

# Beloit Health System, Inc. and Affiliate

Consolidated Financial Statements and  
Supplementary Information

Years Ended December 31, 2018 and 2017

**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, 2018 and 2017, and the related consolidated statements of operations, changes in net assets, and cash flows for the years then ended and the related notes to the consolidated financial statements.

### Management's Responsibility for the 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, 2018 and 2017, 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.

*Wipfli LLP*

Wipfli LLP  
Milwaukee, Wisconsin

April 1, 2019

# Beloit Health System, Inc. and Affiliate

## Consolidated Balance Sheets

December 31, 2018 and 2017

Assets	2018	2017
Current assets:		
Cash and cash equivalents	\$ 16,473,136	\$ 17,265,825
Patient accounts receivable - Net	46,240,894	38,632,456
Other accounts receivable	5,698,313	3,410,053
Pledges receivable	1,028,227	1,124,711
Inventory	5,585,672	5,175,819
Amounts receivable from third-party reimbursement programs	1,355,000	1,573,000
Prepaid expenses	1,289,242	1,146,960
Total current assets	77,670,484	68,328,824
Investments	65,632,830	71,984,322
Assets limited as to use	17,400,257	18,110,865
Property and equipment - Net	126,116,853	131,764,846
Other assets:		
Goodwill	3,300,000	3,300,000
Pledges receivable, less current portion	390,654	1,301,608
Total other assets	3,690,654	4,601,608
<b>TOTAL ASSETS</b>	<b>\$ 290,511,078</b>	<b>\$ 294,790,465</b>

# Beloit Health System, Inc. and Affiliate

## Consolidated Balance Sheets (Continued)

December 31, 2018 and 2017

<b>Liabilities and Net Assets</b>	<b>2018</b>	<b>2017</b>
Current liabilities:		
Current maturities of long-term debt	\$ 2,875,503	\$ 2,822,187
Accounts payable	8,567,478	8,084,575
Accrued liabilities	20,782,510	20,352,588
<b>Total current liabilities</b>	<b>32,225,491</b>	<b>31,259,350</b>
Long-term liabilities:		
Long-term debt, less current maturities	79,005,804	81,829,461
Pension liability	18,538,021	18,323,446
Deferred compensation	4,257,708	4,393,096
Interest rate swap agreements	5,953,414	7,311,807
<b>Total long-term liabilities</b>	<b>107,754,947</b>	<b>111,857,810</b>
<b>Total liabilities</b>	<b>139,980,438</b>	<b>143,117,160</b>
Net assets:		
Without donor restrictions:		
Undesignated	139,662,532	139,336,060
Board designated	2,929,125	3,111,132
<b>Total net assets without donor restrictions</b>	<b>142,591,657</b>	<b>142,447,192</b>
With donor restrictions	7,938,983	9,226,113
<b>Total net assets</b>	<b>150,530,640</b>	<b>151,673,305</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 290,511,078</b>	<b>\$ 294,790,465</b>

See accompanying notes to consolidated financial statements.

# Beloit Health System, Inc. and Affiliate

## Consolidated Statements of Operations

Years Ended December 31, 2018 and 2017

	2018	2017
Revenue:		
Patient service revenue	\$ 238,455,695	\$ 231,695,616
Other operating revenue	8,583,549	9,602,365
<b>Total revenue</b>	<b>247,039,244</b>	<b>241,297,981</b>
Expenses:		
Salaries and wages	97,315,878	96,758,705
Employee benefits	37,866,675	40,714,952
Professional fees and purchased services	38,442,654	35,519,068
Supplies	41,889,747	38,909,264
Utilities	2,904,742	3,019,904
Insurance	958,097	740,799
Hospital assessment	5,478,670	5,601,362
Depreciation	12,328,634	11,361,874
Interest	3,940,108	3,747,270
<b>Total expenses</b>	<b>241,125,205</b>	<b>236,373,198</b>
Income from operations	5,914,039	4,924,783
Nonoperating income (loss) - Investment income (loss) and other	4,296,084	7,505,492
Excess of revenue over expenses	10,210,123	12,430,275
Other changes in net assets without donor restrictions:		
Change in net unrealized gains and losses on investments	(9,158,628.0)	2,170,286
Change in fair value of effective portion of interest rate swap agreements	1,278,331	802,736
Net assets released from restrictions for capital improvements	1,110,000	3,354,121
Other	45,551	(10,002)
Change in pension obligation other than pension expense	(3,340,912)	(1,303,152)
<b>Increase (decrease) in net assets without donor restrictions</b>	<b>\$ 144,465</b>	<b>\$ 17,444,264</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, 2018 and 2017

	2018	2017
Increase (decrease) in net assets without donor restrictions	\$ 144,465	\$ 17,444,264
Net assets with donor restrictions		
Contributions	568,258	1,223,686
Investment income (loss)	(235,273)	580,820
Net assets released from restrictions for capital improvements	(1,110,000)	(3,354,121)
Net assets released from restrictions for operations	(510,115)	(1,777,807)
Decrease in net assets with donor restrictions	(1,287,130)	(3,327,422)
Change in net assets	(1,142,665)	14,116,842
Net assets at beginning	151,673,305	137,556,463
Net assets at end	\$ 150,530,640	\$ 151,673,305

See accompanying notes to consolidated financial statements.

# Beloit Health System, Inc. and Affiliate

## Consolidated Statements of Cash Flows

Years Ended December 31, 2018 and 2017

	2018	2017
Increase (decrease) in cash and cash equivalents:		
Cash flows from operating activities:		
Change in net assets	\$ (1,142,665)	\$ 14,116,842
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	12,328,634	11,361,874
Amortization of bond premiums, discounts, and bond issuance costs	51,845	66,810
Change in net unrealized gains and losses on investments	9,618,825	(2,590,668)
Change in fair value of interest rate swap agreements	(1,358,393)	(851,328)
Net realized gains on sales of investments	(3,081,744)	(6,412,788)
Change in pension obligation other than pension expense	3,340,912	1,303,152
Contributions and grants with donor restrictions	(568,258)	(165,972)
Loss on disposal of property and equipment - Net	739,308	-
Changes in operating assets and liabilities		
Patient accounts receivable	(7,608,438)	(2,890,533)
Other accounts receivable	(2,288,260)	(2,381,376)
Pledges receivable	1,007,438	1,057,714
Inventory	(409,853)	(744,886)
Amounts receivable from third-party reimbursement programs	218,000	537,000
Prepaid expenses	(142,282)	(161,380)
Accounts payable	482,903	(3,274,284)
Accrued liabilities	(2,696,415)	1,804,452
Deferred compensation	(135,388)	817,755
Net cash provided by operating activities	\$ 8,356,169	\$ 11,592,384

