

Consolidated Financial Statements,
Supplementary Information and Report
of Independent Certified Public
Accountants

TidalHealth, Inc.

June 30, 2021 and 2020

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Directors
TidalHealth, Inc.

We have audited the accompanying consolidated financial statements of TidalHealth, Inc. and subsidiaries, f/k/a Peninsula Regional Health System, Inc. and subsidiaries (the "Health System"), which comprise the consolidated balance sheets as of June 30, 2021 and 2020, and the related consolidated statements of operations and changes in net assets and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's responsibility for the financial statements

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

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the 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 the Health System's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Health System'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 consolidated financial position of TidalHealth, Inc. and subsidiaries, f/k/a Peninsula Regional Health System, Inc. and subsidiaries, as of June 30, 2021 and 2020, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Supplementary information

Our audits were performed for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying combining statement of operations – TidalHealth Peninsula Regional information is presented for the purpose of additional analysis, rather than to present the financial position, results of operations and changes in net assets, and cash flows of the individual entities, and is not a required part of the consolidated financial statements. Such supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in our audits of the consolidated financial statements and certain additional procedures. These additional procedures include comparing and reconciling the information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the consolidating information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Grant Thornton LLP

Philadelphia, Pennsylvania
September 29, 2021 except for the supplementary information
for which the date is October 26, 2021

TidalHealth, Inc.

CONSOLIDATED BALANCE SHEETS

June 30,

(Dollar amounts in thousands)

	<u>2021</u>	<u>2020</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 181,183	\$ 179,524
Short-term investments	7,436	7,528
Assets limited as to use	2,003	3,149
Patient accounts receivable	66,312	57,020
Supplies	15,125	14,792
Prepays and other	<u>13,407</u>	<u>13,205</u>
Total current assets	285,466	275,218
INVESTMENTS	513,644	415,488
ASSETS LIMITED AS TO USE		
Under debt agreement	54,679	58,609
Self-insurance fund	37,088	33,428
Donor-restricted fund	<u>61,591</u>	<u>49,064</u>
	153,358	141,101
PROPERTY AND EQUIPMENT, net	323,179	315,721
OTHER ASSETS	<u>53,609</u>	<u>43,655</u>
Total assets	<u>\$ 1,329,256</u>	<u>\$ 1,191,183</u>

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

TidalHealth, Inc.

CONSOLIDATED BALANCE SHEETS - CONTINUED

June 30,

(Dollar amounts in thousands)

	<u>2021</u>	<u>2020</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Current portion of long-term debt	\$ 5,597	\$ 4,671
Current portion of lease liability	1,779	1,932
Current portion of self-insurance liabilities	2,003	3,149
Accounts payable	40,726	34,335
Accrued liabilities	51,166	32,896
Advances from third-party payors	<u>121,527</u>	<u>133,059</u>
Total current liabilities	222,798	210,042
Long-term debt, less current portion	235,213	237,429
Lease liability, less current portion	5,090	6,628
Self-insurance liabilities	28,636	29,197
Accrued retirement benefits	777	17,599
Other liabilities	<u>5,474</u>	<u>1,282</u>
Total liabilities	497,988	502,177
NET ASSETS		
Net assets without donor restrictions:		
TidalHealth, Inc.	764,459	634,633
Non-controlling interest	<u>-</u>	<u>1,889</u>
Total net assets without donor restrictions	764,459	636,522
Net assets with donor restrictions	<u>66,809</u>	<u>52,484</u>
Total net assets	<u>831,268</u>	<u>689,006</u>
Total liabilities and net assets	<u>\$ 1,329,256</u>	<u>\$ 1,191,183</u>

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

TidalHealth, Inc.

CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS

Years ended June 30,
(Dollar amounts in thousands)

	<u>2021</u>	<u>2020</u>
Net assets without donor restrictions		
Revenue		
Patient service revenue	\$ 696,019	\$ 535,924
Other revenue	<u>33,707</u>	<u>34,993</u>
Total revenue	729,726	570,917
Expenses		
Salaries and wages	296,860	235,861
Supplies and other expenses	320,668	254,769
Employee benefits	80,032	56,354
Depreciation and amortization	40,686	35,277
Interest	<u>8,532</u>	<u>6,492</u>
Total expenses	<u>746,778</u>	<u>588,753</u>
Loss from operations before other items	(17,052)	(17,836)
Other items		
Investment return	105,591	33,011
Other pension gains	4,078	2,978
Contribution received in acquisitions	-	111,283
Loss on extinguishment of debt	<u>(3,660)</u>	<u>(4,142)</u>
Total other items	<u>106,009</u>	<u>143,130</u>
Excess of revenue over expenses	88,957	125,294
Non-controlling interest in earnings of controlled subsidiary	<u>67</u>	<u>(299)</u>
Excess of revenue over expenses attributable to TidalHealth, Inc.	89,024	124,995

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

TidalHealth, Inc.

CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS - CONTINUED

Years ended June 30,
(Dollar amounts in thousands)

	<u>2021</u>	<u>2020</u>
Net assets without donor restrictions		
Excess of revenue over expenses attributable to TidalHealth, Inc.	\$ 89,024	\$ 124,995
Net assets released from restrictions, net	44	1,726
Other	962	-
Change in non-controlling interest	(1,956)	(143)
Other changes in accrued retirement benefits	39,863	(8,562)
	<u>127,937</u>	<u>118,016</u>
Increase in net assets without donor restrictions	127,937	118,016
Net assets with donor restrictions		
Contributions	2,417	3,118
Net realized gains on investments	6,277	2,679
Change in unrealized gains and losses on investments	5,783	1,574
Net assets released from restrictions, net	(152)	(1,910)
	<u>14,325</u>	<u>5,461</u>
Increase in net assets with donor restrictions	14,325	5,461
Increase in net assets	142,262	123,477
Net assets at beginning of year	<u>689,006</u>	<u>565,529</u>
Net assets at end of year	<u>\$ 831,268</u>	<u>\$ 689,006</u>

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

TidalHealth, Inc.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended June 30,
(Dollar amounts in thousands)

	<u>2021</u>	<u>2020</u>
Operating activities:		
Increase in net assets	\$ 142,262	\$ 123,477
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Contribution received in acquisitions	-	(111,283)
Loss on extinguishment of debt	3,660	4,142
Depreciation and amortization	40,686	35,277
Other changes in accrued retirement benefits	(39,863)	8,562
Amortization of original issue premium and financing costs	(502)	(832)
Equity in earnings of unconsolidated joint ventures	(2,543)	(1,547)
Losses (gains) on sale of property and equipment	9	(1,232)
Net realized and unrealized gains and losses on investments	(110,964)	(27,174)
Proceeds from restricted contributions	(2,417)	(3,118)
Changes in operating assets and liabilities:		
Patient accounts receivable	(9,292)	4,334
Supplies and other assets	5,350	(524)
Distributions from unconsolidated joint ventures	3,488	1,009
Accounts payable and accrued liabilities	24,661	10,572
Accrued retirement benefits	6,666	6,094
Other liabilities	2,485	4,044
Lease liability	(1,691)	(1,684)
Advances from third-party payors	(11,532)	123,284
Net cash provided by operating activities	<u>50,463</u>	<u>173,401</u>
Investing activities:		
Change in investments and assets limited as to use	1,789	(63,633)
Cash received in the acquisitions	-	6,021
Investment in unconsolidated joint ventures	(409)	(8,139)
Purchases of property and equipment, net	(48,153)	(24,826)
Net cash used in investing activities	<u>(46,773)</u>	<u>(90,577)</u>
Financing activities:		
Proceeds from restricted contributions	2,417	3,118
Debt issuance costs	(454)	(1,617)
Proceeds from long-term debt	132,462	101,672
Repayments of long-term debt	(136,456)	(53,112)
Net cash (used in) provided by financing activities	<u>(2,031)</u>	<u>50,061</u>
Net increase in cash and cash equivalents	1,659	132,885
Cash and cash equivalents at beginning of year	<u>179,524</u>	<u>46,639</u>
Cash and cash equivalents at end of year	<u>\$ 181,183</u>	<u>\$ 179,524</u>

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

TidalHealth, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2021 and 2020

(Dollar amounts in thousands)

NOTE 1 - ORGANIZATION AND MISSION

TidalHealth, Inc. (“TidalHealth”) (formerly known as Peninsula Regional Health System, Inc.) is a not-for-profit Maryland membership corporation, that serves as the parent company to a group of affiliated non-profit and for-profit entities (collectively the “Health System”). The Health System’s mission is to improve the health of communities of the eastern shore of Maryland, southern Delaware, northern Virginia and portions of the Delaware-Maryland-Virginia Peninsula (the “Delmarva Peninsula”).

Effective September 1, 2020, Peninsula Regional Health System, Inc., changed its name to TidalHealth, Inc. as well as many of its affiliates changed their names as noted below. The organization has experienced a lot of change and growth over the past few years with several acquisitions and is excited to unite its employees under one health system in celebration of a shared mission: to improve the health of the communities it serves.

