

# Beloit Health System, Inc. and Affiliate

Consolidated Financial Statements and  
Supplementary Information

Years Ended December 31, 2017 and 2016

**WIPFLi**<sup>LLP</sup>  
CPAs and Consultants



## Independent Auditor's Report

Board of Trustees  
Beloit Health System, Inc. and Affiliate  
Beloit, Wisconsin

We have audited the accompanying consolidated financial statements of Beloit Health System, Inc. and Affiliate, which comprise the consolidated balance sheets as of December 31, 2017 and 2016, 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 Financial Statements

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

### Auditor's Responsibility

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

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

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

### Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Beloit Health System, Inc. and Affiliate as of December 31, 2017 and 2016, and the results of their operations, changes in their net assets, and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States.

A handwritten signature in cursive script that reads "Wipfli LLP".

Wipfli LLP

March 15, 2018  
Milwaukee, Wisconsin

# Beloit Health System, Inc. and Affiliate

## Consolidated Balance Sheets

December 31, 2017 and 2016

Assets	2017	2016
Current assets:		
Cash and cash equivalents	\$ 17,265,825	\$ 22,760,348
Patient accounts receivable - Net	38,632,456	35,741,923
Other accounts receivable	3,410,053	1,028,677
Pledges receivable	1,124,711	1,166,654
Inventory	5,175,819	4,430,933
Amounts receivable from third-party reimbursement programs	1,573,000	2,110,000
Prepaid expenses	1,146,960	985,580
Total current assets	68,328,824	68,224,115
Investments	71,984,322	62,331,445
Assets limited as to use	18,110,865	19,205,988
Property and equipment - Net	131,764,846	128,204,774
Other assets:		
Goodwill	3,300,000	3,300,000
Pledges receivable, less current portion	1,301,608	2,317,379
Total other assets	4,601,608	5,617,379
<b>TOTAL ASSETS</b>	<b>\$ 294,790,465</b>	<b>\$ 283,583,701</b>

# Beloit Health System, Inc. and Affiliate

## Consolidated Balance Sheets (Continued)

December 31, 2017 and 2016

Liabilities and Net Assets	2017	2016
Current liabilities:		
Current maturities of long-term debt	\$ 2,822,187	\$ 2,776,639
Accounts payable	8,084,575	11,358,859
Accrued liabilities	20,352,588	18,946,719
Total current liabilities	31,259,350	33,082,217
Long-term liabilities:		
Long-term debt, less current maturities	81,829,461	84,584,834
Pension liability	18,323,446	16,621,711
Deferred compensation	4,393,096	3,575,341
Interest rate swap agreements	7,311,807	8,163,135
Total long-term liabilities	111,857,810	112,945,021
Total liabilities	143,117,160	146,027,238
Net assets:		
Unrestricted	142,447,192	125,002,928
Temporarily restricted	7,391,380	10,776,104
Permanently restricted	1,834,733	1,777,431
Total net assets	151,673,305	137,556,463
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 294,790,465</b>	<b>\$ 283,583,701</b>

See accompanying notes to consolidated financial statements.

# Beloit Health System, Inc. and Affiliate

## Consolidated Statements of Operations

Years Ended December 31, 2017 and 2016

	2017	2016
<b>Revenue:</b>		
Patient service revenue (net of contractual allowances and discounts)	\$ 241,551,948	\$ 238,261,969
Provision for bad debts	(9,856,332)	(13,034,256)
Net patient service revenue, less provision for bad debts	231,695,616	225,227,713
Other operating revenue	9,602,365	8,709,182
<b>Total revenue</b>	<b>241,297,981</b>	<b>233,936,895</b>
<b>Expenses:</b>		
Salaries and wages	96,758,705	96,205,099
Employee benefits	40,999,347	39,158,356
Professional fees and purchased services	35,519,068	31,770,417
Supplies	38,909,264	36,718,001
Utilities	3,019,904	2,919,066
Insurance	740,799	612,692
Hospital assessment	5,601,362	5,651,730
Depreciation	11,361,874	10,318,841
Interest	3,747,270	3,421,697
<b>Total expenses</b>	<b>236,657,593</b>	<b>226,775,899</b>
Income from operations	4,640,388	7,160,996
<b>Nonoperating income (loss):</b>		
Investment income	7,570,368	2,908,724
Other-Net	219,519	212,389
<b>Excess of revenue over expenses</b>	<b>12,430,275</b>	<b>10,282,109</b>
<b>Other changes in unrestricted net assets:</b>		
Changes in net unrealized gains and losses on investments other than trading securities	2,170,286	2,074,226
Change in fair value of effective portion of interest rate swap agreements	802,736	1,097,089
Net assets released from restrictions for capital improvements	3,354,121	2,662,121
Other	(10,002)	(9)
Net assets transferred from Beloit Regional Hospice, Inc. (Note 2)	-	578,730
Change in pension obligation other than pension expense	(1,303,152)	(2,229,810)
<b>Increase in unrestricted net assets</b>	<b>\$ 17,444,264</b>	<b>\$ 14,464,456</b>

See accompanying notes to consolidated financial statements.

# Beloit Health System, Inc. and Affiliate

## Consolidated Statements of Changes in Net Assets

Years Ended December 31, 2017 and 2016

	2017	2016
Increase in unrestricted net assets	\$ 17,444,264	\$ 14,464,456
Temporarily restricted net assets		
Contributions	1,166,384	3,091,844
Investment income	160,438	111,727
Change in net unrealized gains and losses on investments other than trading securities	420,382	351,358
Net assets released from restrictions for capital improvements	(3,354,121)	(2,662,121)
Net assets released from restrictions for operations	(1,777,807)	(174,489)
Net assets transferred from Beloit Regional Hospice, Inc. (Note 2)	-	1,551,914
Increase (decrease) in temporarily restricted net assets	(3,384,724)	2,270,233
Permanently restricted net assets		
Contributions	57,302	6,739
Net assets transferred from Beloit Regional Hospice, Inc. (Note 2)	-	92,394
Increase in permanently restricted net assets	57,302	99,133
Change in net assets	14,116,842	16,833,822
Net assets at beginning	137,556,463	120,722,641
Net assets at end	\$ 151,673,305	\$ 137,556,463

See accompanying notes to consolidated financial statements.

# Beloit Health System, Inc. and Affiliate

## Consolidated Statements of Cash Flows

Years Ended December 31, 2017 and 2016

	2017	2016
Increase (decrease) in cash and cash equivalents:		
Cash flows from operating activities:		
Change in net assets	\$ 14,116,842	\$ 16,833,822
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	11,361,874	10,318,841
Amortization of bond premiums, discounts, and bond issuance costs	66,810	48,649
Provision for bad debts	9,856,332	13,034,256
Change in net unrealized gains and losses on investments other than trading securities	(2,590,668)	(2,425,584)
Change in fair value of interest rate swap agreements	(851,328)	(1,164,257)
Net realized gains on sales of investments	(6,412,788)	(1,799,509)
Change in pension obligation other than pension expense	1,303,152	2,229,810
Restricted contributions and grants	(165,972)	(3,172,716)
Net assets transferred from Beloit Regional Hospice, Inc., net of cash acquired of \$62,575 (Note 2)	-	(2,160,463)
Changes in operating assets and liabilities		
Patient accounts receivable	(12,746,865)	(22,302,943)
Other accounts receivable	(2,381,376)	(31,692)
Pledges receivable	1,057,714	78,692
Inventory	(744,886)	19,825
Amounts receivable from third-party reimbursement programs	537,000	136,660
Prepaid expenses	(161,380)	(1,727)
Accounts payable	(3,274,284)	1,684,936
Accrued liabilities	1,804,452	953,069
Deferred compensation	817,755	559,971
Net cash provided by operating activities	\$ 11,592,384	\$ 12,839,640

# Beloit Health System, Inc. and Affiliate

## Consolidated Statements of Cash Flows (Continued)

Years Ended December 31, 2017 and 2016

	2017	2016
Cash flows from investing activities:		
Purchases of investments and assets limited as to use	\$ (14,915,385)	\$ (23,807,896)
Proceeds from sales of investments and assets limited as to use	15,361,087	17,392,698
Capital expenditures	(14,921,946)	(26,192,659)
Net cash used in investing activities	(14,476,244)	(32,607,857)
Cash flows from financing activities:		
Proceeds from issuance of long-term debt	-	16,801,384
Principal payments on long-term debt	(2,776,635)	(2,682,649)
Payment of bond issuance costs	-	(300,894)
Restricted contributions and grants	165,972	3,172,716
Net cash provided by (used in) financing activities	(2,610,663)	16,990,557
Net decrease in cash and cash equivalents	(5,494,523)	(2,777,660)
Cash and cash equivalents at beginning	22,760,348	25,538,008
Cash and cash equivalents at end	\$ 17,265,825	\$ 22,760,348

**Supplemental cash flow information:**

Cash paid during the year for interest, net of amounts capitalized	\$ 3,696,597	\$ 3,064,261
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See accompanying notes to consolidated financial statements.

# Beloit Health System, Inc. and Affiliate

## Notes to Consolidated Financial Statements

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### Note 1: Summary of Significant Accounting Policies

#### The Entity

Beloit Health System, Inc. (the "System") is a nonstock, not-for-profit corporation. The System operates an acute care hospital with 256 licensed beds and a multi-specialty physician practice, and provides inpatient, outpatient, emergency, home health care, and hospice services in Beloit, Wisconsin, and the surrounding communities, including north central Illinois. The System owns and operates a 45-unit independent living senior residence located in Beloit, Wisconsin. The System also owns and operates a health and wellness center in northern Illinois, d/b/a NorthPointe, consisting of physician clinic space, an urgent care facility, related ancillary services, a fitness center, an ambulatory surgery center, and a separate 24-unit assisted living facility.

The affiliate of the System is Beloit Health System Foundation, Inc. (the "Foundation"), a separate not-for-profit corporation. The specific purpose of the Foundation is to raise funds to promote educational, scientific, and charitable activities of the System. The System is the sole corporate member of the Foundation.

#### Principles of Consolidation

The consolidated financial statements include the accounts of the System and the Foundation (collectively the "Corporation"). All significant intercompany accounts and transactions have been eliminated in consolidation.

