In March 2018, the System's swap agreement terminated.

NorthBay Healthcare Corporation and its Affiliates Notes to Consolidated Financial Statements

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, 2019 and 2018, the System had accrued total liabilities of \$4,746,000 and \$4,796,000, respectively, related to these claims. As of December 31, 2019 and 2018, the System had reported total receivables of \$630,000 and \$481,000, respectively. The current portion of workers' compensation liability and receivable (\$2,357,000 and \$366,000 at December 31, 2019, respectively, and \$2,866,000 and \$280,000 at December 31, 2018, 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 (\$2,389,000 and \$264,000 at December 31, 2019, respectively, and \$1,930,000 and \$201,000 at December 31, 2018, respectively) is reported in other long-term liabilities and other assets, respectively.

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, 2019 and 2018, the System had accrued \$1,662,000 and \$4,526,000, respectively, related to these claims. The current portion of the liability (\$130,000 and \$358,000 at December 31, 2019 and 2018, 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 (\$1,532,000 and \$4,168,000 at December 31, 2019 and 2018, respectively) is included in other long-term liabilities. Additionally, the System had reported total receivables of \$662,000 and \$2,324,000 at December 31, 2019 and 2018, respectively. The current portion of the receivable (\$52,000 and \$184,000 at December 31, 2019 and 2018, 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 (\$610,000 and \$2,140,000 at December 31, 2019 and 2018, respectively) is included in other assets.

Net assets – All contributions that are not restricted by donors are included in net assets without donor restrictions. Contributions restricted by donors for a specific time period or purpose are initially reported as net assets with donor restrictions and are transferred to net assets without donor restrictions when the restrictions have been met.

NorthBay Healthcare Corporation and its Affiliates

Notes to Consolidated Financial Statements

Net assets with donor restrictions are to be used as of December 31, 2019 and 2018, for the following purposes (in thousands):

| | <u>2019</u> | <u>2018</u> |
|---|-----------------|-----------------|
| Net assets with donor restrictions for specified programs: | | |
| Specific health care programs | \$ 1,741 | \$ 3,080 |
| Education | 290 | 214 |
| Buildings and equipment | 53 | 216 |
| | <u>2,084</u> | <u>3,510</u> |
| Net assets with donor restrictions for a specified time | 5,000 | - |
| Net assets with donor restrictions to be maintained in perpetuity | <u>1,066</u> | <u>1,094</u> |
| | <u>\$ 8,150</u> | <u>\$ 4,604</u> |
| Total net assets with donor restrictions | | |

Net assets with donor restrictions related to endowments have been restricted by donors to be maintained by the System in perpetuity. These endowments 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, 2019 and 2018, were \$1,066,000 and \$1,094,000, respectively. Net assets with donor restrictions related to endowments are commingled with the System's other investments and returns and are allocated to the net assets with donor restrictions endowment fund on a pro-rata basis. Unrealized gains and investment income allocated to the endowment funds are classified as net assets with donor restrictions, 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").

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 2019 and 2018). NBHG also has a stop-loss contractual arrangement to cover payment for governmental subscribers whose medical costs exceed \$200,000 per member in 2019 and 2018. Premiums paid under this policy were \$578,000 and \$554,000 as of December 31, 2019 and 2018, respectively. NBHG has recorded a liability for referred services authorized and unpaid at year end, including IBNR claims. As of December 31, 2019 and 2018, the System had accrued \$6,665,000 and \$9,679,000, 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 \$4,816,000 and \$2,566,000 as of December 31, 2019 and 2018, 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).

NorthBay Healthcare Corporation and its Affiliates Notes to Consolidated Financial Statements

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 net assets with donor restrictions. Externally restricted funds may be utilized only in accordance with the purposes established by the donor. Funds are transferred from net assets with donor restrictions to net assets without donor restrictions when expenditures are made for the purpose intended by the donor.

Functional expenses – The financial statements report certain expense categories that are attributable to more than one healthcare service or support function. Therefore, these expenses require an allocation on a reasonable basis that is consistently applied. Costs not directly attributable to a function including depreciation and amortization and interest are allocated to a function based on a units-of-service basis.

Expenses by function and nature consist of the following for the years ended December 31, 2019 and 2018 (in thousands):

| | Year Ended December 31, 2019 | | | |
|--------------------------------|------------------------------|-------------------------------|-------------------------------|------------|
| | Healthcare Services | General and Administrative | Hospital Quality Assurance | Total |
| Salaries and employee benefits | \$ 288,311 | \$ 49,226 | \$ - | \$ 337,537 |
| Professional fees | 72,314 | 8,015 | - | 80,329 |
| Supplies | 62,675 | 597 | - | 63,272 |
| Purchased services | 24,852 | 15,586 | - | 40,438 |
| Referred claims | 25,771 | - | - | 25,771 |
| Facility and equipment rental | 10,808 | 3,409 | - | 14,217 |
| Depreciation and amortization | 20,716 | 2,886 | - | 23,602 |
| Other | 12,004 | 4,332 | - | 16,336 |
| Interest | 8,227 | 8 | - | 8,235 |
| Hospital quality assurance fee | - | - | 24,872 | 24,872 |
| | \$ 525,678 | \$ 84,059 | \$ 24,872 | \$ 634,609 |

NorthBay Healthcare Corporation and its Affiliates

Notes to Consolidated Financial Statements

Year Ended December 31, 2018

| | <u>Healthcare Services</u> | <u>General and Administrative</u> | <u>Hospital Quality Assurance</u> | <u>Total</u> |
|--------------------------------|--------------------------------|---------------------------------------|---------------------------------------|-------------------|
| Salaries and employee benefits | \$ 268,614 | \$ 38,837 | \$ - | \$ 307,451 |
| Professional fees | 68,393 | 10,410 | - | 78,803 |
| Supplies | 53,940 | 411 | - | 54,351 |
| Purchased services | 21,749 | 14,197 | - | 35,946 |
| Referred claims | 23,062 | - | - | 23,062 |
| Facility and equipment rental | 12,020 | 3,198 | - | 15,218 |
| Depreciation and amortization | 18,414 | 2,939 | - | 21,353 |
| Other | 10,851 | 3,764 | - | 14,615 |
| Hospital quality assurance fee | - | - | 8,634 | 8,634 |
| | <u>\$ 477,043</u> | <u>\$ 73,756</u> | <u>\$ 8,634</u> | <u>\$ 559,433</u> |

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

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 Program revenue represents variable consideration and is included in the transaction price to the extent that it is probable that a significant reversal will not occur in future periods. 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 three program periods. The first program period began January 1, 2014, and ended December 31, 2016. As of December 31, 2019, CMS has approved all components for the first program. The second program period began January 1, 2017 and ended June 30, 2019. CMS has approved the Fee-for-Service component through June 2019. The Managed Care component has not yet been approved. The third program period began July 1, 2019 and goes through December 31, 2021. CMS has approved the Fee-for-Service component through December 31, 2021. The Managed Care component has not yet been approved.