The Health System’s group of affiliated non-profit and for-profit entities are as follows:

TidalHealth Peninsula Regional, Inc. (the “TPR”) (formerly known as Peninsula Regional Medical Center, Inc.) is a not-for-profit, nonstock corporation founded in 1897 to serve the health care needs of its region. Service areas include the Maryland counties of Wicomico, Dorchester, Somerset, and Worcester; southern Delaware; and the northern Eastern Shore of Virginia.

TidalHealth Foundation, Inc. (the “Foundation”) (formerly known as Peninsula Regional Medical Center Foundation, Inc. is a not-for-profit, nonstock corporation organized to raise contributions exclusively for the benefit of charitable, educational, medical, and scientific purposes for the Health System.

Peninsula Health Ventures, Inc. (“Health Ventures”) is a for-profit corporation organized for the purpose of owning, developing, operating, and investing in health care enterprises on the Delmarva Peninsula.

Peninsula Women’s Center, LLC d/b/a TidalHealth Surgery Center (formerly known as Peninsula Surgery Center), operates an ambulatory surgery center.

Peninsula Regional Clinically Integrated Network, LLC participates in the Medicare Shared Savings Program as an Accountable Care Organization (“ACO”), providing Medicare beneficiaries on the Delmarva Peninsula with access to coordinated care.

Delmarva Peninsula Insurance Company (“DPIC”), a Cayman Island captive insurance company that provides professional and general liability insurance to related TidalHealth affiliates. Prior to June 30, 2020, DPIC was wholly owned by TPR.

On January 1, 2020 (the Nanticoke Acquisition Date), TidalHealth acquired and became the sole corporate member of TidalHealth Nanticoke, Inc. (the “TN”) (formerly known as Nanticoke Memorial Hospital, Inc.), a not-for-profit 99-licensed bed hospital in Seaford, Delaware, serving the health care needs of Sussex County, Nanticoke Insurance Company Ltd (“NIC”), a captive insurance company domiciled in the Cayman Islands, which was wholly owned by TN, and provided professional and general liability insurance to related affiliates, TidalHealth Physician Network (the “TPN”) (formerly known as Mid-Sussex Medical Center, Inc. d/b/a Nanticoke Physician Network), a not-for-profit physician practice organization that provides outpatient medical care in clinics located in Georgetown, Laurel, Bridgeville, Delmar and Seaford, Delaware as well as Federalsburg, Maryland and the not-for-profit Nanticoke Health Foundation (collectively “Nanticoke”). Concurrently, the Nanticoke Health Foundation was merged into the Foundation.

Effective June 30, 2020, NIC was merged into DPIC.

TidalHealth, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2021 and 2020
(Dollar amounts in thousands)

During the year ended June 30, 2021, TPN dissolved into a newly formed physician practice organization TidalHealth Medical Partners (TMP), which operates a physician network providing integrated physician services for the Health System.

On March 1, 2020 (the McCready Acquisition Date), TidalHealth acquired and became the sole corporate member of McCready Foundation, Inc., a not-for-profit located in Crisfield, Maryland, which consists of the following divisions: Edward W. McCready Memorial Hospital (“McCready Hospital”), a 3-bed hospital, Alice Byrd Tawes Nursing Home (the “Nursing Home”), a 76-licensed bed skilled nursing home, Chesapeake Cove Assisted Living Center (the “Rehab Center”), a rehabilitation center and assisted living facility and the McCready Foundation, Inc. Endowment Fund (“Endowment Fund”). Concurrently, the McCready Hospital division was merged into TPR and the hospital was converted into a free-standing medical center and the Endowment Fund was merged into the McCready Foundation, Inc.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Health System and all affiliated non-profit and for-profit entities as described in Note 1, with the exception of joint ventures where there is less than 50% control or where the Health System does not have the ability to exercise significant influence (see Note 10). Joint ventures where the ownership is greater than 50% or are controlled are included in the accompanying consolidated financial statements and the non-controlling interest is recorded equal to the remaining ownership interest in 2020. During 2021, this entity ended its operations. All significant intercompany transactions have been eliminated.

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 most significant management estimates and assumptions are used in recording patient accounts receivable and patient service revenue, estimated settlements with third-party payors, useful lives of property and equipment, goodwill and other intangibles, actuarial estimates for the accrued retirement benefits, professional, general liabilities and workers’ compensation costs, the reported fair value of certain assets and liabilities, including the fair value of assets and liabilities as part of the acquisitions, and the allocation of functional expenses. Actual amounts could differ from those estimates.

Fair Value of Financial Instruments

Financial instruments consist of cash equivalents, patient accounts receivable, investments and assets limited as to use, accounts payable, accrued liabilities, estimated settlements with third-party payors, advances from third-party payors and long-term debt. The carrying amounts reported in the consolidated balance sheets for cash equivalents, patient accounts receivable, investments and assets limited as to use, accounts payable, accrued liabilities, estimated settlements with third-party payors, advances from third-party payors, approximate fair value. Management’s estimate of the fair value of other financial instruments is described elsewhere in the notes to the consolidated financial statements.

TidalHealth, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2021 and 2020
(Dollar amounts in thousands)

Cash and Cash Equivalents

Cash and cash equivalents include surplus operating funds invested in money market funds and highly liquid corporate, U.S. government, and agency obligations, all with maturities of less than three months when purchased.

Investments and Assets Limited as to Use

Fair values of all investments, including short-term investments, investments, and assets limited as to use are recorded as described in Notes 8 and 9. Short-term investments represent investments with contractual maturities within one year and current investments in money market funds that have been designated for investment purposes.

Assets limited as to use includes externally held assets held by trustees under a debt agreement and consists of those assets designated for the payments of construction projects, principal and interest due on indebtedness and cost of issuance, externally held assets held by trustees self-insurance programs and assets internally held to meet donor's intentions. Assets limited as to use required to meet current liabilities have been classified as current assets on the consolidated balance sheets.

Investment income, including interest and dividend, realized gains and losses (the value of securities sold) is based on the specific-identification method. Investment income on investments of restricted assets are added to or deducted from the appropriate restricted net assets when restricted as to use by the donor.

Patient Accounts Receivable

A receivable is recognized when there is an unconditional right to payment, subject only to the passage of time. Patient accounts receivable, including billed accounts and unbilled accounts, which have the unconditional right to payment, and estimated amounts due from third-party payors for retroactive adjustments, are recorded as receivables since the right to consideration is unconditional and only the passage of time is required before payment of that consideration is due. The estimated uncollectible amounts are generally considered implicit price concessions that are recorded as a direct reduction to patient accounts receivable.

Discounts ranging from 2.0% to 7.7% of charges are given to Medicare, Medicaid, and certain approved commercial health insurance and health maintenance organization programs for regulated services. Discounts in varying percentages are given for certain unregulated services.

Supplies

Supplies are carried at the lower of cost or market, using the first-in, first-out method.

Property and Equipment

Property and equipment acquisitions are recorded at cost. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed using the straight-line method. Equipment acquired under finance leases is amortized based on the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment. Construction in progress represents amounts expended or incurred toward property and equipment projects that have not been completed. No depreciation or amortization has been recorded for these items. Interest cost incurred, net of investment income earned on borrowed funds, during the period of construction is capitalized as a component of the cost of acquiring those assets.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2021 and 2020
(Dollar amounts in thousands)

Software development costs that are incurred in the preliminary project stage for internal use software are expensed as incurred. During the development stage, direct consulting costs and payroll and payroll-related costs for employees that are directly associated with each project are capitalized and amortized over the estimated useful life of the software once the software is ready for its intended use. Capitalized software is amortized using the straight-line method over its estimated useful life, which is generally seven years. Replacements and upgrades and enhancements to existing systems that result in added functionality are capitalized, while maintenance and repairs are charged to expense as incurred.

Gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted donations. Absent explicit donor stipulations about how long those assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

Leases

Arrangements are determined if they are a lease at inception of the contract. Right of use assets represent the right to use the underlying assets for the lease term and lease liabilities represent the Health System's obligation to make lease payments arising from the leases. Right of use assets and lease liabilities are recognized at commencement date based on the present value of lease payments over the lease term. An estimated incremental borrowing rate, which is derived from information available at the lease commencement date, in determining the present value of lease payments. The Health System determines this rate based on information obtained from its bankers, its secured debt fair value and publicly available data for instruments with similar characteristics.

The operating leases are primarily for real estate, including off-campus outpatient facilities, medical office buildings, and corporate and other administrative offices, as well as medical and office equipment. Finance leases are for medical equipment. The real estate lease agreements typically have initial terms of five to 10 years, and equipment lease agreements typically have initial terms of three to five years. Leases with an initial term of 12 months or less ("short-term leases") are not recorded in the consolidated balance sheets.

