

Northside Hospital, Inc. and Subsidiaries

Consolidated Financial Statements as of and for the
Years Ended September 30, 2019 and 2018 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, 2019 and 2018, 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, 2019 and 2018, 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.

Emphasis of Matter

We draw your attention to Note 2 of the consolidated financial statements which contains disclosures about Northside's August 2019 affiliation and merger with Gwinnett Health System, Inc. Our opinion is not modified with respect to this matter.

Deloitte + Touche LLP

January 15, 2020

NORTHSIDE HOSPITAL, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS AS OF SEPTEMBER 30, 2019 AND 2018

(In thousands)

	2019	2018
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 350,522	\$ 465,275
Patient accounts receivable—less allowance for uncollectible accounts of \$275,938 and \$222,031 as of September 30, 2019 and 2018, respectively	354,871	221,490
Inventories	70,194	53,149
Prepaid expenses and other assets	<u>81,851</u>	<u>45,084</u>
Total current assets	<u>857,438</u>	<u>784,998</u>
ASSETS WHOSE USE IS LIMITED—At fair value	<u>624,240</u>	<u>337,201</u>
PROPERTY AND EQUIPMENT	3,179,862	2,551,071
LESS ACCUMULATED DEPRECIATION AND AMORTIZATION	<u>(1,435,629)</u>	<u>(1,283,471)</u>
Property and equipment—net	<u>1,744,233</u>	<u>1,267,600</u>
OTHER ASSETS:		
Goodwill	202,244	202,523
Other intangible assets—net	130,759	131,786
Other	<u>69,404</u>	<u>56,913</u>
Total other assets	<u>402,407</u>	<u>391,222</u>
TOTAL	<u>\$ 3,628,318</u>	<u>\$ 2,781,021</u>

(Continued)

NORTHSIDE HOSPITAL, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS AS OF SEPTEMBER 30, 2019 AND 2018 (In thousands)

	2019	2018
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Current portion of capital lease obligations	\$ 5,704	\$ 1,223
Accounts payable	262,246	192,884
Accrued liabilities:		
Salaries and employee benefits	184,110	128,708
Other	140,657	132,097
Current portion of self-insurance liabilities	<u>59,173</u>	<u>38,258</u>
Total current liabilities	<u>651,890</u>	<u>493,170</u>
OTHER LONG-TERM OBLIGATIONS:		
Long-term self-insurance liabilities	195,100	137,735
Accrued pension costs	290,505	94,204
Other postretirement benefit plan obligations		
Real estate financing obligations	115,913	62,609
Due to affiliates	13,357	8,433
Other long-term liabilities	<u>51,483</u>	<u>43,077</u>
Total other long-term obligations	666,358	346,058
LONG-TERM DEBT:		
Capital lease obligations—net of current portion	55,249	28,269
Other debt	<u>60,000</u>	<u>60,000</u>
Total liabilities	<u>1,433,497</u>	<u>927,497</u>
COMMITMENTS AND CONTINGENCIES (Notes 2, 10, and 13)		
NET ASSETS:		
Without donor restriction	2,164,738	1,823,698
Noncontrolling interest	<u>30,083</u>	<u>29,826</u>
Total net assets	<u>2,194,821</u>	<u>1,853,524</u>
TOTAL	<u><u>\$3,628,318</u></u>	<u><u>\$2,781,021</u></u>

See notes to consolidated financial statements.

(Concluded)

NORTHSIDE HOSPITAL, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS FOR THE YEARS ENDED SEPTEMBER 30, 2019 AND 2018 (In thousands)

