

Northside Hospital, Inc. and Subsidiaries

Consolidated Financial Statements as of and for the
Years Ended September 30, 2018 and 2017, and
Independent Auditors' Report



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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Northside Hospital, Inc. and Subsidiaries:

We have audited the accompanying consolidated financial statements of Northside Hospital, Inc. (a Georgia not-for-profit corporation and a subsidiary of Northside Health Services, Inc.) and its subsidiaries ("Northside"), which comprise the consolidated balance sheets as of September 30, 2018 and 2017, and the related consolidated statements of operations, changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Northside as of September 30, 2018 and 2017, and the results of its operations, the changes in its net assets, and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Deloitte + Touche LLP

January 16, 2019

NORTHSIDE HOSPITAL, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS AS OF SEPTEMBER 30, 2018 AND 2017 (In thousands)

	2018	2017
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 465,275	\$ 446,059
Patient accounts receivable—less allowance for uncollectible accounts of \$222,031 and \$185,325 as of September 30, 2018 and 2017, respectively	221,490	215,377
Inventories	53,149	48,707
Prepaid expenses and other assets	<u>45,084</u>	<u>38,302</u>
Total current assets	<u>784,998</u>	<u>748,445</u>
ASSETS WHOSE USE IS LIMITED—At fair value	<u>337,201</u>	<u>302,097</u>
PROPERTY AND EQUIPMENT—At cost	2,551,071	2,204,975
LESS ACCUMULATED DEPRECIATION AND AMORTIZATION	<u>(1,283,471)</u>	<u>(1,207,440)</u>
Property and equipment—net	<u>1,267,600</u>	<u>997,535</u>
OTHER ASSETS:		
Goodwill	202,523	202,210
Other intangible assets—net	131,786	142,989
Other	56,913	41,383
Due from affiliates	<u>-</u>	<u>8,745</u>
Total other assets	<u>391,222</u>	<u>395,327</u>
TOTAL	<u>\$ 2,781,021</u>	<u>\$ 2,443,404</u>

(Continued)

NORTHSIDE HOSPITAL, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS AS OF SEPTEMBER 30, 2018 AND 2017 (In thousands)

	2018	2017
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Current portion of capital lease obligations	\$ 1,223	\$ -
Accounts payable	192,884	153,257
Accrued liabilities:		
Salaries and employee benefits	128,708	108,077
Other	132,097	134,119
Current portion of self-insurance liabilities	<u>38,258</u>	<u>31,682</u>
Total current liabilities	<u>493,170</u>	<u>427,135</u>
OTHER LONG-TERM OBLIGATIONS:		
Long-term self-insurance liabilities	137,735	115,433
Accrued pension costs	94,204	168,647
Other postretirement benefit plan obligations	1,491	1,390
Real estate financing obligations	62,609	64,444
Due to affiliates	8,433	-
Other long-term liabilities	<u>41,586</u>	<u>24,380</u>
Total other long-term obligations	346,058	374,294
LONG-TERM DEBT:		
Capital lease obligations—net of current portion	28,269	-
Other debt	<u>60,000</u>	<u>60,000</u>
Total liabilities	<u>927,497</u>	<u>861,429</u>
COMMITMENTS AND CONTINGENCIES (Notes 10 and 13)		
UNRESTRICTED NET ASSETS:		
Northside Hospital, Inc. and subsidiaries	1,823,698	1,553,650
Noncontrolling interest	<u>29,826</u>	<u>28,325</u>
Total unrestricted net assets	<u>1,853,524</u>	<u>1,581,975</u>
TOTAL	<u>\$ 2,781,021</u>	<u>\$ 2,443,404</u>

See notes to consolidated financial statements.

(Concluded)

NORTHSIDE HOSPITAL, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS FOR THE YEARS ENDED SEPTEMBER 30, 2018 AND 2017 (In thousands)