# Beloit Health System, Inc. and Affiliate

## Consolidated Statements of Cash Flows (Continued)

Years Ended December 31, 2018 and 2017

	2018	2017
Cash flows from investing activities:		
Purchases of investments and assets limited as to use	\$ (5,094,084)	\$ (14,915,385)
Proceeds from sales of investments and assets limited as to use	5,619,103	15,361,087
Capital expenditures	(7,419,949)	(14,921,946)
Net cash used in investing activities	(6,894,930)	(14,476,244)
Cash flows from financing activities:		
Principal payments on long-term debt	(2,822,186)	(2,776,635)
Restricted contributions and grants	568,258	165,972
Net cash used in financing activities	(2,253,928)	(2,610,663)
Net decrease in cash and cash equivalents	(792,689)	(5,494,523)
Cash and cash equivalents at beginning	17,265,825	22,760,348
Cash and cash equivalents at end	\$ 16,473,136	\$ 17,265,825

**Supplemental cash flow information:**

Cash paid during the year for interest, net of amounts capitalized	\$ 3,903,787	\$ 3,696,597
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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, estimated third-party settlements, pension liabilities, valuation of goodwill, and reserves for losses and expenses related to self-insurance for employee health care.

#### 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.

# Beloit Health System, Inc. and Affiliate

## Notes to Consolidated Financial Statements

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

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

Patient accounts receivable is reported at the amount that reflects the consideration to which the Corporation expects to be entitled, in exchange for providing patient care services. Patient accounts receivable are recorded in the accompanying consolidated balance sheets net of contractual adjustments and implicit price concessions which reflects management's estimate of the transaction price. The Corporation estimates the transaction price based on negotiated contractual agreements, historical experience, and current market conditions. The initial estimate of the transaction price is determined by reducing the standard charge by any contractual adjustments, discounts, and implicit price concessions and is recorded through a reduction of gross revenue and a credit to patient accounts receivable. Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to patient service revenue in the period of the change.

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

Unrealized gains and losses on investments are excluded from revenue in excess of expenses. 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 Directors 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 net assets with donor restrictions.

# Beloit Health System, Inc. and Affiliate

## Notes to Consolidated Financial Statements

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

#### 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.

Gifts of long-lived assets such as land, buildings, or equipment are reported as net assets without donor restriction 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 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 2018 and 2017.

# Beloit Health System, Inc. and Affiliate

## Notes to Consolidated Financial Statements

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

#### **Pledges Receivable**

Pledges are recorded as receivables in the year pledged. Pledges and other promises to give whose eventual uses are restricted by the donors are reported as increases in net assets with donor restrictions. The carrying amount of pledges receivable is reduced by allowances which reflect management's estimate of uncollectible amounts.

#### **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 net assets without donor restrictions 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**

Net assets without donor restrictions are those not subject to donor-imposed stipulations and includes those expendable resources which have been designated for special use by the Board of Directors. Net assets with donor restrictions are those whose use by the Corporation has been limited by donors to a specific time period or purpose. Earnings on net assets with donor restricted endowment funds are recorded as net assets with donor restrictions 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 net assets without donor restrictions, which are excluded from the operating indicator, include unrealized gains and losses on investments (2017 only; See Note 2), 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

Patient service revenue is reported at the amount that reflects the consideration to which the Corporation expects to be entitled in exchange for providing patient care. These amounts are due from patients, third-party payors (including health insurers and government programs), and others and includes variable consideration for retroactive revenue adjustments due to settlement of audits, reviews, and investigations. Generally, the Corporation bills the patients and third-party payors several days after the services are performed or the patient is discharged from the facility. Revenue is recognized as performance obligations are satisfied.

Performance obligations are determined based on the nature of the services provided. Revenue from performance obligations satisfied over time is recognized based on actual charges incurred in relation to total expected (or actual) charges. Generally, performance obligations satisfied over time relate to patients receiving hospital inpatient acute care services, nursing home post-acute care services, and hospice post-acute care services. For these services the Corporation measures the performance obligation from admission to the point when there are no further services required for the patient, which is generally at the time of discharge. For outpatient services provided in our hospital, clinics, and nursing home, and home health services, the performance obligation is satisfied as the patient simultaneously receives and consumes the benefits provided as the services are performed. In the case of these outpatient services, recognition of the obligation over time yields the same result as recognizing the obligation at a point in time.

Because the Corporation's performance obligations relate to contracts with a duration of less than one year, the Corporation has elected to apply the optional exemption and, therefore, is not required to disclose the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied or partially unsatisfied at the end of the reporting period. The unsatisfied or partially unsatisfied performance obligations referred to above are primarily related to inpatient acute care services at the end of the reporting period. The performance obligations for these contracts are generally completed when the patients are discharged, which generally occurs within days or weeks of the end of the reporting period.

The Corporation uses a portfolio approach to account for categories of patient contracts as a collective group rather than recognizing revenue on an individual contract basis. The Corporation used the following factors to develop portfolios: major payor classes and type of service (i.e. inpatient, outpatient). Using historical collection trends and other analysis, the Corporation evaluated the accuracy of its estimates and determined that recognizing revenue by utilizing the portfolio approach approximates the revenue that would have been recognized if an individual contract approach was used.

The Corporation determines the transaction price, which involves significant estimates and judgement, based on standard charges for goods and services provided, reduced by contractual adjustments provided to third-party payors, discounts provided to uninsured patients in accordance with the Corporation's policy, and implicit price concessions provided to patients. The Corporation determines its estimates of contractual adjustments and discounts based on contractual agreements, its discount policy, and historical experience. Generally, patients who are covered by third-party payors are responsible for related deductibles and coinsurance, which vary in amount. The Corporation also provides services to uninsured patients, and offers those uninsured patients a discount, either by policy or law, from standard charges. The Corporation determines its estimate of implicit price concessions based on its historical collection experience for each patient portfolio based on payor class and service type.

# 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 (Continued)

The Corporation has agreements with third-party payors that typically provide for payments at amounts less than established charges. A summary of the payment arrangements with major third-party payors follows:

- **Medicare:** Inpatient acute care services are paid at prospectively determined rates per discharge based on clinical, diagnostic and other factors. Outpatient services are paid using prospectively determined rates or fixed fee schedules.
- **Medicaid:** Services are generally paid at prospectively determined rates per discharge or per occasion of service.
- **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 revenues 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 a prospectively determined rates. Hospice Medicare and Medicaid is reimbursed as a prospective rate per day.
- **Other:** Payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations provide for payment using prospectively determined rates per discharge, discounts from established charges, prospectively determined daily rates, and fee schedules.