Real estate leases may include one or more options to renew, with renewals that typically can extend the lease term from five to 10 years. The exercise of lease renewal options is at the Health System's sole discretion. In general, these renewal options are not considered to be reasonably likely to be exercised, therefore, renewal options are generally not recognized as part of right of use assets and lease liabilities. The useful life of assets and leasehold improvements are limited by the expected lease term, unless there is a transfer of title or purchase option reasonably certain of exercise. The majority of the medical equipment leases have terms of three years with no renewal options or bargain purchase options, so these assets are depreciated over their lease term.

Certain lease agreements for real estate include payments based on actual common area maintenance expenses. These variable lease payments are recognized in other operating expenses, net, but are not included in the right-of-use asset or liability balances. The lease agreements do not contain any material residual value guarantees, restrictions or covenants.

Impairment of Long-Lived Assets

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If long-lived assets are deemed to be impaired, the impairment to be recognized is the amount by which the carrying amount of the assets exceeds the fair value. Assets to be disposed of are reported at the lower of the carrying amount or the fair value less costs to sell. As of June 30, 2021, management believes that no revisions to the remaining useful lives or write-down of long-lived assets are required.

TidalHealth, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2021 and 2020
(Dollar amounts in thousands)

Other Intangibles

At June 30, 2021 and 2020, the amount of a trade name intangible is \$1,406 and \$1,969, net of accumulated amortization of \$844 and \$281, respectively, and is included in other assets in the consolidated balance sheets.

Other Assets

Other assets are comprised of:

	June 30,	
	2021	2020
Investments in unconsolidated joint ventures (Note 10)	\$ 17,557	\$ 18,093
Right to use assets (Note 13)	6,788	8,477
Accrued retirement asset (Note 14)	16,375	-
Reinsurance receivable (Note 15)	6,796	10,408
Contributions receivable, net (Note 16)	1,595	1,875
Other	4,498	4,802
	\$ 53,609	\$ 43,655

Estimated Self-Insurance Liabilities

The provision for estimated professional liability claims, general liability claims, and workers' compensation claims includes estimates of the ultimate costs for both reported claims and claims incurred but not reported.

Net Assets with Donor Restrictions

Certain net assets are temporarily restricted and whose use has been limited by donors to a specific time period or purpose.

Certain net assets have been permanently restricted by donors to be maintained by the Health System in perpetuity.

Performance Indicator

The performance indicator for is the excess of revenue over expenses, which excludes net assets released from restrictions for property acquisitions net of transfers to restricted net assets, changes in non-controlling interest, and other changes in accrued retirement benefits.

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. The gifts are reported as net assets 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 the purpose of the restriction is accomplished, net assets with donor restrictions are reclassified as net assets without donor restrictions and reported on the consolidated statements of operations and changes in net assets as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reported as contributions in net assets without donor restrictions in the accompanying consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2021 and 2020
(Dollar amounts in thousands)

Patient Service Revenue

The Health System has the following agreements for patient services: for those provided at the PRMC hospital campus, all payors are required to pay the Maryland Health Services Cost Review Commission (“HSCRC”) approved rates; and for all other locations, patient services are based on negotiated agreements with third-party payors, including health insurance companies and rates set by government regulations (for payors such as Medicare and Medicaid) that provide for reimbursement at amounts different from established charges. Reimbursement methodologies include prospectively determined rates per discharge, per diem rates, reimbursed costs, and discounted charges.

Patient service revenues are recorded at the amounts that reflect the consideration to which the Health System expects to be entitled to in exchange for providing patient care for both the hospital and any employed physicians. These amounts are due from patients, third-party payors (including managed care organizations and government programs, i.e., Medicare and Medicaid), and others and they include variable consideration for retroactive adjustments due to settlement of future audits, reviews, and investigations. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered, and such amounts are adjusted in future periods as adjustments become known or as years are no longer subject to such audits, reviews, and investigations. Generally, patients and third-party payors are billed several days after the services are performed or shortly after discharge. Patient service revenue is recognized in the period in which the performance obligations are satisfied under contracts by transferring services to patients.

Performance obligations are determined based on the nature of the services provided. Revenues are recognized for performance obligations satisfied over time based on actual charges incurred in relation to total expected charges. This method provides an appropriate depiction of the transfer of services over the term of performance obligations based on the inputs needed to satisfy the obligations. Generally, performance obligations are satisfied over time related to patients receiving inpatient acute care services. Performance obligations are measured from admission to the point when there are no further services required for the patient, which is generally the time of discharge. Revenues are recognized for performance obligations satisfied at a point in time, which generally relate to patients receiving outpatient services, when: (1) services are provided; and (2) when it is believed the patient does not require additional services.

Estimates of contractual adjustments and discounts based on government regulations, contractual agreements, discount policies and historical experience, as applicable. The estimates of implicit price concessions based on historical collection experience within each class of patients using a portfolio approach as a practical expedient to account for patient contracts as collective groups rather than individually. The consolidated financial statement effects of using this practical expedient are not materially different from an individual contract approach.

Advertising Costs

The Health System expenses advertising costs as incurred. For the years ended June 30, 2021 and 2020, advertising costs were \$1,877 and \$1,731, respectively, which are included in supplies and other expenses in the accompanying consolidated statements of operations and changes in net assets.

Income Taxes

TidalHealth and have been recognized as supporting organizations exempt from federal income tax under Section 501(c)(3) as described in Section 509(a)(3) of the Internal Revenue Code (the “Code”). TPR and TN have been recognized organizations exempt from federal income tax under Section 501(c)(3) as described in Sections 509(a)(1) and Section 170(b)(1)(A)(iii) of the Code. The Foundation has been recognized as an organization exempt from federal income tax under Section 501(c)(3) as described in

TidalHealth, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2021 and 2020
(Dollar amounts in thousands)

Sections 509(a)(1) and Section 170(b)(1)(A)(vi) of the Code. TPN and the McCreedy Foundation, Inc. have been recognized as organizations exempt from federal income tax under Section 501(c)(3) as described in Section 509(a)(2) of the Code. The Health System is subject to tax on income unrelated to its exempt purpose, unless that income is otherwise excluded by the Code. Each organization has processes presently in place to ensure the maintenance of its tax-exempt status; to identify and report unrelated income; to determine its filing and tax obligations in jurisdictions for which it has nexus; and to identify and evaluate other matters that may be considered tax positions

Peninsula Women's Center, LLC, Peninsula Regional Clinically Integrated Network, LLC, and TMP are limited liability companies with TidalHealth as sole member and are disregarded for income tax purposes. Health Ventures is a for-profit corporation, wholly owned by the Health System. DPIC is a Cayman Island captive insurance company. Under Cayman Islands tax regulations, no tax is imposed on DPIC for premium and investment income.

The Health System follows guidance that clarifies the accounting for uncertainty in tax positions taken or expected to be taken in a tax return, including issues relating to financial statement recognition and measurement. This guidance provides that the tax effects from an uncertain tax position can only be recognized in the financial statements if the position is "more-likely-than-not" to be sustained if the position were to be challenged by a taxing authority. The assessment of the tax position is based solely on the technical merits of the position, without regard to the likelihood that the tax position may be challenged.

The tax years ended June 30, 2021, 2020, 2019 and 2018 are still open to audit for both federal and state purposes. The Health System has determined that there are no material uncertain tax positions that require recognition or disclosure in the consolidated financial statements at June 30, 2021 and 2020.

Pending Accounting Pronouncement

Goodwill Impairment

In January 2017, Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2017-04, *Intangibles - Goodwill and Other - Simplifying the Test of Goodwill Impairment*. This guidance eliminates Step 2 from the goodwill impairment test. The guidance also eliminates 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 guidance is effective for fiscal years beginning after December 15, 2020. Early adoption is permitted for impairment tests after January 1, 2017. ASU 2017-04 will be adopted on a prospective basis. The Health System is evaluating the impact of ASU 2017-04 at this time.

NOTE 3 - IMPACT OF THE COVID-19 PANDEMIC

In March 2020, the World Health Organization declared COVID-19, the disease caused by the novel coronavirus, a pandemic, which started to and continues to spread throughout the United States of America. As a result of the COVID-19 pandemic, the Health System experienced a decline in patient visits, admissions, and medical procedures performed. Elective medical procedures were suspended by state and local governments at varying time periods beginning in mid-March through late May 2020, contributing to a significant decline in patient service revenue due to COVID-19 when compared to historic and forecasted results for the year ended June 30, 2020. Additionally, in response to the pandemic, the Health System incurred additional costs for testing, personal protective equipment, third-party contract services and other operating costs associated with ensuring employee and patient safety while operating during a pandemic. Since late May 2020, the Health System has begun to see increases in its patient visits, admissions, and

TidalHealth, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

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medical procedures, however volumes have not returned to pre-pandemic levels. Management is actively monitoring operating revenues, and expenses and based on the continuing uncertainties of COVID-19, it is unable to determine if it will have a material impact on its operations for the year ending June 30, 2022.