NorthBay Healthcare Corporation and its Affiliates Notes to Consolidated Financial Statements

Due to federal claiming limits, the California Department of Health Care Services had to make supplemental managed care payments for the first and second program periods to the health plans in advance of receiving CMS approval. In 2018, these payments covered July 1, 2016 through December 31, 2016 for both the expansion and non-expansion populations. In 2019, these payments covered January 1, 2017 through June 30, 2018 for supplemental pass-through payments and July 1, 2017 through December 31, 2017 for the directed payments program. The System received these payments and recorded \$27,155,000 and \$42,727,000 as deferred revenue on the consolidated balance sheets as of December 31, 2019 and 2018, respectively.

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

The following table presents California Hospital Fee Program revenues and expenses recognized during the years ended December 31, 2019 and 2018, by program component (in thousands):

| | 2019 | 2018 |
|------------------------------|-------------|-------------|
| Fee-for-service component | | |
| Net patient service revenues | \$ 13,259 | \$ 13,344 |
| Expenses | (7,545) | (6,324) |
| Net benefit | \$ 5,714 | \$ 7,020 |
| Managed care component | | |
| Net patient service revenues | \$ 37,651 | \$ 5,019 |
| Expenses | (17,327) | (2,310) |
| Net benefit | \$ 20,324 | \$ 2,709 |
| Combined | | |
| Net patient service revenues | \$ 50,910 | \$ 18,363 |
| Expenses | (24,872) | (8,634) |
| Net benefit | \$ 26,038 | \$ 9,729 |

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 net assets without donor restrictions other than losses upon the early retirement of debt.

NorthBay Healthcare Corporation and its Affiliates

Notes to Consolidated Financial Statements

New accounting pronouncements – In January 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2016-01, *Financial Instruments – Overall (Subtopic 825-10)* (“ASU 2016-01”). ASU 2016-01 requires entities to measure equity investments that are not accounted for under the equity method or do not result in consolidation to be recorded at fair value and recognize any changes in fair value in the performance indicator. The adoption of ASU 2016-01 is effective for the System beginning January 1, 2019. The System has adopted ASU 2016-01 as of January 1, 2019. ASU 2016-01 requires the use of the cumulative effect transition method, except for equity securities without readily determinable fair values, for which the standard requires the application of the prospective transition method. As a result, unrealized gains of \$17,237,000 for the year ended December 31, 2019 is presented within other income, net and included within excess of revenues over expenses; had the standard been comparative, unrealized losses of \$10,162,000 would have been presented within other income, net and included within excess of revenues over expenses for the year ended December 31, 2018. Management determined no cumulative effect adjustment was necessary as of January 1, 2019. There was no net impact to change in total net assets.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)* (“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. The System has adopted ASU 2016-02 as of January 1, 2019. In July 2018, the FASB issued an update to its guidance providing companies with the option to adopt provisions of standard prospectively without adjusting comparative periods; the System elected this option. The System elected the package of transition practical expedients as a relief option offered in ASU 2016-02. The System did not elect the hindsight practical expedient, which allows entities to use hindsight when determining lease term and impairment of right-of-use assets. Management recorded \$51,730,000, \$8,593,000, and \$50,939,000 for operating lease right-of-use assets, current maturities of operating lease liabilities, and operating lease liabilities, respectively, on its consolidated balance sheets from a lessee perspective as of December 31, 2019. The adoption of ASU 2016-02 did not have a significant impact on the results of operations or cash flows. The adoption of ASU 2016-02 also implemented additional disclosure requirements.

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 for the year ended December 31, 2019. The System has adopted ASU 2016-18 in the year ended December 31, 2019, and has revised the presentation of cash and cash equivalents and restricted cash on the statements of cash flows for all the periods presented. Upon adoption of ASU 2016-18, the System recorded an increase of \$54,297,000 in net cash used in investing activities for the year ended December 31, 2018, related to reclassifying the changes in the restricted cash balance from investing activities to cash and cash equivalents and restricted cash balances on the statements of cash flows. The following table provides a reconciliation of the cash and cash equivalents and restricted cash balances within the balance sheets that reconciles to the total of the same amounts shown in the statements of cash flows:

NorthBay Healthcare Corporation and its Affiliates Notes to Consolidated Financial Statements

| | December 31, 2019 | December 31, 2018 |
|--|----------------------|----------------------|
| Reconciliation of cash and cash equivalents and restricted cash | | |
| Cash and cash equivalents | \$ 39,544 | \$ 46,104 |
| Restricted cash in assets limited as to use | 82,434 | 131,637 |
| Total cash and cash equivalents and restricted cash on the statements of cash flows | \$ 121,978 | \$ 177,741 |

In June 2018, the FASB issued ASU No. 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made* (“ASU 2018-08”), to provide clarifying guidance on accounting for the grants and contract of nonprofit organizations as they relate to the new revenue standard, and aims to minimize diversity in the classification of grants and contracts that exists under current guidance. The adoption of ASU 2018-08 is effective for the System beginning January 1, 2019. The System has adopted ASU 2018-08 for the year ended December 31, 2019. The adoption of ASU 2018-08 did not have a material impact on the System’s consolidated financial statements.

In August 2018, the FASB issued ASU No. 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement* (“ASU 2018-13”), to improve the effectiveness of disclosures in the note to the financial statements by facilitating clear communication of the information required by generally accepted accounting principles. The adoption of ASU 2018-13 is effective for the System beginning January 1, 2020. Management is currently evaluating the potential impact of this new pronouncement on the System’s consolidated financial statements.

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 changes in 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 2019 and 2018, assets whose use is limited consists primarily of money market funds, cash equivalents, time certificates of deposit, and debt and equity securities held through managed mutual funds. Assets whose use is limited are held at December 31, 2019 and 2018, for the following purposes (in thousands):

| | <u>2019</u> | <u>2018</u> |
|--|-----------------------|-----------------------|
| Designated by board of directors, for capital improvements | \$ 225,557 | \$ 207,090 |
| Designated by board of directors, for self-insurance liabilities | 5,606 | 5,606 |
| Designated by board of directors, other | 2,837 | 2,153 |
| Under financing agreement, held by bank trustees | <u>82,434</u> | <u>131,637</u> |
| Total assets whose use is limited | 316,434 | 346,486 |
| Less assets whose use is limited required for current liabilities | <u>(3,674)</u> | <u>(11,502)</u> |
| Total assets whose use is limited, net of current portion | <u>\$ 312,760</u> | <u>\$ 334,984</u> |

Investment results for the years ended December 31, 2019 and 2018, are as follows (in thousands):

| | <u>2019</u> | <u>2018</u> |
|------------------------------|----------------------|---------------------|
| Income: | | |
| Interest and dividend income | \$ 10,230 | \$ 7,934 |
| Realized gain on investments | <u>158</u> | <u>388</u> |
| Total investment income | <u>\$ 10,388</u> | <u>\$ 8,322</u> |

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.