Laws and regulations concerning government programs, including Medicare and Medicaid, are complex and subject to varying interpretation. Because of investigations by governmental agencies, various health care organizations have received requests for information and notices regarding alleged noncompliance with those laws and regulations, which, in some instances, have resulted in organizations entering into significant settlement agreements. Compliance with such laws and regulations may also be subject to future government review and interpretation as well as significant regulatory action, including fines, penalties, and potential exclusion from the related programs. There can be no assurance that regulatory authorities will not challenge the Corporation's compliance with these laws and regulations, and it is not possible to determine the impact (if any) such claims, or penalties would have upon the Corporation. The Centers for Medicare and Medicaid Services (CMS) uses recovery audit contractors (RACs) to 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 the 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 Corporation has not been notified by the RAC of any potential significant reimbursement adjustments. In addition, the contracts the Corporation has with commercial payors also provide for retroactive audit and review of claims.

# 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** (Continued)

Settlements with third-party payors for retroactive adjustments due to audits, reviews or investigations are considered variable consideration and are included in the determination of the estimated transaction price for providing patient care. These settlements are estimated based on the terms of the payment agreement with the payor, correspondence from the payor and the Corporation's historical settlement activity, including an assessment to ensure that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the retroactive adjustment is subsequently resolved. Estimated settlements are adjusted in future periods as adjustments become known, or as years are settled or are no longer subject to such audits, reviews, and investigations. Adjustments arising from a change in the transaction price, were not significant in 2018 and 2017. The Medicare cost reports have been audited through December 31, 2015, by the Medicare fiscal intermediary.

Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to patient service revenue in the period of the change. Subsequent changes that are determined to be the result of an adverse change in the patient's ability to pay are recorded as bad debt expense. Bad debt expenses for the years ended December 31, 2018 and 2017 were not significant.

Consistent with the Corporation's mission, care is provided to patients regardless of their ability to pay. Therefore, the Corporation has determined it has provided implicit price concessions to uninsured patients and patients with other uninsured balances (for example, copays and deductibles). The implicit price concessions included in estimating the transaction price represent the difference between amounts billed to patients and the amounts the Corporation expects to collect based on its collection history with those patients. The Corporation's policy is to provide a 70% discount from established charges to uninsured patients. This policy did not change in 2018 and 2017.

The promised amount of consideration from patients and third-party payors have not been adjusted for the effects of a significant financing component due to the Corporation's expectation that the period between the time the service is provided to a patient and the time that the patient or a third-party payor pays for that service will be one year or less. However, the Corporation does, in certain instances, enter into payment agreements with patients that allow payments in excess of one year. For those cases, the financing component is not deemed to be significant to the contract.

All incremental customer contract acquisition costs are expensed as they are incurred as the amortization period of the asset that the Corporation otherwise would have recognized is one year or less in duration.

#### **Charity Care**

The Corporation provides care to patients who meet criteria under its charity care policy without charge or at amounts less than established rates. Such amounts determined to qualify as charity care are not reported as 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.

# Beloit Health System, Inc. and Affiliate

## Notes to Consolidated Financial Statements

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

#### 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 net assets with donor restrictions if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified as net assets without donor restrictions and reported in the statements of operations and changes in net assets as net assets released from restrictions.

#### Unemployment Compensation

The Corporation is self-insured for unemployment compensation benefits. The Corporation has obtained a letter of credit, which expires on December 31, 2022, to meet state funding requirements.

#### 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 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.

#### Subsequent Events

Subsequent events have been evaluated through April 1, 2019, which is the date the consolidated financial statements were issued.

# Beloit Health System, Inc. and Affiliate

## Notes to Consolidated Financial Statements

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### Note 2: Accounting Pronouncements Adopted

#### ASU No. 2014-09, *Revenue from Contracts with Customers* (Topic 606)

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers* (Topic 606). The core principle of the guidance in ASU 2014-09 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The Corporation adopted this guidance as of January 1, 2018. The Corporation applied Topic 606 on a retrospective basis and elected the practical expedient in paragraph FASB ASC 606-10-65-1(f)3, under which the Corporation does not disclose the aggregate amount of the transaction price allocated to the remaining performance obligations referred to above that are primarily related to inpatient acute care services at the end of the reporting period. The performance obligations for these contracts are generally completed when the patients are discharged, which generally occurs within days or weeks of the end of the reporting period. The implementation of this ASU resulted in a change in bad debt presentation which is reported as an operating expense, rather than a net patient service revenue deduction. Under this ASU, management's initial estimate of the transaction price includes implicit price concessions, rather than previously being reported as provision for bad debt. The following line items on the consolidated statement of operations for the year ended December 31, 2017, were affected by the adoption of this guidance:

	As Previously Reported	As Restated	Effect of Change
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
Patient service revenue	\$ -	\$ 231,695,616	\$ 231,695,616

#### ASU No. 2016-01, *Financial Instruments - Overall* (Topic 958)

In January 2016, the FASB issued ASU 2016-01, *Financial Instruments - Overall*. ASU 2016-01 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 guidance in this ASU was adopted for the Corporation's year ended December 31, 2018, and has been applied prospectively.

# Beloit Health System, Inc. and Affiliate

## Notes to Consolidated Financial Statements

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### Note 2: Accounting Pronouncements Adopted (Continued)

#### ASU No. 2016-14, *Not-for-Profit Entities (Topic 958)*

In August 2016, the FASB issued Accounting Standards Update (ASU) No. 2016-14, Not-for-Profit Entities (Topic 958). This ASU provides for certain improvements in financial reporting for not-for-profit organizations and requires changes to net asset classification, enhancements to liquidity presentation and disclosures, presentation of an analysis of expenses by function and by nature, netting of investment expenses with return, among other changes. The guidance in this ASU is effective for the Corporation's year ended December 31, 2018 and was applied retrospectively to these comparative financial statements. Net assets as of December 31, 2017 were restated by combining the temporarily restricted net assets of \$7,391,380 and permanently restricted net assets of \$1,834,733 into net assets with donor restrictions of \$9,226,113. The Corporation has elected under the standard's adoption guidance to omit the liquidity and statement of functional expenses disclosures for the year ended December 31, 2017.

#### ASU No. 2017-07, *Compensation-Retirement Benefits*

In March 2017, FASB issued ASU 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. The guidance in this ASU is effective for the Corporation's year ended December 31, 2018 and was applied retrospectively to these comparative financial statements which resulted in reclassifying \$284,395 of employee benefit expense to nonoperating income other in the statements of operations in 2017.