	2018	2017
REVENUES:		
Patient service revenue—net of contractual allowances and other discounts	\$ 3,133,420	\$ 2,969,095
Provision for bad debts	<u>154,013</u>	<u>148,661</u>
Net patient service revenue	2,979,407	2,820,434
Other operating revenues	<u>189,299</u>	<u>146,082</u>
Total revenues	<u>3,168,706</u>	<u>2,966,516</u>
EXPENSES:		
Salaries and benefits	1,291,102	1,170,752
Supplies	764,225	683,836
Professional fees	401,056	372,037
Depreciation and amortization	135,771	133,405
Interest	6,140	5,168
Other (Note 1)	<u>427,920</u>	<u>406,617</u>
Total expenses	<u>3,026,214</u>	<u>2,771,815</u>
OPERATING INCOME	142,492	194,701
INVESTMENT INCOME (Note 3)	<u>39,676</u>	<u>37,557</u>
REVENUES IN EXCESS OF EXPENSES	182,168	232,258
INCOME ATTRIBUTABLE TO NONCONTROLLING INTEREST	<u>(1,542)</u>	<u>(1,644)</u>
REVENUES IN EXCESS OF EXPENSES ATTRIBUTABLE TO NORTHSIDE HOSPITAL, INC. AND SUBSIDIARIES	<u>\$ 180,626</u>	<u>\$ 230,614</u>

See notes to consolidated financial statements.

NORTHSIDE HOSPITAL, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS FOR THE YEARS ENDED SEPTEMBER 30, 2018 AND 2017 (In thousands)

	Unrestricted Net Assets		
	Northside Hospital, Inc. and Subsidiaries	Noncontrolling Interest	Total
UNRESTRICTED NET ASSETS—September 30, 2016	<u>\$1,249,713</u>	<u>\$18,285</u>	<u>\$1,267,998</u>
Noncontrolling interest in acquired entities	-	7,385	7,385
Revenues in excess of expenses	230,614	1,644	232,258
Other	(1,093)	1,011	(82)
Change in unrecognized pension costs	<u>74,416</u>	<u>-</u>	<u>74,416</u>
Change in unrestricted net assets	<u>303,937</u>	<u>10,040</u>	<u>313,977</u>
UNRESTRICTED NET ASSETS—September 30, 2017	<u>1,553,650</u>	<u>28,325</u>	<u>1,581,975</u>
Revenues in excess of expenses	180,626	1,542	182,168
Other	(1,113)	(41)	(1,154)
Change in unrecognized pension costs	<u>90,535</u>	<u>-</u>	<u>90,535</u>
Change in unrestricted net assets	<u>270,048</u>	<u>1,501</u>	<u>271,549</u>
UNRESTRICTED NET ASSETS—September 30, 2018	<u>\$1,823,698</u>	<u>\$29,826</u>	<u>\$1,853,524</u>

See notes to consolidated financial statements.

NORTHSIDE HOSPITAL, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED SEPTEMBER 30, 2018 AND 2017 (In thousands)

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in unrestricted net assets	\$ 271,549	\$ 313,977
Adjustments to reconcile changes in unrestricted net assets to net cash provided by operating activities:		
Depreciation and amortization	135,771	133,405
Provision for bad debts	154,013	148,661
Income on equity-method investments	(2,396)	(3,032)
Distributions from equity-method investments	2,510	2,561
Net realized and unrealized gains on investments	(29,704)	(28,003)
Change in unrecognized pension costs	(90,535)	(74,416)
Retirement plan expense in excess of current-year funding	16,092	21,673
Other noncash loss	705	8,077
Noncontrolling interest in acquired entities	-	(8,396)
Changes in assets and liabilities:		
Patient accounts receivable	(160,126)	(167,533)
Inventories	(4,442)	(6,773)
Prepaid expenses and other assets	(19,818)	(6,411)
Trade accounts payable	31,512	19,404
Accrued liabilities	16,256	5,246
Self-insurance liabilities	28,979	10,570
Total adjustments	<u>78,817</u>	<u>55,033</u>
Net cash provided by operating activities	<u>350,366</u>	<u>369,010</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of assets whose use is limited	(161,243)	(228,214)
Proceeds from disposal of assets whose use is limited	155,455	223,124
Acquisitions and other (Note 2)	(3,094)	(23,954)
Proceeds from sale of property and equipment	704	1,996
Purchase of property and equipment	(341,145)	(268,523)
Transactions with affiliates	17,655	(6,850)
Net cash used in investing activities	<u>(331,668)</u>	<u>(302,421)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayment of long-term debt and capital lease obligations	-	(18,294)
Other	518	2,473
Net cash provided by (used in) financing activities	<u>518</u>	<u>(15,821)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	19,216	50,768
CASH AND CASH EQUIVALENTS—Beginning of year	<u>446,059</u>	<u>395,291</u>
CASH AND CASH EQUIVALENTS—End of year	<u>\$ 465,275</u>	<u>\$ 446,059</u>

See notes to consolidated financial statements.