#### Financial Statement Presentation

The Corporation follows accounting standards set by the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC). The ASC is the single source of authoritative accounting principles generally accepted in the United States (GAAP) to be applied to nongovernmental entities.

#### Use of Estimates in Preparation of Financial Statements

The preparation of the accompanying consolidated financial statements in conformity with GAAP requires management to make certain estimates and assumptions that directly affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenue and expenses during the reporting period. Actual results may differ from these estimates.

The Corporation considers critical accounting estimates to be those that require more significant judgments and include the valuation of accounts receivable, including contractual adjustments and the allowance for doubtful accounts, estimated third-party settlements, pension liabilities, and reserves for losses and expenses related to self-insurance for employee health care.

# Beloit Health System, Inc. and Affiliate

## Notes to Consolidated Financial Statements

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### **Note 1: Summary of Significant Accounting Policies (Continued)**

#### **Cash Equivalents**

Highly-liquid debt instruments with an original maturity of three months or less are considered to be cash equivalents, excluding amounts limited as to use.

#### **Patient Accounts Receivables and Credit Policy**

Patient accounts receivable are uncollateralized patient obligations that are stated at the amount management expects to collect from outstanding balances. These obligations are primarily from local residents, most of whom are insured under third-party payor agreements. The Corporation bills third-party payors on the patient's behalf, or if a patient is uninsured, the patient is billed directly. Once claims are settled with the primary payor, any secondary insurance is billed, and patients are billed for copay and deductible amounts that are the patients' responsibility. Payments on accounts receivable are applied to the specific claim identified on the remittance advice or statement.

The Corporation does not have a policy to charge interest on past due accounts.

Patient accounts receivable are recorded in the accompanying consolidated balance sheets net of contractual adjustments and an allowance for doubtful accounts which reflects management's best estimate of the amounts that won't be collected. Management provides for contractual adjustments under terms of third-party reimbursement agreements through a reduction of gross revenue and a credit to patient accounts receivable. In evaluating the collectibility of patient accounts receivable, the Corporation analyzes historical loss experience on patient revenue, applying the loss experience to current year patient revenue as a basis for the allowance for doubtful accounts, and receivables aged over 360 days. Based on these factors, the Corporation estimates the appropriate allowance for doubtful accounts and provision for bad debts. The difference between the standard rates (or the discounted rates if negotiated) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for doubtful accounts.

#### **Inventory**

Supplies are valued at the lower of cost, determined on the first-in, first-out (FIFO) method, or market.

#### **Investments and Investment Income**

Certificates of deposit without CUSIP numbers are stated at the principal contributed plus any accrued interest earned. The Foundation has been named as owner of life insurance policies, which are stated at their cash surrender value. All other investments are measured at fair value in the accompanying consolidated balance sheets.

# Beloit Health System, Inc. and Affiliate

## Notes to Consolidated Financial Statements

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### **Note 1: Summary of Significant Accounting Policies** (Continued)

#### **Investments and Investment Income** (Continued)

Investment income or loss (including realized gains and losses, interest, and dividends) is reported as nonoperating income in the accompanying consolidated statements of operations unless the income is restricted by donor or law. Unrealized gains and losses on investments are excluded from revenue in excess of expenses unless the investments are trading securities. Realized gains or losses are determined by the specific-identification method.

The Corporation monitors the difference between the cost and fair value of its investments. A decline in market value of an individual investment security below cost that is deemed to be other-than-temporary results in an impairment and the Corporation reduces the investment's carrying value to fair value. A new cost basis is established for the investment and any impairment loss is recorded as a realized loss in investment income.

#### **Assets Limited as to Use**

Assets limited as to use include assets designated by the System's Board of Trustees for future capital improvements, over which the Board retains control and may at its discretion subsequently use for other purposes; assets held in trust under terms of a bond trust indenture agreement; assets held in trust under deferred compensation arrangements; assets set aside by the Foundation's Board of Directors for designated purposes; and assets designated to fund temporarily and permanently restricted net assets.

#### **Split-Interest Agreements**

The Corporation's split-interest agreements with donors consist of irrevocable charitable remainder trusts for which the Foundation is the remainder beneficiary. The assets are held in trust by an external trustee. Split-interest agreements are recorded at fair value and classified with assets limited as to use in the accompanying consolidated balance sheets.

#### **Property, Equipment, and Depreciation**

Property and equipment acquisitions are recorded at cost or, if donated, at fair value at the date of donation. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed using the straight-line method. Property and equipment under capital leases is amortized on the straight-line method over the shorter period of the lease term or the estimated economic life. Estimated useful lives range from 3 to 40 years for land improvements, buildings, and fixed equipment and from 3 to 20 years for major movable equipment.

Interest cost incurred on borrowed funds during the period of construction of capital assets, offset by interest earned on certain trusteed funds, is capitalized as a component of the cost of acquiring those assets.

# Beloit Health System, Inc. and Affiliate

## Notes to Consolidated Financial Statements

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### **Note 1: Summary of Significant Accounting Policies** (Continued)

#### **Property, Equipment, and Depreciation** (Continued)

Gifts of long-lived assets such as land, buildings, or equipment are reported as unrestricted support and are excluded from revenue in excess of expenses, unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Corporation reports expirations of donor restrictions when the donated or acquired long-lived assets are placed into service.

#### **Deferred Financing Costs**

Costs related to the issuance of long-term debt are recorded as a reduction of long-term debt in the accompanying consolidated balance sheets and amortized over the life of the related debt using the straight-line method as a component of interest expense.

#### **Goodwill**

Goodwill is the excess of the total cost of an acquisition over the fair value of the net assets acquired.

Goodwill is not amortized. Goodwill is subject to annual tests for impairment. For purposes of assessing the impairment of goodwill, the Corporation evaluates goodwill at each reporting unit level. Under the provisions of ASC Topic 350-20, Goodwill, the Corporation assesses the totality of qualitative factors (such as relevant events and circumstances) to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount, including goodwill. If the Corporation determines it is more likely than not that the fair value of a reporting unit is less than its carrying amount, the Corporation estimates the fair value of the reporting unit, and the fair value is then compared with the carrying value of the applicable reporting unit. If the carrying amount of the reporting unit exceeds its calculated fair value, a second step of the goodwill impairment test would be performed to measure the amount of impairment loss, if any. No impairment charge was recorded in 2017 and 2016.

#### **Pledges Receivable**

Pledges are recorded as receivables in the year pledged. Pledges receivable and other promises to give whose eventual uses are restricted by the donors are recorded as increases in temporarily restricted net assets; unrestricted pledges to be collected in future periods are also recorded as an increase to temporarily restricted net assets and reclassified to unrestricted net assets when received.

# Beloit Health System, Inc. and Affiliate

## Notes to Consolidated Financial Statements

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### **Note 1: Summary of Significant Accounting Policies** (Continued)

#### **Interest Rate Swap Agreements**

The Corporation uses interest rate swaps to manage its risk related to interest rate movements. The Corporation's risk management strategy is to stabilize cash flow variability on its variable rate debt with interest rate swaps. At the inception of an interest rate swap agreement, the Corporation documents its risk management strategy and assesses the interest rate swaps' effectiveness at producing offsetting cash flows. Interest rate swap agreements are reported at fair value in the accompanying consolidated balance sheets with the change in the fair value of the effective portion of the hedge included in other changes in unrestricted net assets in the consolidated statements of operations and changes in net assets. Any ineffective portion is recorded in nonoperating income in the accompanying consolidated statements of operations. If the ineffectiveness of the hedge exceeds certain prescribed levels, the interest rate swap would no longer be eligible for hedge accounting, and all future changes in fair value of the interest rate swap would be reported in other income or expense in the consolidated statements of operations, and the change that was recorded through net assets from the beginning of the interest rate swap would be amortized into earnings over the remaining life of the swap. In the event the interest rate swap is terminated, the total amount that was recorded in net assets from the beginning of the interest rate swap would be reclassified into earnings.

#### **Net Assets**

Unrestricted net assets consist of investments and otherwise unrestricted amounts that are not subject to donor-imposed stipulations. Temporarily restricted net assets are those whose use by the Corporation has been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained by the Corporation in perpetuity. Earnings on permanently restricted endowment funds are recorded as temporarily restricted net assets until appropriated by the Foundation's Board.

#### **Excess of Revenue Over Expenses**

The accompanying consolidated statements of operations include the classification of excess of revenue over expenses, which is considered the operating indicator. Changes in unrestricted net assets, which are excluded from the operating indicator, include unrealized gains and losses on investments other than trading securities, the effective portion of changes in fair values of interest rate swap agreements, net assets released from restrictions for capital improvements, changes in pension obligation other than pension expense, and net assets transferred from affiliated entities.

# Beloit Health System, Inc. and Affiliate

## Notes to Consolidated Financial Statements

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### **Note 1: Summary of Significant Accounting Policies** (Continued)

#### **Patient Service Revenue**

The Corporation recognizes patient service revenue associated with services provided to patients who have third-party payor coverage primarily on the basis of contractual rates for the services rendered. For uninsured patients that do not qualify for charity care, the Corporation recognizes revenue on the basis of discounted rates established under the Corporation's uninsured patient policy. The provision for contractual adjustments (that is, the difference between established rates and expected third-party payor payments) and the discounts (that is, the difference between established rates and the amount billable) are recognized on the accrual basis. These amounts are deducted from gross patient service revenue to determine patient service revenue (net of contractual allowances and discounts). Based on the historical experience of the Corporation, a significant portion of uninsured patients will be unwilling or unable to pay for services provided. Thus, the Corporation records a provision for bad debts related to uninsured patients in the period the services are provided. The provision for bad debts is based on historical loss experience and is deducted from patient service revenue (net of contractual allowances and discounts) to determine net patient service revenue, less provision for bad debts. The Corporation also accrues retroactive adjustments under reimbursement agreements with third-party payors on an estimated basis in the period the related services are provided. Estimates are adjusted in future periods as final settlements are determined.

#### **Charity Care**

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

The estimated cost of providing care to patients under the Corporation's charity care policy is calculated by multiplying the ratio of cost to gross charges for the Corporation times the gross uncompensated charges associated with providing charity care.

#### **Donor-Restricted Gifts**

Unconditional promises to give cash and other assets to the Corporation 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 deemed unconditional. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the accompanying 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 unrestricted contributions in the accompanying consolidated financial statements.