### Note 3: Patient Accounts Receivable

Patient accounts receivable consisted of the following at December 31:

	2018	2017
Patient accounts receivable	\$ 126,901,894	\$ 116,358,456
Less: Contractual adjustments and implicit price concessions	(80,661,000)	(77,726,000)
Patient accounts receivable - Net	\$ 46,240,894	\$ 38,632,456

# Beloit Health System, Inc. and Affiliate

## Notes to Consolidated Financial Statements

### Note 4: Investments and Assets Limited as to Use

#### Investments

Investments consisted of the following at December 31:

	2018	2017
Mutual funds:		
U.S. equities	\$ 24,091,663	\$ 27,121,290
Fixed income	26,869,258	26,694,588
International	14,671,909	18,168,444
<b>Total investments</b>	<b>\$ 65,632,830</b>	<b>\$ 71,984,322</b>

#### Assets Limited as to Use

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

	2018	2017
Held by trustee under bond indenture agreements	\$ 2,469,099	\$ 2,799,582
Restricted by donor for specific purpose	4,656,255	4,965,280
Restricted by donor to be maintained in perpetuity	1,863,847	1,834,733
Held by trustee under deferred compensation agreements	4,257,708	4,393,096
Board-designated	4,153,348	4,118,174
<b>Total assets limited as to use</b>	<b>\$ 17,400,257</b>	<b>\$ 18,110,865</b>

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

	2018	2017
Cash and cash equivalents	\$ 3,626,073	\$ 3,721,393
Certificates of deposit	760,230	759,343
Mutual funds:		
U.S. equities	6,222,592	6,344,146
Fixed income	3,201,125	3,457,541
International	2,359,614	2,554,369
Alternatives	42,967	45,395
Split-interest agreements	593,390	607,349
Cash surrender value of life insurance	594,266	621,329
<b>Total</b>	<b>\$ 17,400,257</b>	<b>\$ 18,110,865</b>

# Beloit Health System, Inc. and Affiliate

## Notes to Consolidated Financial Statements

### Note 4: Investments and Assets Limited as to Use (Continued)

#### Investment Return

Investment income on cash equivalents, investments, and assets limited as to use, consisted of the following:

	2018	2017
Interest and dividend income, net of investment fees	\$ 1,801,887	\$ 1,318,018
Realized gains and losses	3,081,744	6,412,788
Change in unrealized gains and losses on investments	(9,618,825)	2,590,668
Total investment income (loss)	\$ (4,735,194)	\$ 10,321,474

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 2018 and 2017.

### Note 5: 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:

	2018	2017
Less than one year	\$ 1,028,227	\$ 1,124,711
One to five years	492,564	1,393,447
Greater than five years	9,176	9,177
Gross pledges receivable	1,529,967	2,527,335
Less:		
Unamortized discount	89,611	63,016
Allowance for uncollectible pledges	21,475	38,000
Pledges receivable - Net	\$ 1,418,881	\$ 2,426,319

# Beloit Health System, Inc. and Affiliate

## Notes to Consolidated Financial Statements

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### Note 5: Pledges Receivable and Related-Party Transactions (Continued)

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 (3.0% and 2.1% at December 31, 2018 and 2017, respectively). The interest element resulting from amortization of the discount is reported as contribution revenue.

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 \$31,700 and \$43,200 in 2018 and 2017, 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 \$75,300 and \$75,400 in 2018 and 2017, respectively.

### Note 6: Property and Equipment

Property and equipment consisted of the following at December 31:

	2018	2017
Land	\$ 8,100,877	\$ 8,100,877
Land improvements	7,699,872	6,573,316
Buildings	144,126,526	144,652,254
Fixed equipment	40,816,172	43,803,637
Major movable equipment	59,868,011	72,230,812
<b>Total property and equipment</b>	<b>260,611,458</b>	<b>275,360,896</b>
<b>Less - Accumulated depreciation and amortization</b>	<b>135,346,692</b>	<b>144,700,364</b>
<b>Net depreciated value</b>	<b>125,264,766</b>	<b>130,660,532</b>
<b>Construction in progress</b>	<b>852,087</b>	<b>1,104,314</b>
<b>Property and Equipment - Net</b>	<b>\$ 126,116,853</b>	<b>\$ 131,764,846</b>

Construction in progress at December 31, 2018 and 2017, relates to routine renovations and remodeling.

# Beloit Health System, Inc. and Affiliate

## Notes to Consolidated Financial Statements

### Note 7: Long-Term Debt

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

	2018	2017
Mortgage note with bank; due in monthly installments of \$10,820, including interest at 4.45% through January 2025; secured by certain real property	\$ 690,817	\$ 787,832
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 (2.62% at December 31, 2018)	31,735,000	32,885,000
Wisconsin Health and Educational Facilities Authority ("WHEFA") Revenue Bonds, Series 2010B, dated October 21, 2010; interest payable semi-annually at varying rates (3.00% to 5.13%) principal due in annual installments through April 2036	26,395,000	27,205,000
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 (2.85% at December 31, 2018)	7,302,997	8,027,269
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
<b>Total</b>	<b>82,588,814</b>	<b>85,411,000</b>
Less:		
Unamortized bond discounts	180,556	191,024
Unamortized bond premium	(318,477)	(325,211)
Unamortized bond issuance costs	845,428	893,539
Current maturities	2,875,503	2,822,187
<b>Long-term portion</b>	<b>\$ 79,005,804</b>	<b>\$ 81,829,461</b>

# Beloit Health System, Inc. and Affiliate

## Notes to Consolidated Financial Statements

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### **Note 7: 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 Series 2010B and Series 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.

# Beloit Health System, Inc. and Affiliate

## Notes to Consolidated Financial Statements

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### Note 7: Long-Term Debt (Continued)

Scheduled principal payments on long-term debt at December 31, 2018, including current maturities, are summarized as follows:

2019	\$ 2,875,503
2020	2,985,100
2021	3,104,907
2022	3,219,932
2023	3,345,185
Thereafter	67,058,187
<hr/>	
Total	\$ 82,588,814

### Note 8: 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	2018	2017
March 1, 2027	\$ 5,057,977	0.66% of 1-month LIBOR plus 1.25%	2.54 %	\$ 66,161	\$ 29,790
April 1, 2036	33,775,000	0.67% of 1-month LIBOR	3.88 %	(6,019,575)	(7,341,597)
<hr/>				\$ (5,953,414)	\$ (7,311,807)
<hr/>					
Totals				\$ (5,953,414)	\$ (7,311,807)

The Corporation assesses the effectiveness of the interest rate swaps as cash flow hedge instruments on a periodic basis. For 2018 and 2017, the Corporation determined the hedge to be partially ineffective. During 2018 and 2017, the Corporation recognized nonoperating income of \$80,062 and \$48,592, 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 net assets without donor restrictions by \$1,278,331 and \$802,736 in 2018 and 2017, 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

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### Note 9: 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. 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:

	2018			
	Level 1	Level 2	Level 3	Total
<b>Assets:</b>				
Cash equivalents	\$ -	\$ 13,794,825	\$ -	\$ 13,794,825
<b>Mutual funds:</b>				
U.S. equities	30,314,255	-	-	30,314,255
Fixed income	30,070,383	-	-	30,070,383
International	17,031,523	-	-	17,031,523
Alternative	42,967	-	-	42,967
Split interest agreements	-	-	593,390	593,390
Pledges receivable	-	-	1,418,881	1,418,881
<b>Total assets</b>	<b>\$ 77,459,128</b>	<b>\$ 13,794,825</b>	<b>\$ 2,012,271</b>	<b>\$ 93,266,224</b>
<b>Liability -</b>				
Interest rate swap agreements	\$ -	\$ 5,953,414	\$ -	\$ 5,953,414