The Health System received grant payments, which are considered nonexchange transactions, from the federal government distributed under the Coronavirus Aid, Recovery and Economic Security ("CARES") Act. For the years ended June 30, 2021 and 2020, payments received of \$24,449 and \$24,075, respectively, and are included in other revenue in the consolidated statements of operations and changes in net assets. These payments are subject to audit and compliance with federal regulations. The Health System believes it has met the conditions to retain these funds, and no amounts are reserved for repayment at June 30, 2021 and 2020. Future grant payments are uncertain at this time.

The CARES Act also provided for an expansion of the Medicare Accelerated and Advance Payment Program for patient services. Under the program, the Health System received \$123,055 in April 2020, and recorded these payments in advances from third-party payors in the consolidated balance sheet at June 30, 2020. The recoupment period began in April 2021 and amounts billed to Medicare for services provided are offset against the advanced payments received until the advance is fully recouped by the Medicare program. During the year ended June 30, 2021, Medicare recouped \$11,282, which results in a \$111,773 of advances from third-party payors in the consolidated balance sheet at June 30, 2021. The Health System will have until September 2022, to offset future claims against the advance. If the advance has not been entirely offset by claims at the end of this period, the Health System will be required to repay the remaining amount.

Additionally, the Internal Revenue Service ("IRS") allowed the Health System to defer remittance of payroll taxes. The deferred tax liability of \$9,790 and \$3,309 at June 30, 2021 and 2020, respectively, is included in accrued liabilities on the consolidated balance sheets. Fifty percent of the deferred payroll taxes will be paid by December 31, 2021, with the remaining balance due by December 31, 2022.

NOTE 4 - ACQUISITIONS

In 2020, TidalHealth made acquisitions as describe in Note 1 by means of inherent contributions where no consideration was transferred by TidalHealth. These business combinations were accounted for by applying the acquisition method and, accordingly, the inherent contributions received were valued as the excess of assets acquired over liabilities assumed. In determining each acquisitions inherent contribution received, all assets acquired and liabilities assumed were measured at fair value as of the respective acquisition dates. The results of the operations of each acquisition have been included in the accompanying consolidated financial statements since the respective acquisition dates.

TidalHealth, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

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The estimated fair values of the assets acquired and liabilities assumed at the acquisition date are as follows:

	Nanticoke At January 1, 2020	McCready At March 1, 2020
Assets		
Cash and cash equivalents	\$ 5,385	\$ 636
Patient accounts receivable	16,648	3,222
Supplies	4,198	127
Prepaid and other	4,412	271
Investments and assets limited as to use	54,082	-
Property and equipment	91,489	12,726
Other assets	6,364	198
	<hr/>	<hr/>
Total assets acquired	182,578	17,180
Liabilities		
Accounts payable	7,580	448
Accrued liabilities	7,840	1,058
Self-insurance liabilities	8,290	426
Long-term debt	47,629	9,088
Lease liability	3,328	-
Accrued retirement benefits	2,788	-
	<hr/>	<hr/>
Total liabilities assumed	77,455	11,020
Net assets acquired		
Net assets without donor restrictions	<hr/> 105,123	<hr/> 6,160
	<hr/>	<hr/>
Excess of assets acquired over liabilities assumed	<u>\$ 105,123</u>	<u>\$ 6,160</u>

The following are the results of the acquisitions from the date of acquisition that have been included in the consolidated statement of operations and changes in net assets for the year ended June 30, 2020:

	Nanticoke At January 1, 2020	McCready At March 1, 2020
Total revenues	\$ 78,806	\$ 2,621
Excess of revenues over expenses	85,191	6,448
Increase (decrease) in net assets without donor restrictions	93,166	(14)
Increase (decrease) in net assets	93,166	(14)

TidalHealth, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2021 and 2020
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The following are the combined, unaudited pro-forma results for the year ended June 30, 2020, as if the acquisition had occurred on July 1, 2019. The combined unaudited pro-forma financial information excludes the contribution received in the acquisitions and is not necessarily indicative of the results of operations as they would have been, had the transaction been effective on July 1, 2019:

	<u>Year ended June 30, 2020</u>
Total revenues	\$ 661,827
Excess of revenues over expenses	106,085
Change in net assets - Without donor restrictions	106,085

NOTE 5 - LIQUIDITY AND AVAILABILITY OF RESOURCES

As of June 30, 2021 and 2020, the adjusted working capital was \$581,315 and \$477,856, respectively, and the adjusted average days of cash on hand was 359 and 392 days, respectively, both of which include long-term investments.

In addition to cash flows provided by operating activities, the financial assets available for general expenditure within one year of the consolidated balance sheet date consist of the following:

	June 30,	
	2021	2020
Cash	\$ 181,183	\$ 179,524
Short-term investments	7,436	7,528
Patient accounts receivable	66,312	57,020
Investments	513,644	415,488
	\$ 768,575	\$ 659,560

NOTE 6 - CHARITY CARE

The Health System provides care to patients who meet certain criteria under its charity care policy, without charge or at amounts less than its approved rates. Because the Health System does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue.

The Health System maintains records to identify and monitor the level of charity care and community service it provides. These records include the amount of charges foregone based on established rates for services and supplies furnished under its charity care and community service policies and the number of patients receiving services under these policies. The Health System provided \$12,512 and \$12,150 for the years ended June 30, 2021 and 2020, respectively, of charity care at full cost including direct and indirect costs, based on the actual charity population using its cost to charge ratio. The HSCRC includes components within the rates to partially compensate eligible providers for uncompensated care.

TidalHealth, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

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Additionally, the Health System provides a wide range of community services to the general public. These include but are not limited to the following: free health screenings for breast cancer, prostate cancer, skin cancer, diabetes, high blood pressure, high blood cholesterol, hearing loss and glaucoma; free educational programs on a variety of health care topics; health fairs and demonstrations; and networking and coordination of services for the needy, elderly, and disabled. These community services are offered at the Health System and at schools, businesses, and other locations throughout the Health System's service area.

NOTE 7 - PATIENT SERVICE REVENUE

Patient service revenue recognized from major payer sources based on primary insurance designation, is as follows:

	Years ended June 30,	
	2021	2020
Medicare	52%	52%
Medicaid	19	18
Managed care	3	4
CareFirst Blue Cross Blue Shield	12	12
Other, including self-pay	14	14
	<u>100%</u>	<u>100%</u>

For services provided at the TPR hospital campus, all payors are required to pay the Maryland Health Services Cost Review Commission ("HSCRC") approved rates. Management believes that this program will remain in effect at least through June 30, 2022. The major third-party payors, as recognized by the HSCRC, are allowed discounts of up to 7.7% on approved rates. These charges are subject to review and approval by the HSCRC. The total rate of reimbursement for services to patients under the Medicare and Medicaid programs is based on a waiver arrangement between the Centers for Medicare and Medicaid Service and the HSCRC. This waiver arrangement will be in place as long as Maryland hospitals achieve certain savings and improvements, as defined. TPR has an agreement with the HSCRC to participate in its Global Budgeted Revenue ("GBR") program. GBR methodology encourages hospitals to focus on population health strategies by establishing a fixed annual revenue cap for each GBR hospital. The agreement is evergreen in nature and covers both regulated inpatient and outpatient revenues.

Under GBR, hospital revenue is known at the beginning of each fiscal year, and for the year ending June 30, 2022, is expected to be approximately \$522,651. Annual revenue is calculated from a base year and is adjusted annually for inflation, infrastructure requirements, population changes, performance in quality-based programs, and changes in levels of uncompensated care. Revenue may also be adjusted annually for market levels and shifts of services to unregulated services. The HSCRC's rate-setting methodology for hospital service centers that provide both inpatient and outpatient services and only outpatient services, consists of establishing an acceptable unit rate for defined inpatient and outpatient service centers within a hospital. The actual average unit charge for each service center is compared to the approved rate monthly and annually. Overcharges and undercharges due to either patient volume or price variances, adjusted for penalties where applicable, are applied to decrease (in the case of overcharges) or increase (in the case of undercharges) in future approved rates on an annual basis. TPR undercharged for the years ended June 30, 2021 and 2020, within the allowable corridor as specified in the GBR Agreement.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

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The timing of the HSCRC's rate adjustments for TPR could result in an increase or reduction in rates due to the variances and penalties described above in a year subsequent to the year in which such items occurred, and there is at least a possibility that the amounts may be material. For both the years ended June 30, 2021 and 2020, approximately 47% and 58% of the Health System's patient service revenue was subject to the HSCRC's regulations.

Inpatient acute care and outpatient services not located on the TPR hospital campus, including NMH and certain other services not regulated by the HSCRC provided to Medicare and Medicaid program beneficiaries, are paid at prospectively determined rates per discharge or outpatient service. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. Additionally, there are certain defined Medicare program pass-through items, and certain other costs provisionally reimbursed by Medicare, are paid based on a cost reimbursement methodology or tentative rate. These are ultimately subjected to certain cost limitations or contingent on actual data for the year, with final settlement determined after submission of annual cost reports by NMH and audits thereof, by the programs' fiscal intermediaries.