#### **Unemployment Compensation**

The Corporation is self-insured for unemployment compensation benefits. The Corporation has obtained a letter of credit, which expires on December 31, 2021, to meet state funding requirements.

# Beloit Health System, Inc. and Affiliate

## Notes to Consolidated Financial Statements

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### Note 1: Summary of Significant Accounting Policies (Continued)

#### Income Taxes

Both the System and the Foundation are nonprofit corporations as described in Section 501(c)(3) of the Internal Revenue Code (the "Code") and are exempt from federal income taxes on related income pursuant to Section 501(a) of the Code. The System and Foundation are also exempt from state income taxes on related income.

#### Fair Value Measurements

GAAP specifies a three-tier fair value hierarchy, which prioritizes the inputs used in estimating fair value. These tiers include Level 1, defined as observable inputs such as quoted market prices in active markets; Level 2, defined as inputs other than quoted market prices in active markets that are either directly or indirectly observable; and Level 3, defined as unobservable inputs in which little or no market data exists, therefore, requiring an entity to develop its own assumptions.

The asset 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 maximize the use of observable inputs and minimize the use of unobservable inputs.

#### New Accounting Pronouncements

In March 2017, FASB issued Accounting Standards Update (ASU) No. 2017-07 *Compensation-Retirement Benefits*. Under ASU 2017-07, an entity will recognize the service cost component of net periodic benefit costs as compensation expense within operating expenses in the statements of operations. The other components of net periodic benefit cost will be recognized within the nonoperating section of the statements of operations. This standard is effective for periods beginning after December 15, 2017.

In February 2016, the FASB issued ASU No. 2016-02, *Leases*. ASU 2016-02 is effective for reporting periods beginning after December 15, 2018, with early adoption permitted. The Corporation is currently evaluating the impact the adoption of ASU 2016-02 will have on its consolidated financial statements and disclosures.

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers*. Under ASU 2014-09, an entity will recognize revenue when it transfers promised goods or services to customers in an amount that reflects what it expects to be paid in exchange for the goods or services provided. ASU 2014-09 also provides principles around identifying a contract, determining performance obligations, determining the transaction price, allocating the transaction price to the performance obligation, and recognizing revenue. This standard is effective for periods beginning after December 15, 2017. Based on its initial assessment of this standard, the Corporation does not anticipate a significant change in the current revenue recognition pattern. However, the format of the consolidated statement of operations is anticipated to disclose only one account for net patient service revenue. This account will include gross patient services revenue reduced by contractual allowances and discounts, and most, if not all, of the current provision for bad debts. Under this standard, most of the current provision for bad debts is considered an inherent price concession, and not a credit loss. Any amounts considered to be a credit loss under the new standard would be recorded as an operating expense.

# Beloit Health System, Inc. and Affiliate

## Notes to Consolidated Financial Statements

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### **Note 1: Summary of Significant Accounting Policies** (Continued)

#### **New Accounting Pronouncements** (Continued)

In August 2016, the FASB issued ASU 2016-14, *Not-for-Profit Entities*. ASU 2016-14 requires a not-for-profit entity to present on the face of the balance sheet amounts for two classes of net assets at the end of the period (net assets with donor restrictions and net assets without donor restrictions), rather than for the currently required three classes. It also requires qualitative and quantitative disclosures around the liquidity of assets at the balance sheet date, purposes of any board designations on the use of resources, and expenses reported by both functional and natural classifications. ASU No. 2016-14 is effective for reporting periods beginning after December 15, 2017. The Corporation is currently evaluating the impact the adoption of ASU 2016-14 will have on the consolidated financial statements and disclosures.

In January 2016, the FASB issued ASU 2016-1, *Financial Instruments - Overall*. ASU 2016-1 requires equity investments (except those using equity method accounting) be measured at fair value with changes in fair value recognized within the operating indicator. The Corporation anticipates that changes in net unrealized gains and losses on investments will be reclassified from other changes in unrestricted net assets to nonoperating income within the statements of operations and changes in net assets. ASU No. 2016-1 is effective for reporting periods beginning after December 15, 2018, with early adoption permitted.

#### **Subsequent Events**

Subsequent events have been evaluated through March 15, 2018, which is the date the consolidated financial statements were issued.

### **Note 2: Affiliation**

Effective January 1, 2016, the Corporation entered into an affiliation agreement with Beloit Regional Hospice, Inc., whereby certain assets and liabilities of Beloit Regional Hospice, Inc. were transferred to the System and the Foundation. The System received the following: cash of \$62,575, patient accounts receivable - net of \$442,688, property and equipment - net of \$147,573, and accounts payable of \$74,106. The Foundation received \$1,551,914 of temporarily restricted investments and \$92,394 of permanently restricted investments. The results of operations since the affiliation are included in the Corporation's consolidated statements of operations and changes in net assets.

# Beloit Health System, Inc. and Affiliate

## Notes to Consolidated Financial Statements

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### **Note 3: Reimbursement Arrangements With Third-Party Payors**

The Corporation has agreements with third-party payors that provide for reimbursement at amounts which vary from its established rates. A summary of the basis of reimbursement with major third-party payors follows:

*Medicare* - Inpatient services are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Outpatient services are paid primarily on prospectively determined rates, also based on a patient classification system, or fixed fee schedules.

*Medicaid* - Inpatient services are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system based on clinical, diagnostic, and other factors similar to the Medicare system. Outpatient services are paid on a prospectively determined rate per occasion of service, or by ambulatory patient grouping.

*Physician Clinics* - Reimbursement for clinic services rendered is based on charges, discounted charges, or in the case of government programs, prospectively determined reimbursement rates.

*Home Health and Hospice Care* - A significant portion of home health and hospice care revenue is derived under federal and state reimbursement programs. For home health services, reimbursement under the Medicare program is based on a predetermined rate per episode of care depending on the patients' level of care and types of services provided. Services provided to Medicaid program beneficiaries are reimbursed on prospectively determined rates. Hospice Medicare and Medicaid is reimbursed as a prospective rate per day.

*Others* - The Corporation has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment to the Corporation under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

### **Accounting for Contractual Arrangements**

The Corporation is reimbursed for certain cost reimbursable items at tentative rates with final settlements determined after audit of the related annual cost reports by the respective fiscal intermediaries. Estimated provisions to approximate the final expected settlements after review by the intermediary are included in the accompanying consolidated financial statements. The Medicare cost reports have been audited through December 31, 2014, by the Medicare fiscal intermediary.

# Beloit Health System, Inc. and Affiliate

## Notes to Consolidated Financial Statements

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### **Note 3: Reimbursement Arrangements With Third-Party Payors** (Continued)

#### **Electronic Health Record Incentive Payments**

The American Recovery and Reinvestment Act of 2009 (ARRA) provides for incentive payments under the Medicare and Medicaid programs for certain hospitals and physician practices that demonstrate meaningful use of certified electronic health record (EHR) technology. These provisions of ARRA, collectively referred to as the Health Information Technology for Economic and Clinical Health Act (the "HITECH Act"), are intended to promote the adoption and meaningful use of health information technology and qualified EHR technology.

The Corporation recorded approximately \$6,000 and \$738,000 in EHR incentive revenue from the Medicare program in 2017 and 2016, respectively. These amounts are included in other operating revenue in the accompanying consolidated statements of operations.

#### **Compliance**

The health care industry is subject to numerous laws and regulations of federal, state, and local governments. Compliance with these laws and regulations, particularly those relating to the Medicare and Medicaid programs, can be subject to government review and interpretation, as well as regulatory actions unknown and unasserted at this time. Violation of these laws and regulations could result in the imposition of fines and penalties, as well as repayments of previously billed and collected revenue from patient services. Management believes that the Corporation is in substantial compliance with current laws and regulations.

CMS uses Recovery Audit Contractors (RACs) as part of its efforts to ensure accurate payments under the Medicare program. RACs search for potentially inaccurate Medicare payments that may have been made to health care providers and that were not detected through existing CMS program integrity efforts. Once a RAC identifies a claim it believes is inaccurate, the RAC makes a deduction from or addition to the provider's Medicare reimbursement in an amount estimated to equal the overpayment or underpayment. The provider will then have the opportunity to appeal the adjustment before final settlement of the claim is made. As of December 31, 2017, the Corporation has received notice from the RAC of certain claims identified by the RAC as underpaid; reimbursement adjustments related to these claims are not estimated to be significant.

# Beloit Health System, Inc. and Affiliate

## Notes to Consolidated Financial Statements

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### Note 4: Patient Accounts Receivable

Patient accounts receivable consisted of the following at December 31:

	2017	2016
Patient accounts receivable	\$ 116,358,456	\$ 128,382,223
Less:		
Contractual adjustments	70,781,000	79,532,300
Allowance for doubtful accounts	6,945,000	13,108,000
Patient accounts receivable - Net	\$ 38,632,456	\$ 35,741,923

The Corporation changed its uninsured discount policy during 2016 to meet regulations under section 501(r) of the Code. The uninsured discount provided to self-pay patients increased from 25% to 70% as of May 1, 2016. Because 2017 was the first full fiscal year of this increased self-pay discount, this increase caused the allowance for doubtful accounts to decrease \$6,163,000 at December 31, 2017, as compared to December 31, 2016.