# Beloit Health System, Inc. and Affiliate

## Notes to Consolidated Financial Statements

### Note 9: Fair Value Measurements (Continued)

	2017			Total
	Level 1	Level 2	Level 3	
<b>Assets:</b>				
Cash equivalents	\$ -	\$ 13,417,847	\$ -	\$ 13,417,847
<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>\$ 13,417,847</b>	<b>\$ 3,033,668</b>	<b>\$ 100,837,288</b>
<b>Liability -</b>				
Interest rate swap agreements	\$ -	\$ 7,311,807	\$ -	\$ 7,311,807

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

	2018	2017
Balance at beginning	\$ 3,033,668	\$ 4,073,110
Contributions and new pledges	43,230	137,100
Sales and receipts of pledges	(1,034,036)	(1,202,621)
Adjustments for discounting, change in allowances, and gains (losses)	(30,591)	26,079
<b>Balance at end</b>	<b>\$ 2,012,271</b>	<b>\$ 3,033,668</b>

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

	2018	2017
Investments per balance sheets	\$ 65,632,830	\$ 71,984,322
Assets limited as to use per balance sheets	17,400,257	18,110,865
Cash and cash equivalents per balance sheets	16,473,136	17,265,825
Pledges receivable	1,418,881	2,426,319
<b>Subtotal</b>	<b>100,925,104</b>	<b>109,787,331</b>
<b>Less assets not at fair value:</b>		
Certificates of deposit - assets limited as to use	760,230	759,343
Cash surrender value of life insurance - assets limited as to use	594,266	621,329
Cash and cash equivalents - assets limited as to use	865,791	571,104
Cash	5,438,593	6,998,297
<b>Total assets from fair value table</b>	<b>\$ 93,266,224</b>	<b>\$ 100,837,258</b>

# Beloit Health System, Inc. and Affiliate

## Notes to Consolidated Financial Statements

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### Note 10: 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:

	2018	2017
<hr/>		
Change in benefit obligation:		
Benefit obligation at beginning of year	\$ 88,320,914	\$ 81,540,954
Service cost	572,946	649,202
Interest cost	3,892,093	4,001,850
Benefits paid	(2,853,578)	(2,605,249)
Actuarial loss	(5,195,506)	4,734,157
<hr/>		
Benefit obligations at end of year	84,736,869	88,320,914
<hr/>		
Change in plan assets:		
Fair value of plan assets at beginning of year	69,997,468	64,919,243
Actual return on plan assets	(3,564,602)	7,928,418
Benefits paid	(2,853,578)	(2,605,249)
Employer Contributions	3,333,332	467,847
Administrative expenses	(713,772)	(712,791)
<hr/>		
Fair value of plan assets at end of year	66,198,848	69,997,468
<hr/>		
Funded status	\$ (18,538,021)	\$ (18,323,446)
<hr/>		

# Beloit Health System, Inc. and Affiliate

## Notes to Consolidated Financial Statements

### Note 10: Retirement Plans (Continued)

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

	2018	2017
<hr/>		
Pension (income) expense:		
Service cost	\$ 572,946	\$ 649,202
Interest cost	3,892,093	4,001,850
Expected return on assets	(5,524,420)	(5,073,224)
Amortization of net (gain)/loss	1,402,461	1,349,967
Amortization of prior service costs	2,207	5,802
<hr/>		
Total pension expense	345,287	933,597
<hr/>		
Other changes in plan assets and benefit obligations recognized in net assets:		
Prior service cost	(2,207)	(5,802)
Accumulated gain (loss)	3,204,827	1,241,787
<hr/>		
Total recognized in net assets	3,202,620	1,235,985
<hr/>		
Total recognized as pension expense and in net assets	\$ 3,547,907	\$ 2,169,582
<hr/>		

The estimated net actuarial loss expected to be amortized from net assets into pension expense in 2019 is \$1,803,507.

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

	2018	2017
<hr/>		
Pension liability	\$ 18,538,021	\$ 18,323,446
<hr/>		
Net assets:		
Prior service cost	\$ -	\$ 2,207
Accumulated loss	27,099,351	23,894,524
<hr/>		
Total amount recognized in net assets	\$ 27,099,351	\$ 23,896,731
<hr/>		

The plan's accumulated benefit obligation was \$83,920,392 and \$87,111,943 at December 31, 2018 and 2017, respectively.

# Beloit Health System, Inc. and Affiliate

## Notes to Consolidated Financial Statements

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### Note 10: Retirement Plans (Continued)

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

	2018	2017
Discount rate for obligation	5.10 %	4.50 %
Discount rate for expense	4.50 %	5.00 %
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:

	2018	2017
Asset category:		
Cash and cash equivalents	2 %	4 %
Fixed income mutual funds	60 %	55 %
Equity mutual funds	37 %	40 %
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 9. 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 10: 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:

	2018			
	Level 1	Level 2	Level 3	Total
Cash equivalents	\$ -	\$ 1,449,754	\$ -	\$ 1,449,754
Equity mutual funds	24,747,116	-	-	24,747,116
Fixed income mutual funds	40,001,978	-	-	40,001,978
<b>Total assets</b>	<b>\$ 64,749,094</b>	<b>\$ 1,449,754</b>	<b>\$ -</b>	<b>\$ 66,198,848</b>

	2017			
	Level 1	Level 2	Level 3	Total
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>

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:

2019	\$ 3,940,000
2020	\$ 4,152,300
2021	\$ 4,343,200
2022	\$ 4,577,400
2023	\$ 4,820,900
Succeeding five years	\$ 26,582,300

Contributions of \$2,500,000 are expected to be made in 2019.

# Beloit Health System, Inc. and Affiliate

## Notes to Consolidated Financial Statements

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### Note 10: 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 \$1,134,038 and \$1,272,545 related to the matching contribution in 2018 and 2017, 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 \$2,641,000 and \$2,665,530 related to the employer contribution in 2018 and 2017, 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 \$4,257,708 and \$4,393,096 at December 31, 2018 and 2017, respectively. Corresponding liabilities are recorded in the accompanying consolidated balance sheets as long-term liabilities.