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.

NorthBay Healthcare Corporation and its Affiliates

Notes to Consolidated Financial Statements

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.

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, 2019 and 2018 (in thousands):

| Description | Level 1 | Level 2 | Level 3 | Balance at December 31, 2019 |
|---|------------|----------|---------|------------------------------------|
| Assets whose use is limited | | | | |
| Money market funds and other cash equivalents | \$ 87,938 | \$ - | \$ - | \$ 87,938 |
| Certificates of deposit | - | 5,606 | - | 5,606 |
| Equity mutual funds | | | | |
| U.S. large cap | 30,611 | - | - | 30,611 |
| U.S. small cap | 21,335 | - | - | 21,335 |
| Total equity mutual funds | 51,946 | - | - | 51,946 |
| Fixed income mutual funds | | | | |
| Domestic | 109,388 | - | - | 109,388 |
| Foreign | 61,491 | - | - | 61,491 |
| Total fixed income mutual funds | 170,879 | - | - | 170,879 |
| Corporate equity securities | 65 | - | - | 65 |
| Total | \$ 310,828 | \$ 5,606 | \$ - | \$ 316,434 |

NorthBay Healthcare Corporation and its Affiliates

Notes to Consolidated Financial Statements

| Description | Level 1 | Level 2 | Level 3 | Balance at December 31, 2018 |
|---|-------------------|-----------------|-------------|------------------------------------|
| Assets whose use is limited | | | | |
| Money market funds and other cash equivalents | \$ 139,213 | \$ - | \$ - | \$ 139,213 |
| Certificates of deposit | - | 5,606 | - | 5,606 |
| Equity mutual funds | | | | |
| U.S. large cap | 24,523 | - | - | 24,523 |
| U.S. small cap | 18,198 | - | - | 18,198 |
| Total equity mutual funds | <u>42,721</u> | <u>-</u> | <u>-</u> | <u>42,721</u> |
| Fixed income mutual funds | | | | |
| Domestic | 100,078 | - | - | 100,078 |
| Foreign | 58,820 | - | - | 58,820 |
| Total fixed income mutual funds | <u>158,898</u> | <u>-</u> | <u>-</u> | <u>158,898</u> |
| Corporate equity securities | 48 | - | - | 48 |
| Total assets whose use is limited | <u>340,880</u> | <u>5,606</u> | <u>-</u> | <u>346,486</u> |
| Interest rate swap | - | - | - | - |
| Total | <u>\$ 340,880</u> | <u>\$ 5,606</u> | <u>\$ -</u> | <u>\$ 346,486</u> |

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, 2019 and 2018, consist of the following (in thousands):

| | 2019 | 2018 |
|---|-------------------|-------------------|
| Land | \$ 23,134 | \$ 23,070 |
| Buildings | 332,757 | 143,232 |
| Equipment | 161,179 | 129,505 |
| Leasehold improvements | 30,249 | 28,826 |
| Equipment under finance lease obligations | 27,662 | 54,138 |
| Construction-in-progress | <u>10,430</u> | <u>137,699</u> |
| | 585,411 | 516,470 |
| Less accumulated depreciation | <u>(223,765)</u> | <u>(211,522)</u> |
| Property and equipment, net | <u>\$ 361,646</u> | <u>\$ 304,948</u> |

Interest expense capitalized in 2019 and 2018 was \$6,454,000 and \$15,470,000, respectively.

As of December 31, 2019, the System has spent \$10,430,000 related to various construction and other capital projects in progress. The System estimates an additional \$17,740,000 will be required through fiscal 2020 to complete the projects. As of December 31, 2019, the System has outstanding commitments with contractors for approximately \$12,789,906 related to these projects.

NorthBay Healthcare Corporation and its Affiliates Notes to Consolidated Financial Statements

NOTE 6 – LONG-TERM OBLIGATIONS

Long-term obligations at December 31, 2019 and 2018, consists of the following (in thousands):

| | 2019 | 2018 |
|---|-------------|-------------|
| California Municipal Finance Authority | | |
| Series 2013 B Bonds | \$ - | \$ 3,835 |
| Series 2015 A Bonds | 29,745 | 30,340 |
| Series 2016 A Bonds | 27,395 | 29,945 |
| Series 2017 A Bonds | 203,800 | 203,800 |
| Unamortized premium for above bonds | 10,713 | 11,779 |
| Siemens Financing - Wellness Center | 32,010 | - |
| Siemens Phase II | 1,103 | 1,199 |
| Finance Lease - Huntington | 6,763 | 3,167 |
| Finance Lease - Wellness Center | - | 30,190 |
| Finance Lease - Banc of America Public Capital Corp | 7,272 | 9,050 |
| Finance Lease - US Bank | 2,181 | - |
| Finance Lease - Canon | 77 | - |
| | 321,059 | 323,305 |
| Current maturities | (8,033) | (11,249) |
| Net unamortized cost of issuance | (5,458) | (5,789) |
| | \$ 307,568 | \$ 306,267 |

In 2012, the System entered into a \$25,000,000 variable rate loan with Bank of America. At December 31, 2017, bank loan was 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 was paid off in March 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 in May 2015. The lease obligation is collateralized by the leased equipment.

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.

NorthBay Healthcare Corporation and its Affiliates

Notes to Consolidated Financial Statements

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. The Series 2013 B Bonds were paid in full in November 2019.

Series 2015 A Bonds were issued in the principal amount of \$31,960,000. The Series 2015 A 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 A Bonds, and \$874,000 was used to pay certain costs to issue the Series 2015 A Bonds. Interest on the Series 2015 A 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 A Bonds using the effective-interest method. The Series 2015 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 2015 A Bonds.

Series 2016 A Bonds were issued in April 2016 in the principal amount of \$34,895,000. The Series 2016 A Bonds were sold at a premium of \$4,934,000 and included the balance of Series 2013 A Bonds 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 A Bonds, and \$796,000 was used to pay certain costs to issue the Series 2016 A Bonds. Interest on the Series 2016 A 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 A Bonds using the effective-interest method. The Series 2016 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 2016 A Bonds.

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.

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Notes to Consolidated Financial Statements

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. Schedules 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, respectively. 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 Public Capital Corp. 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 in October 2016.

In July 2016, the System took occupancy of the 110,260 square foot VVWC, 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 finance lease; the System recognized a liability of \$35,000,000 in 2016.

The System has also entered into a ground lease (the "Ground Lease") with the same real estate developer for VVWC'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.