The TN Medicare cost reports have been audited and finalized through June 30, 2018. Differences between the estimated settlements and the amounts settled are recorded in the year of settlement. Estimated favorable results of appeal items are recorded when realization is reasonably assured. These estimates are included in estimated settlements due to third-party payors in the consolidated balance sheets. Management uses the expected-value method when determining these amounts. In the opinion of management, adequate provision has been made for any adjustment, which may result from the final settlement of these cost reports, and any appeal issues. For the years ended June 30, 2021 and 2020, patient service revenue includes net settlements and adjustments for cost reports, audit and appeal items from prior years of \$(251) and \$277, respectively.

Laws and regulations governing the HSCRC, Medicare and Medicaid programs, which represent a substantial portion of the patient service revenues, are complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. The Health System 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 there are no currently known regulatory inquiries, compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory action.

The following table sets forth the detail of patient service revenue:

	Years ended June 30,	
	2021	2020
Gross patient service revenue	\$ 1,096,176	\$ 792,934
Less: revenue deductions:		
Charity care	(20,342)	(16,356)
Contractual and other allowances	(360,733)	(225,913)
Implicit price concessions	(19,082)	(14,741)
	<u>\$ 696,019</u>	<u>\$ 535,924</u>

TidalHealth, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2021 and 2020
(Dollar amounts in thousands)

NOTE 8 - INVESTMENTS AND ASSETS LIMITED AS TO USE

Fair value of investments and assets limited as to use is summarized as follows:

	June 30,	
	2021	2020
Cash and cash equivalents	\$ 13,640	\$ 21,348
U.S. Treasury securities	173,886	152,154
Corporate bonds	117,478	115,971
Equity securities	367,441	277,793
Private placement funds		
Hedge	1,977	-
Private equity	1,798	-
Fixed income	221	-
	<u>676,441</u>	<u>567,266</u>
Less amounts required for current liabilities	<u>(2,003)</u>	<u>(3,149)</u>
	<u>\$ 674,438</u>	<u>\$ 564,117</u>
	Years ended June 30,	
	2021	2020
Investment return		
Interest and dividend income	\$ 5,992	\$ 11,545
Realized gains, net	45,072	14,484
Changes in unrealized gains and losses	53,832	8,437
Other	695	(1,455)
	<u>\$ 105,591</u>	<u>\$ 33,011</u>

NOTE 9 - FAIR VALUE MEASUREMENTS

U.S. GAAP establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below.

Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Health System has the ability to access.

Level 2 - Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability; and

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2021 and 2020
(Dollar amounts in thousands)

- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Health System believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The fair value of private placement funds has been determined using the net asset value ("NAV") of the funds as provided by the respective fund managers. The NAV is used as a practical expedient to estimate fair value and is excluded from the fair value hierarchy. The underlying investments of these funds consist of securities with readily determinable market values. As of June 30, 2021, there were no withdrawal restrictions or unfunded commitments on investments reported at NAV.

The following tables present assets measured at fair value, aggregated by level in the fair value hierarchy within which those measurements fall:

	June 30, 2021			
	Level 1	Level 2	Level 3	Total
Assets				
Cash and cash equivalents	\$ 13,640	\$ -	\$ -	\$ 13,640
U.S. government securities	148,059	25,827	-	173,886
Corporate bonds	-	117,478	-	117,478
Equity securities	367,441	-	-	367,441
	<u>\$ 529,140</u>	<u>\$ 143,305</u>	<u>\$ -</u>	672,445
Private placement funds (at NAV):				
Hedge				1,977
Private equity				1,798
Fixed income				221
				<u>3,996</u>
				<u>\$ 676,441</u>

TidalHealth, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2021 and 2020
 (Dollar amounts in thousands)

	June 30, 2020			Total
	Level 1	Level 2	Level 3	
Assets				
Cash and cash equivalents	\$ 21,348	\$ -	\$ -	\$ 21,348
U.S. government securities	119,462	32,692	-	152,154
Corporate bonds	-	115,971	-	115,971
Equity securities	277,688	105	-	277,793
	<u>\$ 418,498</u>	<u>\$ 148,768</u>	<u>\$ -</u>	<u>\$ 567,266</u>

The fair values of securities are determined by third-party service providers utilizing various methods depending on the specific type of investment. Where quoted prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Where significant inputs, including benchmark yields, broker-dealer quotes, issuer spreads, bids, offers, the London Interbank Offered Rate curve, and measures of volatility, are used by these third-party dealers or independent pricing services to determine fair values, the securities are classified within Level 2.

TidalHealth, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2021 and 2020
(Dollar amounts in thousands)

NOTE 10 - INVESTMENT IN UNCONSOLIDATED JOINT VENTURES

The Health System and physicians located throughout Maryland and Delaware have joined together, along with other non-related for-profit investors, to expand surgical and certain other services within the local communities through jointly owned ventures, as follows:

	Membership Percentage		Investment in Unconsolidated Joint Ventures		Equity Earnings (Losses) in Unconsolidated Joint Ventures	
	June 30,		June 30,		Years ended June 30,	
	2021	2020	2021	2020	2021	2020
TidalHealth:						
Advanced Health Collaborative I, LLC	-%	-%	\$ -	\$ -	\$ -	\$ (78)
Advanced Health Collaborative II, LLC	25%	25%	132	67	(76)	(120)
			132	67	(76)	(198)
Health Ventures:						
Peninsula Imaging, LLC	50%	50%	5,014	4,195	1,818	874
AHP Delmarva, LLP	50%	50%	1,111	1,106	214	179
Genesis Healthcare - Salisbury, LLC	50%	50%	3,721	4,023	(303)	531
Peninsula Home Care, LLC	50%	50%	498	372	583	406
PHC at Nanticoke, LLC	33%	33%	283	398	101	85
YDI, Inc.	50%	50%	93	112	(19)	112
Corelife, Inc.	-%	50%	-	652	(466)	(240)
Delmarva Endoscopy Center, LLC	-%	80%	-	308	(10)	(553)
Deerpointe	26.3%	26.3%	6,705	6,860	701	351
			17,425	18,026	2,619	1,745
			\$ 17,557	\$ 18,093	\$ 2,543	\$ 1,547

Regardless of the proportionate ownership of capital investment in these ventures, all decisions are made by the respective venture's operating board. In each case, the operating board is composed equally of members appointed by the Health System/Health Ventures and the other investors as a group. Accordingly, these are accounted for on the equity method of accounting.

Equity earnings (losses) in unconsolidated joint ventures for the Health System are included in investment return and Health Ventures are included in other revenue on the consolidated statements of operations and changes in net assets, due to the type of operations of the joint venture.

TidalHealth, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2021 and 2020
 (Dollar amounts in thousands)

NOTE 11 - PROPERTY AND EQUIPMENT

A summary of property and equipment follows:

	Estimated Useful Lives (in Years)	June 30,	
		2021	2020
Land	-	\$ 18,872	\$ 18,872
Land improvements	20	13,814	13,814
Buildings and improvements	15 - 40	347,903	346,184
Fixed equipment	20	41,885	41,965
Movable equipment	5 - 7	301,348	283,697
		723,822	704,532
Less accumulated depreciation and amortization		(440,683)	(401,044)
		283,139	303,488
Construction in progress		40,040	12,233
		<u>\$ 323,179</u>	<u>\$ 315,721</u>

As of June 30, 2021, the Health System was committed to building and equipment purchases totaling approximately \$7,746.

TidalHealth, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2021 and 2020
(Dollar amounts in thousands)

NOTE 12 - LONG-TERM DEBT

Long-term debt consists of the following:

	June 30,	
	2021	2020
Maryland Health and Higher Educational Facilities Authority ("MHHEFA") Revenue Bonds:		
Series 2020A 3.00% to 5.00% serial and term bonds due in annual amounts ranging from \$1,030 to \$13,130 on July 1 of each year through 2048	\$ 94,965	\$ 95,995
Series 2015 5.00% serial and term bonds due in annual amounts ranging from \$2,540 to \$2,800 on July 1 of each year through 2023	8,005	115,380
Bank Taxable Notes:		
Series 2021A 2.40% taxable note due in annual amounts ranging from \$415 to \$6,895 on July 1 of each year through 2045	122,215	-
Series 2021B 2.46% taxable note due in annual amounts ranging from \$95 to \$435 on July 1 of each year through 2045	8,360	-
Bank loan due monthly through May 2025 with a 4.60% fixed rate of interest	1,433	-
Delaware Economic Development Authority Strategic Fund Loan, maturing in varying annual amounts through 2023, no stated interest rate	1,014	1,433
United States Department of Agriculture ("USDA") - Second mortgage - This mortgage was repaid in full by the proceeds of the Series 2021B Note	-	5,259
Bank mortgage which was repaid in full by the proceeds of the Series 2021B Note	-	3,205
Building and equipment collateral loans, with various interest rates were repaid in full during 2021	-	182
Financing leases, with various interest rates, secured by related equipment, were repaid in full during 2021	-	1,236
	<u>235,992</u>	<u>222,690</u>
Less: current portion of long-term debt	<u>(5,597)</u>	<u>(4,671)</u>
	230,395	218,019
Plus: original issue premiums, net	6,917	22,147
Less: unamortized debt issue costs, net	<u>(2,099)</u>	<u>(2,737)</u>
Long-term debt, less current portion	<u>\$ 235,213</u>	<u>\$ 237,429</u>

The premiums and related financing costs on the Bonds are being amortized over the life of the bonds.

