

Beloit Health System, Inc. and Affiliate

Consolidated Financial Statements and
Supplementary Information

Years Ended December 31, 2019 and 2018

WIPFLi^{LLP}
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, 2019 and 2018, and the related consolidated statements of operations, changes in net assets, and cash flows for the years then ended and the related notes to the consolidated financial statements.

Management's Responsibility for the 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, 2019 and 2018, and the results of their operations, changes in their net assets, and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States.

A handwritten signature in black ink that reads "Wipfli LLP".

Wipfli LLP
Milwaukee, Wisconsin

April 1, 2020

Beloit Health System, Inc. and Affiliate

Consolidated Balance Sheets

December 31, 2019 and 2018

Assets	2019	2018
Current assets:		
Cash and cash equivalents	\$ 13,193,894	\$ 16,473,136
Patient accounts receivable - Net	45,585,099	46,240,894
Other accounts receivable	2,593,935	5,698,313
Pledges receivable	571,489	1,028,227
Inventory	5,365,001	5,585,672
Amounts receivable from third-party reimbursement programs	1,380,000	1,355,000
Prepaid expenses	933,806	1,289,242
Total current assets	69,623,224	77,670,484
Investments	77,024,631	65,632,830
Assets limited as to use	20,407,039	17,400,257
Property and equipment - Net	125,885,192	126,116,853
Other assets:		
Goodwill	3,300,000	3,300,000
Operating lease assets	719,852	-
Pledges receivable, less current portion	1,407,930	390,654
Total other assets	5,427,782	3,690,654
TOTAL ASSETS	\$ 298,367,868	\$ 290,511,078

Beloit Health System, Inc. and Affiliate

Consolidated Balance Sheets (Continued)

December 31, 2019 and 2018

Liabilities and Net Assets	2019	2018
Current liabilities:		
Current maturities of long-term debt	\$ 3,373,675	\$ 2,875,503
Current portion of operating lease liabilities	266,217	-
Accounts payable	6,745,381	8,567,478
Accrued liabilities	18,859,616	20,782,510
Total current liabilities	29,244,889	32,225,491
Long-term liabilities:		
Long-term debt, less current maturities	77,352,776	79,005,804
Long-term portion of operating lease liabilities	461,109	-
Pension liability	19,335,992	18,538,021
Deferred compensation	5,266,658	4,257,708
Interest rate swap agreements	7,384,146	5,953,414
Total long-term liabilities	109,800,681	107,754,947
Total liabilities	139,045,570	139,980,438
Net assets:		
Without donor restrictions:		
Undesignated	146,081,429	139,662,532
Board designated	3,561,267	2,929,125
Total net assets without donor restrictions	149,642,696	142,591,657
With donor restrictions	9,679,602	7,938,983
Total net assets	159,322,298	150,530,640
TOTAL LIABILITIES AND NET ASSETS	\$ 298,367,868	\$ 290,511,078

See accompanying notes to consolidated financial statements.

Beloit Health System, Inc. and Affiliate

Consolidated Statements of Operations

Years Ended December 31, 2019 and 2018

	2019	2018
Revenue:		
Patient service revenue	\$ 243,320,727	\$ 238,455,695
Other operating revenue	8,251,855	8,583,549
Total revenue	251,572,582	247,039,244
Expenses:		
Salaries and wages	102,440,919	97,315,878
Employee benefits	38,085,584	37,866,675
Professional fees and purchased services	39,861,954	38,442,654
Supplies	45,537,138	41,889,747
Utilities	2,822,702	2,904,742
Insurance	1,002,675	958,097
Hospital assessment	5,391,296	5,478,670
Depreciation	12,424,103	12,328,634
Interest	4,150,779	3,940,108
Grants	30,250	-
Total expenses	251,747,400	241,125,205
Income (loss) from operations	(174,818)	5,914,039
Nonoperating income - Investment income (loss) and other	11,524,892	4,296,084
Excess of revenue over expenses	11,350,074	10,210,123
Other changes in net assets without donor restrictions:		
Change in net unrealized gains and losses on investments	-	(9,158,628)
Change in fair value of effective portion of interest rate swap agreements	(1,350,067)	1,278,331
Net assets released from restrictions for capital improvements	1,998,559	1,110,000
Other	-	45,551
Change in pension obligation other than pension expense	(4,947,527)	(3,340,912)
Increase (decrease) in net assets without donor restrictions	\$ 7,051,039	\$ 144,465

See accompanying notes to consolidated financial statements.