In July 2019, NBHA LLC purchased the VVWC from the real estate developer for \$53,500,000. The transaction consisted of \$21,490,000 in cash and the assumption of a note payable to Siemens financing in the amount of \$32,010,000. The note is interest-only, at 3.63%, through June 2021, with principal and interest payments commencing in July 2021 based on a 25-year amortization. The note has a maturity date of June 10, 2024. The 2016 space lease remains intact with NBHG as the lessee and NBHA as the lessor.

In February 2019, NBHA entered into a five-year lease agreement with Canon Medical Finance USA to finance the purchase of medical equipment for SDI in the amount of \$88,000. Under the terms of the lease, monthly rent installments of \$1,700 are due beginning April 2019.

In August 2019, NBHG entered into a Master Lease Agreement with U.S. Bank Equipment Finance to finance the purchase of medical equipment in the amount of \$3,096,000. Under the terms of the agreement, three annual rental payments in the amount of \$1,031,840 are due beginning September 2019.

NorthBay Healthcare Corporation and its Affiliates

Notes to Consolidated Financial Statements

Required principal payments on long-term debt subsequent to December 31, 2019, are as follows (in thousands):

| <u>Years Ending December 31,</u> | <u>Long-term Debt</u> |
|----------------------------------|-----------------------|
| 2020 | \$ 3,404 |
| 2021 | 3,851 |
| 2022 | 4,321 |
| 2023 | 7,399 |
| 2024 | 38,567 |
| Thereafter | <u>236,511</u> |
| Total required payments | 294,053 |
| Unamortized premium | <u>10,713</u> |
| Total long-term debt | <u>\$ 304,766</u> |

At December 31, 2019, management believes that the System is in compliance with all debt covenants.

See Note 7 – Leases for required principal payments on finance lease liabilities subsequent to December 31, 2019.

NOTE 7 – LEASES

The System leases medical office buildings, office space, and equipment. The remaining lease term for leases range from 1-13 years. Some leases contain renewal options. The System has taken the reasonable certainty of exercising the renewal options into consideration, and if applicable, has recognized the renewal options as part of the right-of-use assets and lease liabilities.

NorthBay Healthcare Corporation and its Affiliates Notes to Consolidated Financial Statements

At December 31, 2019, lease assets and lease liabilities were as follows (in thousands):

| Assets | Classification | |
|--------------------|---|-----------|
| Operating | Operating lease right-of-use assets | \$ 51,730 |
| Financing | Property and equipment, net | 17,164 |
| | | 17,164 |
| | Total | \$ 68,894 |
| | | |
| Liabilities | Classification | |
| Current | | |
| Operating | Current maturities of operating lease liabilities | \$ 8,593 |
| Financing | Current maturities of long-term debt obligations | 4,629 |
| Noncurrent | | |
| Operating | Operating lease liabilities | 50,939 |
| Financing | Long-term debt obligations, less current maturities | 11,664 |
| | | 11,664 |
| | Total | \$ 75,825 |

For the year ended December 31, 2019, total lease costs incurred by lease type and type of payment were as follows (in thousands):

| | |
|-------------------------------|-----------|
| Operating lease cost | \$ 8,672 |
| Finance lease cost: | |
| Amortization of lease assets | 3,159 |
| Interest on lease liabilities | 334 |
| | 334 |
| Total | \$ 12,165 |

For the year ended December 31, 2018, total lease expense incurred was \$15,218,000.

NorthBay Healthcare Corporation and its Affiliates

Notes to Consolidated Financial Statements

For the year ended December 31, 2019, other supplemental quantitative disclosures were as follows (in thousands):

| | | |
|---|----|----------|
| Cash paid for amounts included in the measurement of lease liabilities | | |
| Operating cash flows used for operating leases | \$ | (10,577) |
| Financing cash flows used for finance leases | \$ | (4,084) |
| Additions to right-of-use assets obtained in the period from operating leases | | |
| | \$ | - |
| Additions to right-of-use assets obtained in the period from finance leases | \$ | 8,520 |
| Weighted-average remaining lease term (years): | | |
| Operating leases | | 7.15 |
| Finance leases | | 3.63 |
| Weighted-average discount rate: | | |
| Operating leases | | 2.29% |
| Finance leases | | 2.30% |

At December 31, 2019, the undiscounted future lease payments over the lease term for operating and finance leases, along with a reconciliation of the undiscounted cash flows to operating and finance lease liabilities, were as follows (in thousands):

| <u>Years Ending December 31.</u> | <u>Finance</u> | <u>Operating</u> |
|----------------------------------|------------------|------------------|
| 2020 | \$ 4,920 | \$ 9,849 |
| 2021 | 4,890 | 9,241 |
| 2022 | 3,599 | 8,941 |
| 2023 | 3,054 | 8,912 |
| 2024 | 522 | 8,742 |
| Thereafter | - | 19,126 |
| Total lease payments | 16,985 | 64,811 |
| Less: present value discount | (692) | (5,279) |
| Lease liability | <u>\$ 16,293</u> | <u>\$ 59,532</u> |

NOTE 8 – NET PATIENT SERVICE REVENUE

Patient service revenue is reported at the estimated amount to which the System believes it is entitled in exchange for patient care provided. These amounts are due from patients, third-party payors (including health insurers and government programs), and others and includes variable consideration for retroactive revenue adjustments due to settlement of audits, reviews, and investigations. Revenue is recognized as the performance obligations are satisfied over time based on actual charges incurred in relation to total expected consideration. The System believes this method provides a faithful depiction of the transfer of services over the term of performance obligations based on the inputs needed to satisfy the obligations.

NorthBay Healthcare Corporation and its Affiliates

Notes to Consolidated Financial Statements

Performance obligations are determined based on the nature of the services provided. The System measures the performance obligation from admission into the hospital, or the commencement of an outpatient service, to the point when it is no longer required to provide services to that patient, which is generally at the time of discharge or completion of the outpatient services.

Because all of its performance obligations relate to contracts with a duration of less than one year, the System has elected to apply the optional exemption provided in ASU 2014-09 and, therefore, is not required to 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. The unsatisfied or partially unsatisfied performance obligations referred to previously are primarily related to inpatient acute care services at the end of the reporting period. The performance obligations for these contracts are generally completed when the patients are discharged, which generally occurs within days or weeks of the end of the reporting period.

The System determines the transaction price based on standard charges for goods and services provided, reduced by contractual adjustments provided to third-party payors, discounts provided to uninsured patients in accordance with the System's policies, and implicit price concessions provided to uninsured patients. The System determines its estimates of contractual adjustments and discounts based on contractual agreements, its discount policies, and historical experience. The System determines its estimate of implicit price concessions based on its historical collection experience.