Series 2021A Taxable Note

In February 2021, TidalHealth entered into a note agreement with a bank for \$123,325. The proceeds of the issue were used primarily to advance refund \$104,955 the Series 2015 Revenue Bonds. The advance

TidalHealth, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2021 and 2020
(Dollar amounts in thousands)

refunding generated a loss on extinguishment of debt of \$3,660, consisting of the call premium and the write off of the original issue premium and costs of issuance.

Series 2021B Taxable Note

In February 2021, TidalHealth entered into a note agreement with a bank for \$8,405. The proceeds of the issue were used primarily: (i) to repay in full the USDA second mortgage and the Bank mortgage; and (ii) to pay the cost of issuance.

Series 2020A Revenue Bonds

In May 2015, MHHEFA authorized the issuance of \$95,995 aggregate principal amount of Revenue Bonds (Series 2020A Revenue Bonds) at a premium of \$5,944. The proceeds of the issue, after payment of financing costs, were used primarily: (i) to advance refund NMH debt obligations with the USDA and the 2013 Delaware Health and Facilities Authority Bonds; and (ii) to finance \$58,500 of capital purchases. The advance refunding generated a loss on extinguishment of debt of \$4,142, consisting of the call premium and the write off of the original issue premium and costs of issuance.

Series 2015 Revenue Bonds

In February 2015, MHHEFA authorized the issuance of \$126,665 aggregate principal amount of Revenue Bonds (Series 2015 Revenue Bonds) at a premium of \$20,770. The proceeds of the issue, after payment of financing costs, were used primarily: (i) to advance the 2006 bonds and; (ii) to finance \$25,000 of capital purchases. In 2021, \$104,955 of the Series 2015 Bonds were advance refunded through the proceeds of the 2021A Taxable Note.

Covenants

The Obligated Group for the 2020A and 2015 Bonds (collectively the "Bonds") consists of TidalHealth, TPR, TN and TPN and the Obligated Group for the Series 2021A and B Taxable Notes (collectively the "Taxable Notes"), consists of TidalHealth, TPR, TMP, TN, TPN and McCready Foundation, Inc., are required to make semiannual payments to the trustee and the bank sufficient to meet the annual debt service requirements.

As security for the debt service requirements of the Bonds and Taxable Notes, MHHEFA and the bank have a first lien and claim on all receipts of the Obligated Groups. The terms of the indenture agreements restrict the Obligated Groups' ability to create additional indebtedness and its use of the facilities and require the Obligated Groups to maintain stipulated insurance coverage and a rate structure in each year sufficient to meet certain rate covenant requirements. The Obligated Groups have complied with these financial covenants for the years ended June 30, 2021 and 2020.

Scheduled principal repayments on long-term debt for the years ending June 30, are as follows:

2022	\$	5,597
2023		5,853
2024		6,066
2025		6,871
2026		6,775
Thereafter		<u>204,830</u>
	\$	<u>235,992</u>

TidalHealth, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2021 and 2020
 (Dollar amounts in thousands)

Fair Value

The Health System uses quoted market prices in estimating the fair value of its long-term debt, excluding financing leases. The fair value of the long-term debt, excluding financing leases outstanding as of June 30, 2021 and 2020, was approximately \$256,951 and \$240,229, respectively.

NOTE 13 - LEASES

The following table presents the components of the right of use assets and liabilities related to leases and their classification in the consolidated balance sheets at:

Component of Lease Balances	Classification in Consolidated Balance Sheets	June 30,	
		2021	2020
Assets			
Operating lease assets	Other assets	\$ 6,788	\$ 8,477
Finance lease assets	Property, plant, and equipment, net	-	777
		<u>\$ 6,788</u>	<u>\$ 9,253</u>
Liabilities			
Operating lease liabilities			
Current	Current portion of lease liability	\$ 1,779	\$ 1,932
Long-term	Lease liability, net of current portion	<u>5,090</u>	<u>6,628</u>
		<u>6,869</u>	<u>8,560</u>
Finance lease liabilities			
Current	Current portion of long-term debt	-	566
Long-term	Long-term debt, net of current portion	<u>-</u>	<u>670</u>
		<u>-</u>	<u>1,236</u>
		<u>\$ 6,869</u>	<u>\$ 9,796</u>

TidalHealth, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2021 and 2020
(Dollar amounts in thousands)

The following table presents the components of lease expense and their classification in the consolidated statements of operations and changes in net assets for the:

Component of Lease Balances	Classification in Consolidated Statements of Operations and Changes in Net Assets	Years ended June 30,	
		2021	2020
Operating lease expense	Supplies and other	\$ 5,338	\$ 2,957
Finance lease expense:			
Amortization of leased assets	Depreciation and amortization	-	202
Interest on lease liabilities	Interest	-	26
		-	228
Variable and short-term lease expense	Supplies and other	1,841	2,659
		<u>\$ 7,179</u>	<u>\$ 5,844</u>

The weighted-average lease terms and discount rates for operating and finance leases are as follows:

	June 30,	
	2021	2020
Weighted-average remaining lease term (years)		
Operating leases	5.75 years	6.81 years
Finance leases	N/A	2.70 years
Weighted-average discount rate		
Operating leases	2.84%	2.59%
Finance leases	N/A	3.71%

Cash flow related to leases is as follows:

	2021	2020
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash outflows related to operating leases	\$ 5,128	\$ 2,957
Operating cash outflows related to finance leases	-	26
Financing cash outflows related to finance leases	1,236	995

There were no right-of-use assets (operating or financing leases) obtained in exchange for lease obligations for the years ended June 30, 2021 or 2020.

TidalHealth, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2021 and 2020
(Dollar amounts in thousands)

NOTE 13 - LEASES - CONTINUED

The future minimum rental commitments for all noncancelable operating leases are as follows:

<u>Years ending June 30,</u>	
2022	\$ 1,887
2023	1,427
2024	1,215
2025	679
2026	949
Thereafter	<u>1,470</u>
	7,627
Less: Imputed interest	<u>(758)</u>
	6,869
Less: Current portion	<u>(1,779)</u>
	<u>\$ 5,090</u>

NOTE 14 - RETIREMENT BENEFIT PLANS

Defined Benefit Plans

The Health System has a cash balance-type defined benefit pension plan, The Peninsula Regional Medical Center Pension Plus Plan (the "Plan"), covering substantially all of its employees. The Plan was remeasured on January 1, 2020, due to the significant number of new participants entering the Plan as a result of the acquisition of TN. Plan benefits are based on years of service and the employees' compensation during the last five years of covered employment. The Health System's funding policy is to make sufficient contributions to the Plan to comply with the minimum funding provisions of the Employee Retirement Income Security Act of 1974. 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.

The Plan provides annual allocations to a participant's hypothetical account. When a participant retires, the participant has the choice to receive a lump-sum distribution equal to the value of the hypothetical account or to receive an annuity based on the value of the hypothetical account.

The Plan provided three different allocations: (i) a service-related allocation; (ii) an age-related allocation; and (iii) a matching allocation for certain employees. Both the service-related allocation and the age-related allocation were determined by multiplying a participant's annual compensation by a certain percentage. The matching allocation operated to provide an annual allocation in the Plan based on the participant's contribution to the Health System's 403(b) plan.

TN has a qualified noncontributory defined benefit pension plan (the "TN Plan") that was frozen effective January 1, 2009. The funding policy is to make sufficient contributions to comply with the minimum funding requirements of the Employee Retirement Income Security Act (ERISA).