### Note 5: Investments and Assets Limited as to Use

#### Investments

Investments consisted of the following at December 31:

	2017	2016
Mutual funds:		
U.S. equities	\$ 27,121,290	\$ 24,909,356
Fixed income	26,694,588	24,245,153
International	18,168,444	13,176,936
Total investments	\$ 71,984,322	\$ 62,331,445

# Beloit Health System, Inc. and Affiliate

## Notes to Consolidated Financial Statements

### Note 5: Investments and Assets Limited as to Use (Continued)

#### Assets Limited as to Use

The composition of assets limited as to use at December 31 is as follows:

	2017	2016
Held by trustee under bond indenture agreements	\$ 2,799,582	\$ 5,384,352
Temporarily restricted by donors	4,965,280	7,316,027
Permanently restricted by donors	1,834,733	1,777,431
Held by trustee under deferred compensation agreements	4,393,096	3,575,341
Board-designated	4,118,174	1,152,837
<b>Total assets limited as to use</b>	<b>\$ 18,110,865</b>	<b>\$ 19,205,988</b>

Assets limited as to use consisted of the following at December 31:

	2017	2016
Cash and cash equivalents	\$ 3,721,393	\$ 1,893,548
Certificates of deposit	759,343	6,139,447
Mutual funds:		
U.S. equities	6,344,146	5,671,914
Fixed income	3,457,541	2,527,114
International	2,554,369	1,722,509
Alternatives	45,395	98,352
Split-interest agreements	607,349	589,077
Cash surrender value of life insurance	621,329	564,027
<b>Total</b>	<b>\$ 18,110,865</b>	<b>\$ 19,205,988</b>

#### Investment Income

Investment income including, interest, dividends, and realized gains and losses on cash equivalents, investments, and assets limited as to use, consisted of the following:

	2017	2016
Interest and dividend income	\$ 1,318,018	\$ 1,220,942
Realized gains and losses	6,412,788	1,799,509
<b>Total investment income</b>	<b>\$ 7,730,806</b>	<b>\$ 3,020,451</b>
Change in net unrealized gains and losses on investments other than trading securities	\$ 2,590,668	\$ 2,425,584

# Beloit Health System, Inc. and Affiliate

## Notes to Consolidated Financial Statements

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### Note 5: Investments and Assets Limited as to Use (Continued)

#### Investment Income (Continued)

Management assesses individual investment securities as to whether declines in the market value are other-than-temporary and result in an impairment. For equity securities, including mutual funds, the Corporation considers whether it has the ability and intent to hold the investment until a market price recovery. Evidence considered includes the reasons for the impairment, the severity and duration of the impairment, changes in value subsequent to year-end, the issuer's financial condition, and the general market condition in the geographic area or industry the investee operates in. No realized losses for other-than-temporary declines were recorded in 2017 and 2016.

### Note 6: Pledges Receivable and Related-Party Transactions

The Foundation has development campaigns, which individual donors (including various System and Foundation board members and employees) have pledged amounts to the Foundation primarily for expansion and renovation of the System's facilities.

Pledges receivable are expected to be collected as follows as of December 31:

	2017	2016
Less than one year	\$ 1,124,711	\$ 1,166,654
One to five years	1,393,447	2,380,884
Greater than five years	9,177	74,067
Gross pledges receivable	2,527,335	3,621,605
Less:		
Unamortized discount	63,016	87,572
Allowance for uncollectible pledges	38,000	50,000
Pledges receivable - Net	\$ 2,426,319	\$ 3,484,033

Unconditional promises to give that are expected to be collected in future years are measured at fair value at the date promised; then adjusted on a recurring basis using historical trends of collection and market interest rate assumptions (2.1% and 1.5% at December 31, 2017 and 2016, respectively). The interest element resulting from amortization of the discount is reported as contribution revenue.

# Beloit Health System, Inc. and Affiliate

## Notes to Consolidated Financial Statements

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### Note 6: Pledges Receivable and Related-Party Transactions (Continued)

Contributions received by the Corporation include donations from various members of the Boards of Directors of the System and the Foundation. The Corporation recognized contributions from board members of approximately \$43,200 and \$1,045,000 in 2017 and 2016, respectively. Contributions are also received by the Corporation from Beloit Memorial Hospital Auxiliary, Inc., a/k/a Beloit Memorial Hospital, Inc. Volunteers in Partnership (the "Auxiliary"), whose sole purpose is to promote and advance the welfare of the System. The Corporation recognized contributions from the Auxiliary of approximately \$75,400 and \$76,300 in 2017 and 2016, respectively.

### Note 7: Property and Equipment

Property and equipment consisted of the following at December 31:

	2017	2016
Land	\$ 8,100,877	\$ 8,100,877
Land improvements	6,573,316	6,300,943
Buildings	144,652,254	121,649,868
Fixed equipment	43,803,637	41,231,969
Major movable equipment	72,230,812	63,931,169
Total property and equipment	275,360,896	241,214,826
Less - Accumulated depreciation and amortization	144,700,364	133,338,488
Net depreciated value	130,660,532	107,876,338
Construction in progress	1,104,314	20,328,436
Property and Equipment - Net	\$ 131,764,846	\$ 128,204,774

Construction in progress at December 31, 2016, relates primarily to the development of a cardiac center at the hospital and an ambulatory surgery center at NorthPointe. Both projects were placed in service in 2017. Construction in progress at December 31, 2017, relates to routine renovations and remodeling.

# Beloit Health System, Inc. and Affiliate

## Notes to Consolidated Financial Statements

### Note 8: Long-Term Debt

Long-term debt consisted of the following at December 31:

	2017	2016
Mortgage note with bank; due in monthly installments of \$10,880, including interest at 4.45% through January 2019, at which time there is a payment of \$688,926 due; secured by certain real property	\$ 787,832	\$ 880,574
Illinois Finance Authority ("IFA") Revenue Bonds, Series 2010A, dated October 21, 2010; payable in monthly installments including principal and interest through April 2036; variable interest rate set monthly (1.94% at December 31, 2017)	32,885,000	33,990,000
Wisconsin Health and Educational Facilities Authority ("WHEFA") Revenue Bonds, Series 2010B, dated October 21, 2010; interest payable semi-annually at varying rates (4.00% to 5.13%) principal due in annual installments through April 2036	27,205,000	27,965,000
WHEFA Revenue Bonds, Series 2013, dated February 26, 2013; payable in monthly installments including principal and interest through January 2029; variable interest rate set monthly (2.22% at December 31, 2017)	8,027,269	8,751,541
WHEFA Revenue Bonds, Series 2016, dated May 25, 2016; interest payable semi-annually at varying rates (3.50% to 5.00%) principal due in annual installments through July 1, 2046	16,465,000	16,465,000
Equipment notes, due in varying installments through 2018	40,899	135,520
<b>Total</b>	<b>85,411,000</b>	<b>88,187,635</b>
Less:		
Unamortized bond discounts	191,024	201,491
Unamortized bond premium	(325,211)	(331,680)
Unamortized bond issuance costs	893,539	956,351
Current maturities	2,822,187	2,776,639
<b>Long-term portion</b>	<b>\$ 81,829,461</b>	<b>\$ 84,584,834</b>

# Beloit Health System, Inc. and Affiliate

## Notes to Consolidated Financial Statements

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### Note 8: Long-Term Debt (Continued)

In May 2016, the Corporation issued its Series 2016 Revenue Bonds with a total principal value of \$16,465,000, and a net premium of \$336,384. The Series 2016 Bonds were issued pursuant to a Bond Trust Indenture by and between WHEFA and The Bank of New York Mellon Trust Company, N.A., as bond trustee, with proceeds loaned to the Corporation pursuant to a Loan Agreement by and between the Corporation and WHEFA. The Series 2016 Bonds were also issued pursuant to the Master Trust Indenture between the Corporation and U.S. Bank, N.A. as Master Trustee.

In February 2013, the Corporation issued its Series 2013 Revenue Bonds with a total available principal value of \$10,864,000. The Series 2013 Bonds were issued pursuant to a Bond Indenture and Loan Agreement by, and between, WHEFA, the Corporation, and First National Bank and Trust Company. The 2013 Revenue Bonds were also issued pursuant to the Master Trust Indenture. The 2013 Revenue Bonds were purchased by First National Bank and Trust Company.

In October 2010, the Corporation issued its Series 2010A Revenue Bonds with a total principal value of \$37,895,000. The Series 2010A Bonds were issued pursuant to a Bond Trust Indenture by and between the IFA and The Bank of New York Mellon Trust Company, N.A., as bond trustee, with proceeds loaned to the Corporation pursuant to a Loan Agreement by and between the Corporation and IFA. The Series 2010A Bonds were also issued pursuant to a Master Trust Indenture. The 2010A Bonds were purchased by a financial institution upon issuance, based on a Purchase Agreement, and will remain with the financial institution until October 2020, at which point the bonds may be reoffered if certain conditions have been satisfied pursuant to the Purchase Agreement.

In October 2010, the Corporation issued its Series 2010B Revenue Bonds with a total principal value of \$32,470,000, and a net discount of \$266,910. The Series 2010B Bonds were issued pursuant to a Bond Trust Indenture by and between WHEFA and The Bank of New York Mellon Trust Company, N.A., as bond trustee, with proceeds loaned to the Corporation pursuant to a Loan Agreement by and between the Corporation and WHEFA. The Series 2010B Bonds were also issued pursuant to the Master Trust Indenture.

The System and the Foundation together form an Obligated Group for the Revenue Bonds, and are jointly and severally liable for all obligations under the Master Trust Indenture. The Revenue Bonds are secured by a security interest in the pledged revenue of the Obligated Group.

The 2010B and 2016 bond indentures require the establishment of certain funds to be held by the trustee, which are unavailable for general corporate purposes. Required funds have been established and are shown as assets limited as to use in the accompanying consolidated balance sheets.

The Master Trust indenture and the Purchase Agreement for the Series 2010A Bonds provide for various restrictive covenants, including maintenance of various financial ratios and limitations on additional borrowing. At December 31, 2017, management believes the Corporation was in compliance with these covenants.

# Beloit Health System, Inc. and Affiliate

## Notes to Consolidated Financial Statements

### Note 8: Long-Term Debt (Continued)

Scheduled principal payments on long-term debt at December 31, 2017, including current maturities, are summarized as follows:

2018	\$ 2,822,187
2019	3,464,565
2020	2,879,272
2021	2,994,272
2022	3,104,272
Thereafter	70,146,432
Total	\$ 85,411,000

### Note 9: Interest Rate Swap Agreements

The Corporation has entered into two interest rate swap agreements for the purpose of mitigating the floating interest rate risk on the variable rate bonds. The interest rate swap agreements consisted of the following at December 31:

Maturity Date	Notional Principal	Floating Rate	Fixed Rate	2017	2016
March 1, 2027	\$ 5,707,253	66% of 1-month LIBOR plus 1.25%	2.54 %	\$ 29,790	\$ (13,657)
April 1, 2036	35,000,000	67% of 1-month LIBOR plus 1.5%	3.88 %	(7,341,597)	(8,149,478)
Totals				\$ (7,311,807)	\$ (8,163,135)

The Corporation assesses the effectiveness of the interest rate swaps as cash flow hedge instruments on a periodic basis. For 2017 and 2016, the Corporation determined the hedge to be partially ineffective. During 2017 and 2016, the Corporation recognized nonoperating income of \$48,592 and \$67,167, respectively, for the ineffective portion of the interest rate swap agreements. The change in fair value of the portion of the interest rate swap agreements that was deemed to be effective increased unrestricted net assets by \$802,736 and \$1,097,089 in 2017 and 2016, respectively.

