

# **PIH Health, Inc. and Subsidiaries**

Consolidated Financial Report  
September 30, 2019 and 2018

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RSM US LLP

## Independent Auditor's Report

Board of Directors  
PIH Health, Inc.

### Report on the Financial Statements

We have audited the accompanying consolidated financial statements of PIH Health, Inc. and its subsidiaries, which comprise the consolidated balance sheets as of September 30, 2019 and 2018, the related consolidated statements of income, changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements (collectively, the financial statements).

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

Our responsibility is to express an opinion on these 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 audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

### Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of PIH Health, Inc. and its subsidiaries as of September 30, 2019 and 2018, and the results of their operations, changes in net assets, and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

**Emphasis of Matter**

As discussed in Note 2 to the financial statements, PIH Health, Inc. and its subsidiaries adopted Accounting Standards Update (ASU) No. 2014-09, *Revenue From Contracts With Customers (Topic 606)*, and ASU 2016-14, *Not-for-Profit Entities, Presentation of Financial Statements of Not-for-Profit Entities*, during the year ended September 30, 2019. Our opinion is not modified with respect to this matter.

*RSM US LLP*

Los Angeles, California  
January 27, 2020

PIH Health, Inc. and Subsidiaries

Consolidated Balance Sheets  
September 30, 2019 and 2018  
(In Thousands)

	2019	2018
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 8,515	\$ 6,688
Investments, short term (Note 6)	4,846	3,692
Patient accounts receivable, net (Notes 3 and 14)	112,476	96,806
Inventory	8,866	8,347
Other receivables	6,393	5,926
Prepaid expenses and other assets	9,471	10,523
Other current assets, Hospital Fee Program (Note 16)	42,116	44,400
<b>Total current assets</b>	<b>192,683</b>	<b>176,382</b>
Investments in mutual funds and other investments (Note 6)	→ 51,954	46,219
Investments, assets limited as to use (Note 6)	→ 441,524	453,847
Property and equipment, net (Note 7)	633,745	644,952
Goodwill (Note 4)	34,087	-
Other assets	2,971	1,235
<b>Total assets</b>	<b>\$ 1,356,964</b>	<b>\$ 1,322,635</b>

See notes to consolidated financial statements.

	2019	2018
<b>Liabilities and Net Assets</b>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 92,810	\$ 93,361
Estimated third-party payor settlements	1,117	204
Accrued interest	2,834	2,241
Current portion of long-term debt (Note 8)	11,168	10,753
Current portion of obligations under capital leases (Note 13)	7	201
Current portion of prepetition liabilities (Note 9)	-	1,191
Short-term loan borrowing (Note 8)	32,500	28,000
Other current liability, Hospital Fee Program (Note 16)	22,981	30,943
Retention—self-insurance programs, current portion (Note 13)	6,166	10,461
<b>Total current liabilities</b>	<b>169,583</b>	<b>177,355</b>
Deferred compensation	17,141	16,441
Interest rate swaps (Note 8)	40,828	25,961
Long-term debt, net of current portion (Note 8)	355,697	367,002
Obligations under capital leases, net of current portion (Note 13)	-	8
Pension liability (Note 11)	67,513	49,218
Retention—self-insurance programs, net of current portion (Note 13)	20,796	20,807
Other liabilities, noncurrent (Note 4)	13,975	-
<b>Total liabilities</b>	<b>685,533</b>	<b>656,792</b>
Commitments and contingencies (Note 13)		
<b>Net Assets</b>		
Without donor restrictions	665,251	659,448
With donor restrictions (Note 10)	6,180	6,395
<b>Total net assets</b>	<b>671,431</b>	<b>665,843</b>
<b>Total liabilities and net assets</b>	<b>\$ 1,356,964</b>	<b>\$ 1,322,635</b>

**PIH Health, Inc. and Subsidiaries**

**Consolidated Statements of Income**  
**Years Ended September 30, 2019 and 2018**  
**(In Thousands)**

	2019	2018
Revenues:		
Patient service revenues, net	\$ 741,308	\$ 701,042
Hospital Fee Program (Note 16) (Included in Prior Fiscal Years)	56,243	53,650
<b>Net patient service revenues</b>	<b>797,551</b>	<b>754,692</b>
Capitation revenue (Note 3)	140,023	111,431
Other operating revenue	32,337	19,456
Net assets released from restrictions used for operations	574	1,351
<b>Total revenues</b>	<b>970,485</b>	<b>886,930</b>
Expenses (Note 15):		
Salaries and wages	327,096	300,913
Purchased services	122,362	104,497
Medical supplies and drugs	119,507	108,970
Employee benefits	112,020	108,348
Professional fees	128,906	119,329
Depreciation and amortization (Note 7)	39,489	40,253
Other expenses	31,383	26,991
Interest	14,417	12,645
Insurance	10,355	6,559
Rent expense	4,616	2,290
Hospital Fee Program (Note 16)	39,973	38,886
<b>Total expenses</b>	<b>950,124</b>	<b>869,681</b>
<b>Excess of revenues over expenses</b>	<b>20,361</b>	<b>17,249</b>
Other gains (losses):		
Net investment income (Note 6)	15,280	11,728
Net realized gains on investments (Note 6)	9,362	7,736
Change in fair value of interest rate swap and net interest expense (Note 8)	(17,560)	8,080
Gain on disposal of property and equipment, net	1,743	144
Other gains, net	172	9
Pension-related changes, net periodic pension cost (Note 11)	(1,956)	(3,032)
<b>Total other gains, net</b>	<b>7,041</b>	<b>24,665</b>
<b>Excess of revenues over expenses and other gains</b>	<b>\$ 27,402</b>	<b>\$ 41,914</b>

See notes to consolidated financial statements.

**PIH Health, Inc. and Subsidiaries**

**Consolidated Statements of Changes in Net Assets**  
**Years Ended September 30, 2019 and 2018**  
**(In Thousands)**

	<b>2019</b>	2018
Net assets without donor restrictions:		
Excess of revenues over expenses and other gains	\$ 27,402	\$ 41,914
Unrealized gains on investments, net	1,400	5,424
Pension-related changes other than net periodic pension cost, net (Note 11)	(23,745)	22,945
Net assets released from restrictions used for long-lived assets (Note 10)	746	262
<b>Change in net assets without donor restrictions</b>	<b>5,803</b>	<b>70,545</b>
Net assets with donor restrictions:		
Contributions revenue	1,105	1,910
Net assets released from restrictions (Note 10)	(1,320)	(1,613)
<b>Change in net assets with donor restrictions</b>	<b>(215)</b>	<b>297</b>
<b>Change in net assets</b>	<b>5,588</b>	<b>70,842</b>
Net assets, beginning of year	<b>665,843</b>	595,001
Net assets, end of year	<b>\$ 671,431</b>	<b>\$ 665,843</b>

See notes to consolidated financial statements.

**PIH Health, Inc. and Subsidiaries**

**Consolidated Statements of Cash Flows**  
**Years Ended September 30, 2019 and 2018**  
**(In Thousands)**

	2019	2018
Cash flows from operating activities:		
Change in net assets	\$ 5,588	\$ 70,842
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	39,489	40,253
Provision for bad debts	-	14,970
Amortization of deferred financing costs	343	185
Accretion of bond premium	(91)	(86)
Amortization of bond discount	24	24
Gain on disposal of property and equipment	(1,743)	(144)
Net realized gains on investments	(9,362)	(7,736)
Unrealized gains on investments	(1,400)	(5,424)
Loss (gain) on interest rate swap	14,867	(12,790)
Pension-related changes other than net periodic pension cost	23,745	(22,945)
Noncash contributions received	(1)	(282)
Proceeds from sale of donated securities	1	282
Changes in assets and liabilities, net of the effects of acquisitions:		
Patient accounts receivable	(15,004)	(20,754)
Inventory	(469)	266
Other receivables	1,467	3,311
Prepaid expenses and other assets	1,147	3,327
Other current assets, Hospital Fee Program	2,284	28,583
Other assets	157	552
Accounts payable and accrued expenses	(10,421)	(6,506)
Estimated third-party payor settlements	913	204
Accrued interest	593	66
Other current liability, Hospital Fee Program	(7,962)	(12,075)
Retention, self-insurance programs	(5,127)	(2,829)
Pension liability	(5,450)	(5,272)
Deferred compensation	(381)	930
<b>Net cash provided by operating activities</b>	<b>33,207</b>	<b>66,952</b>
Cash flows from investing activities:		
Purchase of assets limited as to use	(122,815)	(120,742)
Proceeds from sale of assets limited as to use	145,535	118,313
Purchase of investments in mutual funds and other investments	(9,380)	(11,979)
Proceeds from sales of investments in mutual funds and other investments	3,717	7,176
Acquisition of Pioneer Medical Group, net of cash acquired	(17,664)	-
Acquisition of physician practices	(1,306)	-
Proceeds from sale of property and equipment	2,624	144
Purchase of property and equipment	(25,430)	(34,693)
Proceeds from tenant for leasehold improvement	1,500	-
<b>Net cash used in investing activities</b>	<b>(23,219)</b>	<b>(41,781)</b>

(Continued)

**PIH Health, Inc. and Subsidiaries**

**Consolidated Statements of Cash Flows (Continued)**  
**Years Ended September 30, 2019 and 2018**  
**(In Thousands)**

	2019	2018
Cash flows from financing activities:		
Repayment of long-term debt	\$ (59,052)	\$ (9,555)
Proceeds from issuance of long-term debt	48,500	-
Payment of bond issuance costs	(457)	-
Proceeds from short-term borrowing	184,000	37,000
Repayment of short-term borrowing	(179,500)	(57,000)
Payments of capital lease obligations	(202)	(668)
Payments of Downey's prepetition liabilities	(1,191)	(2,591)
Payment of security agreement	(213)	(212)
<b>Net cash used in financing activities</b>	<b>(8,115)</b>	<b>(33,026)</b>
<b>Net increase (decrease) in cash, cash equivalents and restricted cash</b>	<b>1,873</b>	<b>(7,855)</b>
Cash, cash equivalents and restricted cash, beginning of year	7,948	15,803
Cash, cash equivalents and restricted cash, end of year	<u>\$ 9,821</u>	<u>\$ 7,948</u>
Supplementary disclosure of cash flow information:		
Cash paid for interest	<u>\$ 16,288</u>	<u>\$ 16,285</u>
Supplementary information relating to noncash operating and investing activities:		
Unpaid purchase price on business acquisition	<u>\$ 12,531</u>	<u>\$ -</u>

As of September 30, 2019 and 2018, accounts payable and accrued expenses include \$3,657 and \$4,633, respectively, related to purchases of property and equipment.

See notes to consolidated financial statements.

## **PIH Health, Inc. and Subsidiaries**

### **Notes to Consolidated Financial Statements (Dollars in Thousands)**

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#### **Note 1. Organization**

PIH Health, Inc. (PIH) is a non-profit California corporation located in Whittier, California. PIH is the sole member (as the term “member” is defined in California Corporations Code, Section 5056) of the following 15 non-profit, limited liability or captive insurance corporations, and two for-profit subsidiaries:

- PIH Health Hospital - Whittier (PIH - Whittier) — tax-exempt organization
- PIH Health Hospital - Downey (PIH - Downey) — tax-exempt organization
- PIH Health Physicians (PHP) — tax-exempt organization
- PIH Health Real Estate Services, LLC — limited liability corporation
- PIH Health Management Corp. (PIHMC) — tax-exempt organization
- PIH Health Foundation (PIHF) — tax-exempt organization
- PIH Health Adult Day Healthcare — tax-exempt organization
- PIH Health Community Pharmacy — limited liability corporation
- PIH Health Insurance Company, a reciprocal risk retention group — captive insurance company
- PIH Health RE, a reciprocal captive insurance company
- PIH Health Care Solutions (PHCS) — taxable non-profit organization
- Putnam Properties, LLC — limited liability corporation
- KDW Real Estate Investments, LLC — limited liability corporation
- PIH Health Home Healthcare — tax-exempt organization
- Downey Regional Medical Center Properties, Inc. (DRMCP) — for-profit organization
- Memorial Trust Foundation (MTF) — tax-exempt organization
- HealthMed Services, Inc. — for-profit organization

These entities are collectively referred to as the Company. PIH, PIHMC, PIH - Whittier and PIH - Downey are members of the Obligated Group.

The Company has an integrated delivery network that provides healthcare services to southeastern Los Angeles County, Orange County, portions of the San Gabriel Valley and the City of Downey. PIH - Whittier is a 523-bed regional hospital that provides a full range of health services, including transitional care services, home health and hospice services. PIH - Downey is a 199-bed acute care hospital servicing the Downey community. PIH - Whittier and PIH - Downey are referred to herein as the Hospitals.

## PIH Health, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (Dollars in Thousands)

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#### Note 1. Organization (Continued)

In February 2008, PHP was formed and acts as a physician organization offering a network of primary care physicians and specialists, as well as a number of special benefit services to the community, including community education, urgent care and after-hour clinics, community health screenings, multi-specialty care centers, and mobile screening clinics.

In December 2008, PIH Health Insurance Company was created as a reciprocal insurance exchange and incorporated under the laws of the state of Hawaii. Effective January 1, 2009, this entity began to provide professional liability, commercial general liability, and managed care errors and omissions liabilities insurance to PIH - Whittier, PIH - Downey, physicians and medical groups.

On November 20, 2012, PHCS was incorporated as a California non-profit mutual benefit corporation. On April 15, 2014, PHCS' application for a limited Knox-Keene license was approved by the California Department of Managed Health Care. PHCS' operations were de minimis in fiscal years 2019 and 2018. As of September 30, 2019, PHCS still holds a valid limited Knox-Keene license with zero membership.

On January 15, 2014, PIH Health Real Estate Services, LLC was established to serve as a single-purpose entity in relation to the acquisition of a medical office building in Downey, California. PIH is the sole member of the single-member limited liability company.

On August 27, 2014, two limited liability corporations were established, Putnam Properties, LLC and KDW Real Estate Investments, LLC. PIH is the sole member of these single-member limited liability companies. These entities will be utilized to acquire strategic parcels of land. No activities occurred during fiscal years 2019 or 2018.

On December 17, 2014, PIH Health RE received approval to operate as a captive insurance company and is domiciled in the state of Hawaii. Effective January 1, 2015, this entity began providing medical stop-loss insurance coverage to the employee health plan.

#### Note 2. Summary of Significant Accounting Policies

**Principles of consolidation and basis for presentation:** The accompanying consolidated financial statements include the accounts of the above member corporations and affiliates. The consolidated financial statements are prepared on the accrual basis of accounting and all intercompany transactions have been eliminated in consolidation. See the recent accounting pronouncements section below.

**Use of estimates:** The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) 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. The Company considers critical accounting policies to be those that require more significant judgments and estimates in the preparation of the consolidated financial statements, including the following: patient accounts receivable and net patient service revenue, which includes contractual allowances and implicit price concessions; estimated useful lives of property and equipment; investment valuation; goodwill impairment; self-insured workers' compensation and professional and general liabilities; incurred but not reported liabilities; employee group health and dental plan; estimated third-party payor estimates; valuation of interest rate swaps; shared-risk receivables; and risk assumptions for measurement of pension obligations. Management bases its estimates on historical experience and various other assumptions that it believes are reasonable under the particular circumstances. Actual results could differ significantly from those estimates.