Agreements with third-party payors typically provide for payments at amounts less than established charges. A summary of the payment arrangements with major third-party payors follows:

- **Medicare** - Certain inpatient acute care services are paid at prospectively determined rates per discharge based on clinical, diagnostic, and other factors. Certain services are paid based on cost-reimbursement methodologies subject to certain limits. Physician services are paid based upon established fee schedules. Outpatient services are paid using prospectively determined rates.
- **Medi-Cal** - Reimbursements for Medi-Cal services are generally paid at prospectively determined rates per discharge, per occasion of service, or per covered member.
- **Other** - Payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations provide for payment using prospectively determined rates per discharge, discounts from established charges, prospectively determined daily rates, or per covered member.

Settlements with third-party payors for retroactive adjustments due to audits, reviews, or investigations are considered variable consideration and are included in the determination of the estimated transaction price for providing patient care. These settlements are estimated based on the terms of the payment agreement with the payor, correspondence from the payor, and the System's historical settlement activity, including an assessment to ensure that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the retroactive adjustment is subsequently resolved. Estimated settlements are adjusted in future periods as adjustments become known (that is, new information becomes available), or as years are settled or are no longer subject to such audits, reviews, and investigations. Adjustments arising from a change in the transaction price were not significant in 2019 and 2018, other than as noted below.

NorthBay Healthcare Corporation and its Affiliates

Notes to Consolidated Financial Statements

Generally, patients who are covered by third-party payors are responsible for related deductibles and coinsurance, which vary in amount. The System also provides services to uninsured patients and the System's Financial Assistance Policy details the discounts available to uninsured patients. The System estimates the transaction price for patients with deductibles and coinsurance, and those who are uninsured based on historical experience and current market conditions.

Consistent with the System's mission, care is provided to patients regardless of their ability to pay. Therefore, it has provided implicit price concessions to uninsured patients and patients with other uninsured balances (e.g. copays and deductibles). The implicit price concessions included in estimating the transaction price represent the difference between amounts billed to patients and the expected realizable collectible amounts based on its collection history with those patients.

On September 18, 2016, Kaiser Foundation Health Plan ("Kaiser") terminated its contract with NBHG to provide acute care hospital services to its members. NBHG filed lawsuits in federal and state court against Kaiser and continues to pursue those cases in order to secure fair reimbursement for the provision of services to Kaiser patients. The Kaiser lawsuits are ongoing. In addition, NBHG initiated arbitration against Kaiser for underpayments related to acute care hospital services provided to Kaiser insureds during the pendency of the contract. In July 2018, Kaiser signed a settlement agreement for these pre-termination claims and paid the balance due to NBHG plus interest.

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 filed a lawsuit against Blue Shield in order to secure fair reimbursement for the provision of services to their patients. In February 2019, a jury ruled in favor of NBHG on the issue of reasonable reimbursement. Blue Shield and NBHG entered into negotiations resulting in a new three-year agreement covering September 2019 through August 2022.

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 \$73,000 and \$6,678,000 for the years ended December 31, 2019 and 2018, respectively. Medicare and Medi-Cal cost reports have been audited through December 31, 2015 and December 31, 2017, respectively.

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.

NorthBay Healthcare Corporation and its Affiliates Notes to Consolidated Financial Statements

As of December 31, the following table reflects net patient service revenue by major payor groups (in thousands):

| | <u>2019</u> | <u>2018</u> |
|------------|-------------------|-------------------|
| Commercial | \$ 235,391 | \$ 235,941 |
| Medicare | 163,580 | 130,848 |
| Medi-Cal | 122,356 | 95,790 |
| Other | 17,833 | 17,992 |
| Self-pay | 6,288 | 6,119 |
| | <u>\$ 545,448</u> | <u>\$ 486,690</u> |

As of December 31, the following table reflects the estimated percentage of net patient service revenue by major payor groups:

| | <u>2019</u> | <u>2018</u> |
|------------|-------------|-------------|
| Commercial | 43% | 48% |
| Medicare | 30% | 27% |
| Medi-Cal | 23% | 20% |
| Other | 3% | 4% |
| Self-pay | 1% | 1% |
| | <u>100%</u> | <u>100%</u> |

As of December 31, the following table reflects capitation revenue by payor type (in thousands):

| | <u>2019</u> | <u>2018</u> |
|-----------------------------|-------------------|-------------------|
| Medi-Cal Capitation Plans | \$ 59,801 | \$ 65,205 |
| Commercial Capitation Plans | 45,743 | 38,001 |
| | <u>\$ 105,544</u> | <u>\$ 103,206</u> |

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, 2019 and 2018:

| | <u>2019</u> | <u>2018</u> |
|---|-------------|-------------|
| Estimated costs and expenses incurred to provide charity care | \$ 11,113 | \$ 8,436 |
| Days of inpatient charity care provided | 483 | 428 |

NorthBay Healthcare Corporation and its Affiliates

Notes to Consolidated Financial Statements

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 \$9,646,000 and \$8,582,000 for the years ended December 31, 2019 and 2018, respectively.

NOTE 11 – RELATED-PARTY TRANSACTIONS

WHA is a nonprofit, full-service healthcare plan sponsored by the System and one other healthcare organization. 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 an equity interest in WHA’s net assets. At December 31, 2019 and 2018, the System’s interest in WHA was \$6,717,000 and \$5,019,000, respectively, which is included in other assets. For the years ended December 31, 2019 and 2018, the System recognized income/(losses) of \$1,699,000 and (\$63,000), respectively, as other income representing its share of WHA’s losses. The System recorded capitation revenue from WHA in 2019 and 2018 of \$45,743,000 and \$38,001,000, respectively. During June 2015, WHA issued a note payable to the System in the amount of \$6,500,000. Subsequently in August 2019 and 2018, WHA made principal payments of \$0 and \$1,150,000, 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.

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, 2019 and 2018 (in thousands):

| | 2019 | 2018 |
|---------------------------------------|-------------|-------------|
| Current assets | \$ 63,879 | \$ 57,984 |
| Noncurrent assets | 4,277 | 5,048 |
| | \$ 68,156 | \$ 63,032 |
| Current liabilities | \$ 50,904 | \$ 49,232 |
| Noncurrent liabilities | 3,716 | 3,609 |
| Net assets without donor restrictions | 13,536 | 10,191 |
| | \$ 68,156 | \$ 63,032 |
| Revenues | \$ 779,413 | \$ 761,181 |
| Expenses | (768,761) | (761,128) |
| Operating income | 10,652 | 53 |
| Income taxes/benefit | (71) | (71) |
| Net income (loss) | \$ 10,581 | \$ (18) |

NOTE 12 – COMMITMENTS AND CONTINGENCIES

The healthcare industry is subject to numerous laws and regulations of federal, state, and local governments. Compliance with these laws and regulations 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, 2019 and 2018, of \$3,207,000 and \$3,157,000, respectively, securing workers' compensation claims. No amounts were drawn against these Letters of Credit as of December 31, 2019 and 2018.