The Corporation is exposed to credit loss in the event of nonperformance by the counterparty to the interest rate swap agreement. However, the Corporation does not anticipate nonperformance by the counterparty.

# Beloit Health System, Inc. and Affiliate

## Notes to Consolidated Financial Statements

### Note 10: Fair Value Measurements

Following is a description of the valuation methodology used for assets measured at fair value:

Cash equivalents are valued using a net asset value (NAV) of \$1. Certificates of deposit traded under CUSIP numbers are valued based on historical cost, plus accrued interest, which approximates fair value. Mutual funds are valued at the daily closing price as reported by the fund. These funds are registered with the U.S. Securities and Exchange Commission and are required to publish their daily NAV and to transact at that price. These funds are deemed to be actively traded. Split-interest agreements are valued at the estimated value of future payments to be received based on certain actuarial assumptions. Pledges receivable are valued based on the original amount promised, and adjusted using historical trends of collection and discounting based on market interest rates. Interest rate swap agreements are valued using interest rate yield curves.

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 Corporation 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 following table sets forth by level, within the fair value hierarchy, the Corporation's assets and liabilities measured at fair value on a recurring basis as of December 31:

	2017			Total
	Level 1	Level 2	Level 3	
<b>Assets:</b>				
Cash equivalents	\$ -	\$ 13,417,817	\$ -	\$ 13,417,817
<b>Mutual funds:</b>				
U.S. equities	33,465,436	-	-	33,465,436
Fixed income	30,152,129	-	-	30,152,129
International	20,722,813	-	-	20,722,813
Alternative	45,395	-	-	45,395
Split interest agreements	-	-	607,349	607,349
Pledges receivable	-	-	2,426,319	2,426,319
<b>Total assets</b>	<b>\$ 84,385,773</b>	<b>\$ 13,417,817</b>	<b>\$ 3,033,668</b>	<b>\$ 100,837,258</b>
<b>Liability -</b>				
Interest rate swap agreements	\$ -	\$ 7,311,807	\$ -	\$ 7,311,807

# Beloit Health System, Inc. and Affiliate

## Notes to Consolidated Financial Statements

### Note 10: Fair Value Measurements (Continued)

	2016			
	Level 1	Level 2	Level 3	Total
<b>Assets:</b>				
Cash equivalents	\$ -	\$ 14,299,012	\$ -	\$ 14,299,012
Certificates of deposit	-	5,384,352	-	5,384,352
<b>Mutual funds:</b>				
U.S. equities	30,581,270	-	-	30,581,270
Fixed income	26,772,267	-	-	26,772,267
International	14,899,445	-	-	14,899,445
Alternative	98,352	-	-	98,352
Split interest agreements	-	-	589,077	589,077
Pledges receivable	-	-	3,484,033	3,484,033
<b>Total assets</b>	<b>\$ 72,351,334</b>	<b>\$ 19,683,364</b>	<b>\$ 4,073,110</b>	<b>\$ 96,107,808</b>
<b>Liability -</b>				
Interest rate swap agreements	\$ -	\$ 8,163,135	\$ -	\$ 8,163,135

The changes in Level 3 assets measured at fair value on a recurring basis are summarized as follows:

	2017	2016
Balance at beginning	\$ 4,073,110	\$ 4,304,627
Contributions and new pledges	137,100	2,244,805
Sales and receipts of pledges	(1,202,621)	(2,728,047)
Adjustments for discounting, change in allowances, and gains (losses)	26,079	251,725
<b>Balance at end</b>	<b>\$ 3,033,668</b>	<b>\$ 4,073,110</b>

Reconciliation of the fair value hierarchy tables to the financial statements as of December 31, is as follows:

	2017	2016
Investments per balance sheets	\$ 71,984,322	\$ 62,331,445
Assets limited as to use per balance sheets	18,110,865	19,205,988
Cash and cash equivalents per balance sheets	17,265,825	22,760,348
Pledges receivable	2,426,319	3,484,033
<b>Subtotal</b>	<b>109,787,331</b>	<b>107,781,814</b>
<b>Less assets not at fair value:</b>		
Certificates of deposit - assets limited as to use	759,343	755,095
Cash surrender value of life insurance - assets limited as to use	621,329	564,027
Cash and cash equivalents - assets limited as to use	571,104	1,622,265
Cash	6,998,297	8,732,619
<b>Total assets from fair value table</b>	<b>\$ 100,837,258</b>	<b>\$ 96,107,808</b>

# Beloit Health System, Inc. and Affiliate

## Notes to Consolidated Financial Statements

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### Note 11: Retirement Plans

Effective January 1, 2011, the Corporation froze its defined benefit noncontributory retirement plan for any benefits for participants with less than 20 years of service, as defined in the plan document. All assets of the plan are held in a separate bank-administered trust. The funding policy is to contribute amounts sufficient to meet the minimum funding requirements set forth in the Employee Retirement Income Security Act of 1974.

The following provides further information about the plan for the years ended December 31:

	2017	2016
<hr/>		
Change in benefit obligation:		
Benefit obligation at beginning of year	\$ 81,540,954	\$ 76,794,809
Service cost	649,202	730,517
Interest cost	4,001,850	3,932,465
Benefits paid	(2,605,249)	(2,430,474)
Actuarial loss	4,734,157	2,513,637
<hr/>		
Benefit obligations at end of year	88,320,914	81,540,954
<hr/>		
Change in plan assets:		
Fair value of plan assets at beginning of year	64,919,243	63,216,440
Actual return on plan assets	7,928,418	4,695,155
Benefits paid	(2,605,249)	(2,430,474)
Employer Contributions	467,847	-
Administrative expenses	(712,791)	(561,878)
<hr/>		
Fair value of plan assets at end of year	69,997,468	64,919,243
<hr/>		
Funded status	\$ (18,323,446)	\$ (16,621,711)
<hr/>		

# Beloit Health System, Inc. and Affiliate

## Notes to Consolidated Financial Statements

### Note 11: Retirement Plans (Continued)

Pension expense for the years ended December 31, was comprised of the following:

	2017	2016
<b>Pension (income) expense:</b>		
Service cost	\$ 649,202	\$ 730,517
Interest cost	4,001,850	3,932,465
Expected return on assets	(5,073,224)	(4,963,676)
Amortization of net (gain)/loss	1,349,967	1,152,549
Amortization of prior service costs	5,802	5,802
<b>Total pension expense</b>	<b>933,597</b>	<b>857,657</b>
<b>Other changes in plan assets and benefit obligations recognized in net assets:</b>		
Prior service cost	(5,802)	(5,802)
Accumulated gain (loss)	1,241,787	2,191,487
<b>Total recognized in net assets</b>	<b>1,235,985</b>	<b>2,185,685</b>
<b>Total recognized as pension expense and in net assets</b>	<b>\$ 2,169,582</b>	<b>\$ 3,043,342</b>

The estimated net actuarial loss expected to be amortized from net assets into pension expense in 2018 is \$1,476,702.

Amounts recognized in the accompanying consolidated balance sheets consisted of the following at December 31:

	2017	2016
<b>Pension liability</b>	<b>\$ 18,323,446</b>	<b>\$ 16,621,711</b>
<b>Net assets:</b>		
Prior service cost	\$ 2,207	\$ 8,009
Accumulated loss	23,894,524	22,652,737
<b>Total amount recognized in net assets</b>	<b>\$ 23,896,731</b>	<b>\$ 22,660,746</b>

The plan's accumulated benefit obligation was \$87,111,943 and \$78,076,164 at December 31, 2017 and 2016, respectively.

# Beloit Health System, Inc. and Affiliate

## Notes to Consolidated Financial Statements

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### Note 11: Retirement Plans (Continued)

Weighted average assumptions used as of December 31, the measurement date, in developing the projected benefit obligation were as follows:

	2017	2016
Discount rate for obligation	4.50 %	5.00 %
Discount rate for expense	5.00 %	5.20 %
Expected return on plan assets	8.00 %	8.00 %
Rate of compensation increase	3.00 %	3.00 %

To develop the expected long-term rate of return on asset assumptions, the Corporation considered the historical returns and future expectations for returns in each asset class, as well as targeted asset allocation percentages within the pension portfolio.

The Plan's asset allocations at December 31 were as follows:

	2017	2016
Asset category:		
Cash and cash equivalents	4 %	1 %
Fixed income mutual funds	55 %	56 %
Equity mutual funds	40 %	42 %
Investment contract with insurance company	1 %	1 %
Totals	100 %	100 %

For a description of the valuation methodology for cash equivalents and mutual funds, see Note 10. Investment contracts with insurance companies are valued by discounting the related cash flows based on current yields of similar instruments with comparable durations considering the credit worthiness of the issuer.

# Beloit Health System, Inc. and Affiliate

## Notes to Consolidated Financial Statements

### Note 11: Retirement Plans (Continued)

The following table sets forth by level, within the fair value hierarchy, the Corporation's assets within the defined benefit noncontributory retirement plan at fair value as of December 31:

	2017			
	Level 1	Level 2	Level 3	Total
Assets:				
Cash equivalents	\$ -	\$ 2,452,012	\$ -	\$ 2,452,012
Equity mutual funds	27,955,589	-	-	27,955,589
Fixed income mutual funds	38,618,303	-	-	38,618,303
Insurance contract	-	-	971,564	971,564
<b>Total assets</b>	<b>\$ 66,573,892</b>	<b>\$ 2,452,012</b>	<b>\$ 971,564</b>	<b>\$ 69,997,468</b>

	2016			
	Level 1	Level 2	Level 3	Total
Assets:				
Cash equivalents	\$ -	\$ 419,475	\$ -	\$ 419,475
Equity mutual funds	27,308,929	-	-	27,308,929
Fixed income mutual funds	36,360,747	-	-	36,360,747
Insurance contract	-	-	830,092	830,092
<b>Total assets</b>	<b>\$ 63,669,676</b>	<b>\$ 419,475</b>	<b>\$ 830,092</b>	<b>\$ 64,919,243</b>

The Corporation intends to provide an appropriate range of investment options that span the risk/return spectrum. The investment options allow for an investment portfolio consistent with plan circumstances, goals, time horizons, and tolerance for risk.