## PIH Health, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (Dollars in Thousands)

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#### Note 2. Summary of Significant Accounting Policies (Continued)

**Cash and cash equivalents:** Cash and cash equivalents are short-term, highly liquid investments with maturities of three months or less at the time of purchase. Cash and cash equivalents exclude amounts whose use is limited by Board of Directors' (the Board) designation, other arrangements under trust agreements and certain overnight short-term investments that participate in a reinvestment program.

The Company maintains cash and cash equivalents in accounts held by major banks and financial institutions which, at times, exceed the amounts insured by the U.S. government. The Company has not experienced any losses related to these balances.

**Restricted cash:** Amounts included in restricted cash represent those required to be set aside as collateral for a letter of credit as well as those required to be set aside by contractual agreements with certain lenders for debt obligations. These restrictions will lapse when the debt obligation is paid off or the letter of credit is expired. As of September 30, 2019, restricted cash of \$500 serving as collateral for a letter of credit is included in cash and cash equivalents. In November 2019, the restriction was released upon termination of the letter of credit and the funds were released for general operations.

A reconciliation of cash, cash equivalents and restricted cash reported within the accompanying consolidated balance sheets that sum to the total of the of the same such amounts shown in the consolidated statements of cash flows is as follows:

	2019	2018
Cash and cash equivalents	\$ 8,515	\$ 6,688
Restricted cash included in investments, assets limited as to use	1,306	1,260
Total cash, cash equivalents and restricted cash shown in the consolidated statements of cash flows	<u>\$ 9,821</u>	<u>\$ 7,948</u>

**Patient accounts receivable:** The Company has agreements with third-party payors that provide for payments at established rates. Payment arrangements with third-party payors include prospectively determined rates per discharge, per diem payments, discounted charges and reimbursed costs. Patient accounts receivable and net patient service revenue are reported at the net realizable amounts from patients, third-party payors and others for services rendered.

As part of the Company's mission to serve the community, the Company provides care to patients even though they may lack adequate insurance or may participate in programs with negotiated or regulated payment amounts. The Company makes every effort to determine if a patient qualifies for charity care upon admission, though determination may also be made at a later time. After satisfaction of amounts due from insurance, the application of any financial, uninsured or other discounts or payments received on the account, and reasonable efforts to collect from the patient have been exhausted, the Company follows established guidelines for placing certain past-due patient balances with collection agencies, subject to certain restrictions on collection efforts as determined by the Company. The Company manages its collection risk by regularly reviewing its accounts and contracts, and by providing appropriate allowances that are netted against patient accounts receivable in the consolidated balance sheets.

## PIH Health, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (Dollars in Thousands)

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#### Note 2. Summary of Significant Accounting Policies (Continued)

Implicit price concessions is based upon management's assessment of historical and expected net collections, taking into consideration historical business and economic conditions, trends in healthcare coverage and other collection indicators. Management routinely assesses the adequacy of the implicit price concessions based upon historical write-off experience by payor category. The Company follows established guidelines for placing certain patient balances with collection agencies, subject to the terms of certain restrictions on collection efforts as determined by each facility. Implicit price concessions is included as a deduction from patient services revenues since the Company generally accepts and treats all patients without regard to the ability to pay.

**Investments:** The Company establishes guidelines for investment decisions. Within those guidelines, the Company invests in equity securities with readily determinable fair values and in debt securities, which are measured at fair value and are classified as trading or other-than-trading securities. Investment income or loss, net of expenses, is included in other gains and losses, unless the income or loss is restricted by donor or legally imposed restrictions. Unrealized gains and losses on investments, if any, are excluded from excess of revenues over expenses and other gains, unless the loss is considered to be other-than-temporarily impaired.

Management assesses its intent to sell all debt and equity investments. If such intent exists, and an unrealized loss is present, securities may be considered other-than-temporarily impaired.

Management also assesses if the Company may be required to sell the debt investments (due to the financial health and credit deterioration of the issuer), which may also trigger such a charge. No impairment amount was recognized during the years ended September 30, 2019 or 2018.

Investment securities, in general, are exposed to various risks, such as interest rate, credit and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially differ from the amounts in the accompanying consolidated balance sheets.

**Assets limited as to use:** Investments classified as assets limited as to use are stated at fair value. Assets limited as to use include primarily (a) assets set aside by the Board for future capital improvements over which the Board retains control and may, at its discretion, subsequently use for other purposes, and (b) investments held by trustees under indenture agreements.

**Fair value measurements:** The Company measures and reports the fair value of its investments and certain liabilities in accordance with Accounting Standards Codification (ASC) 820, Fair Value Measurement and Disclosures. The Company records and classifies the investments and liabilities based on the level of judgment associated with the inputs used to measure their fair value and the level of market price observability. The Company also estimates fair value when the volume and level of activity for the assets have significantly decreased or in those circumstances that indicate when a transaction is not orderly.

## PIH Health, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (Dollars in Thousands)

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#### **Note 2. Summary of Significant Accounting Policies (Continued)**

Investments and liabilities measured and reported at fair value using level inputs are classified and disclosed in one of the following categories:

**Level 1:** Quoted prices are available in active markets for identical investments as of the reporting date. The types of investments included in Level 1 include listed equities and publicly traded mutual funds whose value is determined based on quoted market prices for such investments. As required by ASC 820, the Company does not adjust the quoted price for these investments even in situations where it holds a large position and a sale could reasonably affect the quoted price.

**Level 2:** Pricing inputs are other-than-quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models or other valuation methodologies, which are based on an income approach. Specific pricing inputs include quoted prices for similar securities in both active and inactive markets and other observable inputs, such as interest rates, yield curve volatilities, default rates, and inputs that are derived principally from or corroborated by other observable market data. Investments that are generally included in this category include U.S. Treasury securities, asset-backed securities, corporate bonds, municipal bonds and interest rate swaps.

**Level 3:** Pricing inputs are unobservable for the investment and include situations where there is little, if any, market activity for the investment. The inputs into the determination of fair value require significant management judgment or estimation. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, an investment's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. Management's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the investment.

The fair values of investments, assets limited as to use, and investments in mutual funds and other investments are based on quoted market prices, if available, or estimated using quoted market prices for similar securities on the last business day of the fiscal year.

**Joint venture:** In September 2014, the Company entered into a joint venture arrangement (Vivity) with Anthem Blue Cross and six other health systems in southern California. As of September 30, 2019, the Company has a 12.5% interest and its contribution amounted to \$950, which has been recorded under the cost method of accounting as the Company is not deemed to exert significant influence over Vivity.

**Inventory:** Inventory consists of medical and other supplies that are generally used in the provision of patient care, and is stated at the lower of cost or net realizable value on a first-in, first-out basis.

**Other receivables:** Other receivables consist primarily of third-party physician billings and various other receivables.

**Prepaid expenses and other assets:** Prepaid expenses and other assets consist primarily of various prepaid clinical and administrative expenses, insurance claim recoveries and other miscellaneous current assets.

## PIH Health, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (Dollars in Thousands)

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#### Note 2. Summary of Significant Accounting Policies (Continued)

**Property and equipment:** Property and equipment are recorded at cost. Depreciation on property and equipment is computed using the straight-line method over the estimated useful life of each class of depreciable assets. Leasehold improvements are amortized on a straight-line basis over the shorter of the useful lives of the improvements or the term of the related lease. Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. No interest costs were capitalized for the years ended September 30, 2019 or 2018.

Estimated useful lives by asset type are generally as follows:

	Years
Land improvements	8-30
Buildings and improvements	5-50
Equipment, fixed and major movable	5-15
Information technology software	2-18
Leasehold improvements	Shorter of estimated useful life or lease term

When property is sold or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts and any resulting net gain or loss is included in the excess of revenues over expenses and other gains in the accompanying consolidated statements of income. The costs of normal maintenance, repairs and minor replacements are charged to expense when incurred.

**Goodwill:** Goodwill represents the excess of the consideration paid over the fair value of the net assets acquired, including identifiable intangible assets. Goodwill is not amortized but is tested for impairment at the reporting unit level on at least an annual basis or when other impairment indicators are present. Goodwill impairment evaluation begins with a qualitative assessment to determine whether a quantitative impairment test is necessary. If the Company determines, after performing an assessment based on the qualitative factors, that the fair value of the reporting unit is more likely than not less than the carrying amount, or that a fair value of the reporting unit substantially in excess of the carrying amount cannot be determined, then a quantitative impairment test is required to be performed. If the carrying value of goodwill is determined to be impaired, the carrying value is reduced to fair value. Estimates of fair value are based on appraisals, established market prices for comparative assets or internal estimates of future net cash flows based on projected performance, depending on the circumstances. Management concluded no indicators of impairment existed as of September 30, 2019.

During the year ended September 30, 2019, the Company recorded goodwill of approximately \$34,000 from the acquisition of a medical group (see Note 4).

**Asset impairment:** The Company routinely evaluates the carrying value of its long-lived assets for impairment and assessment of useful lives. The Company performs an impairment test annually or more frequently if there are changes in events or circumstances that indicate that the carrying value of the asset, or related group of assets, may not be recoverable from estimated future undiscounted cash flows generated by the underlying tangible assets. When the carrying value of an asset exceeds the estimated recoverability, an asset impairment charge is recognized. The impairment tests are based on financial projections prepared by management that incorporate anticipated results from programs and initiatives being implemented and market value assessments of the assets. If projections are not met, or if negative trends occur that impact the future outlook, the value of the long-lived assets may be impaired.

## PIH Health, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (Dollars in Thousands)

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#### Note 2. Summary of Significant Accounting Policies (Continued)

**Fair value of financial instruments:** The carrying amounts reported in the consolidated balance sheets for cash and cash equivalents and other financial instruments, such as receivables, payables and short-term loan borrowing approximates fair value due to short-term maturities. The fair value of investments is disclosed in Note 4.

The fair values of long-term debt (bonds, capital leases, commercial mortgages and security agreements) are estimated based on the current rates offered for debts of similar issues and same remaining maturities (Level 2). As of September 30, 2019 and 2018, the fair value of the Company's long-term debt was \$374,786 and \$382,928, respectively.

**Deferred financing costs:** Deferred financing costs consist primarily of costs incurred in connection with the issuance of the 2018, 2014, 2012, 2011 and 2009 revenue bonds, which are amortized based on the effective interest method over the life of the bonds. Deferred financing costs are included as a direct deduction from the carrying amount of the related debt liability on these consolidated financial statements. Total amortization expense of \$343 and \$185 was recorded during the years ended September 30, 2019 and 2018, respectively.

**Bond premiums and discounts:** Bond premiums and discounts are deferred and amortized based on the interest method over the life of the bonds.

**Self-insurance plans:** The Company maintains self-insurance programs for workers' compensation benefits for employees, professional and general liability risks, group health and dental plans. Annual self-insurance expense under these programs is based on past claims experience and projected losses. Actuarial estimates of uninsured losses for workers' compensation and professional and general liability at September 30, 2019 and 2018, have been accrued as liabilities and include an actuarial estimate for claims incurred but not reported. Management's estimate of uninsured losses for the group health and dental plans as of September 30, 2019 and 2018, have been accrued as liabilities and include an estimate for claims incurred but not reported. Effective January 1, 2019, the Company's health insurance coverage for essentially all of its employees was provided through the Vivity HMO Plan (Note 13).

The Company has insurance coverage in place for amounts in excess of the self-insured retention workers' compensation, professional and general liabilities, group health and dental plans. The Company records recoveries against cost.

**Interest rate swap:** The Company accounts for derivative instruments in the consolidated balance sheets as either assets or liabilities measured at estimated fair value, and recognizes any unrealized gains or losses in the consolidated statements of income. In certain defined conditions, a derivative may be specifically designated as a hedge for a particular exposure. The accounting for derivatives depends on the intended use of the derivatives and the resulting designation. Management has not designated the interest rate swaps as hedges in accordance with ASC 815, Derivatives and Hedging.

The Company uses derivative financial instruments to manage its exposure to interest rate risk and to balance its variable rate long-term debt portfolio. Credit risk related to derivative financial instruments is considered minimal and is managed by requiring high credit standards for its counterparties.

## PIH Health, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (Dollars in Thousands)

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#### Note 2. Summary of Significant Accounting Policies (Continued)

**Net patient service revenue:** The Company has agreements with third-party payors that provide for payments to the Company at amounts different from established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges and per diem payments. Net patient service revenue is recognized in the period the related services are rendered and is reported at the estimated net realizable amounts due from patients, third-party payors and others, including estimated retroactive adjustments under reimbursement agreements with third-party payors. These retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. Revenue is recognized as performance obligations are satisfied.

The Company recognizes patient revenue associated with the services provided to patients who have third-party payor coverages on the basis of the contractual rates for the services rendered and estimated collectibility of deductibles and co-insurance. For uninsured patients that do not qualify for charity care, the Company recognizes revenue on the basis of discounted rates.

The Company has elected the practical expedient allowed under ASC 606-10-32-18, Revenue From Contracts With Customers, and does not adjust the promised amount of consideration from patients and third-party payors for the effects of a significant financing component due to the Company's expectation that the period of time between the time the service is provided and the time that the patient or third-party payor pays for that service will be one year or less.

Performance obligations are determined based on the nature of the services provided by the Company. Revenue for performance obligations satisfied over time is recognized based on actual charges incurred in relation to total expected or actual charges. The Company believes that this method provides a faithful depiction of the transfer of services over the term of the performance obligation based on the inputs needed to satisfy the obligation. Generally, performance obligations satisfied over time relate to patients in our hospitals receiving inpatient acute care services. The Company measures the performance obligation from admission into the hospital to the point when it is no longer required to provide services to that patient, which is generally at the time of discharge. Revenue for performance obligations satisfied at a point in time is recognized when goods or services are provided, and the Company does not believe it is required to provide additional goods or services to the patient. Substantially all of the revenue is recognized over time.

Because all of its performance obligations relate to contracts with a duration of less than one year, the Company has elected to apply the optional exemption provided in Financial Accounting Standards Board (FASB) ASC 606-10-50-14(a) and, therefore, is not required to disclose the aggregate amounts of the transaction price allocated to performance obligations that are unsatisfied or partially unsatisfied at the end of the reporting period. These performance obligations 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 Company elected the portfolio approach practical expedient provided by ASC 606-10-10 to determine the transaction price because it does not expect the financial statement effects of this approach to materially differ from an individual contract approach.

## PIH Health, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (Dollars in Thousands)

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#### Note 2. Summary of Significant Accounting Policies (Continued)

The Company 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 Company's policies, and/or implicit price concessions provided to uninsured patients, co-pays, deductibles, etc. The Company determines its estimates of contractual adjustments and discounts based on contractual agreements, its discount policies and historical experience. The Company determines its estimate of implicit price concessions based on historical collection experience. Implicit price concessions included in estimating the transaction price represent the difference between amounts billed to patients and the amounts the Company expects to collect based on its collection history with those patients. Subsequent changes to the estimate of the transaction price are recorded as adjustments to patient service revenues in the period of the change. For the years ended September 30, 2019 and 2018, the changes in revenue recognized due to the changes in its estimates of implicit price concessions, discounts and contractual adjustments for performance obligations satisfied in prior years were immaterial.