### Note 11: Net Assets With Donor Restrictions

Net assets with donor restrictions are restricted for the following purposes or periods as of December 31:

	2018	2017
Restrictions as to time	\$ 2,012,271	\$ 3,033,668
Unappropriated earnings on endowment funds	2,529,998	2,773,771
Subject to expenditure for specific purpose:		
Hospice	1,468,572	1,547,789
Cardiology	14,413	11,226
Specific hospital departments	49,882	24,926
Endowments maintained in perpetuity, income from which is expendable	1,863,847	1,834,733
<b>Total net assets with donor restrictions</b>	<b>\$ 7,938,983</b>	<b>\$ 9,226,113</b>

Income from donor-restricted endowments has been restricted by donors for capital improvements, education, home health, hospice, and various other projects at the System.

# Beloit Health System, Inc. and Affiliate

## Notes to Consolidated Financial Statements

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### Note 12: Endowment

The Corporation's endowment consists of approximately 20 individual funds established for a variety of purposes. Its endowment includes both donor-restricted endowment funds and funds designated by the Board of Directors to function as endowments. As required by GAAP, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Corporation is subject to the Uniform Prudent Management of Institutional Funds Act (UPMIFA) and, thus, classifies amounts in its donor-restricted endowment funds as net assets with donor restrictions until the Board of Directors appropriates such amounts for expenditure and any other purpose restrictions have been met. The Board of Directors of the Corporation has interpreted UPMIFA as requiring the maintenance of purchasing power of the original gift amount contributed to an endowment fund, unless a donor stipulates the contrary. As a result of this interpretation, when reviewing its donor-restricted endowment funds, the Corporation considers a fund to be underwater when the fair value of the fund is less than the sum of (a) the original value of initial and subsequent gift amounts donated to the fund and (b) any accumulations to the fund that are required to be maintained in perpetuity in accordance with the direction of the applicable donor gift instrument. The Corporation has interpreted UPMIFA to permit spending from underwater funds in accordance with the prudent measures required under the law. Additionally, in accordance with UPMIFA, the Corporation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. The duration and preservation of the fund
2. The purposes of the Corporation and the donor-restricted endowment fund
3. General economic conditions
4. The possible effect of inflation and deflation
5. The expected total return from income and the appreciation of investments
6. Other resources of the Corporation
7. The investment policies of the Corporation

The Board of Directors may also set aside certain net assets without donor restrictions 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 net assets without donor restrictions. 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.

# Beloit Health System, Inc. and Affiliate

## Notes to Consolidated Financial Statements

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### Note 12: Endowment (Continued)

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

Endowment net asset composition by type of fund was as follows as of December 31:

	2018		
	Without Donor Restrictions	With Donor Restrictions	Total
Board-designated endowment	\$ 686,433	\$ -	\$ 686,433
Donor-restricted endowments:			
Unappropriated earnings available	-	2,529,998	2,529,998
Donor contributions maintained in perpetuity	-	1,863,847	1,863,847
<b>Total</b>	<b>\$ 686,433</b>	<b>\$ 4,393,845</b>	<b>\$ 5,080,278</b>

	2017		
	Without Donor Restrictions	With Donor Restrictions	Total
Board-designated endowment	\$ 729,304	\$ -	\$ 729,304
Donor-restricted endowments:			
Unappropriated earnings available	-	2,773,771	2,773,771
Donor contributions maintained in perpetuity	-	1,834,733	1,834,733
<b>Total</b>	<b>\$ 729,304</b>	<b>\$ 4,608,504</b>	<b>\$ 5,337,808</b>

# Beloit Health System, Inc. and Affiliate

## Notes to Consolidated Financial Statements

### Note 12: Endowment (Continued)

Changes in endowment net assets were as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowments at December 31, 2016	\$ 622,469	\$ 3,969,692	\$ 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	-	57,992	57,992
Endowments at December 31, 2017	729,304	4,608,504	5,337,808
Investment return:			
Interest and dividends	42,802	69,754	112,556
Net appreciation	(85,673)	(305,027)	(390,700)
Total investment gain	(42,871)	(235,273)	(278,144)
Contributions	-	20,614	20,614
Endowments at December 31, 2018	\$ 686,433	\$ 4,393,845	\$ 5,080,278

### Note 13: Patient Service Revenue

The composition of patient service revenue based on services lines and payors of the Corporation for the years ended December 31 are as follows:

	2018		
	Inpatient	Outpatient	Total
Payors:			
Medicare	\$ 31,889,292	\$ 52,165,702	\$ 84,054,994
Medicaid	7,978,943	12,207,173	20,186,116
Other third-party payors	28,207,612	102,297,005	130,504,617
Uninsured patients	1,961,170	1,748,798	3,709,968
Total	\$ 70,037,017	\$ 168,418,678	\$ 238,455,695

# Beloit Health System, Inc. and Affiliate

## Notes to Consolidated Financial Statements

### Note 13: Patient Service Revenue (Continued)

	2017		
	Inpatient	Outpatient	Total
Payors:			
Medicare	\$ 25,196,551	\$ 50,415,549	\$ 75,612,100
Medicaid	4,794,200	15,591,024	20,385,224
Other third-party payors	24,905,413	106,869,679	131,775,092
Uninsured patients	1,812,843	2,110,357	3,923,200
<b>Total</b>	<b>\$ 56,709,007</b>	<b>\$ 174,986,609</b>	<b>\$ 231,695,616</b>

The Corporation's practice is to assign a patient to the primary payor and not reflect other secondary insurance or patient responsibility balances such as copays and deductibles as self-pay. Therefore, the payors listed above contain patient responsibility components.

### 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, 2020.

### Note 15: Functional Expenses

The Corporation provides general health care services to residents within its geographic location. Expenses related to providing these services for the year ended December 31, 2018 are as follows:

	Health Care	Management & General	Fund-raising	Total
Salaries and wages	\$ 80,318,845	\$ 16,858,550	\$ 138,483	\$ 97,315,878
Employee benefits	31,268,193	6,563,860	34,622	37,866,675
Professional fees and purchased services	29,927,180	8,414,040	101,434	38,442,654
Supplies	39,448,827	2,354,679	86,241	41,889,747
Utilities	2,262,582	642,160	-	2,904,742
Insurance	805,492	152,605	-	958,097
Hospital assessment	5,478,670	-	-	5,478,670
Depreciation	10,707,090	1,621,544	-	12,328,634
Interest	2,892,040	1,048,068	-	3,940,108
<b>Total</b>	<b>\$ 203,108,919</b>	<b>\$ 37,655,506</b>	<b>\$ 360,780</b>	<b>\$ 241,125,205</b>

# Beloit Health System, Inc. and Affiliate

## Notes to Consolidated Financial Statements

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### Note 15: Functional Expenses (Continued)

The consolidated financial statements report certain categories of expenses that are attributable to one or more supporting functions of the Corporation. Salaries and wages, employee benefits, supplies, and depreciation are allocated by function based on the department assigned to the employee or purchased item. Depending on the nature of professional fees and purchased services, the allocation to supporting function is based on department codes, square footage, or directly assigned to a function. Interest, utilities, and insurance are allocated based on square footage.