TidalHealth, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2021 and 2020
(Dollar amounts in thousands)

The following provides a reconciliation of the changes in the projected benefit obligations and the fair value of plans assets, and plans funded status:

	June 30,			
	2021 The Plan	2021 TN Plan	2020 The Plan	2020 TN Plan
Accumulated benefit obligation	\$ 158,021	\$ 20,641	\$ 153,558	\$ 22,200
Projected benefit obligation, beginning of year	\$ 169,785	\$ 22,200	\$ 148,914	\$ 20,472
Service cost	13,826	-	9,854	-
Interest cost	3,875	314	4,530	599
Actuarial (gain) loss	(2,014)	(216)	13,647	3,191
Benefits paid	(9,697)	(1,657)	(7,160)	(2,062)
Projected benefit obligation, end of year	175,775	20,641	169,785	22,200
Fair value of plan assets, beginning of year	156,685	18,470	148,760	20,306
Actual gain on plan assets	42,162	3,778	15,085	227
Employer contributions	3,000	-	-	-
Benefits paid	(9,697)	(1,657)	(7,160)	(2,062)
Fair value of plan assets, end of year	192,150	20,591	156,685	18,471
Funded status	\$ 16,375	\$ (50)	\$ (13,100)	\$ (3,729)
Amounts recognized in the consolidated balance sheets:				
Other assets	\$ 16,375	\$ -	\$ -	\$ -
Accrued retirement benefits	\$ -	\$ (50)	\$ (13,100)	\$ (3,729)
Net amounts recognized in net assets without donor restrictions:				
Net actuarial loss (gain)	\$ (9,774)	\$ (108)	\$ 27,161	\$ 2,861

TidalHealth, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2021 and 2020
(Dollar amounts in thousands)

Components of net periodic benefit cost and changes in net asset without donor restrictions are as follows:

	Year ended June 30,			
	2021	2021	2020	2020
	The Plan	TN Plan	The Plan	TN Plan
Components of net periodic benefit cost recognized in employee benefits:				
Service cost	\$ 13,826	\$ -	\$ 9,854	\$ -
Components of net periodic benefit cost (gain) recognized in other items:				
Interest cost	3,875	314	4,530	240
Expected return on plan assets	(9,461)	(1,118)	(9,083)	(626)
Recognized net actuarial loss	2,218	94	1,562	-
	<u>(3,368)</u>	<u>(710)</u>	<u>(2,991)</u>	<u>(386)</u>
Net periodic benefit cost (gain)	10,458	(710)	6,863	(386)
Recognized in net assets without donor restrictions as other changes in other changes in accrued retirement benefits:				
Net actuarial loss (gain)	<u>(36,935)</u>	<u>(2,969)</u>	<u>6,082</u>	<u>2,861</u>
Total recognized in net periodic benefit cost and change in net assets without donor restrictions	<u>\$ (26,477)</u>	<u>\$ (3,679)</u>	<u>\$ 12,945</u>	<u>\$ 2,475</u>

The estimated net actuarial loss for the Plan and TN Plan that will be amortized from net assets without donor restrictions into net periodic benefit cost over the next fiscal year is \$2,218 and \$53, respectively.

TidalHealth, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2021 and 2020
(Dollar amounts in thousands)

Weighted-average assumptions used to determine projected benefit obligations and net periodic benefit costs were as follows:

	June 30,			
	2021	2021	2020	2020
	The Plan	TN Plan	The Plan	TN Plan
Projected benefit obligation				
Discount rate	2.50%	2.25%	2.35%	1.50%
Rates of increase in compensation levels:				
Service:				
<11	8.00%	N/A	8.00%	N/A
11<21	5.00%	N/A	5.00%	N/A
21=<	3.00%	N/A	3.00%	N/A

	June 30,			
	2021	2021	2020	2020
	The Plan	TN Plan	The Plan	TN Plan
Net periodic benefit cost				
Discount rate (July 1st)	2.35%	1.50%	3.25%	N/A
Discount rate (January 1st)	N/A	N/A	3.00%	3.75%
Expected long-term return on plan assets	6.75%	6.50%	6.75%	6.50%
Rate of increase in compensation levels:				
Service:				
<11	8.00%	N/A	8.00%	N/A
11<21	5.00%	N/A	5.00%	N/A
21=<	3.00%	N/A	3.00%	N/A

The defined benefit pension plan asset allocation as of the measurement date and the target asset allocation, presented as a percentage of total plan assets, were as follows:

	June 30,				
	2021	2021	2020	2020	Target
	The Plan	TN Plan	The Plan	TN Plan	Allocations
Debt securities	41%	47%	40%	48%	25% - 50%
Equity securities	57	53	57	52	45% - 75%
Cash and cash equivalents	2	-	3	-	1% - 10%
Total	100%	100%	100%	100%	

The Health System's defined benefit plan invests in a diversified mix of traditional asset classes. Investments in U.S. equity securities and fixed income securities are made to maximize long term results while recognizing the need for adequate liquidity to meet ongoing benefit and administrative obligations. Risk tolerance of unexpected investment and actuarial outcomes is continually evaluated by understanding the pension plan's liability characteristics. This is performed through forecasting and assessing ranges of

TidalHealth, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2021 and 2020
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investment outcomes over short-term and long-term horizons, and by assessing the Health System's financial condition and its future potential obligations from both the pension and general operational requirements. Complementary investment styles, such as growth and value equity investing techniques, are utilized by the Health System's investment advisors to further improve portfolio and operational risk characteristics. Equity investments, both actively and passively managed, are used primarily to increase overall plan returns. Fixed income investments provide diversification benefits and liability hedging attributes that are desirable, especially in falling interest rate environments.

Asset allocations and investment performance are formally reviewed at regularly scheduled meetings of the Health System's Financial Resources Committee.

The overall rate of expected return on assets assumption was based on historical returns, with adjustments made to reflect expectations of future returns. The extent to which the future expectations were recognized included the target rates of return for the future, which have not historically changed.

The fair values of assets as of June 30, by asset category (see Note 9 for a description of the asset categories), are as follows:

	June 30, 2021			
	Level 1	Level 2	Level 3	Total
Assets - The Plan				
investments at fair value:				
Cash and cash equivalents	\$ 2,987	\$ -	\$ -	\$ 2,987
U.S. Treasuries	27,178	-	-	27,178
Government-sponsored mortgage-backed securities	-	2,909	-	2,909
Corporate debt securities	-	22,536	-	22,536
Publicly traded equity securities	136,037	-	-	136,037
Other		503	-	503
Total	\$ 166,202	\$ 25,948	\$ -	\$ 192,150
	June 30, 2021			
	Level 1	Level 2	Level 3	Total
Assets - TN Plan				
investments at fair value:				
Publicly traded equity securities	\$ 20,591	\$ -	\$ -	\$ 20,591
Total	\$ 20,951	\$ -	\$ -	\$ 20,951

TidalHealth, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2021 and 2020
(Dollar amounts in thousands)

	June 30, 2020			
	Level 1	Level 2	Level 3	Total
Assets - The Plan				
investments at fair value:				
Cash and cash equivalents	\$ 2,067	\$ -	\$ -	\$ 2,067
U.S. Treasuries	23,415	-	-	23,415
Government-sponsored mortgage-backed securities	-	5,321	-	5,321
Corporate debt securities	-	28,998	-	28,998
Publicly traded equity securities	96,490	-	-	96,490
Other	394	-	-	394
Total	\$ 122,366	\$ 34,319	\$ -	\$ 156,685

	June 30, 2020			
	Level 1	Level 2	Level 3	Total
Assets - TN Plan				
investments at fair value:				
Publicly traded equity securities	\$ 18,471	\$ -	\$ -	\$ 18,471
Total	\$ 18,471	\$ -	\$ -	\$ 18,471

The following methods and assumptions were used to estimate the fair value of each class of financial instrument:

U.S. Treasuries: The fair value is determined by an active price for an identical security in an observable market.

Corporate debt securities and government-sponsored mortgage-backed securities: The fair value is estimated using quoted prices for similar assets in active markets or quoted prices for identical or similar assets in non-active markets (few transactions, limited information, noncurrent prices, and high variability over time).

Money market funds: The carrying value of these money market funds approximates fair value as the maturities are less than three months.

Publicly traded equity securities: The fair value is determined by market quotes for an identical security in an observable market.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Health System believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

TidalHealth, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2021 and 2020
(Dollar amounts in thousands)

Cash Flows

The Health System expects to make voluntary contributions of \$3,000 to the Plan and none to the TN Plan, for the year ending June 30, 2022. This funding level exceeds any regulatory requirements.

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid as follows for the years ending June 30:

	The Plan	TN Plan
2022	\$ 10,005	\$ 2,479
2023	10,627	1,541
2024	11,270	1,007
2025	11,967	1,419
2026	12,487	1,581
2027 - 2031	66,018	7,163

Defined Contribution Plan

The Health System has a 403(b) defined contribution savings plan that includes all full-time and part-time employees. The Health System matches participant contributions for active participants as of December 31 who have completed at least 975 hours of service during the calendar year. The match is 25% of the first 1% of compensation for participants with 1 - 15 years of service and 50% of the first 2% for participants with more than 15 years of service. The Health System's contribution expense for the years ended June 30, 2021 and 2020 was \$1,663 and \$1,448, respectively.