NOTE 13 – LIQUIDITY AND AVAILABILITY

As of December 31, 2019, the System has working capital of \$47,156,000 and average days (based on normal expenditures) cash on hand of 152.

NorthBay Healthcare Corporation and its Affiliates

Notes to Consolidated Financial Statements

Financial assets available for general expenditure within one year of the balance sheet date consist of the following as of December 31, 2019 (in thousands):

| | | |
|------------------------------|----|----------------|
| Cash and cash equivalents | \$ | 39,544 |
| Accounts receivable, net | | 82,620 |
| Assets whose use is limited: | | |
| Board-designated | | 221,425 |
| Donor-restricted | | <u>3,013</u> |
| | \$ | <u>346,602</u> |

The System has certain board-designated and donor-restricted assets limited to use which are available for general expenditure within one year in the normal course of operations. Accordingly, these assets have been included in the qualitative information above. The System has other assets limited to use for donor-restricted purposes, debt service, self-insurance liabilities, deferred compensation plans, and other employee benefit funds.

As part of the System's liquidity management plan, cash in excess of daily requirements are invested in money market funds. These funds generally invest in highly liquid U.S. government and agency obligations. As of December 31, 2019, the System's money market fund balance was \$23,245,000. This fund established by the board of directors may be drawn upon, if necessary, to meet unexpected liquidity needs.

Additionally, the System has the ability to borrow, from its investment account, on margin to meet short-term cash needs. In every fiscal year there shall be at least a consecutive twenty-day period when the balances of all short-term indebtedness, including the margin balance, shall not exceed 5% of total net revenues. The System's Board of Directors will establish a maximum margin borrowing limit. As of December 31, 2019, the balance on the System's margin indebtedness was \$0.

NOTE 14 – SUBSEQUENT EVENTS

Subsequent events are events or transactions that occur after the consolidated 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 consolidated 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 consolidated balance sheet but arose after the consolidated balance sheet date and before the consolidated financial statements are available to be issued.

Subsequent to December 31, 2019, the World Health Organization declared the novel coronavirus ("COVID-19") a global pandemic and recommended containment and mitigation measures worldwide. This contagious disease outbreak, which has continued to spread, and any related adverse public health developments, have adversely affected workforces, customers, economies, and financial markets globally, potentially leading to an economic downturn. It has also disrupted the normal operations of many businesses and organizations, including the System's. It is not possible for the System to predict the duration or magnitude of the adverse results of the outbreak and its disruptive effects on our operations and financial results at this time.

NorthBay Healthcare Corporation and its Affiliates

Notes to Consolidated Financial Statements

The System held various investments at December 31, 2019, that have experienced a significant decline in market value through April 9, 2020, as a result of the market's reaction to the pandemic. The System will continue to monitor the situation closely, but market volatility and the continuing situation surrounding the pandemic is uncertain. At this time, management believes that the decline in fair value of these investments is temporary.

The System has evaluated subsequent events through April 9, 2020, which is the date the consolidated financial statements are issued.

Supplementary Information

NorthBay Healthcare Corporation and its Affiliates
Consolidating Balance Sheets
December 31, 2019 (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> |
|--|-------------------|------------------|---|--|-----------------|------------------|---|---------------------------------|
| ASSETS | | | | | | | | |
| CURRENT ASSETS | | | | | | | | |
| Cash and equivalents | \$ 33,095 | \$ - | \$ - | \$ 33,095 | \$ - | \$ 6,449 | \$ - | \$ 39,544 |
| Assets whose use is limited, required for current liabilities | 3,674 | - | - | 3,674 | - | - | - | 3,674 |
| Patient accounts receivable, net | 81,424 | - | - | 81,424 | - | 1,196 | - | 82,620 |
| Inventories | 3,848 | - | - | 3,848 | - | - | - | 3,848 |
| Hospital quality assurance fee receivable | 8,772 | - | - | 8,772 | - | - | - | 8,772 |
| Prepaid hospital quality assurance fee | 9,230 | - | - | 9,230 | - | - | - | 9,230 |
| Prepaid expenses and other | 23,633 | 3,117 | - | 26,750 | 231 | 1,277 | (957) | 27,301 |
| Total current assets | 163,676 | 3,117 | - | 166,793 | 231 | 8,922 | (957) | 174,989 |
| ASSETS WHOSE USE IS LIMITED, less current portion | 307,287 | 2,460 | - | 309,747 | 3,013 | - | - | 312,760 |
| PROPERTY AND EQUIPMENT, net | 333,887 | 6,632 | - | 340,519 | - | 15,816 | 5,311 | 361,646 |
| OPERATING LEASE RIGHT-OF-USE ASSETS | 41,172 | 10,512 | - | 51,684 | - | 46 | - | 51,730 |
| OTHER ASSETS | 7,772 | 24 | - | 7,796 | 5,427 | 37,800 | (37,798) | 13,225 |
| Total assets | <u>\$ 853,794</u> | <u>\$ 22,745</u> | <u>\$ -</u> | <u>\$ 876,539</u> | <u>\$ 8,671</u> | <u>\$ 62,584</u> | <u>\$ (33,444)</u> | <u>\$ 914,350</u> |