Beloit Health System, Inc. and Affiliate

Consolidated Statements of Changes in Net Assets

Years Ended December 31, 2019 and 2018

	2019	2018
Increase (decrease) in net assets without donor restrictions	\$ 7,051,039	\$ 144,465
Net assets with donor restrictions		
Contributions	3,849,497	568,258
Investment income (loss)	696,105	(235,273)
Net assets released from restrictions for capital improvements	(1,998,559)	(1,110,000)
Net assets released from restrictions for operations	(806,424)	(510,115)
Decrease in net assets with donor restrictions	1,740,619	(1,287,130)
Change in net assets	8,791,658	(1,142,665)
Net assets at beginning	150,530,640	151,673,305
Net assets at end	\$ 159,322,298	\$ 150,530,640

See accompanying notes to consolidated financial statements.

Beloit Health System, Inc. and Affiliate

Consolidated Statements of Cash Flows

Years Ended December 31, 2019 and 2018

	2019	2018
Increase (decrease) in cash and cash equivalents:		
Cash flows from operating activities:		
Change in net assets	\$ 8,791,658	\$ (1,142,665)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	12,424,103	12,328,634
Amortization of bond premiums, discounts, and bond issuance costs	51,707	51,845
Change in net unrealized gains and losses on investments	(9,607,966)	9,618,825
Change in fair value of interest rate swap agreements	1,430,732	(1,358,393)
Net realized gains on sales of investments	(1,372,485)	(3,081,744)
Change in pension obligation other than pension expense	4,947,527	3,340,912
Change in operating right-of-use asset and liability	7,474	-
Contributions and grants with donor restrictions	(3,849,497)	(568,258)
Loss on disposal of property and equipment - Net	22,288	739,308
Changes in operating assets and liabilities:		
Patient accounts receivable	655,795	(7,608,438)
Other accounts receivable	3,104,378	(2,288,260)
Pledges receivable	(560,538)	1,007,438
Inventory	220,671	(409,853)
Amounts receivable from third-party reimbursement programs	(25,000)	218,000
Prepaid expenses	355,436	(142,282)
Accounts payable	(1,822,097)	482,903
Accrued liabilities and other	(6,072,450)	(2,696,415)
Deferred compensation	1,008,950	(135,388)
Net cash provided by operating activities	\$ 9,710,686	\$ 8,356,169

Beloit Health System, Inc. and Affiliate

Consolidated Statements of Cash Flows (Continued)

Years Ended December 31, 2019 and 2018

	2019	2018
Cash flows from investing activities:		
Purchases of investments and assets limited as to use	\$ (8,084,338)	\$ (5,775,280)
Proceeds from sales of investments and assets limited as to use	4,710,641	5,619,103
Proceeds from sale of property and equipment	145,424	-
Capital expenditures	(10,699,982)	(7,419,949)
Net cash used in investing activities	(13,928,255)	(7,576,126)
Cash flows from financing activities:		
Principal payments on long-term debt	(2,866,735)	(2,822,186)
Restricted contributions and grants	3,849,497	568,258
Net cash provided by (used in) financing activities	982,762	(2,253,928)
Net decrease in cash and cash equivalents	(3,234,807)	(1,473,885)
Cash and cash equivalents at beginning	18,942,235	20,416,120
Cash and cash equivalents at end	\$ 15,707,428	\$ 18,942,235
Supplemental cash flow information:		
Cash paid during the year for interest, net of amounts capitalized	\$ 4,119,281	\$ 3,903,787
Reconciliation of cash and cash equivalents to the statements of financial position:		
Cash and cash equivalents	\$ 13,193,894	\$ 16,473,136
Cash equivalents in assets limited as to use	2,513,534	2,469,099
Total cash and cash equivalents	\$ 15,707,428	\$ 18,942,235

See accompanying notes to consolidated financial statements.