NOTE 15 - COMMITMENTS AND CONTINGENCIES

Self-Insurance Liabilities and litigation

DPIC provides Primary Medical Professional Liability ("MPL") and Primary General Liability ("GL") coverage to the Health System and its employed physicians on a mature claims-made basis. The primary MPL policy provides limits of liability of \$2,000 per occurrence with an \$8,000 annual aggregate. The primary GL policy provides limits of liability of \$1,000 per occurrence with a \$3,000 annual aggregate. The employed physicians are covered with retro dates consistent with their date of hire. This policy is retrospectively rated.

DPIC provides excess umbrella liability coverage on a mature claims-made basis with a retroactive date of March 1, 2005. The excess MPL coverage follows the form of the underlying MPL coverage providing a total of \$30,000 limits of liability. The umbrella liability coverage provides \$30,000 limits of liability in excess of scheduled underlying coverages. The excess umbrella liability coverage is 100% reinsured with an unrelated commercial insurance company for the first \$10,000 limit and another unrelated commercial insurance company for the second \$20,000 limit.

DPIC assumed the MPL and GL coverage previously included under the Health System's self-insurance plan (the "LPT"), for incidents occurring between March 1, 1986 and June 30, 2013 for MPL and for occurrences between March 1, 2004 and June 30, 2013 for GL, that were reported to the Hospital prior to June 30, 2013. The policy provides MPL coverage limits varying from \$1,000 to \$2,000 per occurrence, with policy aggregates varying from \$3,000 to \$8,000. The policy provides GL coverage limits of \$1,000 per occurrence and \$3,000 annual aggregates.

TidalHealth, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2021 and 2020
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DPIC also provides employee benefit plan stop loss coverage to the Health System on a claims-made basis. DPIC covers liability in excess of \$350 per covered person with a \$100 deductible. DPIC's liability above \$250 is fully reinsured with an unrelated commercial reinsurance company.

The reserves for reported professional liability claims and claims incurred but not reported ("IBNR") are reported gross of expected insurance recoveries. The reserves for reported claims and claims IBNR are reported within the self-insured liabilities in the consolidated balance sheets. In addition, the expected insurance recoveries are reported as reinsurance receivable in other assets in the consolidated balance sheets.

The loss reserves are management's best estimate based on actuarial estimates of the ultimate net cost of settling losses on incurred claims. The estimates are reviewed and adjusted, as necessary, as experience develops or new information becomes known. Management believes that the loss reserves are adequate; however, the ultimate settlement of losses may vary significantly from the amounts recorded in the accompanying consolidated financial statements.

Accrued claims activity related to MPL, GL and employee benefit plan, is as follows:

	Years ended June 30,	
	2021	2020
Accrued claims and IBNR - beginning of the year	\$ 25,329	\$ 16,375
Less: reinsurance receivable	<u>(10,408)</u>	<u>(5,957)</u>
Accrued claims and IBNR, net - beginning of the year	14,921	10,418
Liabilities assumed from NIC acquisition, net of reinsurance recoverable of \$1,773 at January 1, 2020	-	3,712
Incurred related to:		
Current year	5,506	3,420
Prior year	<u>8,324</u>	<u>(846)</u>
Total incurred	13,830	2,574
Paid related to:		
Current year	(83)	(62)
Prior year	<u>(10,355)</u>	<u>(1,116)</u>
Total paid	<u>(10,438)</u>	<u>(1,177)</u>
Accrued claims and IBNR, net - end of the year	18,313	15,528
Deduct: write-off of loss recoverable related to prior years	-	(606)
Add: reinsurance receivable	<u>6,796</u>	<u>10,408</u>
Accrued claims and IBNR - end of the year	<u>\$ 25,109</u>	<u>\$ 25,329</u>

TidalHealth, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2021 and 2020
(Dollar amounts in thousands)

The Health System is also self-insured for workers' compensation up to an annual limit of \$500 per occurrence. The Health System carries an excess liability insurance policy for workers' compensation claims above this limit. As of June 30, 2021 and 2020, \$3,496 and \$3,891, respectively, have been reserved for workers' compensation loss contingencies.

The Health System has been named as a defendant in various lawsuits arising from the performance of its normal activities. In the opinion of the Health System's management, after discussion with legal counsel, the amount, if any, of the Health System's ultimate liability under these lawsuits will not have a material adverse effect on the consolidated financial statements.

A portion of the Health System's revenues is received from health maintenance organizations and other managed care payors. Managed care payors generally use case management activities to control utilization. These payors also have the ability to select providers offering the most cost-effective care. Management does not believe that the Health System has undue exposure to any one managed care payor.

NOTE 16 - NET ASSETS WITH DONOR RESTRICTIONS

Restricted net assets are available for the following purposes:

	June 30,	
	2021	2020
Subject to expenditure for specific purpose or time:		
Capital purposes	\$ 31,514	\$ 23,448
Patient services	20,542	15,804
Educational purposes	6,188	4,699
	<u>58,244</u>	<u>43,951</u>
Investments to be held in perpetuity, the income from which is expendable to support health care services	8,565	8,533
	<u>8,565</u>	<u>8,533</u>
Total	<u>\$ 66,809</u>	<u>\$ 52,484</u>

The Foundation has ongoing fundraising campaigns, which include pledges and contributions receivable included in other assets on the consolidated balance sheets. Scheduled payments on pledges receivable are as follows:

	June 30,	
	2020	2019
Due:		
Within one year	\$ 680	\$ 432
2 to 5 years	1,102	1,619
Greater than 5 years	47	101
	<u>1,829</u>	<u>2,152</u>
Less:		
Impact of discounting of pledges receivable to net present value	(32)	(62)
Allowance for uncollectible pledges	(202)	(215)
	<u>(234)</u>	<u>(277)</u>
Net pledges receivable, for capital purposes	<u>\$ 1,595</u>	<u>\$ 1,875</u>

TidalHealth, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2021 and 2020
(Dollar amounts in thousands)

NOTE 17 - CONCENTRATIONS OF CREDIT RISK

The Health System grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of accounts receivable from patients and third-party payors is as follows:

	Years ended June 30,	
	2021	2020
Medicare	52%	52%
Medicaid	19	19
Managed care	13	14
CareFirst Blue Cross Blue Shield	12	12
Other, including self pay	4	3
	<u>100%</u>	<u>100%</u>

NOTE 18 - FUNCTIONAL EXPENSES

The Health System considers health care services and general and administrative to be its primary functional categories for purposes of expense classification. The operating expenses by functional classification:

	Year ended June 30, 2021		
	Health Care Services	General and Administrative	Total
Salaries and wages	\$ 266,304	\$ 30,556	\$ 296,860
Supplies and other expenses	288,227	32,441	320,668
Employee benefits	71,917	8,115	80,032
Depreciation and amortization	36,585	4,101	40,686
Interest	7,677	855	8,532
	<u>\$ 670,710</u>	<u>\$ 76,068</u>	<u>\$ 746,778</u>
	Year ended June 30, 2020		
	Health Care Services	General and Administrative	Total
Salaries and wages	\$ 213,745	\$ 22,116	\$ 235,861
Supplies and other expenses	230,795	23,974	254,769
Employee benefits	50,839	5,515	56,354
Depreciation and amortization	32,000	3,277	35,277
Interest	5,889	603	6,492
	<u>\$ 533,268</u>	<u>\$ 55,485</u>	<u>\$ 588,753</u>

TidalHealth, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2021 and 2020

(Dollar amounts in thousands)

NOTE 19 - SUBSEQUENT EVENTS

The Health System has evaluated its June 30, 2021 consolidated financial statements for subsequent events through September 29, 2021, the date the consolidated financial statements were issued. Management is not aware of any subsequent events which require recognition or disclosure in the consolidated financial statements.

SUPPLEMENTAL INFORMATION

TidalHealth, Inc.

COMBINING STATEMENT OF OPERATIONS - TIDALHEALTH PENINSULA REGIONAL

Year ended June 30, 2021
 (Dollar amounts in thousands)

	<u>TidalHealth Peninsula Regional</u>	<u>McCready Pavillion</u>	<u>TidalHealth Peninsula Regional Combined</u>
Net assets without donor restrictions			
Revenue			
Patient service revenue	\$ 467,068	\$ 4,561	\$ 471,629
Other revenue	20,597	-	20,597
Total revenue	487,665	4,561	492,226
Expenses			
Salaries and wages	164,153	4,115	168,268
Supplies and other expenses	185,865	4,744	190,609
Employee benefits	40,721	294	41,015
Depreciation and amortization	27,363	-	27,363
Interest	5,783	-	5,783
Total expenses	423,885	9,153	433,038
Income (loss) from operations before other items	63,780	(4,592)	59,188
Other items			
Investment return	90,917	-	90,917
Other pension gains	3,094	-	3,094
Loss on extinguishment of debt	(3,660)	-	(3,660)
Total other items	90,351	-	90,351
Excess of (deficiency in) revenue over expenses	<u>\$ 154,131</u>	<u>\$ (4,592)</u>	<u>\$ 149,539</u>