NorthBay Healthcare Corporation and its Affiliates
Consolidating Balance Sheets
December 31, 2019 (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> |
|--|-------------------|------------------|---|--|-----------------|------------------|---|---------------------------------|
| LIABILITIES AND NET ASSETS | | | | | | | | |
| CURRENT LIABILITIES | | | | | | | | |
| Accounts payable | \$ 20,940 | \$ 1,405 | \$ - | \$ 22,345 | \$ 105 | \$ 677 | \$ - | \$ 23,127 |
| Accrued payroll and related liabilities | 28,803 | 11,066 | - | 39,869 | - | 378 | - | 40,247 |
| Amounts payable to third-party payors | 4,861 | - | - | 4,861 | - | - | - | 4,861 |
| Other current liabilities | 15,644 | 20 | - | 15,664 | 85 | 68 | - | 15,817 |
| Deferred hospital quality assurance fee revenue | 27,155 | - | - | 27,155 | - | - | - | 27,155 |
| Current maturities of long-term debt obligations | 8,933 | 71 | - | 9,004 | - | 16 | (987) | 8,033 |
| Current maturities of operating lease liabilities | 6,218 | 2,352 | - | 8,570 | - | 23 | - | 8,593 |
| | | | | | | | | - |
| Total current liabilities | <u>112,554</u> | <u>14,914</u> | <u>-</u> | <u>127,468</u> | <u>190</u> | <u>1,162</u> | <u>(987)</u> | <u>127,833</u> |
| LONG-TERM DEBT OBLIGATIONS, less current maturities | 312,867 | 165 | - | 313,032 | - | 32,071 | (37,535) | 307,568 |
| OPERATING LEASE LIABILITIES | 41,316 | 9,599 | - | 50,915 | - | 24 | - | 50,939 |
| OTHER LONG-TERM LIABILITIES | 4,451 | 287 | - | 4,738 | - | 117 | - | 4,855 |
| Total liabilities | <u>\$ 471,188</u> | <u>\$ 24,965</u> | <u>\$ -</u> | <u>\$ 496,153</u> | <u>\$ 190</u> | <u>\$ 33,374</u> | <u>\$ (38,522)</u> | <u>\$ 491,195</u> |
| NET ASSETS | | | | | | | | |
| Without donor restrictions | \$ 382,578 | \$ (2,220) | \$ - | \$ 380,358 | \$ 359 | \$ 29,210 | \$ 5,078 | \$ 415,005 |
| With donor restrictions | 28 | - | - | 28 | 8,122 | - | - | 8,150 |
| Total net assets | <u>382,606</u> | <u>(2,220)</u> | <u>-</u> | <u>380,386</u> | <u>8,481</u> | <u>29,210</u> | <u>5,078</u> | <u>423,155</u> |
| Total liabilities and net assets | <u>\$ 853,794</u> | <u>\$ 22,745</u> | <u>\$ -</u> | <u>\$ 876,539</u> | <u>\$ 8,671</u> | <u>\$ 62,584</u> | <u>\$ (33,444)</u> | <u>\$ 914,350</u> |

NorthBay Healthcare Corporation and its Affiliates
Consolidating Balance Sheets
December 31, 2018 (In Thousands)

| | NBHG | NBHC | Eliminating Intercompany Adjustments | Obligated Group Balance | NBHF | NBHA | Eliminating Intercompany Adjustments | Consolidated Balance |
|--|-------------------|------------------|--|-------------------------------|-----------------|------------------|--|-------------------------|
| ASSETS | | | | | | | | |
| CURRENT ASSETS | | | | | | | | |
| Cash and equivalents | \$ 39,933 | \$ - | \$ - | \$ 39,933 | \$ - | \$ 6,171 | \$ - | \$ 46,104 |
| Assets whose use is limited, required for current liabilities | 11,502 | - | - | 11,502 | - | - | - | 11,502 |
| Patient accounts receivable, net | 71,475 | - | - | 71,475 | - | 1,239 | - | 72,714 |
| Inventories | 3,759 | - | - | 3,759 | - | - | - | 3,759 |
| Amounts receivable from third-party payors | 272 | - | - | 272 | - | - | - | 272 |
| Hospital quality assurance fee receivable | 6,471 | - | - | 6,471 | - | - | - | 6,471 |
| Prepaid hospital quality assurance fee | 22,713 | - | - | 22,713 | - | - | - | 22,713 |
| Prepaid expenses and other | 10,110 | 2,898 | - | 13,008 | 15 | 313 | - | 13,336 |
| Total current assets | 166,235 | 2,898 | - | 169,133 | 15 | 7,723 | - | 176,871 |
| ASSETS WHOSE USE IS LIMITED, less current portion | 328,363 | 1,962 | - | 330,325 | 4,659 | - | - | 334,984 |
| PROPERTY AND EQUIPMENT, net | 295,525 | 6,736 | - | 302,261 | - | 2,687 | - | 304,948 |
| OTHER ASSETS | 7,542 | 80 | - | 7,622 | 426 | 2 | - | 8,050 |
| Total assets | <u>\$ 797,665</u> | <u>\$ 11,676</u> | <u>\$ -</u> | <u>\$ 809,341</u> | <u>\$ 5,100</u> | <u>\$ 10,412</u> | <u>\$ -</u> | <u>\$ 824,853</u> |

NorthBay Healthcare Corporation and its Affiliates
Consolidating Balance Sheets
December 31, 2018 (In Thousands)

| | NBHG | NBHC | Eliminating Intercompany Adjustments | Obligated Group Balance | NBHF | NBHA | Eliminating Intercompany Adjustments | Consolidated Balance |
|---|------------|-----------|--|-------------------------------|----------|-----------|--|-------------------------|
| LIABILITIES AND NET ASSETS | | | | | | | | |
| CURRENT LIABILITIES | | | | | | | | |
| Accounts payable | \$ 35,070 | \$ 2,721 | \$ - | \$ 37,791 | \$ 103 | \$ 587 | \$ - | \$ 38,481 |
| Accrued payroll and related liabilities | 25,277 | 11,599 | - | 36,876 | - | 388 | - | 37,264 |
| Other current liabilities | 20,899 | 10 | - | 20,909 | 85 | 59 | - | 21,053 |
| Deferred hospital quality assurance fee revenue | 42,727 | - | - | 42,727 | - | - | - | 42,727 |
| Current maturities of long-term obligations | 11,228 | 21 | - | 11,249 | - | - | - | 11,249 |
| Total current liabilities | 135,201 | 14,351 | - | 149,552 | 188 | 1,034 | - | 150,774 |
| LONG-TERM OBLIGATIONS, less current maturities | 306,196 | 71 | - | 306,267 | - | - | - | 306,267 |
| OTHER LONG-TERM LIABILITIES | 11,876 | 3,485 | - | 15,361 | - | 470 | - | 15,831 |
| Total liabilities | 453,273 | 17,907 | - | 471,180 | 188 | 1,504 | - | 472,872 |
| NET ASSETS | | | | | | | | |
| Without donor restrictions | 344,341 | (6,231) | - | 338,110 | 359 | 8,908 | - | 347,377 |
| With donor restrictions | 51 | - | - | 51 | 4,553 | - | - | 4,604 |
| Total net assets | 344,392 | (6,231) | - | 338,161 | 4,912 | 8,908 | - | 351,981 |
| Total liabilities and net assets | \$ 797,665 | \$ 11,676 | \$ - | \$ 809,341 | \$ 5,100 | \$ 10,412 | \$ - | \$ 824,853 |