The Company is reimbursed for services provided to patients under certain programs administered by governmental agencies. Laws and regulations governing the Medicare and Medi-Cal programs are complex and subject to interpretation. The Company believes that it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing. While no such 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.

Cost report settlements under reimbursement agreements with Medicare and Medi-Cal 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 Company's historical experience. The Company also considers constraints outside of its control such as Medicare and Medi-Cal control over the review and settlement process and the number of years it takes to settle a cost report year. However, the Company is experienced in estimating third-party settlements and historically, the differences between estimated settlements and final settlements have not been material. Subsequent changes in estimates of the transaction price are included in the period in which the revisions are made.

There is no significant financing component related to third-party settlements because it is not a result of the provision of a financing arrangement with the government payor. In addition, the timing of payment is at the discretion of the payor and does not involve the patient.

**340B program:** PIH – Whittier participates in the 340B drug discount program, which enables qualifying healthcare providers to purchase drugs from pharmaceutical suppliers at a discount prescribed by the government. The 340B program is managed by the Health Resources and Services Administration (HRSA) Office of Pharmacy Affairs. PIH – Whittier benefits under this program by purchasing pharmaceuticals at a reduced cost. As one of the conditions for participating in the 340B program, PIH – Whittier is subject to audits by the government. Government audit activity involving the 340B program has increased and may further increase in the foreseeable future. Reimbursements to the 340B program by Centers for Medicare and Medicaid Services (CMS) is periodically evaluated and such activity may have an impact on the program participants.

## PIH Health, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (Dollars in Thousands)

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#### Note 2. Summary of Significant Accounting Policies (Continued)

**Capitation revenue:** The Company has agreements with various health maintenance organizations (HMO) to provide medical services to subscribing participants. Under these arrangements, the Company receives monthly capitation payments (based on the number of each HMO's participants assigned to the Company), generally at the beginning of the month of services, and the Company's performance obligation is to stand ready to provide services to subscribing participants. The transaction price for capitation revenue is recognized based on the period the Company is obligated to provide services, regardless of services actually performed by the Company or other healthcare providers. In addition, the HMOs make fee-for-service payments to the Company for certain covered services based upon discounted fee schedules, per diem rates and case rates.

The Company determined that the revenue is accounted for over time because the subscribing participant simultaneously receives and consumes the benefits provided over the course of the month. The Company believes that this method provides a faithful depiction of the transfer of services over the term of the performance obligation based on the inputs needed to satisfy the obligation.

Because all of its performance obligations relate to contracts with a duration of less than one year, the Company has elected to apply the optional exemption provided in FASB ASC 606-10-50-14(a) and, therefore, is not required to disclose the aggregate amounts of the transaction price allocated to performance obligations that are unsatisfied or partially unsatisfied at the end of the reporting period. The performance obligations for these contracts are generally completed at the end of the month.

The Company has elected the practical expedient allowed under ASC 606-10-32-18 and does not adjust the promised amount of consideration from the HMOs for the effects of a significant financing component due as payments are generally received in advance.

Certain HMO contracts contain risk-sharing programs whereby the Company participates in the surplus and deficit of the risk-sharing program. Estimated settlements are accrued based upon the performance of the risk-sharing contracts in the period the Company was obligated to provide the services to the enrollees and adjusted in the future periods as final settlements are determined. Differences between actual cash receipts and previous estimates are recognized in the period of final settlement, and were immaterial for the years ended September 30, 2019 and 2018.

**Capitation claims expense:** The cost of health services provided by other healthcare providers to subscribing participants, including administrative costs, out-of-area or emergency services, and services contracted for but not provided by the Company, are included in capitation claims expense. Such amounts are accrued in the period in which the services are provided based in part on estimates, including an accrual for services provided by others but not reported to the Company. The accruals amounted to \$9,928 and \$7,622 at September 30, 2019 and 2018, respectively, and are included in accounts payable and accrued expenses on the accompanying consolidated balance sheets.

## PIH Health, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (Dollars in Thousands)

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#### Note 2. Summary of Significant Accounting Policies (Continued)

**Traditional charity care:** The Company provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. The Company maintains records to identify and monitor the level of charity care it provides. Because the Company does not pursue collection of amounts determined to qualify as charity care, these charges are not reported as revenue. The amount of services written off as charity quantified at customary charges was approximately \$43,000 and \$57,000 for the years ended September 30, 2019 and 2018, respectively. The estimated costs of providing charity services are based on a calculation, which applies a ratio of costs to charges to the gross uncompensated charges associated with providing care to charity patients. The ratio of costs to charges is calculated based on the Hospitals' total expenses divided by gross patient service revenue. The cost of these benefits and services was approximately \$9,600 and \$6,900 for the years ended September 30, 2019 and 2018, respectively.

**Community benefits:** As part of its mission, the Company provides services to the poor and benefits for the broader community. The costs incurred to provide such services are included in excess of revenues over expenses and other gains in the consolidated statements of income. The Company prepares a summary of unsponsored community benefit expenses in accordance with Internal Revenue Service Form 990, Schedule H, and the California Health Association of the United States publication, *A Guide for Planning and Reporting Community Benefit*. A separate Community Benefit Report is issued by the Company and the current unaudited report is available on the Company's website: <https://www.pihhealth.org/app/files/public/4361/Community-Benefit-Annual-Report-2018.pdf>.

**Contributed services:** Volunteers have donated significant amounts of time and services to the Hospitals' operations. Contributed services are recognized if the services received, which create or enhance long-lived assets or require specialized skills, would have typically been purchased if not provided by donation. None of the services donated met these criteria and, accordingly, no volunteer time has been reflected in the accompanying consolidated financial statements.

**Other operating revenue:** Other operating revenue mainly includes certain third-party physician billing, management services provided to third party physician organizations, drugs sold to nonpatients and rental income.

**Operating and nonoperating activities:** The Company's primary mission is to meet the healthcare needs in its market areas through a broad range of general and specialized healthcare services, including inpatient acute care, outpatient services, physician services and other healthcare services. Activities directly associated with the furtherance of this purpose are considered to be operating activities. Other activities that result in gains or losses peripheral to the Company's primary mission are considered to be nonoperating.

**Excess of revenues over expenses and other gains:** Management has identified the excess of revenues over expenses and other gains as the performance indicator. The consolidated statements of income include the excess of revenues over expenses and other gains. Changes in net assets without donor restrictions, which are excluded from this total, include unrealized gains and losses on other-than-trading investments, contributions of long-lived assets (including assets acquired using contributions that by donor restriction were to be used for the purposes of acquiring such assets), and pension-related changes other than net periodic pension cost.

## PIH Health, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (Dollars in Thousands)

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#### Note 2. Summary of Significant Accounting Policies (Continued)

**Donor-restricted gifts:** Unconditional promises to give cash and other assets are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the gift is received or when the conditions expire, whichever occurs first. The gifts are reported as with donor restrictions if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statements of income as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reflected as unrestricted contributions in the consolidated statements of income.

**Net assets without and with donor restrictions:** Net assets without donor restrictions are the net assets not subject to donor-imposed restrictions. A donor-imposed restriction is a stipulation that specifies a use for a contributed asset that is more specific than broad limits resulting from the following: a) the nature of the non-profit entity; b) the environment in which it operates; and c) the purposes specified in its articles of incorporation or bylaws or comparable documents.

Net assets without donor restriction classification includes all revenues, gains and expenses that are not restricted by donors. The Company reports all expenditures, with the exception of investment expenses that are required to be netted against investment return, in this classification of net assets, since the use of restricted contributions in accordance with donors' stipulations results in the release of the restriction.

Net assets with donor restrictions are those subject to donor-imposed restrictions. Net assets with this classification include contributions for which donor-imposed restrictions have not been met, including the following: endowment appreciation, charitable trusts, charitable gift annuities, and pledges receivable. Investment income on net assets with donor restrictions is classified pursuant to the intent or requirement of the donor.

Endowment assets include donor-restricted funds that the organization must hold in perpetuity or for a donor-specified period. The Company preserves the fair value of these gifts as of the date of the donation unless otherwise stipulated by the donor. The Company considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the fund; (2) the purpose of the organization and the donor-restricted endowment fund; (3) general economic conditions; (4) the possible effect of inflation and deflation; (5) the expected total return from income and appreciation of investments; (6) other resources of the organization; and (7) the investment policies of the Company.

The Company has investment and spending policies for endowment assets designated to provide a predictable stream of funding to programs supported by its endowments while seeking to maintain the purchasing power of the endowment assets.

Endowment assets are invested in a manner that is intended to produce results that achieve the respective benchmark while assuming an appropriate level of investment risk. Actual returns in any given year may vary from this amount. To satisfy its long-term rate-of-return objectives, the Company relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Company has a diversified asset allocation to achieve its long-term return objectives within prudent risk constraints.

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level the Company is required to retain as a fund of perpetual duration. There were no such deficits as of September 30, 2019 or 2018.

## PIH Health, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (Dollars in Thousands)

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#### Note 2. Summary of Significant Accounting Policies (Continued)

**Interest expense:** The components of interest expense, net, include interest and fees on debt. Net interest expense associated with the swaps and change in fair value of the swaps is included in change in fair value of interest rate swap and net interest expense in the accompanying consolidated statements of income.

**Pension plan:** The Company applies the provisions of ASC 715, Compensation—Retirement Benefits, which requires a not-for-profit organization to recognize the overfunded or underfunded status of a defined benefit postretirement plan (measured as the difference between the fair value of plan assets and the projected benefit obligation as of the date of the fiscal year-end) as an asset or liability in its balance sheet and to recognize changes in that funded status in the year in which the changes occur through changes in net assets without donor restrictions.

**Income taxes:** The principal operations of the Company are exempt from income taxes pursuant to Internal Revenue Code (IRC) Section 501(c)(3) and the laws of the states in which it operates and, as such, is generally not subject to federal or state income taxes. However, the Company is subject to income taxes on net income derived from a trade or business regularly carried on that does not further the organization's exempt purpose. Further, the Company is also subject to federal excise taxes pursuant to the Tax Cuts and Jobs Act. No significant income tax provision has been recorded in the accompanying consolidated financial statements for net income derived from unrelated trade or business and excise taxes.

The Company measures liabilities for unrecognized tax uncertainties in accordance with ASC 740, Income Taxes, which prescribes a comprehensive model for how a company should recognize, measure, present and disclose in its financial statements uncertain tax positions that a company has taken or expects to take on a tax return. The guidance is applicable to profit-oriented entities, pass-through entities and tax-exempt organizations. Management believes it has no significant uncertain tax positions and, as such, no tax liability, benefits, interest or penalties were accrued at September 30, 2019 or 2018. The Company is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. The Company believes it is no longer subject to income tax examinations for years prior to 2015 for federal purposes and 2013 for California purposes.

**Recent accounting pronouncements:** Effective October 1, 2018, the Company adopted FASB Accounting Standards Update (ASU) No. 2014-09, *Revenue From Contracts With Customers (Topic 606)*, using a modified retrospective method of transition and applied it to contracts not completed at initial application. The core principle of the guidance in ASU 2014-09 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The adoption of this standard did not have an impact on total net revenues or the opening fiscal year 2019 net assets balance but did result in expanded footnote disclosures. Further, provisions for doubtful accounts were collapsed into net patient service revenues.

## PIH Health, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (Dollars in Thousands)

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#### Note 2. Summary of Significant Accounting Policies (Continued)

In August 2016, the FASB issued ASU 2016-14, *Not-for-Profit Entities, Presentation of Financial Statements of Not-for-Profit Entities*, which requires improved presentation and disclosures to help not-for-profit entities provide more relevant information about their resources to donors, grantors, creditors and other issues, including net asset classifications, investment returns, expenses, liquidity and availability of resources and presentation of operating cash flows. The Company adopted this standard on October 1, 2018, and applied its provisions retrospectively. The adoption of this standard collapsed the net asset categories into without donor restrictions and with donor restrictions, netted investment expense against investment returns, added qualitative and quantitative disclosures around liquidity and availability of resources, and required expenses to be presented based on their natural and functional classifications. The prior year temporarily restricted and permanently restricted balances of \$5,424 and \$971, respectively, were collapsed into net assets with donor restrictions totaling \$6,395. As permitted under ASU 2016-14, the Company has omitted the analysis of expense by both natural classification and functional classification, as well as liquidity disclosures about liquidity of resources for the year ended September 30, 2018.

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows: Restricted Cash*. The guidance clarifies how entities should present restricted cash and restricted cash equivalents in the statement of cash flows. The guidance requires entities to present the change in restricted cash and restricted cash equivalents with cash and cash equivalents to reconcile amounts on the balance sheet to the statement of cash flows. As a result, entities will no longer present transfers between cash and cash equivalents and restricted cash and restricted cash equivalents in the statement of cash flows. Entities are required to disclose the nature of the restrictions, as well as reconcile the totals in the statement of cash flows to cash, cash equivalents, restricted cash and restricted cash equivalents on the balance sheet when these are shown in more than one line item. The Company adopted this standard on October 1, 2018. The adoption of ASU 2016-18 did not have a material impact on the Company's financial statements.

In January 2017, the FASB issued ASU 2017-01, *Business Combinations: Clarifying the Definition of a Business (Topic 805)*. ASU 2017-01 is intended to help companies and other organizations evaluate whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. The amendments provide a more robust framework to use in determining when a set of assets and activities is a business. They also provide more consistency in applying the guidance, reduce the costs of application, and make the definition of a business more operable. The Company adopted this standard on October 1, 2018, and the adoption of this standard did not have an impact on the accompanying consolidated financial statements.

In June 2018, the FASB issued ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The amendments clarify and improve current guidance about whether a transfer of assets (or the reduction, settlement or cancellation of liabilities) is a contribution or an exchange transaction. The amendments also require that an entity determine whether a contribution is conditional on the basis of whether an agreement includes a barrier that must be overcome and either a right of return of assets transferred or a right of release of a promisor's obligation to transfer assets. The presence of both a barrier and a right of return or a right of release indicates that a recipient is not entitled to the transferred assets or a future transfer of assets until it has overcome the barrier(s) in the agreement. The Company adopted this standard on October 1, 2018. The adoption of this standard did not have an impact on the accompanying consolidated financial statements.

## PIH Health, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (Dollars in Thousands)

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#### Note 2. Summary of Significant Accounting Policies (Continued)

In May 2019, the FASB issued ASU 2019-06, *Intangibles—Goodwill and Other (Topic 360), Business Combinations (Topic 805), and Not-for-Profit Entities (Topic 958)*. This ASU extends the Private Company Accounting alternatives on goodwill and certain identifiable intangible assets to not-for-profit entities, including those that are conduit bond obligors. The main provisions in this ASU extend the private company alternatives from Topic 350 and Topic 805 to not-for-profit entities in which a not-for-profit entity could elect to amortize goodwill on a straight-line basis over 10 years, or less than 10 years if the not-for-profit entity demonstrates that a shorter useful life is more appropriate. A not-for-profit entity that adopts this ASU would be required to test goodwill for impairment only when a triggering event occurs that indicates that the fair value of the entity (or a reporting unit) may be below its carrying amount. The amendments on this ASU were effective upon its issuance, and the Company did not make the election to adopt this standard.