Benefit payments are expected to be paid as follows:

2018	\$ 3,276,700
2019	\$ 3,618,500
2020	\$ 3,877,200
2021	\$ 4,123,500
2022	\$ 4,398,900
Succeeding five years	\$ 25,005,700

No contributions are expected to be made in 2018.

# Beloit Health System, Inc. and Affiliate

## Notes to Consolidated Financial Statements

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### Note 11: Retirement Plans (Continued)

The Corporation also sponsors a tax-deferred annuity plan and a matching contribution plan that cover employees at least 18 years of age. Employees may contribute to the tax-deferred annuity plan on a tax-deferred basis subject to plan and regulatory limits. The Corporation contributes to the matching contribution plan an amount equal to 50% of employees' contributions to the tax-deferred annuity plan up to 5% of employees' eligible compensation, such that the maximum matching contribution is 2.5% of an employee's eligible compensation. The Corporation recognized expense of \$1,272,545 and \$1,234,500 related to the matching contribution in 2017 and 2016, respectively. Eligible employees under the tax-deferred annuity plan receive an employer contribution of 4% of employee's eligible compensation, regardless of employee contributions. The Corporation recognized expense of \$2,665,530 and \$2,455,100 related to the employer contribution in 2017 and 2016, respectively.

The Corporation also sponsors deferred compensation programs covering certain physicians and management. Investments designated for deferred compensation, recorded in the accompanying consolidated balance sheets at fair value as assets limited as to use, were \$4,393,096 and \$3,575,341 at December 31, 2017 and 2016, respectively. Corresponding liabilities are recorded in the accompanying consolidated balance sheets as long-term liabilities.

### Note 12: Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets include assets set aside in accordance with donor restrictions as to time or use. Temporarily restricted net assets are available for the following purposes at December 31:

	2017	2016
Restrictions as to time	\$ 3,033,668	\$ 4,073,110
Expansion and renovation	-	414,183
Cardiology	11,226	1,365,445
Unappropriated earnings on endowment funds	2,773,771	2,192,261
Hospice	1,547,789	1,927,788
Specific hospital departments	24,926	803,317
<b>Total temporarily restricted net assets</b>	<b>\$ 7,391,380</b>	<b>\$ 10,776,104</b>

Income from permanently restricted net assets, with balances of \$1,834,733 and \$1,777,431 at December 31, 2017 and 2016, respectively, has been restricted by donors for capital improvements, education, home health, hospice, and various other projects at the System.

The Foundation's endowment consists of approximately 20 different funds established to benefit the System for a variety of purposes. Net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

# Beloit Health System, Inc. and Affiliate

## Notes to Consolidated Financial Statements

### Note 12: Temporarily and Permanently Restricted Net Assets (Continued)

Endowments consisted of the following at December 31:

	2017	2016
Unrestricted	\$ 729,304	\$ 622,469
Temporarily restricted	2,773,771	2,192,261
Permanently restricted	1,834,733	1,777,431
<b>Total</b>	<b>\$ 5,337,808</b>	<b>\$ 4,592,161</b>

Changes in endowment funds were as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowments at December 31, 2015	\$ 575,679	\$ 1,946,415	\$ 1,678,298	\$ 4,200,392
Investment return:				
Interest and dividends	8,460	38,330	-	46,790
Net appreciation	38,330	207,516	-	245,846
Total investment gain	46,790	245,846	-	292,636
Contributions	-	-	99,133	99,133
Endowments at December 31, 2016	622,469	2,192,261	1,777,431	4,592,161
Investment return:				
Interest and dividends	30,462	60,797	-	91,259
Net appreciation	76,373	520,023	-	596,396
Total investment gain	106,835	580,820	-	687,655
Contributions	-	690	57,302	57,992
Endowments at December 31, 2017	\$ 729,304	\$ 2,773,771	\$ 1,834,733	\$ 5,337,808

# Beloit Health System, Inc. and Affiliate

## Notes to Consolidated Financial Statements

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### **Note 12: Temporarily and Permanently Restricted Net Assets (Continued)**

The Board of Directors of the Foundation has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA), as requiring the Foundation to preserve the fair value of the donor's original gift, as of the date of the gift, absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as permanently restricted net assets (a) the original value of the donor's gifts to the permanent endowment, (b) the original value of a donor's subsequent gifts to the permanent restricted endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by UPMIFA.

The Board of Directors may also set aside certain unrestricted net assets for endowment purposes. Since these amounts are not restricted by the donor but are restricted only by Board policy, the amounts would be classified as unrestricted net assets. The Board of Directors may designate additional amounts from time to time to be added to the endowment fund.

The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to preserve the purchasing power of the endowment assets. The Foundation uses the Consumer Price Index plus 5% to evaluate the purchasing power of endowment assets. Under the Foundation's investment policy, as approved by the Board of Directors, the endowment assets are invested in a manner to protect principal, grow the aggregate portfolio value in excess of the rate of inflation, and achieve an effective annual rate of return that is equal to or greater than the designated benchmarks for the various types of investment vehicles, and to ensure that any risk assumed is commensurate with the given investment vehicle and the Foundation's objectives. To achieve its investment goals, the Foundation targets an asset allocation that will achieve a balanced return of current income and long-term growth of principal while exercising risk control. The Foundation's asset allocations include a blend of equity and debt securities and cash equivalents.

Investment earnings on donor restricted endowment funds are appropriated for distribution at the discretion of the Foundation's Board of Directors.

# Beloit Health System, Inc. and Affiliate

## Notes to Consolidated Financial Statements

### Note 13: Patient Service Revenue (Net of Contractual Allowances and Discounts)

Patient service revenue (net of contractual allowances and discounts) consisted of the following:

	2017	2016
Gross patient service revenue:		
Inpatient	\$ 191,521,220	\$ 187,149,143
Outpatient	601,510,565	564,849,908
Total gross patient service revenue	793,031,785	751,999,051
Deductions - Primarily contractual allowances and third-party reimbursement agreements	551,479,837	513,737,082
Patient service revenue (net of contractual allowances and discounts)	\$ 241,551,948	\$ 238,261,969

Medicare and Medicaid revenue as a percent of gross patient service revenue approximated 64.4% and 64.2% in 2017 and 2016, respectively.

Patient service revenue (net of contractual allowances and discounts) from these major payor sources is as follows:

	2017	2016
Medicare, Medicaid, and other third party payors	\$ 235,802,744	\$ 230,994,677
Uninsured patients	5,749,204	7,267,292
Patient service revenue (net of contractual allowances and discounts)	\$ 241,551,948	\$ 238,261,969

### Note 14: Malpractice Insurance

The Corporation has professional liability insurance for claim losses of less than \$1,000,000 per claim, and \$3,000,000 per year for claims incurred during a policy year regardless of when claims are reported (occurrence coverage). The Corporation is insured against losses in excess of these amounts through its mandatory participation in the Patients' Compensation Fund of the State of Wisconsin. The professional liability insurance policy is renewable annually and has been renewed by the insurance carrier for the annual period extending through January 1, 2019.

# Beloit Health System, Inc. and Affiliate

## Notes to Consolidated Financial Statements

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### Note 15: Functional Expenses

The Corporation provides general health care services to residents within its geographic location. Expenses related to providing these services consisted of the following:

	2017	2016
Health care services	\$ 196,552,944	\$ 185,522,181
General and administrative	39,783,990	40,888,068
Fund-raising	320,659	365,650
<b>Total expenses</b>	<b>\$ 236,657,593</b>	<b>\$ 226,775,899</b>

### Note 16: Concentration of Credit Risk

Financial instruments that potentially subject the Corporation to possible credit risk consist principally of accounts receivable, cash deposits in excess of insured limits, and investments.

Accounts receivable consist of amounts due from patients, their insurers, or governmental agencies (primarily Medicare and Medicaid) for health care provided to the patients. The majority of the System's patients are from Beloit, Wisconsin, and the surrounding area.

The mix of receivables from patients and third-party payors was as follows at December 31:

	2017	2016
Medicare	37 %	43 %
Medicaid	15 %	13 %
Other third-party payors	36 %	34 %
Uninsured patients	12 %	10 %
<b>Total</b>	<b>100 %</b>	<b>100 %</b>

The Corporation maintains depository relationships with area financial institutions that are Federal Deposit Insurance Corporation (FDIC) insured institutions. The Corporation maintains cash in accounts at these institutions which are insured by the FDIC up to \$250,000. At December 31, 2017, the Corporation's deposits exceeded the insured limits by approximately \$10,421,000. In addition, the Corporation maintains cash in interest-bearing accounts at these institutions which are backed by municipal obligations. Other investments held by these financial institutions are uninsured.

# Beloit Health System, Inc. and Affiliate

## Notes to Consolidated Financial Statements

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### Note 17: Community Benefit and Charity Care

The Corporation provides health care services and other financial support through various programs that are designed, among other matters, to enhance the health of the community, including the health of low-income patients.

The Corporation actively provided or participated in the following community based activities and programs during 2017 and 2016:

- General health education services such as health fairs, cancer education, healthy heart education, family planning, and mental health education.
- Provided health information on the Corporation's website and through health-related publications distributed at no charge.
- Support groups such as AIDS/HIV, diabetes, substance abuse, and weight management.
- Self-help and wellness programs, such as nutrition, weight management and sports injury prevention.
- Blood pressure screenings, cholesterol testing, and hearing testing.
- Crisis intervention counseling.
- Guidance, referral, and enrollment assistance for public medical programs and other family support assistance.
- Provided discounted or free medical supplies and equipment to those unable to pay.
- Delivered hot in-home meals.
- Provided emergency bus tokens for the indigent to access health care services.
- Promoted participation in blood drives by employees.
- Contributed to the education of student nurses and other health care professionals.

The Corporation also subsidized dialysis services, provided first aid for community events at no cost, and made cash contributions to support community events.