### Note 16: Liquidity

As part of Corporation's liquidity management, it invests cash in excess of daily requirements in a variety of investment vehicles. These funds, included in investments, are considered available for operational or capital needs, except for investment vehicles with restrictive redemption requirements. Occasionally, the Board of Directors designates a portion of operating surplus to be appropriated at its discretion for future operational initiatives and capital expenditures. Though these funds, at the discretion of the Board of Directors, could be released immediately, these funds are not considered available under the Corporation's liquidity management. At December 31, 2018, the balance of these funds was \$3,853,050.

As of December 31, 2018, financial assets and liquidity resources available within one year for general expenditure, such as operating expenses, scheduled debt service payments, and capital items, were as follows:

Financial assets:	
Cash and cash equivalents	\$ 16,473,136
Investments	65,632,830
Liquidity resource - Line of credit	12,000,000
<hr/>	
Total financial assets and liquidity resources	\$ 94,105,966
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### Note 17: 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.

# Beloit Health System, Inc. and Affiliate

## Notes to Consolidated Financial Statements

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### Note 17: Concentration of Credit Risk (Continued)

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

	2018	2017
Medicare	45 %	37 %
Medicaid	14 %	15 %
Other third-party payors	29 %	36 %
Uninsured patients	12 %	12 %
<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, 2018, the Corporation's deposits exceeded the insured limits by approximately \$7,309,000. 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.

### Note 18: 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 2018 and 2017:

- General health education services such are 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.

# Beloit Health System, Inc. and Affiliate

## Notes to Consolidated Financial Statements

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### **Note 18: Community Benefit and Charity Care** (Continued)

- 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.

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 \$42,000 and \$261,000 in 2018 and 2017, respectively.

### **Note 19: 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.

## **Supplementary Information**

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## Independent Auditor's Report on Supplementary Information

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, 2018 and 2017, and our report thereon dated April 1, 2019, 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  
Milwaukee, Wisconsin

April 1, 2019

# Beloit Health System, Inc. and Affiliate

## Consolidating Balance Sheets

December 31, 2018

Assets	Beloit Health System, Inc.	Beloit Health System Foundation, Inc.	Eliminations	Total
Current assets:				
Cash and cash equivalents	\$ 16,473,136	\$ -	\$ -	\$ 16,473,136
Patient accounts receivable - Net	46,240,894	-	-	46,240,894
Other accounts receivable	5,792,955	-	(94,642)	5,698,313
Pledges receivable	-	1,028,227	-	1,028,227
Inventory	5,585,672	-	-	5,585,672
Amounts receivable from third-party reimbursement programs	1,355,000	-	-	1,355,000
Prepaid expenses	1,289,242	-	-	1,289,242
<b>Total current assets</b>	<b>76,736,899</b>	<b>1,028,227</b>	<b>(94,642)</b>	<b>77,670,484</b>
Investments	65,632,830	-	-	65,632,830
Assets limited as to use	6,726,807	10,673,450	-	17,400,257
Property and equipment - Net	126,116,853	-	-	126,116,853
Other assets:				
Goodwill	3,300,000	-	-	3,300,000
Pledges receivable, less current portion	-	390,654	-	390,654
<b>Total other assets</b>	<b>3,300,000</b>	<b>390,654</b>	<b>-</b>	<b>3,690,654</b>
<b>TOTAL ASSETS</b>	<b>\$ 278,513,389</b>	<b>\$ 12,092,331</b>	<b>\$ (94,642)</b>	<b>\$ 290,511,078</b>

# Beloit Health System, Inc. and Affiliate

## Consolidating Balance Sheets (Continued)

December 31, 2018

Liabilities and Net Assets	Beloit Health System, Inc.	Beloit Health System Foundation, Inc.	Eliminations	Total
Current liabilities:				
Current maturities of long-term debt	\$ 2,875,503	\$ -	\$ -	\$ 2,875,503
Accounts payable	8,567,478	94,642	(94,642)	8,567,478
Accrued liabilities	20,782,510	-	-	20,782,510
<b>Total current liabilities</b>	<b>32,225,491</b>	<b>94,642</b>	<b>(94,642)</b>	<b>32,225,491</b>
Long-term liabilities:				
Long-term debt, less current maturities	79,005,804	-	-	79,005,804
Pension liability	18,538,021	-	-	18,538,021
Deferred compensation	4,257,708	-	-	4,257,708
Interest rate swap agreements	5,953,414	-	-	5,953,414
<b>Total long-term liabilities</b>	<b>107,754,947</b>	<b>-</b>	<b>-</b>	<b>107,754,947</b>
<b>Total liabilities</b>	<b>139,980,438</b>	<b>94,642</b>	<b>(94,642)</b>	<b>139,980,438</b>
Net assets:				
Without donor restrictions:				
Undesignated	138,532,951	1,129,581	-	139,662,532
Board designated	-	2,929,125	-	2,929,125
<b>Total net assets without donor restrictions</b>	<b>138,532,951</b>	<b>4,058,706</b>	<b>-</b>	<b>142,591,657</b>
With donor restrictions	-	7,938,983	-	7,938,983
<b>Total net assets</b>	<b>138,532,951</b>	<b>11,997,689</b>	<b>-</b>	<b>150,530,640</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 278,513,389</b>	<b>\$ 12,092,331</b>	<b>\$ (94,642)</b>	<b>\$ 290,511,078</b>

See Independent Auditor's Report on Supplementary Information.

# 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:				
Without donor restrictions:				
Undesignated	138,406,176	929,884	-	139,336,060
Board designated	-	3,111,132	-	3,111,132
<b>Total net assets without donor restrictions</b>	<b>138,406,176</b>	<b>4,041,016</b>	<b>-</b>	<b>142,447,192</b>
With donor restrictions	-	9,226,113	-	9,226,113
<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 Statements of Operations