In January 2016, the FASB issued ASU 2016-01, *Financial Instruments—Overall, Recognition and Measurement of Financial Assets and Financial Liabilities*, which requires all investments in equity securities (other than those that are not readily determinable, or that qualify for equity method accounting or that are consolidated) to be reported at fair value, with changes in fair value reported through income. Also, it removes, for entities other than public business entities, the required disclosures of fair value of financial instruments measured at amortized costs (e.g., debt). The Company is currently evaluating the potential impact of this guidance, which will be effective for the Company beginning on October 1, 2019.

In February 2016, the FASB issued ASU 2016-02, *Leases*. ASU 2016-02 amends the accounting for leases, requiring lessees to recognize most leases on their balance sheet with a right-of-use asset and a lease liability. Leases will be classified as either finance or operating leases, which will impact the expense recognition of such leases over the lease term. The ASU also modifies the lease classification criteria for lessors and eliminates some of the real estate leasing guidance previously applied for certain leasing transactions. The guidance is effective for the Company as of October 1, 2019. Management is in the process of determining the potential impact on its consolidated financial statements, and expects that it will record right-of-use assets and corresponding lease liabilities for the present value of the operating lease commitments.

In January 2017, the FASB issued ASU 2017-04, *Intangibles—Goodwill and Other: Simplifying the Test for Goodwill Impairment (Topic 350)*. ASU 2017-04 eliminates Step 2 from the goodwill impairment test. The annual, or interim, goodwill impairment test is performed by comparing the fair value of a reporting unit with its carrying amount. An impairment charge should be recognized for the amount by which the carrying amount exceeds the reporting unit's fair value; however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. The amendments also eliminate the requirements for any reporting unit with a zero or negative carrying amount to perform a qualitative assessment and, if it fails that qualitative test, to perform Step 2 of the goodwill impairment test. An entity still has the option to perform the qualitative assessment for a reporting unit to determine if the quantitative impairment test is necessary. The Company is currently evaluating the potential impact of this guidance, which will be effective for the Company beginning on October 1, 2021.

In August 2018, the FASB issued ASU 2018-14, *Compensation—Retirement Benefits—Defined Benefit Plans—General (Subtopic 715-20): Disclosure Framework—Changes to the Disclosure Requirements for Defined Benefit Plans*. ASU 2018-14 modifies the disclosure requirements for employers that sponsor defined benefit pension or other postretirement plans. The Company is currently evaluating the potential impact of this guidance, which will be effective for the Company for the year ending on September 30, 2021.

## PIH Health, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (Dollars in Thousands)

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#### Note 2. Summary of Significant Accounting Policies (Continued)

**Reclassifications:** Certain prior-year amounts have been reclassified to conform to current-year presentation with no impact on the reported net assets.

#### Note 3. Net Patient Service Revenue

The Company recognizes patient service revenue on the basis of contractual rates for the services rendered for those patients who have third-party coverage. For the uninsured patients who do not qualify for charity care, the Company recognizes revenue on the basis of its standard rates (or on the basis of discounted rates if negotiated or provided by policy). Patients covered by insurance, but required to pay deductibles or co-payments, are considered to be uninsured for those portions. Based on historical experience, the Company believes that a significant portion of its self-pay patient accounts will be uncollectible.

The Company's allowance for doubtful accounts was \$14,798 as of September 30, 2018, or 15.3% of patient accounts receivable as of September 30, 2018.

The Company has agreements with third-party payors that provide for payments to the Company at amounts different from its established rates. The Company accrues for amounts that it believes may ultimately be due from Medicare and other third-party payors, and reports such amounts in the accompanying consolidated financial statements. A summary of the payment arrangements with major third-party payors is as follows:

**Medicare:** Inpatient acute care services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. Certain outpatient services provided to Medicare beneficiaries are paid based on prospectively determined rates for covered outpatient hospital services using ambulatory payment classification groups (APC). APCs compose a system covering outpatient services consisting of groups arranged so that services within each group are comparable clinically and with respect to the use of resources. PIH is reimbursed for certain services at tentative rates with final settlement determined after submission of annual cost reports by PIH and audits thereof by the Medicare administrative contractor. PIH - Whittier's Medicare cost reports have been audited by the Medicare fiscal intermediary through September 30, 2015. PIH - Downey's Medicare cost reports have been audited by the Medicare fiscal intermediary through September 30, 2016.

**Medi-Cal:** Beginning on July 1, 2013, the California Medi-Cal program transitioned away from negotiated, per diem contracts to a fee schedule based on the patient's final, determined diagnosis (known as diagnosis-related groupings or APR-DRGs). Under APR-DRGs, reimbursement is scaled to patient acuity and complexity.

**Capitation revenue:** PHP contracts with various HMOs to provide healthcare services to HMO enrollees. Under the various contracts, PHP receives monthly capitation payments based on the number of enrollees, regardless of physician services actually performed by PHP.

Effective March 1, 2016, the Company entered into a capitation agreement with United Health Care, which provides healthcare services to senior HMO enrollees. Under this contract, PIH - Whittier receives monthly capitation payments based on the number of enrollees, regardless of services actually provided by PIH - Whittier and other outside facilities. As of September 30, 2019 and 2018, estimated liabilities of \$1,534 and \$1,252, respectively, for services provided to these enrollees by providers other than the Company, are included in accounts payable and accrued expenses in the accompanying consolidated balance sheets.

## PIH Health, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (Dollars in Thousands)

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#### Note 3. Net Patient Service Revenue (Continued)

**Other:** The Company has also entered into payment agreements with certain commercial insurance carriers, HMOs and preferred provider organizations (PPO). The basis for payment under these agreements includes prospectively determined rates per discharge, discounts from established charges and prospectively determined daily rates.

Patient service revenues, net of contractual and other allowances, and implicit price concessions, recognized during the years ended September 30 are as follows:

	2019	2018
Medicare	\$ 273,831	\$ 229,611
Medi-Cal	58,847	52,753
HMO/PPO	353,625	332,334
Other third-party and self payors	55,005	86,344
	<u>\$ 741,308</u>	<u>\$ 701,042</u>

#### Note 4. Acquisition

On June 28, 2019, PHP entered into a Stock Purchase Agreement (the Agreement) with Pioneer Medical Group, Inc. and Pioneer Provider Network, a Medical Group, Inc. (together, Pioneer), whereby PHP acquired 100% of the outstanding stock of Pioneer Medical Group, Inc. for total purchase price of \$32,300, payable in three installments: (1) \$15,316 upon closing, as defined; (2) \$8,492 at the end of the second anniversary of closing (Year 2 payment); (3) \$8,492 at the end of the third anniversary of closing (Year 3 payment). PHP also acquired 100% of the stock of Pioneer Provider Network for one dollar on March 1, 2019. The effective date of PHP's stock ownership of Pioneer is July 1, 2019.

## PIH Health, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (Dollars in Thousands)

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#### Note 4. Acquisition (Continued)

The following table summarizes the fair value of the consideration transferred and the estimated fair value of assets acquired and liabilities assumed at the date of acquisition:

Fair value of consideration transferred:

Cash consideration	\$ 15,316
Future installments at fair value	12,531
Signing bonus	1,000
Debt forgiveness	4,180
Paid time off payout by buyers	875
Reimbursement of transaction fees borne by sellers	300
Net consideration transferred	<u>34,202</u>

Fair value of assets acquired and liabilities assumed:

Cash and cash equivalents	3,347
Investments	633
Accounts receivable	2,210
Prepaid and other current assets	95
Inventory	50
Property and equipment	76
Other assets	667
Intangible assets	310
Accounts payable and accrued expenses	(6,213)
Other liabilities	(1,060)
Net assets assumed	<u>115</u>
Excess purchase price attributed to goodwill acquired	<u>\$ 34,087</u>

The Year 2 payment and the Year 3 payment are subject to certain adjustments in accordance with the Agreement based on the calculations set forth therein, which include the maintenance of certain number of practitioners and the satisfaction of a minimum average annual Medicare Advantage (MA) Star rating, among others.

Intangible assets of \$310 relate to the Pioneer Medical Group, Inc. trade name, and is included in other assets on the accompanying consolidated balance sheet as of September 30, 2019.

The following unaudited pro forma condensed financial information assumes that the Pioneer acquisition was accounted for using the acquisition method of accounting for business combinations in accordance with ASC 805, Business Combinations, and represents a pro forma presentation based upon available information of the combining companies giving effect to the acquisition as if it had occurred on October 1, 2018.

	Actual	Pro Forma (Unaudited)
Total revenues	\$ 970,485	\$ 1,008,316
Total expenses	950,124	988,871
Excess of revenues over expenses	<u>\$ 20,361</u>	<u>\$ 19,444</u>

## PIH Health, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (Dollars in Thousands)

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#### Note 5. Availability of Financial Assets

The following reflects the Company's financial assets at September 30, 2019, reduced by amounts not available for general use within one year of the balance sheet date because of contractual or donor-imposed restrictions or internal designations.

Cash and cash equivalents	\$ 8,515
Short-term investments	4,846
Patient accounts receivable	112,476
Assets limited as to use: Board-designated for building and equipment	440,218
	<u>\$ 566,055</u>

Assets limited as to use include investments designated by the Company's Board for future capital improvements and investments held by trustees under indenture agreements. However, the Board retains control of these assets, except for those held by the lender escrow fund or restricted by government agency (Note 6) and will, at its discretion, and if necessary, use these assets for operating purposes. Therefore, assets limited as to use are included in the amounts above.

As of September 30, 2019, the Company had available \$22,500 under its revolving credit agreement with a financial institution (see Note 8).

#### Note 6. Investments and Assets Limited as to Use

**Investments:** Short-term investments are stated at fair value and amounted to \$4,846 and \$3,692 as of September 30, 2019 and 2018, respectively. Such investments are composed of cash for reinvestment, commercial paper, debt securities and U.S. Treasury bills.

**Investments in mutual funds and other investments:** The Company has investments held by PIH Health Insurance Company, a reciprocal risk retention group, and nonqualified deferred compensation plans that provide for deferred compensation at various minimum levels, based on employment status. The plans are available to certain physician, supervisory and executive personnel. The Company has invested the deferred amounts in mutual funds and other investments that are stated at fair value. Such amounts, while segregated in the accompanying consolidated financial statements, are available to satisfy the Company's obligations to the general creditors, if necessary. The deferred amount includes investments in a fixed-income annuity of \$7,093 and \$7,015 as of September 30, 2019 and 2018, respectively, which is categorized as Level 3 of the fair value categories. Additionally, the Company has a flexible benefit plan that provides for life insurance coverage for certain executive personnel.

Investments in mutual funds and other investments were \$51,954 and \$46,219, of which \$4,943 and \$4,828 were related to the flexible benefit plan for executives as of September 30, 2019 and 2018, respectively.

**PIH Health, Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements  
(Dollars in Thousands)**

**Note 6. Investments and Assets Limited as to Use (Continued)**

**Assets limited as to use:** The composition of assets limited as to use at fair value as of September 30 is as follows:

	2019	2018
Cash and cash equivalents	\$ 11,628	\$ 11,719
Fixed-income securities	100,872	98,092
Equity securities	180,217	171,756
Mutual funds	148,807	172,280
Investments, assets limited as to use	<u>\$ 441,524</u>	<u>\$ 453,847</u>

Assets limited as to use at fair value as of September 30 consist of amounts designated or restricted as follows:

	2019	2018
Board-designated for building and equipment	\$ 440,218	\$ 452,587
Held by lender escrow fund (Note 8)	1,004	958
Restricted by government agency	302	302
Investments, assets limited as to use	<u>\$ 441,524</u>	<u>\$ 453,847</u>

The unrealized losses and fair value of the Company's investments and assets limited as to use with unrealized losses aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position as of September 30 are as follows:

	2019					
	Unrealized Losses				Total	
	Less Than 12 Months		12 Months or Greater		Total	
	Market Value	Unrealized Losses	Market Value	Unrealized Losses	Market Value	Unrealized Losses
Equity securities, includes mutual funds	\$ 38,421	\$ (4,348)	\$ 38,024	\$ (2,530)	\$ 76,445	\$ (6,878)
Fixed income	2,342	(94)	6,386	(113)	8,728	(207)
Total	<u>\$ 40,763</u>	<u>\$ (4,442)</u>	<u>\$ 44,410</u>	<u>\$ (2,643)</u>	<u>\$ 85,173</u>	<u>\$ (7,085)</u>

	2018					
	Unrealized Losses				Total	
	Less Than 12 Months		12 Months or Greater		Total	
	Market Value	Unrealized Losses	Market Value	Unrealized Losses	Market Value	Unrealized Losses
Equity securities, includes mutual funds	\$ 72,335	\$ (4,631)	\$ 31,617	\$ (1,168)	\$ 103,952	\$ (5,799)
Fixed income	53,688	(2,552)	38,548	(854)	92,236	(3,406)
Total	<u>\$ 126,023</u>	<u>\$ (7,183)</u>	<u>\$ 70,165</u>	<u>\$ (2,022)</u>	<u>\$ 196,188</u>	<u>\$ (9,205)</u>

The unrealized losses on the Company's investments in debt and equity securities were caused by interest rate increases and current market volatility. The Company has the ability and intent to hold these debt and equity securities until a recovery of fair value (which may be maturity).

**PIH Health, Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements  
(Dollars in Thousands)**

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**Note 6. Investments and Assets Limited as to Use (Continued)**

**Fair value measurements:** Investments are measured and reported at fair value using level inputs, as defined by ASC 820. A description of valuation inputs and techniques that the Company utilizes to fair value each major category of assets is as follows:

**Cash and cash equivalents:** Cash and cash equivalents are primarily short-term money market funds that are categorized as Level 1. The carrying value of cash and cash equivalents approximates fair value.

**Fixed-income securities (U.S. government, corporate debt instruments, state and municipal, and mortgage- and asset-backed):** Fixed-income securities are categorized as either Level 1 or Level 2 depending on the volume of market activity. They are valued using third-party pricing services. These services may use, for example, model-based pricing methods that utilize observable market data as inputs. Broker-dealer bids or quotes of securities with similar characteristics may also be used.

**Mutual funds (balanced funds, bond funds and equity funds):** Registered with the Securities and Exchange Commission as mutual funds under the Investment Company Act of 1940. To the extent valuation adjustments are not applied, mutual funds are categorized as Level 1.

**Equity securities (common stock):** Equity securities that are actively traded on a securities exchange are valued based on quoted prices from the applicable exchange, and to the extent valuation adjustments are not applied to these securities, they are categorized as Level 1.

**Investments in fixed-income annuities:** The fair value of the fixed-income annuity contracts was estimated based on the provisions of the contract and classified as Level 3.