Consistent with the mission of the Corporation, care is provided to patients regardless of their ability to pay, including providing services to those persons who cannot afford health insurance because of inadequate resources or are underinsured. The Corporation gives discounts from established charges to self-pay patients without regard to ability to pay and considers these discounts a part of their community benefit. Health care services to patients under government programs, such as Medicaid, are also considered part of the Corporation's benefit provided to the community since a substantial portion of such services are reimbursed at amounts less than the cost of providing care.

# Beloit Health System, Inc. and Affiliate

## Notes to Consolidated Financial Statements

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### **Note 17: Community Benefit and Charity Care** (Continued)

Patients who meet certain criteria for charity care, generally based on federal poverty guidelines, are provided care without charge or at a reduced rate, determined based on qualifying criteria as defined in the Corporation's charity care policy and from applications completed by patients and their families. The estimated cost of providing care to patients under the Corporation's charity care policy was approximately \$261,000 and \$434,000 in 2017 and 2016, respectively.

### **Note 18: Commitments and Contingencies**

The Corporation is subject to legal proceedings and claims that arise in the ordinary course of business. While any proceeding or litigation has an element of uncertainty, management of the Corporation believes that the outcome of any pending or threatened actions will not have a material adverse effect on the financial condition of the Corporation.

### **Note 19: Reclassification**

Certain reclassifications have been made to the 2016 consolidated financial statements to conform to the 2017 classifications.

## **Supplementary Information**

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## Independent Auditor's Report on Supplementary Information

Board of Trustees  
Beloit Health System, Inc. and Affiliate  
Beloit, Wisconsin

We have audited the consolidated financial statements of Beloit Health System, Inc. and Affiliate as of and for the years ended December 31, 2017 and 2016, and our report thereon dated March 15, 2018, which expressed an unmodified opinion on those consolidated financial statements, appears on page 1. Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary information appearing on pages 40 through 50 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such 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. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

*Wipfli LLP*

Wipfli LLP

March 15, 2018  
Milwaukee, Wisconsin

# Beloit Health System, Inc. and Affiliate

## Consolidating Balance Sheets

December 31, 2017

Assets	Beloit Health System, Inc.	Beloit Health System Foundation, Inc.	Eliminations	Total
Current assets:				
Cash and cash equivalents	\$ 17,265,825	\$ -	\$ -	\$ 17,265,825
Patient accounts receivable - Net	38,632,456	-	-	38,632,456
Other accounts receivable	3,487,430	-	(77,377)	3,410,053
Pledges receivable	-	1,124,711	-	1,124,711
Inventory	5,175,819	-	-	5,175,819
Amounts receivable from third-party reimbursement programs	1,573,000	-	-	1,573,000
Prepaid expenses	1,146,960	-	-	1,146,960
<b>Total current assets</b>	<b>67,281,490</b>	<b>1,124,711</b>	<b>(77,377)</b>	<b>68,328,824</b>
Investments	71,984,322	-	-	71,984,322
Assets limited as to use	7,192,678	10,918,187	-	18,110,865
Property and equipment - Net	131,764,846	-	-	131,764,846
Other assets:				
Goodwill	3,300,000	-	-	3,300,000
Pledges receivable, less current portion	-	1,301,608	-	1,301,608
<b>Total other assets</b>	<b>3,300,000</b>	<b>1,301,608</b>	<b>-</b>	<b>4,601,608</b>
<b>TOTAL ASSETS</b>	<b>\$ 281,523,336</b>	<b>\$ 13,344,506</b>	<b>\$ (77,377)</b>	<b>\$ 294,790,465</b>

# Beloit Health System, Inc. and Affiliate

## Consolidating Balance Sheets (Continued)

December 31, 2017

Liabilities and Net Assets	Beloit Health System, Inc.	Beloit Health System Foundation, Inc.	Eliminations	Total
Current liabilities:				
Current maturities of long-term debt	\$ 2,822,187	\$ -	\$ -	\$ 2,822,187
Accounts payable	8,084,575	77,377	(77,377)	8,084,575
Accrued liabilities	20,352,588	-	-	20,352,588
<b>Total current liabilities</b>	<b>31,259,350</b>	<b>77,377</b>	<b>(77,377)</b>	<b>31,259,350</b>
Long-term liabilities:				
Long-term debt, less current maturities	81,829,461	-	-	81,829,461
Pension liability	18,323,446	-	-	18,323,446
Deferred compensation	4,393,096	-	-	4,393,096
Interest rate swap agreements	7,311,807	-	-	7,311,807
<b>Total long-term liabilities</b>	<b>111,857,810</b>	<b>-</b>	<b>-</b>	<b>111,857,810</b>
<b>Total liabilities</b>	<b>143,117,160</b>	<b>77,377</b>	<b>(77,377)</b>	<b>143,117,160</b>
Net assets:				
Unrestricted	138,406,176	4,041,016	-	142,447,192
Temporarily restricted	-	7,391,380	-	7,391,380
Permanently restricted	-	1,834,733	-	1,834,733
<b>Total net assets</b>	<b>138,406,176</b>	<b>13,267,129</b>	<b>-</b>	<b>151,673,305</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 281,523,336</b>	<b>\$ 13,344,506</b>	<b>\$ (77,377)</b>	<b>\$ 294,790,465</b>

See Independent Auditor's Report on Supplementary Information.

# Beloit Health System, Inc. and Affiliate

## Consolidating Balance Sheets

December 31, 2016

Assets	Beloit Health System, Inc.	Beloit Health System Foundation, Inc.	Eliminations	Total
Current assets:				
Cash and cash equivalents	\$ 22,760,348	\$ -	\$ -	\$ 22,760,348
Patient accounts receivable - Net	35,741,923	-	-	35,741,923
Other accounts receivable	1,103,902	-	(75,225)	1,028,677
Pledges receivable	-	1,166,654	-	1,166,654
Inventory	4,430,933	-	-	4,430,933
Amounts receivable from third-party reimbursement programs	2,110,000	-	-	2,110,000
Prepaid expenses	985,580	-	-	985,580
<b>Total current assets</b>	<b>67,132,686</b>	<b>1,166,654</b>	<b>(75,225)</b>	<b>68,224,115</b>
Investments	62,331,445	-	-	62,331,445
Assets limited as to use	8,959,693	10,246,295	-	19,205,988
Property and equipment - Net	128,204,774	-	-	128,204,774
Other assets:				
Goodwill	3,300,000	-	-	3,300,000
Pledges receivable, less current portion	-	2,317,379	-	2,317,379
<b>Total other assets</b>	<b>3,300,000</b>	<b>2,317,379</b>	<b>-</b>	<b>5,617,379</b>
<b>TOTAL ASSETS</b>	<b>\$ 269,928,598</b>	<b>\$ 13,730,328</b>	<b>\$ (75,225)</b>	<b>\$ 283,583,701</b>

# Beloit Health System, Inc. and Affiliate

## Consolidating Balance Sheets (Continued)

December 31, 2016

Liabilities and Net Assets	Beloit Health System, Inc.	Beloit Health System Foundation, Inc.	Eliminations	Total
Current liabilities:				
Current maturities of long-term debt	\$ 2,776,639	\$ -	\$ -	\$ 2,776,639
Accounts payable	11,358,859	75,225	(75,225)	11,358,859
Accrued liabilities	18,946,719	-	-	18,946,719
<b>Total current liabilities</b>	<b>33,082,217</b>	<b>75,225</b>	<b>(75,225)</b>	<b>33,082,217</b>
Long-term liabilities:				
Long-term debt, less current maturities	84,584,834	-	-	84,584,834
Pension liability	16,621,711	-	-	16,621,711
Deferred compensation	3,575,341	-	-	3,575,341
Interest rate swap agreements	8,163,135	-	-	8,163,135
<b>Total long-term liabilities</b>	<b>112,945,021</b>	<b>-</b>	<b>-</b>	<b>112,945,021</b>
<b>Total liabilities</b>	<b>146,027,238</b>	<b>75,225</b>	<b>(75,225)</b>	<b>146,027,238</b>
Net assets:				
Unrestricted	123,901,360	1,101,568	-	125,002,928
Temporarily restricted	-	10,776,104	-	10,776,104
Permanently restricted	-	1,777,431	-	1,777,431
<b>Total net assets</b>	<b>123,901,360</b>	<b>13,655,103</b>	<b>-</b>	<b>137,556,463</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 269,928,598</b>	<b>\$ 13,730,328</b>	<b>\$ (75,225)</b>	<b>\$ 283,583,701</b>

See Independent Auditor's Report on Supplementary Information.

# Beloit Health System, Inc. and Affiliate

## Consolidating Statements of Operations

Year Ended December 31, 2017

	Beloit Health System, Inc.	Beloit Health System Foundation, Inc.	Eliminations	Total
Revenue:				
Patient service revenue (net of contractual allowances and discounts)	\$ 241,551,948	\$ -	\$ -	\$ 241,551,948
Provision for bad debts	(9,856,332)	-	-	(9,856,332)
Net patient service revenue, less provision for bad debts	231,695,616	-	-	231,695,616
Other operating revenue	7,793,126	1,873,564	(64,325)	9,602,365
<b>Total revenue</b>	<b>239,488,742</b>	<b>1,873,564</b>	<b>(64,325)</b>	<b>241,297,981</b>
Expenses:				
Salaries and wages	96,618,169	140,536	-	96,758,705
Employee benefits	40,964,216	35,131	-	40,999,347
Professional fees and purchased services	35,402,655	116,413	-	35,519,068
Supplies	38,887,743	21,521	-	38,909,264
Utilities	3,019,904	-	-	3,019,904
Insurance	733,741	7,058	-	740,799
Hospital assessment	5,601,362	-	-	5,601,362
Depreciation	11,361,874	-	-	11,361,874
Interest	3,747,270	-	-	3,747,270
Grants - Beloit Health System, Inc.	-	2,740,335	(2,740,335)	-
<b>Total expenses</b>	<b>236,336,934</b>	<b>3,060,994</b>	<b>(2,740,335)</b>	<b>236,657,593</b>
Income (loss) from operations	3,151,808	(1,187,430)	2,676,010	4,640,388
Nonoperating income (loss):				
Investment income	7,364,665	205,703	-	7,570,368
Other-Net	99,593	119,926	-	219,519
Excess (deficiency) of revenue over expenses	10,616,066	(861,801)	2,676,010	12,430,275
Other changes in unrestricted net assets:				
Change in net unrealized gains and losses on investments other than trading securities	1,798,383	371,903	-	2,170,286
Change in fair value of effective portion of interest rate swap agreements	802,736	-	-	802,736
Net assets released from restrictions for capital improvements	2,676,010	3,354,121	(2,676,010)	3,354,121
Other	(10,002)	-	-	(10,002)
Forgiveness of Foundation receivable	(75,225)	75,225	-	-
Change in pension obligation other than expense	(1,303,152)	-	-	(1,303,152)
<b>Increase in unrestricted net assets</b>	<b>\$ 14,504,816</b>	<b>\$ 2,939,448</b>	<b>\$ -</b>	<b>\$ 17,444,264</b>

See Independent Auditor's Report on Supplementary Information.