	2019	2018
REVENUES:		
Patient service revenue—net of contractual allowances and other discounts	\$3,551,026	\$3,133,420
Provision for bad debts	<u>197,612</u>	<u>154,013</u>
Net patient service revenue	3,353,414	2,979,407
Other operating revenues	<u>210,953</u>	<u>189,299</u>
Total revenues	<u>3,564,367</u>	<u>3,168,706</u>
EXPENSES:		
Salaries and benefits	1,449,929	1,291,102
Supplies	917,576	764,225
Professional fees	443,290	401,056
Depreciation and amortization	172,752	135,771
Interest	10,345	6,140
Other (Note 1)	<u>459,461</u>	<u>427,920</u>
Total expenses	<u>3,453,353</u>	<u>3,026,214</u>
OPERATING INCOME	111,014	142,492
INVESTMENT INCOME (Note 3)	26,281	39,676
INHERENT CONTRIBUTION—GWINNETT HEALTH SYSTEM, INC. (Note 2)	<u>398,354</u>	<u>-</u>
REVENUES IN EXCESS OF EXPENSES	535,649	182,168
INCOME ATTRIBUTABLE TO NONCONTROLLING INTEREST	<u>(3,081)</u>	<u>(1,542)</u>
REVENUES IN EXCESS OF EXPENSES ATTRIBUTABLE TO NORTHSIDE HOSPITAL, INC. AND SUBSIDIARIES	<u>\$ 532,568</u>	<u>\$ 180,626</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, 2019 AND 2018 (In thousands)

	Net Assets without Donor Restrictions	Noncontrolling Interest	Total
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 net assets	<u>270,048</u>	<u>1,501</u>	<u>271,549</u>
NET ASSETS—September 30, 2018	<u>1,823,698</u>	<u>29,826</u>	<u>1,853,524</u>
Noncontrolling interest related to Gwinnett Health System, Inc.	-	3,505	3,505
Revenues in excess of expenses	532,568	3,081	535,649
Other	(585)	(6,329)	(6,914)
Change in unrecognized pension costs	<u>(190,943)</u>	<u>-</u>	<u>(190,943)</u>
Change in net assets	<u>341,040</u>	<u>257</u>	<u>341,297</u>
NET ASSETS—September 30, 2019	<u>\$ 2,164,738</u>	<u>\$ 30,083</u>	<u>\$ 2,194,821</u>

See notes to consolidated financial statements.

NORTHSIDE HOSPITAL, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED SEPTEMBER 30, 2019 AND 2018 (In thousands)

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	<u>\$ 341,297</u>	<u>\$ 271,549</u>
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation and amortization	172,752	135,771
Provision for bad debts	197,612	154,013
Income on equity-method investments	(3,102)	(2,396)
Distributions from equity-method investments	2,811	2,510
Inherent contribution—Gwinnett Health System, Inc. (Note 2)	(398,354)	-
Net realized and unrealized gains on investments	(13,043)	(29,704)
Change in unrecognized pension costs	190,943	(90,535)
Retirement plan expense in excess of current-year funding	5,358	16,092
Other noncash (gain) loss	(8,053)	705
Noncontrolling interest in Gwinnett Health System, Inc. and other	2,473	-
Changes in assets and liabilities:		
Patient accounts receivable	(269,973)	(160,126)
Inventories	(8,882)	(4,442)
Prepaid expenses and other assets	(27,699)	(19,818)
Accounts payable	(17,739)	31,512
Accrued liabilities	86,918	16,256
Self-insurance liabilities	<u>7,049</u>	<u>28,979</u>
Total adjustments	<u>(80,929)</u>	<u>78,817</u>
Net cash provided by operating activities	<u>260,368</u>	<u>350,366</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of assets whose use is limited	(200,008)	(161,243)
Proceeds from disposal of assets whose use is limited	375,515	155,455
Acquisitions and other (Note 2)	(10,149)	(3,094)
Merger consideration, net of cash acquired—Gwinnett Health System, Inc. (Note 2)	(268,329)	-
Proceeds from sale of property and equipment	17,660	704
Purchase of property and equipment	(288,496)	(341,145)
Transactions with affiliates	<u>4,575</u>	<u>17,655</u>
Net cash used in investing activities	<u>(369,232)</u>	<u>(331,668)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Distributions to noncontrolling interest	(5,978)	-
Other	<u>89</u>	<u>518</u>
Net cash (used in) provided by financing activities	<u>(5,889)</u>	<u>518</u>
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(114,753)	19,216
CASH AND CASH EQUIVALENTS—Beginning of year	<u>465,275</u>	<u>446,059</u>
CASH AND CASH EQUIVALENTS—End of year	<u>\$ 350,522</u>	<u>\$ 465,275</u>

See notes to consolidated financial statements.