**PIH Health, Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements  
(Dollars in Thousands)**

**Note 6. Investments and Assets Limited as to Use (Continued)**

The information about the Company's investments and assets limited as to use measured at fair value on a recurring basis and the fair value hierarchy of the valuation techniques utilized by management to determine such fair values as of September 30 are as follows:

	2019			Total
	Level 1	Level 2	Level 3	
Investments, short term:				
Cash and cash equivalents	\$ 2,019	\$ -	\$ -	\$ 2,019
Fixed-income securities:				
Corporate debt instruments	-	2,144	-	2,144
U.S. government and agency	425	258	-	683
Total investments, short term	<u>\$ 2,444</u>	<u>\$ 2,402</u>	<u>\$ -</u>	<u>\$ 4,846</u>
Investments in mutual funds and other investments:				
Cash and cash equivalents	\$ 101	\$ -	\$ -	\$ 101
Fixed-income securities:				
U.S. government and agency	3,190	1,281	-	4,471
Corporate debt instruments	4,444	2,018	-	6,462
Mortgage and asset backed	-	1,915	-	1,915
International bonds	-	95	-	95
Total fixed-income securities	<u>7,634</u>	<u>5,309</u>	<u>-</u>	<u>12,943</u>
Mutual funds:				
Balanced funds	127	-	-	127
Bond funds	358	-	-	358
Equity funds	31,190	-	-	31,190
Real estate	136	-	-	136
Total mutual funds	<u>31,811</u>	<u>-</u>	<u>-</u>	<u>31,811</u>
Investments in fixed-income annuity	-	-	7,093	7,093
Investments in alternative investments	-	-	6	6
Total investments in mutual funds and other investments	<u>\$ 39,546</u>	<u>\$ 5,309</u>	<u>\$ 7,099</u>	<u>\$ 51,954</u>

**PIH Health, Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements  
(Dollars in Thousands)**

**Note 6. Investments and Assets Limited as to Use (Continued)**

	2019			Total
	Level 1	Level 2	Level 3	
Investments, assets limited as to use:				
Cash and cash equivalents	\$ 11,628	\$ -	\$ -	\$ 11,628
Fixed-income securities:				
U.S. government and agency	29,077	1,184	-	30,261
Corporate debt instruments	-	40,204	-	40,204
Mortgages and asset backed	-	26,192	-	26,192
State and municipal	-	4,215	-	4,215
Total fixed-income securities	29,077	71,795	-	100,872
Equity securities:				
Communication services	17,793	-	-	17,793
Consumer discretionary	18,768	-	-	18,768
Consumer staples	10,772	-	-	10,772
Energy	1,521	-	-	1,521
Equity funds	23,125	-	-	23,125
Financials	22,636	-	-	22,636
Healthcare	12,711	-	-	12,711
Industrials	17,181	-	-	17,181
Information technology	29,882	-	-	29,882
Materials	3,282	-	-	3,282
Real estate	20,794	-	-	20,794
Utilities	1,752	-	-	1,752
Total equity securities	180,217	-	-	180,217
Mutual and commingled funds:				
Balanced funds	21,551	-	-	21,551
Bond funds	47,174	-	-	47,174
Equity funds	80,082	-	-	80,082
Total mutual and commingled funds	148,807	-	-	148,807
Total investments, assets limited as to use	\$ 369,729	\$ 71,795	\$ -	\$ 441,524

**PIH Health, Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements  
(Dollars in Thousands)**

**Note 6. Investments and Assets Limited as to Use (Continued)**

	2018			Total
	Level 1	Level 2	Level 3	
Investments, short term:				
Cash and cash equivalents	\$ 2,015	\$ -	\$ -	\$ 2,015
Fixed-income securities:				
Corporate debt instruments	224	1,433	-	1,657
U.S. government and agency	-	-	-	-
Total investments, short term	<u>\$ 2,259</u>	<u>\$ 1,433</u>	<u>\$ -</u>	<u>\$ 3,692</u>
Investments in mutual funds and other investments:				
Cash and cash equivalents	\$ 74	\$ -	\$ -	\$ 74
Fixed-income securities:				
U.S. government and agency	3,271	-	-	3,271
Corporate debt instruments	2,981	1,612	-	4,593
Mortgage and asset backed	3,088	-	-	3,088
Total fixed-income securities	<u>9,340</u>	<u>1,612</u>	<u>-</u>	<u>10,952</u>
Mutual funds:				
Balanced funds	118	-	-	118
Bond funds	563	-	-	563
Equity funds	27,369	-	-	27,369
Real estate	128	-	-	128
Total mutual funds	<u>28,178</u>	<u>-</u>	<u>-</u>	<u>28,178</u>
Investments in fixed-income annuity	-	-	7,015	7,015
Total investments in mutual funds and other investments	<u>\$ 37,592</u>	<u>\$ 1,612</u>	<u>\$ 7,015</u>	<u>\$ 46,219</u>

**PIH Health, Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements  
(Dollars in Thousands)**

**Note 6. Investments and Assets Limited as to Use (Continued)**

	2018			Total
	Level 1	Level 2	Level 3	
Investments, assets limited as to use:				
Cash and cash equivalents	\$ 11,719	\$ -	\$ -	\$ 11,719
Fixed-income securities:				
U.S. government and agency	31,900	3,864	-	35,764
Corporate debt instruments	-	40,324	-	40,324
Mortgages and asset backed	-	17,574	-	17,574
State and municipal	-	4,430	-	4,430
Total fixed-income securities	31,900	66,192	-	98,092
Equity securities:				
Communication services	19,126	-	-	19,126
Consumer discretionary	17,939	-	-	17,939
Consumer staples	6,159	-	-	6,159
Energy	4,092	-	-	4,092
Equity funds	27,482	-	-	27,482
Financials	22,589	-	-	22,589
Healthcare	12,923	-	-	12,923
Industrials	11,787	-	-	11,787
Information technology	28,603	-	-	28,603
Materials	3,462	-	-	3,462
Real estate	17,267	-	-	17,267
Utilities	327	-	-	327
Total equity securities	171,756	-	-	171,756
Mutual and commingled funds:				
Balanced funds	21,555	-	-	21,555
Bond funds	45,589	-	-	45,589
Equity funds	105,136	-	-	105,136
Total mutual and commingled funds	172,280	-	-	172,280
Total investments, assets limited as to use	\$ 387,655	\$ 66,192	\$ -	\$ 453,847

There were no significant transfers between levels during the years ended September 30, 2019 or 2018.

The table below sets forth a summary of changes in fair value of the Level 3 investments for the years ended September 30, 2019 and 2018.

	2019	2018
Balance, beginning of year	\$ 7,015	\$ 7,008
Sales and settlements	(189)	(277)
Gains and other	273	284
Balance, end of year	\$ 7,099	\$ 7,015

**PIH Health, Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements  
(Dollars in Thousands)**

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**Note 6. Investments and Assets Limited as to Use (Continued)**

**Investment income and gains:** Income and gains related to investments for the years ended September 30 are comprised of the following:

	2019	2018
Net investment income	\$ 15,280	\$ 11,728
Net realized gains on investments, net of fees of \$1,788 and \$1,744 for 2019 and 2018, respectively	9,362	7,736
Net unrealized gains on investments	1,400	5,424
Total	<u>\$ 26,042</u>	<u>\$ 24,888</u>

**Note 7. Property and Equipment**

Property and equipment as of September 30 consist of the following:

	2019	2018
Buildings and equipment	\$ 765,859	\$ 754,109
Land and land improvements	74,220	75,083
Leasehold improvements	149,442	148,779
Construction in progress	29,627	14,829
Total property and equipment	<u>1,019,148</u>	<u>992,800</u>
Less accumulated depreciation	<u>(385,403)</u>	<u>(347,848)</u>
Total property and equipment, net	<u>\$ 633,745</u>	<u>\$ 644,952</u>

Depreciation and amortization expense for the years ended September 30, 2019 and 2018, amounted to \$39,489 and \$40,253, respectively.

## PIH Health, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (Dollars in Thousands)

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#### Note 8. Debt

A summary of long-term debt as of September 30 is as follows:

	2019	2018
Health Facility Revenue Bonds—Series 2018	\$ 45,945	\$ -
Health Facility Revenue Bonds—Series 2014	66,300	66,300
Health Facility Revenue Notes—Series 2014	35,700	35,700
Health Facility Revenue Bonds—Series 2012	90,085	141,950
Health Facility Revenue Bonds—Series 2011	34,635	35,930
Health Facility Revenue Bonds—Series 2009	68,025	70,975
Unamortized bond premium—Series 2014	4,195	4,285
Unamortized bond discount—Series 2011	(283)	(307)
Commercial mortgage	6,230	6,368
Term loan	19,250	19,500
Security agreement with supplier	229	444
Less deferred financing cost, net	(3,446)	(3,390)
Less current portion	(11,168)	(10,753)
Total long-term debt, net	<u>\$ 355,697</u>	<u>\$ 367,002</u>

**Series 2018 Health Facility Revenue Bonds:** In November 2018, the Obligated Group refinanced its Series 2012 B Bonds. In this refinancing, the Obligated Group issued \$48.5 million 2018 A City of Whittier Health Facility Revenue Bonds to pay in full the Series 2012 B Bonds and to pay related costs of issuance. The Series 2018 A Bonds bear a fixed-interest rate of 4.75% and matures in 2036.

**Series 2014 Health Facility Revenue Bonds and Notes:** On August 1, 2014, the Obligated Group jointly issued \$66,300 aggregate principal amount of City of Whittier Health Facility Revenue fixed-rate bonds (Series 2014 Bonds) at a premium of \$4,612 and \$35,700 aggregate principal amount of City of Whittier Health Facility Revenue notes (Series 2014 Notes), in total of \$106,612. The proceeds of these bonds and notes were used to (1) repay certain indebtedness (Bank Loan) incurred by PIH in connection with the affiliation with PIH - Downey, (2) to finance or reimburse the prior payment of costs of renovating and equipping the hospital facilities operated by PIH - Downey, and (3) to pay costs of issuance related to the Series 2014 Bonds and Series 2014 Notes.

The Series 2014 Bonds bear a fixed-interest rate at 5.00% and have maturities beginning in 2040 and ending in 2044. The Series 2014 Notes are held by a financial institution and bear interest at 2.75%, and mature in 2024.

## PIH Health, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (Dollars in Thousands)

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#### Note 8. Debt (Continued)

**Series 2012 Health Facility Revenue Bonds:** On December 31, 2012, the Obligated Group replaced its Series 2009 B and Series 2009 C City of Whittier Health Facility Revenue Bonds (aggregate of \$148,000 principal amount) with direct private placement bonds with varying term periods. The Series 2012 City of Whittier Health Facility Bonds (Series 2012 Bonds) initially consisted of three series: Series 2012 A with a notional amount of \$48,000 with initial five-year term (initial purchase date December 29, 2017), Series 2012 B with a notional amount of \$50,000 with initial six-year term (initial purchase date December 31, 2018), and Series 2012 C with a notional amount of \$50,000 with initial seven-year term (initial purchase date December 31, 2019). In July 2017, the Obligated Group remarketed the \$48 million Series 2012 A direct-purchase bonds with the existing financial institution, pursuant to the modified Indenture and Continuing Covenant Agreement. The purchase date was extended to June 1, 2022. The Series 2012 B Bonds were paid in full in November 2018. In December 2019, the terms of the Series 2012 C was amended and extended with the same financial institution for a one year term through December 31, 2020.

The Series 2012 Bonds are held by three large financial institutions and bear interest at approximately 65% to 68% of one-month LIBOR, plus 70 to 95 basis points. The Series 2012 Bonds require annual principal payments beginning in 2017 with final maturity in 2036.

**Series 2011 Health Facility Revenue Bonds:** On March 31, 2011, the Obligated Group jointly issued \$41,305 aggregate principal amount of City of Whittier Health Facility Revenue fixed-rate bonds (Series 2011 Bonds) at a discount of \$477. The proceeds of these bonds were used to finance certain facilities for the benefit of the Hospitals and pay certain costs of issuance of the Series 2011 Bonds.

The Series 2011 Bonds bear fixed-interest rates ranging from 4.00% to 6.25% and have maturities beginning in 2012 and ending in 2036.

**Series 2009 Health Facility Revenue Bonds:** On May 14, 2009, the Obligated Group jointly issued \$222,000 aggregate principal amount of City of Whittier Health Facility Revenue variable rate bonds, Series 2009 A, Series 2009 B and Series 2009 C bonds (the Variable Rate Bonds), at par. Concurrently, the Obligated Group jointly issued \$58,000 aggregate principal amount of City of Whittier Health Facility Revenue fixed-rate bonds, Series D (the Fixed Rate Bonds) at a premium of \$329. The Fixed Rate Bonds, together with the Variable Rate Bonds, are referred to as the Series 2009 Bonds. The proceeds of these bonds were used to (1) finance certain facilities for the benefit of PIH, (2) advance refund the Series 2007 City of Whittier Health Facility Revenue Bonds (Series 2007 Bonds), (3) fund a reserve fund for the Series 2009 D Bonds, and (4) pay certain costs of issuance of the Series 2009 Bonds. The Series 2007 Bonds were originally issued with a principal balance of \$292,000 at par on January 31, 2007.

The Variable Rate Bonds bear interest at a weekly interest rate determined by the remarketing agents. During the year ended September 30, 2019, the weekly interest rate ranged from 0.85% to 2.00% and its weighted average was 1.28%. During the year ended September 30, 2018, the weekly interest rate ranged from 0.91% to 1.75% and its weighted average was 1.15%. If certain conditions are met, the Company may elect to convert the weekly interest rate period to either a daily or a long-term period. The Variable Rate Bonds have sinking fund requirements (principal payments) beginning in 2018 and ending in 2036.

**Letter of Credit:** In conjunction with the issuance of the Series 2012 Health Facility revenue Bonds, a letter of credit was established related to the payment of accrued interest due on the bonds. On September 27, 2016, the Letter of Credit Facility was amended with the existing bank for the Series 2012 Bonds. The Letter of Credit fee rate was reduced from 0.75% to 0.50% based on the Company's S&P rating. In addition, the term of the Letter of Credit was extended to July 30, 2021.

## PIH Health, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (Dollars in Thousands)

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#### Note 8. Debt (Continued)

There were no draws against the Letter of Credit Facility in the years ended September 30, 2019 or 2018.

In the case of a liquidity drawing made under the Letter of Credit Facility, the unpaid portion of this drawing shall constitute a term loan. The Company is required to repay the principal amount of each term loan in eight equal quarterly installments of principal, plus interest at the bank rate, commencing on the first quarterly date following the 367th day following the drawing and continuing on each quarterly date thereafter through and including the seventh quarterly date, and on the third anniversary of the date of the applicable drawing, at which time all unpaid principal and accrued interest shall be due and payable in full.

**Commercial mortgage:** On April 25, 2014, PIH assumed a \$6,886 existing mortgage upon purchase of a medical office building. The mortgage is secured by the underlying real property, with a book value of \$11,633 as of September 30, 2019, and assignment of leases and rent relating to the medical office building. The mortgage bears interest at a fixed rate of 5.68% and is collateralized by the property. Monthly principal and interest payments are \$42 through November 1, 2020, with the remaining principal balance due on December 1, 2020. The terms of the mortgage also require monthly payments amounting to \$15 to fund property taxes, insurance, maintenance and improvements related to the secured property. These amounts, which are held in escrow by the lender, amounted to \$1,229 and \$1,108 as of September 30, 2019 and 2018, respectively. Principal payments totaled \$137 and \$130 for the fiscal years 2019 and 2018, respectively. As of September 30, 2019 and 2018, the balance due was \$6,230 and \$6,368, respectively.

**Term loan:** On April 1, 2016, the Company entered into a \$20,000 term loan agreement with a financial institution to provide capital to pay the remainder of a PIH - Downey fixed-rate note, obtain the rights to the purchase option to DRMCP for \$5,200, and for other general corporate purposes. The maturity date is June 1, 2021, and the interest rate is a fixed 2.35%. Covenants and security provisions are similar to the Company's other bank borrowings. Principal payments of \$250 are due annually in June with the final principal payment of \$19,000 due in June 2021. Interest payments of \$39 are payable monthly. As of September 30, 2019, the balance due was \$19,250.