# Beloit Health System, Inc. and Affiliate

## Consolidating Statements of Operations

Year Ended December 31, 2016

	Beloit Health System, Inc.	Beloit Health System Foundation, Inc.	Eliminations	Total
Revenue:				
Patient service revenue (net of contractual allowances and discounts)	\$ 238,261,969	\$ -	\$ -	\$ 238,261,969
Provision for bad debts	(13,034,256)	-	-	(13,034,256)
Net patient service revenue, less provision for bad debts	225,227,713	-	-	225,227,713
Other operating revenue	8,547,171	225,319	(63,308)	8,709,182
<b>Total revenue</b>	<b>233,774,884</b>	<b>225,319</b>	<b>(63,308)</b>	<b>233,936,895</b>
Expenses:				
Salaries and wages	96,075,508	129,591	-	96,205,099
Employee benefits	39,125,959	32,397	-	39,158,356
Professional fees and purchased services	31,648,918	121,499	-	31,770,417
Supplies	36,694,701	23,300	-	36,718,001
Utilities	2,919,066	-	-	2,919,066
Insurance	553,829	58,863	-	612,692
Hospital assessment	5,651,730	-	-	5,651,730
Depreciation	10,318,841	-	-	10,318,841
Interest	3,421,697	-	-	3,421,697
Grants - Beloit Health System, Inc.	-	2,725,429	(2,725,429)	-
<b>Total expenses</b>	<b>226,410,249</b>	<b>3,091,079</b>	<b>(2,725,429)</b>	<b>226,775,899</b>
Income (loss) from operations	7,364,635	(2,865,760)	2,662,121	7,160,996
Nonoperating income (loss):				
Investment income	2,891,906	16,818	-	2,908,724
Other-Net	100,865	111,524	-	212,389
Excess (deficiency) of revenue over expenses	10,357,406	(2,737,418)	2,662,121	10,282,109
Other changes in unrestricted net assets:				
Change in net unrealized gains and losses on investments other than trading securities	1,973,312	100,914	-	2,074,226
Change in fair value of effective portion of interest rate swap agreements	1,097,089	-	-	1,097,089
Net assets released from restrictions for capital improvements	2,662,121	2,662,121	(2,662,121)	2,662,121
Other	(9)	-	-	(9)
Net assets transferred from Beloit Regional Hospice, Inc. (Note 2)	578,730	-	-	578,730
Forgiveness of Foundation receivable	(49,640)	49,640	-	-
Change in pension obligation other than expense	(2,229,810)	-	-	(2,229,810)
<b>Increase in unrestricted net assets</b>	<b>\$ 14,389,199</b>	<b>\$ 75,257</b>	<b>\$ -</b>	<b>\$ 14,464,456</b>

See Independent Auditor's Report on Supplementary Information.

# Beloit Health System, Inc. and Affiliate

## Consolidating Statements of Changes in Net Assets

Year Ended December 31, 2017

	Beloit Health System, Inc.	Beloit Health System Foundation, Inc.	Eliminations	Total
Increase in unrestricted net assets	\$ 14,504,816	\$ 2,939,448	\$ -	\$ 17,444,264
Temporarily restricted net assets:				
Contributions	-	1,166,384	-	1,166,384
Investment income	-	160,438	-	160,438
Change in net unrealized gains and losses on investments other than trading securities	-	420,382	-	420,382
Net assets released from restrictions for capital improvements	-	(3,354,121)	-	(3,354,121)
Net assets released from restrictions for operations	-	(1,777,807)	-	(1,777,807)
Decrease in temporarily restricted net assets	-	(3,384,724)	-	(3,384,724)
Increase in permanently restricted net assets -				
Contributions	-	57,302	-	57,302
Change in net assets	14,504,816	(387,974)	-	14,116,842
Net assets at beginning	123,901,360	13,655,103	-	137,556,463
Net assets at end	\$ 138,406,176	\$ 13,267,129	\$ -	\$ 151,673,305

See Independent Auditor's Report on Supplementary Information.

# Beloit Health System, Inc. and Affiliate

## Consolidating Statements of Changes in Net Assets

Year Ended December 31, 2016

	Beloit Health System, Inc.	Beloit Health System Foundation, Inc.	Eliminations	Total
Increase in unrestricted net assets	\$ 14,389,199	\$ 75,257	\$ -	\$ 14,464,456
Temporarily restricted net assets:				
Contributions	-	3,091,844	-	3,091,844
Investment income	-	111,727	-	111,727
Change in net unrealized gains and losses on investments other than trading securities	-	351,358	-	351,358
Net assets released from restrictions for capital improvements	-	(2,662,121)	-	(2,662,121)
Net assets released from restrictions for operations	-	(174,489)	-	(174,489)
Net assets transferred from Beloit Regional Hospice, Inc. (Note 2)	-	1,551,914	-	1,551,914
Increase in temporarily restricted net assets	-	2,270,233	-	2,270,233
Permanently restricted net assets:				
Contributions	-	6,739	-	6,739
Net assets transferred from Beloit Regional Hospice, Inc. (Note 2)	-	92,394	-	92,394
Increase in permanently restricted net assets	-	99,133	-	99,133
Change in net assets	14,389,199	2,444,623	-	16,833,822
Net assets at beginning	109,512,161	11,210,480	-	120,722,641
Net assets at end	\$ 123,901,360	\$ 13,655,103	\$ -	\$ 137,556,463

See Independent Auditor's Report on Supplementary Information.

# Beloit Health System, Inc.

## Balance Sheets

December 31, 2017 and 2016

<b>Assets</b>	<b>2017</b>	<b>2016</b>
Current assets:		
Cash and cash equivalents	\$ 17,265,825	\$ 22,760,348
Patient accounts receivable - Net	38,632,456	35,741,923
Other accounts receivable	3,487,430	1,103,902
Inventory	5,175,819	4,430,933
Amounts receivable from third-party reimbursement programs	1,573,000	2,110,000
Prepaid expenses	1,146,960	985,580
<b>Total current assets</b>	<b>67,281,490</b>	<b>67,132,686</b>
Investments	71,984,322	62,331,445
Assets limited as to use	7,192,678	8,959,693
Property and equipment - Net	131,764,846	128,204,774
Goodwill	3,300,000	3,300,000
<b>TOTAL ASSETS</b>	<b>\$ 281,523,336</b>	<b>\$ 269,928,598</b>

# Beloit Health System, Inc.

## Balance Sheets (Continued)

December 31, 2017 and 2016

<b>Liabilities and Net Assets</b>	<b>2017</b>	<b>2016</b>
Current liabilities:		
Current maturities of long-term debt	\$ 2,822,187	\$ 2,776,639
Accounts payable	8,084,575	11,358,859
Accrued liabilities	20,352,588	18,946,719
<b>Total current liabilities</b>	<b>31,259,350</b>	<b>33,082,217</b>
Long-term liabilities:		
Long-term debt, less current maturities	81,829,461	84,584,834
Pension liability	18,323,446	16,621,711
Deferred compensation	4,393,096	3,575,341
Interest rate swap agreements	7,311,807	8,163,135
<b>Total long-term liabilities</b>	<b>111,857,810</b>	<b>112,945,021</b>
<b>Total liabilities</b>	<b>143,117,160</b>	<b>146,027,238</b>
Unrestricted net assets	138,406,176	123,901,360
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 281,523,336</b>	<b>\$ 269,928,598</b>

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# Beloit Health System, Inc.

## Statements of Operations

Years Ended December 31, 2017 and 2016

	2017	2016
Revenue:		
Patient service revenue (net of contractual allowances and discounts)	\$ 241,551,948	\$ 238,261,969
Provision for bad debts	(9,856,332)	(13,034,256)
Net patient service revenue, less provision for bad debts	231,695,616	225,227,713
Other operating revenue	7,793,126	8,547,171
<b>Total revenue</b>	<b>239,488,742</b>	<b>233,774,884</b>
Expenses:		
Salaries and wages	96,618,169	96,075,508
Employee benefits	40,964,216	39,125,959
Professional fees and purchased services	35,402,655	31,648,918
Supplies	38,887,743	36,694,701
Utilities	3,019,904	2,919,066
Insurance	733,741	553,829
Hospital assessment	5,601,362	5,651,730
Depreciation	11,361,874	10,318,841
Interest	3,747,270	3,421,697
<b>Total expenses</b>	<b>236,336,934</b>	<b>226,410,249</b>
Income from operations	3,151,808	7,364,635
Nonoperating income (loss):		
Investment income	7,364,665	2,891,906
Other-Net	99,593	100,865
<b>Excess of revenue over expenses</b>	<b>10,616,066</b>	<b>10,357,406</b>
Other changes in unrestricted net assets:		
Changes in net unrealized gains and losses on investments other than trading securities	1,798,383	1,973,312
Change in fair value of effective portion of interest rate swap agreements	802,736	1,097,089
Net assets released from restrictions for capital improvements	2,676,010	2,662,121
Other	(10,002)	(9)
Net assets transferred from Beloit Regional Hospice, Inc. (Note 2)	-	578,730
Forgiveness of Foundation receivable	(75,225)	(49,640)
Change in pension obligation other than pension expense	(1,303,152)	(2,229,810)
<b>Increase in unrestricted net assets</b>	<b>\$ 14,504,816</b>	<b>\$ 14,389,199</b>

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