Year Ended December 31, 2018

	Beloit Health System, Inc.	Beloit Health System Foundation, Inc.	Eliminations	Total
<b>Revenue:</b>				
Patient service revenue	\$ 238,455,695	\$ -	\$ -	\$ 238,455,695
Other operating revenue	7,979,545	604,004	-	8,583,549
<b>Total revenue</b>	<b>246,435,240</b>	<b>604,004</b>	<b>-</b>	<b>247,039,244</b>
<b>Expenses:</b>				
Salaries and wages	97,177,395	138,483	-	97,315,878
Employee benefits	37,832,053	34,622	-	37,866,675
Professional fees and purchased services	38,341,220	101,434	-	38,442,654
Supplies	41,803,506	86,241	-	41,889,747
Utilities	2,904,742	-	-	2,904,742
Insurance	950,903	7,194	-	958,097
Hospital assessment	5,478,670	-	-	5,478,670
Depreciation	12,328,634	-	-	12,328,634
Interest	3,940,108	-	-	3,940,108
Grants - Beloit Health System, Inc.	-	1,208,848	(1,208,848)	-
<b>Total expenses</b>	<b>240,757,231</b>	<b>1,576,822</b>	<b>(1,208,848)</b>	<b>241,125,205</b>
Income (loss) from operations	5,678,009	(972,818)	1,208,848	5,914,039
Nonoperating income (loss) - Investment gain and other	3,936,529	359,555	-	4,296,084
Excess (deficiency) of revenue over expenses	9,614,538	(613,263)	1,208,848	10,210,123
<b>Other changes in net assets without donor restrictions:</b>				
Change in net unrealized gains and losses on investments	(8,602,204)	(556,424)	-	(9,158,628)
Change in fair value of effective portion of interest rate swap agreements	1,278,331	-	-	1,278,331
Net assets released from restrictions for capital improvements	1,208,848	1,110,000	(1,208,848)	1,110,000
Other	45,551	-	-	45,551
Forgiveness of Foundation receivable	(77,377)	77,377	-	-
Change in pension obligation other than expense	(3,340,912)	-	-	(3,340,912)
Increase (decrease) in net assets without donor restrictions	\$ 126,775	\$ 17,690	\$ -	\$ 144,465

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
<b>Revenue:</b>				
Patient service revenue	\$ 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>
<b>Expenses:</b>				
Salaries and wages	96,618,169	140,536	-	96,758,705
Employee benefits	40,679,821	35,131	-	40,714,952
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>236,052,539</b>	<b>3,060,994</b>	<b>(2,740,335)</b>	<b>236,373,198</b>
Income (loss) from operations	3,436,203	(1,187,430)	2,676,010	4,924,783
and other	7,179,863	325,629	-	7,505,492
Excess (deficiency) of revenue over expenses	10,616,066	(861,801)	2,676,010	12,430,275
<b>Other changes in net assets without donor restrictions:</b>				
Change in net unrealized gains and losses on investments	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 net assets without donor restrictions</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 Changes in Net Assets

Year Ended December 31, 2018

	Beloit Health System, Inc.	Beloit Health System Foundation, Inc.	Eliminations	Total
Increase (decrease) in net assets without donor restrictions	\$ 126,775	\$ 17,690	\$ -	\$ 144,465
Net assets with donor restrictions:				
Contributions	-	568,258	-	568,258
Investment income	-	224,924	-	224,924
Change in net unrealized gains and losses on investments	-	(460,197)	-	(460,197)
Net assets released from restrictions for capital improvements	-	(1,110,000)	-	(1,110,000)
Net assets released from restrictions for operations	-	(510,115)	-	(510,115)
Decrease in net assets with donor restrictions	-	(1,287,130)	-	(1,287,130)
Change in net assets	126,775	(1,269,440)	-	(1,142,665)
Net assets at beginning	138,406,176	13,267,129	-	151,673,305
Net assets at end	\$ 138,532,951	\$ 11,997,689	\$ -	\$ 150,530,640

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# 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 net assets without donor restrictions	\$ 14,504,816	\$ 2,939,448	\$ -	\$ 17,444,264
Net assets with donor restrictions:				
Contributions	-	1,223,686	-	1,223,686
Investment income	-	160,438	-	160,438
Change in net unrealized gains and losses on investments	-	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 net assets with donor restrictions	-	(3,327,422)	-	(3,327,422)
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.

## Balance Sheets

December 31, 2018 and 2017

<b>Assets</b>	<b>2018</b>	<b>2017</b>
Current assets:		
Cash and cash equivalents	\$ 16,473,136	\$ 17,265,825
Patient accounts receivable - Net	46,240,894	38,632,456
Other accounts receivable	5,792,955	3,487,430
Inventory	5,585,672	5,175,819
Amounts receivable from third-party reimbursement programs	1,355,000	1,573,000
Prepaid expenses	1,289,242	1,146,960
<b>Total current assets</b>	<b>76,736,899</b>	<b>67,281,490</b>
Investments	65,632,830	71,984,322
Assets limited as to use	6,726,807	7,192,678
Property and equipment - Net	126,116,853	131,764,846
Goodwill	3,300,000	3,300,000
<b>TOTAL ASSETS</b>	<b>\$ 278,513,389</b>	<b>\$ 281,523,336</b>

# Beloit Health System, Inc.

## Balance Sheets (Continued)

December 31, 2018 and 2017

Liabilities and Net Assets	2018	2017
Current liabilities:		
Current maturities of long-term debt	\$ 2,875,503	\$ 2,822,187
Accounts payable	8,567,478	8,084,575
Accrued liabilities	20,782,510	20,352,588
Total current liabilities	32,225,491	31,259,350
Long-term liabilities:		
Long-term debt, less current maturities	79,005,804	81,829,461
Pension liability	18,538,021	18,323,446
Deferred compensation	4,257,708	4,393,096
Interest rate swap agreements	5,953,414	7,311,807
Total long-term liabilities	107,754,947	111,857,810
Total liabilities	139,980,438	143,117,160
Net assets without donor restrictions	138,532,951	138,406,176
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 278,513,389</b>	<b>\$ 281,523,336</b>

See Independent Auditor's Report on Supplementary Information.

# Beloit Health System, Inc.

## Statements of Operations

Years Ended December 31, 2018 and 2017

	2018	2017
Revenue:		
Patient service revenue	\$ 238,455,695	\$ 231,695,616
Other operating revenue	7,979,545	7,793,126
<b>Total revenue</b>	<b>246,435,240</b>	<b>239,488,742</b>
Expenses:		
Salaries and wages	97,177,395	96,618,169
Employee benefits	37,832,053	40,679,821
Professional fees and purchased services	38,341,220	35,402,655
Supplies	41,803,506	38,887,743
Utilities	2,904,742	3,019,904
Insurance	950,903	733,741
Hospital assessment	5,478,670	5,601,362
Depreciation	12,328,634	11,361,874
Interest	3,940,108	3,747,270
<b>Total expenses</b>	<b>240,757,231</b>	<b>236,052,539</b>
Income from operations	5,678,009	3,436,203
Nonoperating income (loss) - Investment income (loss) and other	3,936,529	7,179,863
Excess of revenue over expenses	9,614,538	10,616,066
Other changes in net assets without donor restrictions:		
Changes in net unrealized gains and losses on investments	(8,602,204)	1,798,383
Change in fair value of effective portion of interest rate swap agreements	1,278,331	802,736
Net assets released from restrictions for capital improvements	1,208,848	2,676,010
Other	45,551	(10,002)
Forgiveness of Foundation receivable	(77,377)	(75,225)
Change in pension obligation other than pension expense	(3,340,912)	(1,303,152)
<b>Increase in net assets without donor restrictions</b>	<b>\$ 126,775</b>	<b>\$ 14,504,816</b>

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