Scheduled principal repayments on long-term debt as of September 30, 2019, are provided in the table below. The table below illustrates principal payments at their stated maturities and assumes no early redemptions of Series 2012 direct placement bonds. If the Series 2012 A or 2012 C direct placement bonds are not remarketed or extended, additional principal in the amounts of \$40,135 (Series 2012 A) and \$45,965 (Series 2012 C) would be due in fiscal years 2022 and 2021, respectively.

Years ending September 30:	
2020	\$ 11,168
2021	35,981
2022	11,265
2023	11,655
2024	47,710
Thereafter	248,620
	<u>\$ 366,399</u>

Total amount includes \$466 in debt discounts and premiums, and deferred financing cost.

## PIH Health, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (Dollars in Thousands)

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#### Note 8. Debt (Continued)

Pursuant to a Master Indenture, the Company has pledged its gross revenues as security for all of its long-term debt. The Master Indenture provides for limitations on the increase of additional indebtedness, unless certain conditions are met, and requires the Company to maintain certain financial ratios, including a debt service coverage ratio. Management believes it has complied with all debt covenants pursuant to the Master Indenture as of September 30, 2019 and 2018.

**Short-term borrowing:** The Company has a \$55,000 revolving credit agreement with a financial institution. The annual interest rate spread to LIBOR is 0.70% and the commitment fee is 0.125%, based on the Company's S&P rating. Revolving credit draws are for the purpose of working capital needs and general corporate purposes. Interest periods can be for one-, three- or six-month periods, at which point the Company may pay the balance, if any. During the fiscal year 2019, the Company borrowed \$184,000 against the revolving credit line and repaid \$179,500. During the fiscal year 2018, the Company borrowed \$37,000 against the revolving credit line and repaid \$57,000. As of September 30, 2019 and 2018, the aggregate outstanding balance on the Company's revolving credit line was \$32,500 and \$28,000, respectively.

In September 2019, the revolving credit agreement was extended for 60 days, and in November 2019, the revolving credit agreement was amended and extended for another three-year term, with an increase in the facility to \$75,000 and applicable interest rate spread of LIBOR plus 0.50% and commitment fee of 0.08%.

**Interest rate swaps:** In connection with the issuance of certain bonds and in an effort to reduce its interest costs, PIH entered into three separate interest rate swap agreements with a total notional amount of \$204,075. Under the terms of the agreements, PIH agreed to pay to the counterparty a fixed rate of interest on the notional amount in exchange for receiving a payment from the counterparty based on a floating rate tied to the one-month LIBOR. From time to time, the Company may be required to post collateral with its swap counterparties. The amount of the collateral is based on (1) the daily valuation of the swaps, (2) the Company's S&P rating, and (3) the excess valuation over predetermined collateral thresholds. Further, in connection with the issuance of the Series 2018 Bonds and in an effort to reduce its interest costs, the Hospital entered into a total return swap agreement with a total notional amount of \$45,945.

As of September 30, 2019 and 2018, the cash collateral was \$0. Based on the Company's current A rating from S&P, the collateral thresholds are \$25,000 for one counterparty and \$10,000 for the other counterparty.

The swap agreements terminate approximately on the same date that the related bonds are scheduled to mature. As of September 30, 2019 and 2018, the fair value of the swaps were recorded as a liability of \$40,828 and \$25,961, respectively. The fair value is classified as level 2 under the fair value hierarchy. The change in value of the swaps totaling \$14,867 and \$12,790 in the years ended September 30, 2019 and 2018, respectively, is recorded in the consolidated statements of income as change in fair value of interest rate swaps, in addition to interest expense and interest income related to the swaps. As of September 30, 2019 and 2018, management has not designated the swaps as a hedge in accordance with ASC 815.

**PIH Health, Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements  
(Dollars in Thousands)**

**Note 8. Debt (Continued)**

The Company had the following derivatives as of September 30:

Series	2019 Nominal Amount	Expiration Date	Fixed Rate	2019 Fair Value	2018 Fair Value
2009 A	\$ 68,025	June 2, 2036	3.208%	\$ (13,479)	\$ (8,226)
2012 A	34,000	June 2, 2036	3.196%	(6,684)	(4,151)
2012 A	10,120	June 1, 2036	3.320%	(2,100)	(1,350)
2012 B	23,905	June 1, 2036	3.320%	(4,957)	(3,187)
2012 B	22,060	June 1, 2036	3.402%	(4,562)	(2,934)
2012 C	45,965	June 1, 2036	3.402%	(9,504)	(6,113)
2018 A	45,945	December 1, 2025	4.750%	458	-
				<u>\$ (40,828)</u>	<u>\$ (25,961)</u>

The fair value of the interest rate swaps is estimated utilizing the terms of the swaps and publicly available market yield curves along with the Company's nonperformance risk as observed through the credit default swap market and bond market and based on prices for recent trades. These swap agreements are classified as Level 2 within the fair value hierarchy.

**Note 9. Prepetition Liabilities**

On September 14, 2009, PIH - Downey filed voluntary petitions for bankruptcy protection under Chapter 11 of the federal bankruptcy laws in the United States Bankruptcy Code in the United States Bankruptcy Court for the Central District of California. As of September 30, 2018, PIH - Downey had prepetition liabilities of \$1,191, and as of September 30, 2019, the prepetition liabilities of \$1,191 has been paid in full.

**Note 10. Net Assets With Donor Restrictions**

Net assets with donor restrictions as of September 30 are available for the following purposes or periods:

	2019	2018
Contributions received and restricted for patient care	\$ 1,892	\$ 2,347
Contributions restricted for construction projects	1,522	1,302
Contributions restricted for specific programs	2,766	2,746
	<u>\$ 6,180</u>	<u>\$ 6,395</u>

**PIH Health, Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements  
(Dollars in Thousands)**

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**Note 10. Net Assets With Donor Restrictions (Continued)**

Net assets released from restrictions in the accompanying consolidated statements of income and changes in net assets represent donor-restricted contributions utilized for their restricted purpose during the years ended September 30, summarized as follows:

	2019	2018
Program	\$ 574	\$ 1,351
Capital	746	262
	<u>\$ 1,320</u>	<u>\$ 1,613</u>

Certain of net assets with donor restrictions as of September 30, 2019 and 2018, in the amount of \$971, are held in perpetuity, the income from which is expended to support the Company's resident Chaplain office.

**Note 11. Pension Plan**

The Company has a defined benefit pension plan (the Plan) covering substantially all employees. It is subject to the provisions of the Employee Retirement Income Security Act of 1974 (ERISA). Under the terms of the Plan, participants are eligible for monthly benefit payments upon reaching age 65, as defined in the Plan document. Vesting occurs after completion of five years of cumulative service. Participants are eligible for reduced benefits upon early retirement under certain circumstances. Monthly benefit payments are determined by application of a benefit formula to a participant's annual wages for all years of eligibility in the Plan before retirement. Under the terms of the Plan, participants are not required or permitted to make contributions to the Plan.

The Company's policy is to fund its pension cost in accordance with the provisions of ERISA. Contributions are intended to provide not only for benefits attributed to service to date, but also for those expected to be earned in the future.

Effective October 31, 2014, the Board approved a Plan amendment to freeze all accrued benefits for the Plan. The impact of this Plan amendment was projected to reduce the benefit obligation by \$21,186.

Net periodic benefit cost for the years ended September 30 include the following components:

	2019	2018
Interest cost	\$ 8,021	\$ 8,334
Expected return on Plan assets	(7,022)	(6,914)
Recognized actuarial loss	903	1,472
	<u>\$ 1,902</u>	<u>\$ 2,892</u>

Total amounts do not include administrative expenses associated with Plan operations, which were \$54 and \$140 for the years ended September 30, 2019 and 2018, respectively.

**PIH Health, Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements**  
**(Dollars in Thousands)**

**Note 11. Pension Plan (Continued)**

A summary of the components of net pension cost as of September 30, the date of the latest actuarial valuation, is as follows:

	2019	2018
Changes in benefit obligations:		
Benefit obligation, beginning of year	\$ 182,226	\$ 209,043
Interest cost	8,021	8,334
Benefits paid	(9,609)	(10,161)
Actuarial loss (gain)	29,412	(24,990)
Benefit obligation, end of year	<u>210,050</u>	<u>182,226</u>
Changes in Plan assets:		
Fair value of Plan assets, beginning of year	133,008	131,608
Actual return on Plan assets	11,786	3,396
Employer contributions	7,352	8,165
Benefits paid	(9,609)	(10,161)
Fair value of Plan assets, end of year	<u>142,537</u>	<u>133,008</u>
Funded status, pension liability	<u>\$ (67,513)</u>	<u>\$ (49,218)</u>

Amounts recognized in the change in net assets without donor restrictions consist of:

	2019	2018
Accumulated change from pension in net assets without donor restrictions, actuarial loss	\$ (72,529)	\$ (48,784)
Cumulative employer contributions greater (less) than net periodic benefit cost	5,016	(434)
Obligation recognized	<u>\$ (67,513)</u>	<u>\$ (49,218)</u>

The amount expected to be recognized as a component of net periodic benefit cost over the next fiscal year includes the following:

Net actuarial loss	\$ 903	\$ 1,472
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Weighted-average assumptions used to determine benefit obligations as of September 30 are as follows:

	2019	2018
Discount rate	3.35%	4.55%
Rate of compensation increase	N/A	N/A

## PIH Health, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (Dollars in Thousands)

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#### Note 11. Pension Plan (Continued)

Weighted-average assumptions used to determine net periodic benefit cost for the years ended September 30 are as follows:

	2019	2018
Discount rate	4.55%	4.10%
Expected long-term rate of return on assets	7.50%	7.40%

To develop the expected long-term rate of return on assets assumption, the Company considered the historical returns and the future expectations for returns for each asset class, as well as the target asset allocation of the pension portfolio.

The primary asset classifications utilized to achieve both appreciation and diversification are domestic large-cap equity, domestic mid-cap equity, domestic small-cap equity, domestic medium-cap equity, international equity, domestic investment-grade fixed income, high-yield fixed income and inflation-indexed fixed income. The investment policy reflects the expected allocation between these different asset classes in order to best achieve the objectives of the Plan. Investments are rebalanced, as appropriate, to maintain the desired asset allocation.

Asset allocations by asset category as of September 30 are as follows:

	2019	2018
Equity securities	42.4%	45.6%
Debt securities	44.7%	41.3%
Real estate	4.0%	3.8%
Other	8.9%	9.3%
	<u>100.0%</u>	<u>100.0%</u>

The investment policy has been designed to utilize asset/liability matching strategies to match Plan assets and obligations over the expected life of the Plan. The primary asset classes utilized to attain these objectives are equity securities, debt securities, real estate and all other with target allocations at September 30, 2019, of 48%, 38%, 4% and 10%, respectively.

**PIH Health, Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements  
(Dollars in Thousands)**

**Note 11. Pension Plan (Continued)**

The fair value hierarchy of investments held by the Plan by level as of September 30 is as follows:

	2019			Total
	Level 1	Level 2	Level 3	
Cash and cash equivalents	\$ 2,614	\$ -	\$ -	\$ 2,614
Fixed-income securities:				
U.S. government and agency	-	17,795	-	17,795
Corporate debt instruments	-	41,713	-	41,713
Total fixed-income securities	-	59,508	-	59,508
Common stock:				
Communication services	5,035	-	-	5,035
Consumer discretionary	5,325	-	-	5,325
Consumer staples	2,925	-	-	2,925
Energy	380	-	-	380
Equity fund	6,025	-	-	6,025
Financials	6,503	-	-	6,503
Health care	3,563	-	-	3,563
Industrials	4,023	-	-	4,023
Information technology	9,096	-	-	9,096
Materials	1,046	-	-	1,046
Real estate	7,306	-	-	7,306
Utilities	445	-	-	445
Total common stock	51,672	-	-	51,672
Mutual funds:				
Balanced funds	12,734	-	-	12,734
Bond funds	2,679	-	-	2,679
Equity funds	13,330	-	-	13,330
Total mutual funds	28,743	-	-	28,743
	\$ 83,029	\$ 59,508	\$ -	\$ 142,537

**PIH Health, Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements  
(Dollars in Thousands)**

**Note 11. Pension Plan (Continued)**

	2018			Total
	Level 1	Level 2	Level 3	
Cash and cash equivalents	\$ 3,614	\$ -	\$ -	\$ 3,614
Fixed-income securities:				
U.S. government and agency	-	14,437	-	14,437
Corporate debt instruments	-	34,133	-	34,133
Total fixed-income securities	-	48,570	-	48,570
Common stock:				
Consumer discretionary	4,517	-	-	4,517
Consumer staples	1,510	-	-	1,510
Energy	1,036	-	-	1,036
Equity fund	5,982	-	-	5,982
Financials	5,691	-	-	5,691
Health care	3,495	-	-	3,495
Industrials	3,172	-	-	3,172
Information technology	8,197	-	-	8,197
Materials	909	-	-	909
Real estate	6,077	-	-	6,077
Telecommunication	4,755	-	-	4,755
Utilities	85	-	-	85
Total common stock	45,426	-	-	45,426
Mutual funds:				
Balanced funds	12,409	-	-	12,409
Bond funds	3,618	-	-	3,618
Equity funds	19,371	-	-	19,371
Total mutual funds	35,398	-	-	35,398
	\$ 84,438	\$ 48,570	\$ -	\$ 133,008

There were no significant transfers between Level 1 and Level 2 during the year ended September 30, 2019, and there were no Level 3 securities held by the Plan during the years ended September 30, 2019 or 2018.

## PIH Health, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (Dollars in Thousands)

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#### Note 11. Pension Plan (Continued)

The Company expects to contribute \$9,103 to the Plan for the year ended September 30, 2019. Benefit payments, which reflect expected future service, as appropriate, as of September 30, 2019, are expected to be paid as follows:

Years ending September 30:

2020	\$	12,947
2021		11,372
2022		11,751
2023		11,838
2024		12,144
2025-2029		54,744
	\$	<u>114,796</u>

#### Note 12. Employee Retirement Plans and Benefits

The InterHealth Corp. 403(b) Plan (the 403(b) Plan) is a defined contribution plan covering substantially all employees of the Company. Each year, participants may elect to contribute a portion of their pretax annual compensation, as defined by the 403(b) Plan, subject to certain IRC limitations. Employer contributions related to the 403(b) Plan are made to the InterHealth Corp. 401(a) Plan (the 401(a) Plan). For the years ended September 30, 2019 and 2018, employer contributions related to the 403(b) plan, which are included in the employee benefits expenses in the accompanying consolidated statements of income, were \$3,120 and \$2,770, respectively.

The 401(a) Plan is a defined contribution plan that allows contributions to be made by the Company and allocated to individual participant accounts within the 401(a) Plan. The Company is required to make nondiscretionary contributions equal to 50% of a participant's eligible contributions made into the 403(b) Plan during the plan year, but shall not exceed 2% of a participant's eligible compensation. The Company may make nonelective contributions based on employee years of service subject to certain IRC limitations. For the years ended September 30, 2019 and 2018, nonelective contributions to the 401(a) Plan, which are included in the employee benefits expenses in the accompanying consolidated statements of income, were \$3,489 and \$11,785, respectively.