NorthBay Healthcare Corporation and its Affiliates
Consolidating Statement of Operations
Year Ended December 31, 2019 (In Thousands)

| | NBHG | NBHC | Eliminating Intercompany Adjustments | Obligated Group Balance | NBHF | NBHA | Eliminating Intercompany Adjustments | Consolidated Balance |
|--|------------------|---------------|--|-------------------------------|-------------|-------------------|--|-------------------------|
| NET ASSETS WITHOUT DONOR RESTRICTIONS | | | | | | | | |
| Revenues, gains, and other support | | | | | | | | |
| Net patient service revenue | \$ 539,970 | \$ - | \$ - | \$ 539,970 | \$ - | \$ 10,436 | \$ (4,958) | \$ 545,448 |
| Capitation revenue | 105,544 | - | - | 105,544 | - | - | - | 105,544 |
| Other revenue | 15,741 | 76,200 | (74,776) | 17,165 | - | 4,235 | (3,553) | 17,847 |
| Net assets released from restrictions used for operations | 3,107 | - | - | 3,107 | - | - | - | 3,107 |
| Total revenues, gains, and other support | <u>664,362</u> | <u>76,200</u> | <u>(74,776)</u> | <u>665,786</u> | <u>-</u> | <u>14,671</u> | <u>(8,511)</u> | <u>671,946</u> |
| OPERATING EXPENSES | | | | | | | | |
| Salaries and wages | 233,950 | 33,714 | - | 267,664 | - | 3,827 | - | 271,491 |
| Employee benefits | 55,904 | 9,063 | - | 64,967 | - | 1,079 | - | 66,046 |
| Professional fees | 71,191 | 6,869 | - | 78,060 | - | 2,269 | - | 80,329 |
| Supplies | 62,104 | 494 | - | 62,598 | - | 674 | - | 63,272 |
| Purchased services | 23,101 | 15,563 | - | 38,664 | - | 4,094 | (2,320) | 40,438 |
| Referred claims | 28,409 | - | - | 28,409 | - | - | (2,638) | 25,771 |
| Facility and equipment rental | 8,756 | 3,353 | - | 12,109 | - | 3,115 | (1,007) | 14,217 |
| Depreciation and amortization | 20,513 | 2,803 | - | 23,316 | - | 654 | (368) | 23,602 |
| Other | 10,963 | 4,332 | - | 15,295 | - | 1,041 | - | 16,336 |
| Interest | 8,505 | 8 | - | 8,513 | - | 593 | (871) | 8,235 |
| Hospital quality assurance fee | 24,872 | - | - | 24,872 | - | - | - | 24,872 |
| Management services | 74,776 | - | (74,776) | - | - | 1,307 | (1,307) | - |
| Total operating expenses | <u>623,044</u> | <u>76,199</u> | <u>(74,776)</u> | <u>624,467</u> | <u>-</u> | <u>18,653</u> | <u>(8,511)</u> | <u>634,609</u> |
| INCOME (LOSS) FROM OPERATIONS | <u>41,318</u> | <u>1</u> | <u>-</u> | <u>41,319</u> | <u>-</u> | <u>(3,982)</u> | <u>-</u> | <u>37,337</u> |
| OTHER INCOME (LOSS), net | | | | | | | | |
| Investment income | 10,366 | 2 | - | 10,368 | - | 20 | - | 10,388 |
| Change in net unrealized gains on investments | 17,237 | - | - | 17,237 | - | - | - | 17,237 |
| Other income | 19 | (2) | - | 17 | - | (974) | 1,042 | 85 |
| Total other income (loss), net | <u>27,622</u> | <u>-</u> | <u>-</u> | <u>27,622</u> | <u>-</u> | <u>(954)</u> | <u>1,042</u> | <u>27,710</u> |
| EXCESS (DEFICIT) OF REVENUES OVER EXPENSES | <u>\$ 68,940</u> | <u>\$ 1</u> | <u>\$ -</u> | <u>\$ 68,941</u> | <u>\$ -</u> | <u>\$ (4,936)</u> | <u>\$ 1,042</u> | <u>\$ 65,047</u> |

NorthBay Healthcare Corporation and its Affiliates
Consolidating Statement of Operations
Year Ended December 31, 2018 (In Thousands)

| | NBHG | NBHC | Eliminating Intercompany Adjustments | Obligated Group Balance | NBHF | NBHA | Eliminating Intercompany Adjustments | Consolidated Balance |
|--|------------------|-------------|--|-------------------------------|-------------|-------------------|--|-------------------------|
| NET ASSETS WITHOUT DONOR RESTRICTIONS | | | | | | | | |
| Revenues, gains, and other support | | | | | | | | |
| Net patient service revenue | \$ 481,528 | \$ - | \$ - | \$ 481,528 | \$ - | \$ 10,197 | \$ (5,035) | \$ 486,690 |
| Capitation revenue | 103,206 | - | - | 103,206 | - | - | - | 103,206 |
| Other revenue | 8,643 | 73,827 | (72,256) | 10,214 | - | 2,922 | (3,781) | 9,355 |
| Net assets released from restrictions used for operations | 814 | - | - | 814 | - | - | - | 814 |
| Total revenues, gains, and other support | 594,191 | 73,827 | (72,256) | 595,762 | - | 13,119 | (8,816) | 600,065 |
| OPERATING EXPENSES | | | | | | | | |
| Salaries and wages | 210,292 | 30,324 | - | 240,616 | - | 3,579 | - | 244,195 |
| Employee benefits | 53,731 | 8,515 | - | 62,246 | - | 1,010 | - | 63,256 |
| Professional fees | 66,304 | 10,410 | - | 76,714 | - | 2,089 | - | 78,803 |
| Supplies | 53,336 | 411 | - | 53,747 | - | 604 | - | 54,351 |
| Purchased services | 20,406 | 14,197 | - | 34,603 | - | 3,681 | (2,338) | 35,946 |
| Referred claims | 25,758 | - | - | 25,758 | - | - | (2,696) | 23,062 |
| Facility and equipment rental | 11,364 | 3,198 | - | 14,562 | - | 2,938 | (2,282) | 15,218 |
| Depreciation and amortization | 17,654 | 2,939 | - | 20,593 | - | 760 | - | 21,353 |
| Other | 8,812 | 3,852 | - | 12,664 | - | 1,951 | - | 14,615 |
| Hospital quality assurance fee | 8,634 | - | - | 8,634 | - | - | - | 8,634 |
| Management services | 72,256 | - | (72,256) | - | - | 1,500 | (1,500) | - |
| Total operating expenses | 548,547 | 73,846 | (72,256) | 550,137 | - | 18,112 | (8,816) | 559,433 |
| INCOME (LOSS) FROM OPERATIONS | 45,644 | (19) | - | 45,625 | - | (4,993) | - | 40,632 |
| OTHER INCOME, net | | | | | | | | |
| Investment income | 8,313 | 3 | - | 8,316 | - | 6 | - | 8,322 |
| Gain on interest rate swaps | 20 | - | - | 20 | - | - | - | 20 |
| Other income | 545 | 16 | - | 561 | - | 65 | - | 626 |
| Total other income, net | 8,878 | 19 | - | 8,897 | - | 71 | - | 8,968 |
| EXCESS (DEFICIT) OF REVENUES OVER EXPENSES | <u>\$ 54,522</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 54,522</u> | <u>\$ -</u> | <u>\$ (4,922)</u> | <u>\$ -</u> | <u>\$ 49,600</u> |