#### Note 13. Commitments and Contingencies

**Litigation, Regulatory and Compliance Matters—General:** The healthcare industry is subject to numerous laws and regulations of federal, state and local governments. These laws and regulations include, but are not necessarily limited to, the rules governing licensures, accreditation, controlled substances, privacy, government program participation, government reimbursement, antitrust, anti-kickback, prohibited referrals by physicians, stale claims, and in the case of tax-exempt organizations, the requirement of tax exemption. Compliance with such laws and regulations can be subject to the future government review and interpretation as well as regulatory actions unknown or unasserted at this time. Violations of these laws and regulations could result in expulsion from government healthcare programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. In recent years, government activity has increased with respect to investigations and allegations of wrongdoing. Management believes it is in compliance with fraud and abuse as well as other applicable government laws and regulations.

## PIH Health, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (Dollars in Thousands)

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#### Note 13. Commitments and Contingencies (Continued)

The healthcare regulatory environment is constantly changing. It is difficult to predict what final rules may be adopted and implemented by federal and state governments, and if any final rule would result in any material adverse effect on the Company's business, financial condition, cash flows or results of operations.

**Insurance programs:** The Company partially insures or self-insures against professional and general liability claims, workers' compensation claims and certain employee group health and dental benefits. Effective January 1, 2019, the Company's health insurance coverage for essentially all of its employees residing in approved zip codes is being provided through the Vivity HMO Plan, a comprehensive medical coverage plan offered by Vivity.

Under the professional and general liability program, effective January 1, 2019, the Company is self-insured for up to \$1,000 consolidated indemnity and expense per occurrence, with maximum annual coverage of \$50,000 per occurrence annual aggregate. With regard to workers' compensation claims, the Company has reinsurance coverage for individual claim expenses in excess of \$1,000 per occurrence, with maximum annual coverage in accordance with statutory limitations. Self-insurance liabilities as of September 30, 2019 and 2018, are as follows: professional and general liability claims of \$11,807 and \$11,128; workers' compensation claims of \$14,845 and \$15,824; employee health insurance claims of \$0 and \$4,003; employee dental benefits claims of \$310 and \$199; and medical stop-loss claims of \$0 and \$115, respectively. For health claims under the self-insured plan that are provided through PIH-controlled hospitals and clinics, PIH recognizes net patient service revenue in the consolidated statements of income. At September 30, 2019 and 2018, the Company had recorded professional and general liability insurance receivables of \$1,535 and \$3,400, respectively, which are included in the accompanying consolidated balance sheets.

**Revenue recovery audit:** The Company is subject to audit through the use of Revenue Recovery Audit Contractors (RAC) under the Medicare Modernization Act of 2003. The resolution of the outstanding RAC audits is not expected to have a material adverse effect on the Company's consolidated balance sheets, the results of its operations or cash flows.

**Litigation:** From time to time, the Company is subject to claims arising in the ordinary course of business. In the opinion of management, the ultimate resolution to these legal proceedings will not have a material adverse effect on the consolidated balance sheets of the Company, or the results of its operations or cash flows.

**Guarantees:** In accordance with the requirements of California Health and Safety Code Section 1375.4(b)(1)(B) in December 2005, PIH and PHP signed a guaranty agreement (the Guaranty). Under the terms of the Guaranty, PIH has unconditionally guaranteed all liabilities of PHP not to exceed \$30,000. PIH made two equity transfers of \$30,000 each to PHP in fiscal years 2017 and 2019. There were no equity transfers from PIH to PHP in fiscal year 2018. The transactions between PHP and PIH are eliminated in consolidation.

**Capital expenditures:** Earthquakes affecting California hospitals have prompted the state of California to propose hospital seismic safety standards. California's Hospital Seismic Safety Act requires each acute care hospital facility in California to either comply with new hospital seismic safety standards on or before a deadline specified by California or to cease acute care operations. Classification is a factor of the earthquake risk in the facility's geographic area and the structural attributes of a hospital facility. The Hospital Seismic Safety Act requires hospital facilities in the highest category of risk (those that are considered hazardous and at risk of collapse or significant loss of life in the event of an earthquake) to be replaced or retrofitted to higher seismic safety standards.

## PIH Health, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (Dollars in Thousands)

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#### Note 13. Commitments and Contingencies (Continued)

Certain of the Company's healthcare facilities are currently compliant or have received extensions, while certain others would require additional capital expenditures to attain seismic compliance. The Company has proactively worked towards seismic regulatory compliance for its hospital facilities, including both Structural Performance Category compliance and Non-Structural Performance Category compliance. The Company continuously evaluates its facilities for compliance with applicable laws and regulations.

**Leases:** The Company leases certain buildings and equipment under noncancelable operating and capital leases. Rent expense relating to operating leases was \$5,586 and \$2,836 for the years ended September 30, 2019 and 2018, respectively. The cost and accumulated amortization of assets under capital leases is included in the consolidated balance sheets as net property and equipment. The cost and accumulated amortization of leased assets were \$25 and \$5 as of September 30, 2019. The cost and accumulated amortization of leased assets were \$3,332 and \$1,832 as of September 30, 2018. Amortization of assets under capital leases is included in depreciation expense.

Future minimum lease payments required under operating leases as of September 30, 2019, are summarized in the following table:

	Operating Leases
Years ending September 30:	
2020	\$ 4,970
2021	4,226
2022	3,928
2023	3,788
2024	3,377
Total minimum payments	<u>\$ 20,289</u>

#### Note 14. Concentration of Credit Risk

The Company grants credit without collateral to its patients, most of whom are local residents, and are insured under third-party payor agreements. The mix of net patient accounts receivable from patients and third-party payors as of September 30 was as follows:

	2019	2018
Medicare	35%	35%
Medi-Cal	11%	11%
HMO	19%	17%
PPO	26%	29%
Other third-party and self-payors	9%	8%
	<u>100%</u>	<u>100%</u>

**PIH Health, Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements  
(Dollars in Thousands)**

**Note 14. Concentration of Credit Risk (Continued)**

Management believes there are no significant credit risks associated with receivables from government programs. Receivables from contracted and others are from various payers who are subject to differing economic conditions, and do not represent any concentrated risks to the Company. Management continually monitors and adjusts the allowances associated with receivables. The Company estimates the implicit price concessions, discounts and contractual adjustments based on historical collection experience.

**Note 15. Functional Expenses**

The Company provides general healthcare services to residents within its geographical location. In the analysis below, indirect costs have been allocated across all functional expense categories to reflect the full cost of those activities. Expenses related to providing these services for the year ended September 30, 2019, are as follows:

	Health Care Services	Management and General	Fundraising	Grand Total
Salaries and wages	\$ 305,281	\$ 21,310	\$ 505	\$ 327,096
Employee benefits	100,493	11,439	88	112,020
Professional fees	123,578	5,245	83	128,906
Purchased services	88,893	33,368	101	122,362
Medical supplies and drugs	116,804	2,699	4	119,507
Other expenses	22,738	8,598	47	31,383
Rent expense	3,738	782	96	4,616
Insurance	6,810	3,545	-	10,355
Depreciation and amortization	35,002	4,487	-	39,489
Interest	-	14,417	-	14,417
Hospital Fee Program	39,973	-	-	39,973
Total expenses	<u>\$ 843,310</u>	<u>\$ 105,890</u>	<u>\$ 924</u>	<u>\$ 950,124</u>

The following table presents the years ended September 30, 2019 and 2018, to conform to the presentation as shown in the prior year:

	2019	2018
Health care services	\$ 843,310	\$ 767,307
Management and general	105,890	101,387
Fundraising	924	987
	<u>\$ 950,124</u>	<u>\$ 869,681</u>

## PIH Health, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (Dollars in Thousands)

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#### **Note 16. Hospital Fee Program**

In January 2010, the state of California enacted legislation that provides for supplemental Medi-Cal payments to certain hospitals funded by a quality assurance fee paid by participating hospitals, as well as matching federal funds (the Hospital Fee Program). In September 2010, this legislation was amended at the request of CMS. In October 2010, CMS substantially approved the program and the state of California began its implementation. The supplemental payments encompass fee-for-service payments directly from the California Department of Health Care Services, as well as payments routed through managed care plans.

Legislation approved by the state of California in October 2013 created the framework for the provider fee to continue in perpetuity without requiring further legislation by the state. In addition, in November 2016, Proposition 52 passed, which made the current provider fee program permanent and places limits on the ability of the state of California to reallocate funds for non-healthcare expenses.

The Hospital Fee Program is subject to CMS review and approval and recognition in the consolidated financial statements of each segment (or "round") of the program is determined upon respective CMS program approval thereof. In December 2017, CMS approved the new 2017-2019 Hospital Fee Program, which is effective January 1, 2017, and covers the 30-month period from January 1, 2017, through June 30, 2019.

During the year ended September 30, 2019, the Hospitals received \$58,528 and paid \$48,534 in supplemental payments and fees, respectively, related to the fourth-round, 36-month Hospital Fee Program and 2017-2019 Hospital Fee Program. For the year ended September 30, 2019, the Hospitals recognized \$56,243 in related net patient service revenues and \$39,973 in related expenses, representing estimated amounts due and payable for the service period from October 1, 2018, through September 30, 2019.

During the year ended September 30, 2018, the Hospitals received \$82,232 and paid \$50,960 in supplemental payments and fees, respectively, related to the fourth-round, 36-month Hospital Fee Program and 2017-2019 Hospital Fee Program. For the year ended September 30, 2018, the Hospitals recognized \$53,650 in related net patient service revenues and \$38,886 in related expenses, representing estimated amounts due and payable for the service period from October 1, 2017, through September 30, 2018.

The funding for the Hospital Fee Program is processed through the hospital fee model. The hospital fee model calculates the fees and payments for each participating hospital by utilizing each hospital's daily data to determine the Medicaid utilization rate, federal upper limit and various other data elements. Accordingly, the estimated fees and timing of payments are dependent on these factors and may subsequently change. The financial impact of any change is not known at this time. As of September 30, 2019 and 2018, the Company had receivables of \$42,116 and \$44,400, respectively, and payables of \$22,981 and \$30,943, respectively, which are reflected on the accompanying consolidated balance sheets.

#### **Note 17. Subsequent Events**

The Company has evaluated subsequent events through January 27, 2020, the date the consolidated financial statements were issued. See Note 8 for subsequent events relating to the Series 2012 Bonds.

**PIH Health, Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements  
(Dollars in Thousands)**

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**Note 17. Subsequent Events (Continued)**

On December 18, 2019, the State of California Attorney General provided consent to a proposed change in control and governance of Good Samaritan Hospital, a 408-bed facility based in Los Angeles, whereby the Company would effect a membership transfer of Good Samaritan Hospital to the Company. On December 23, 2019, the amended articles of incorporation for Good Samaritan Hospital were successfully filed with the California Secretary of State and the membership transfer was consummated.

## Independent Auditor's Report on the Supplementary Information

Board of Directors  
PIH Health, Inc.

We have audited the consolidated financial statements of PIH Health, Inc. and its subsidiaries as of and for the years ended September 30, 2019 and 2018, and have issued our report thereon, dated January 27, 2020, which contained an unmodified opinion on those financial statements. Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole.

The consolidating information is presented for purposes of additional analysis rather than to present the financial position and results of operations of the individual entities and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The consolidating information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial 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 financial statements as a whole.

As discussed in Note 1 to the supplementary information, the 2018 consolidating schedules have been restated to correct a misstatement. Our opinion is not modified with respect to this matter.

*RSM US LLP*

Los Angeles, California  
January 27, 2020

**Supplementary Information**

**Consolidating Schedules—Balance Sheets**  
**September 30, 2019**  
(In Thousands)

	Obligated Group	PIH Health Physicians	PIH Health Foundation	Other	Eliminations	Total
<b>Assets</b>						
Current assets:						
Cash and cash equivalents	\$ 918	\$ 2,611	\$ 27	\$ 4,959	\$ -	\$ 8,515
Investments, short term	-	-	-	4,846	-	4,846
Patient accounts receivable, net	104,256	8,220	-	-	-	112,476
Inventory	7,489	770	-	607	-	8,866
Other receivables	4,337	1,634	-	2,865	(2,443)	6,393
Prepaid expenses and other assets	7,191	374	250	1,656	-	9,471
Other current assets, Hospital Fee Program	42,116	-	-	-	-	42,116
<b>Total current assets</b>	<b>166,307</b>	<b>13,609</b>	<b>277</b>	<b>14,933</b>	<b>(2,443)</b>	<b>192,683</b>
Investments in mutual funds and other investments	22,085	-	10,056	19,813	-	51,954
Investments, assets limited as to use	440,218	-	-	1,306	-	441,524
Property and equipment, net	592,165	13,178	1	28,401	-	633,745
Goodwill	-	34,087	-	-	-	34,087
Intercompany receivables	-	-	1,600	-	(1,600)	-
Investments in affiliates	1,556	18	-	-	(1,574)	-
Other assets	950	1,924	97	-	-	2,971
<b>Total assets</b>	<b>\$ 1,223,281</b>	<b>\$ 62,816</b>	<b>\$ 12,031</b>	<b>\$ 64,453</b>	<b>\$ (5,617)</b>	<b>\$ 1,356,964</b>
<b>Liabilities and Net Assets (Deficits)</b>						
Current liabilities:						
Accounts payable and accrued expenses	\$ 70,948	\$ 22,093	\$ 197	\$ 2,015	\$ (2,443)	\$ 92,810
Estimated third-party payor settlements	1,117	-	-	-	-	1,117
Accrued interest	2,834	-	-	-	-	2,834
Current portion of long-term debt	11,024	-	-	144	-	11,168
Current portion of obligations under capital leases	7	-	-	-	-	7
Short-term loan borrowing	32,500	-	-	-	-	32,500
Other current liability, Hospital Fee Program	22,981	-	-	-	-	22,981
Retention—self-insurance programs, current portion	3,226	121	-	2,819	-	6,166
<b>Total current liabilities</b>	<b>144,637</b>	<b>22,214</b>	<b>197</b>	<b>4,978</b>	<b>(2,443)</b>	<b>169,583</b>
Deferred compensation	17,141	-	-	-	-	17,141
Interest rate swaps	40,828	-	-	-	-	40,828
Long-term debt, net of current portion	349,611	-	-	6,086	-	355,697
Obligations under capital leases, net of current portion	-	-	-	-	-	-
Pension liability	67,513	-	-	-	-	67,513
Retention—self-insurance programs, net of current portion	14,687	1,908	-	4,201	-	20,796
Other liabilities, noncurrent	1,444	12,531	-	-	-	13,975
Intercompany payables	-	47,641	-	28,299	(75,940)	-
<b>Total liabilities</b>	<b>635,861</b>	<b>84,294</b>	<b>197</b>	<b>43,564</b>	<b>(78,383)</b>	<b>685,533</b>
<b>Net Assets (Deficits)</b>						
Without donor restrictions	661,760	(21,478)	5,654	20,889	(1,574)	665,251
Intercompany receivables—without donor restrictions	(74,340)	-	-	-	74,340	-
With donor restrictions	-	-	6,180	-	-	6,180
<b>Total net assets (deficits)</b>	<b>587,420</b>	<b>(21,478)</b>	<b>11,834</b>	<b>20,889</b>	<b>72,766</b>	<b>671,431</b>
<b>Total liabilities and net assets (deficits)</b>	<b>\$ 1,223,281</b>	<b>\$ 62,816</b>	<b>\$ 12,031</b>	<b>\$ 64,453</b>	<b>\$ (5,617)</b>	<b>\$ 1,356,964</b>

**Consolidating Schedules—Balance Sheets**  
**September 30, 2018**  
(In Thousands)

	Obligated Group	PIH Health Physicians	PIH Health Foundation	Other	Eliminations	Total
<b>Assets</b>						
Current assets:						
Cash and cash equivalents	\$ 1,299	\$ 58	\$ 55	\$ 5,276	\$ -	\$ 6,688
Investments, short term	-	-	-	3,692	-	3,692
Patient accounts receivable, net	89,078	7,728	-	-	-	96,806
Inventory	7,036	852	-	459	-	8,347
Other receivables	6,003	162	-	1,707	(1,946)	5,926
Prepaid expenses and other assets	6,553	104	371	3,842	(347)	10,523
Other current assets, Hospital Fee Program	44,401	-	-	-	(1)	44,400
<b>Total current assets</b>	<b>154,370</b>	<b>8,904</b>	<b>426</b>	<b>14,976</b>	<b>(2,294)</b>	<b>176,382</b>
Investments in mutual funds and other investments	21,269	-	5,466	19,484	-	46,219
Investments, assets limited as to use	452,587	-	-	1,260	-	453,847
Property and equipment, net	605,060	10,843	2	29,047	-	644,952
Goodwill	-	-	-	-	-	-
Intercompany receivables	-	-	1,909	-	(1,909)	-
Investments in affiliates	1,556	17	-	-	(1,573)	-
Other assets	1,080	-	155	-	-	1,235
<b>Total assets</b>	<b>\$ 1,235,922</b>	<b>\$ 19,764</b>	<b>\$ 7,958</b>	<b>\$ 64,767</b>	<b>\$ (5,776)</b>	<b>\$ 1,322,635</b>
<b>Liabilities and Net Assets (Deficits)</b>						
Current liabilities:						
Accounts payable and accrued expenses	\$ 74,654	\$ 17,184	\$ 465	\$ 2,846	\$ (1,788)	\$ 93,361
Estimated third-party payor settlements	204	-	-	-	-	204
Accrued interest	2,241	-	-	-	-	2,241
Current portion of long-term debt	10,616	-	-	137	-	10,753
Current portion of obligations under capital leases	201	-	-	-	-	201
Current portion of prepetition liabilities	1,191	-	-	-	-	1,191
Short-term loan borrowing	28,000	-	-	-	-	28,000
Other current liability, Hospital Fee Program	30,943	-	-	-	-	30,943
Retention—self-insurance programs, current portion	6,640	835	-	2,986	-	10,461
<b>Total current liabilities</b>	<b>154,690</b>	<b>18,019</b>	<b>465</b>	<b>5,969</b>	<b>(1,788)</b>	<b>177,355</b>
Deferred compensation	16,441	-	-	-	-	16,441
Interest rate swaps	25,961	-	-	-	-	25,961
Long-term debt, net of current portion	360,771	-	-	6,231	-	367,002
Obligations under capital leases, net of current portion	8	-	-	-	-	8
Pension liability	49,218	-	-	-	-	49,218
Retention—self-insurance programs, net of current portion	14,617	1,896	-	4,800	(506)	20,807
Other liabilities, noncurrent	-	-	-	-	-	-
Intercompany payables	-	27,953	-	29,244	(57,197)	-
<b>Total liabilities</b>	<b>621,706</b>	<b>47,868</b>	<b>465</b>	<b>46,244</b>	<b>(59,491)</b>	<b>656,792</b>
<b>Net Assets (Deficits)</b>						
Without donor restrictions	669,505	(28,104)	1,098	18,523	(1,574)	659,448
Intercompany receivables—without donor restrictions	(55,289)	-	-	-	55,289	-
With donor restrictions	-	-	6,395	-	-	6,395
<b>Total net assets (deficits)</b>	<b>614,216</b>	<b>(28,104)</b>	<b>7,493</b>	<b>18,523</b>	<b>53,715</b>	<b>665,843</b>
<b>Total liabilities and net assets (deficits)</b>	<b>\$ 1,235,922</b>	<b>\$ 19,764</b>	<b>\$ 7,958</b>	<b>\$ 64,767</b>	<b>\$ (5,776)</b>	<b>\$ 1,322,635</b>

**Consolidating Schedules—Statements of Income**  
**Year Ended September 30, 2019**  
(In Thousands)

	Obligated Group	PIH Health Physicians	PIH Health Foundation	Other	Eliminations	Total
<b>Revenues:</b>						
Patient service revenue, net	\$ 679,363	\$ 61,945	\$ -	\$ -	\$ -	\$ 741,308
Hospital Fee Program	56,243	-	-	-	-	56,243
<b>Net patient service revenues</b>	<b>735,606</b>	<b>61,945</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>797,551</b>
Capitation revenue	29,111	110,912	-	-	-	140,023
Other operating revenue	24,452	12,920	5,144	16,519	(26,698)	32,337
Net assets released from restrictions used for operations	574	-	-	-	-	574
<b>Total revenues</b>	<b>789,743</b>	<b>185,777</b>	<b>5,144</b>	<b>16,519</b>	<b>(26,698)</b>	<b>970,485</b>
<b>Expenses:</b>						
Salaries and wages	287,545	37,583	505	1,463	-	327,096
Purchased services	75,211	52,506	101	504	(5,960)	122,362
Medical supplies and drugs	107,788	9,011	4	5,678	(2,974)	119,507
Employee benefits	99,375	12,516	88	229	(188)	112,020
Professional fees	48,230	80,063	83	530	-	128,906
Depreciation and amortization	35,649	3,026	-	814	-	39,489
Other expenses	32,561	(1,359)	47	1,359	(1,225)	31,383
Interest	13,591	-	-	826	-	14,417
Insurance	9,905	1,715	-	3,451	(4,716)	10,355
Rent expense	2,344	13,661	96	150	(11,635)	4,616
Hospital Fee Program	39,973	-	-	-	-	39,973
<b>Total expenses</b>	<b>752,172</b>	<b>208,722</b>	<b>924</b>	<b>15,004</b>	<b>(26,698)</b>	<b>950,124</b>
<b>Excess (deficit) of revenues over expenses</b>	<b>37,571</b>	<b>(22,945)</b>	<b>4,220</b>	<b>1,515</b>	<b>-</b>	<b>20,361</b>
<b>Other gains (losses):</b>						
Net investment income	14,505	-	153	622	-	15,280
Realized gains (losses) on investments, net	9,431	-	39	(108)	-	9,362
Change in fair value of interest rate swap and net interest expense	(17,560)	-	-	-	-	(17,560)
Gain on disposal of property and equipment	1,743	-	-	-	-	1,743
Other gains, net	172	-	-	-	-	172
Pension-related changes, net periodic pension cost	(1,527)	(429)	-	-	-	(1,956)
<b>Total other gains (losses), net</b>	<b>6,764</b>	<b>(429)</b>	<b>192</b>	<b>514</b>	<b>-</b>	<b>7,041</b>
<b>Excess (deficit) of revenues over expenses and other gains (losses)</b>	<b>44,335</b>	<b>(23,374)</b>	<b>4,412</b>	<b>2,029</b>	<b>-</b>	<b>27,402</b>
Unrealized gains on investments	919	-	144	337	-	1,400
Pension-related changes other than net periodic pension cost	(23,745)	-	-	-	-	(23,745)
Net assets released from restrictions used for long-lived assets	746	-	-	-	-	746
<b>Change in net assets without donor restrictions</b>	<b>\$ 22,255</b>	<b>\$ (23,374)</b>	<b>\$ 4,556</b>	<b>\$ 2,366</b>	<b>\$ -</b>	<b>\$ 5,803</b>

**Consolidating Schedules—Statements of Income**  
**Year Ended September 30, 2018**  
(In Thousands)

	Obligated Group	PIH Health Physicians	PIH Health Foundation	Other	Eliminations	Total
<b>Revenues:</b>						
Patient service revenue, net	\$ 639,014	\$ 62,028	\$ -	\$ -	\$ -	\$ 701,042
Hospital Fee Program	53,650	-	-	-	-	53,650
<b>Net patient service revenues</b>	<b>692,664</b>	<b>62,028</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>754,692</b>
Capitation revenue	26,054	85,377	-	-	-	111,431
Other operating revenue	22,864	5,282	860	15,723	(25,273)	19,456
Net assets released from restrictions used for operations	1,324	-	27	-	-	1,351
<b>Total revenues</b>	<b>742,906</b>	<b>152,687</b>	<b>887</b>	<b>15,723</b>	<b>(25,273)</b>	<b>866,930</b>
<b>Expenses:</b>						
Salaries and wages	267,868	31,320	583	1,142	-	300,913
Purchased services	67,402	41,417	61	575	(4,958)	104,497
Medical supplies and drugs	99,465	8,214	8	5,289	(4,006)	108,970
Employee benefits	96,833	11,965	139	161	(750)	108,348
Professional fees	46,884	71,778	76	591	-	119,329
Depreciation and amortization	35,983	3,362	1	907	-	40,253
Other expenses	29,454	(3,086)	41	1,050	(468)	26,991
Interest	11,806	-	-	839	-	12,645
Insurance	7,026	1,910	-	2,650	(5,027)	6,559
Rent expense	2,135	10,630	78	(489)	(10,064)	2,290
Hospital Fee Program	38,886	-	-	-	-	38,886
<b>Total expenses</b>	<b>703,742</b>	<b>177,510</b>	<b>987</b>	<b>12,715</b>	<b>(25,273)</b>	<b>869,681</b>
<b>Excess (deficit) of revenues over expenses</b>	<b>39,164</b>	<b>(24,823)</b>	<b>(100)</b>	<b>3,008</b>	<b>-</b>	<b>17,249</b>
<b>Other gains (losses):</b>						
Net investment income	11,121	-	113	494	-	11,728
Realized gains (losses) on investments, net	7,578	-	347	(189)	-	7,736
Change in fair value of interest rate swap and net interest expense	8,080	-	-	-	-	8,080
Gain on disposal of property and equipment	144	-	-	-	-	144
Other gains (losses), net	41	(19)	-	(13)	-	9
Pension-related changes, net periodic pension cost	(2,671)	(361)	-	-	-	(3,032)
<b>Total other gains (losses), net</b>	<b>24,293</b>	<b>(380)</b>	<b>460</b>	<b>292</b>	<b>-</b>	<b>24,665</b>
<b>Excess (deficit) of revenues over expenses and other gains (losses)</b>	<b>63,457</b>	<b>(25,203)</b>	<b>360</b>	<b>3,300</b>	<b>-</b>	<b>41,914</b>
Unrealized gains (losses) on investments	4,847	-	(229)	806	-	5,424
Pension-related changes other than net periodic pension cost	22,945	-	-	-	-	22,945
Net assets released from restrictions used for long-lived assets	262	-	-	-	-	262
<b>Change in net assets without donor restrictions</b>	<b>\$ 91,511</b>	<b>\$ (25,203)</b>	<b>\$ 131</b>	<b>\$ 4,106</b>	<b>\$ -</b>	<b>\$ 70,545</b>

**Consolidating Schedules—Statements of Changes in Net Assets**  
**Year Ended September 30, 2019**  
**(In Thousands)**

	Obligated Group	PIH Health Physicians	PIH Health Foundation	Other	Eliminations	Total
Change in net assets without donor restrictions	\$ 22,255	\$ (23,374)	\$ 4,556	\$ 2,366	\$ -	\$ 5,803
Change in intercompany receivables—without donor restrictions	(19,051)	-	-	-	19,051	-
Net assets with donor restrictions:						
Contributions revenue	-	-	1,105	-	-	1,105
Net assets released from restrictions	-	-	(1,320)	-	-	(1,320)
<b>Change in net assets with donor restrictions</b>	-	-	(215)	-	-	(215)
Investment in affiliates	-	-	-	-	-	-
Equity transfer	(30,000)	30,000	-	-	-	-
<b>Change in net assets</b>	(26,796)	6,626	4,341	2,366	19,051	5,588
Net assets (deficits), beginning of year	614,216	(28,104)	7,493	18,523	53,715	665,843
Net assets (deficits), end of year	\$ 587,420	\$ (21,478)	\$ 11,834	\$ 20,889	\$ 72,766	\$ 671,431

**Consolidating Schedules—Statements of Changes in Net Assets**  
**Year Ended September 30, 2018**  
**(In Thousands)**

	Obligated Group	PIH Health Physicians	PIH Health Foundation	Other	Eliminations	Total
Change in net assets without donor restrictions	\$ 91,511	\$ (25,203)	\$ 131	\$ 4,106	\$ -	\$ 70,545
Change in intercompany receivables—without donor restrictions	(21,751)	-	-	-	21,751	-
Net assets with donor restrictions:						
Contributions revenue	-	-	1,910	-	-	1,910
Net assets released from restrictions	(55)	-	(1,558)	-	-	(1,613)
<b>Change in net assets with donor restrictions</b>	(55)	-	352	-	-	297
Investment in affiliates	-	-	-	-	-	-
Equity transfer	-	-	-	-	-	-
<b>Change in net assets</b>	69,705	(25,203)	483	4,106	21,751	70,842
Net assets (deficits), beginning of year	544,511	(2,901)	7,010	14,417	31,964	595,001
Net assets (deficits), end of year	\$ 614,216	\$ (28,104)	\$ 7,493	\$ 18,523	\$ 53,715	\$ 665,843

**PIH Health, Inc. and Subsidiaries**

**Notes to Supplementary Information**

**Note 1. Restatement of Intercompany Receivables and Net Assets**

The September 30, 2018, consolidating information has been restated to correct a misstatement in the presentation of intercompany receivables on the balance sheet. Intercompany receivables were previously presented as an asset, instead of a reduction in net assets in accordance with accounting principles generally accepted in the United States of America. The 2018 presentation has also been revised to be consistent with the presentation of the 2019 consolidating information. Below is a comparative summary of the impact of the restatement on the September 30, 2018, balances:

	As Previously Presented		As Presented in 2019 Format			
	PIH Health Hospital - Whittier		Other Obligated Group Entities		Obligated Group	
	As Reported	Restated	Reclass Adjustments		Reclassified Before Restatement	
					As Restated	
Intercompany receivables	\$ 357,860	\$ -	\$ (302,571)	\$ 55,289	\$ -	
Total assets	1,293,822	935,962	(2,611)	1,291,211		1,235,922
Total liabilities	578,144	578,144	43,562	621,706		621,706
Total net assets (deficits)	715,678	357,818	(46,173)	669,505		614,216

The 2019 format combined all the entities that are obligated on the Health Facility Revenue Bonds (see Note 8) in a single column, with additional columns for the other entities that are not a part of the obligated group. Had the previously issued consolidating schedules as of September 30, 2018, included an obligated group column, intercompany payables of \$302,571 would have been offset and eliminated against intercompany receivables of \$357,860 among obligated group entities, which would have resulted in a net intercompany receivable for the obligated group of \$55,289, that would be classified within net assets as intercompany receivables—unrestricted.