Beloit Health System, Inc. and Affiliate

Notes to Consolidated Financial Statements

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 healthcare, 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 healthcare.

Cash Equivalents

Highly-liquid debt instruments with an original maturity of three months or less are considered to be cash equivalents, excluding unrestricted and board-designated amounts in investments and assets limited as to use.

Beloit Health System, Inc. and Affiliate

Notes to Consolidated Financial Statements

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.

Beginning January 1, 2019, unrealized gains and losses on investments are included in revenue in excess of expenses (Note 2 - Financial Instruments). In 2018, 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. Investment fees are recorded as a reduction in investment return.

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

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. 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 trusted 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 2019 and 2018.

Beloit Health System, Inc. and Affiliate

Notes to Consolidated Financial Statements

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 are restricted as to time and 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 (2018 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

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 judgment, 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

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 revenue is derived under federal and state reimbursement programs. For home health services, reimbursement under the Medicare program is based on a predetermined rate per episode of care depending on the patients' level of care and types of services provided. Services provided to Medicaid program beneficiaries are reimbursed on a prospectively determined rates. Hospice Medicare and Medicaid is reimbursed at 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 healthcare 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 healthcare 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

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 2019 and 2018. The Medicare cost reports have been audited through December 31, 2016, 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, 2019 and 2018 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 2019 and 2018.

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

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 June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments - Credit Losses* (Topic 326). ASU 2016-13 is effective for reporting periods beginning after December 15, 2021, with early adoption permitted. The Corporation is currently evaluating the impact the adoption of ASU 2016-13 will have on its consolidated financial statements and disclosures.

Subsequent Events

Subsequent events have been evaluated through April 1, 2020, which is the date the consolidated financial statements were issued. See Notes 9 and 22 for further information on a subsequent event.

Beloit Health System, Inc. and Affiliate

Notes to Consolidated Financial Statements

Note 2: Accounting Pronouncements Adopted

ASU No. 2016-02, *Leases* (Topic 842)

In February 2016, the FASB issued Accounting Standards Update (ASU) No. 2016-02, *Leases* (Topic 842). ASU 2016-02 is intended to improve financial reporting of leasing transactions by requiring organizations that lease assets to recognize assets and liabilities for the rights and obligations created by leases on the balance sheet. This accounting update also requires additional disclosures surrounding the amount, timing, and uncertainty of cash flows arising from leases. The Corporation adopted this guidance for the year ended December 31, 2019 with modified retrospective application to January 1, 2019 through a cumulative-effect adjustment. The Corporation has elected the package of practical expedients permitted in ASC Topic 842. Accordingly, the Corporation accounted for its existing operating leases as operating leases and capital leases as finance leases under the new guidance, without reassessing (a) whether the contracts contain a lease under ASC Topic 842, (b) whether the classification of the leases would be different in accordance with ASC Topic 842, or (c) whether any unamortized initial direct costs before transition adjustments (as of December 31, 2018) would have met the definition of initial direct costs in ASC Topic 842 at lease commencement. Similarly, the Corporation did not reassess service contracts evaluated for lease treatment under ASC 840 for embedded leases under ASC 842.

As a result of the adoption of the new lease accounting guidance, the Corporation recognized the following ROU assets and liabilities as of January 1, 2019:

ROU assets - financing leases	\$935,330
Long-term debt	\$935,330
ROU - Operating leases	\$981,526
Operating lease liabilities	\$981,526

Lease Policy - Effective 2019

The Corporation is a lessee in several noncancelable operating and financing leases. If the contract provides the Corporation the right to substantially all the economic benefits and the right to direct the use of the identified asset, it is considered to be or contain a lease. Right-of-use ("ROU") assets and lease liabilities are recognized at lease commencement date based on the present value of the future lease payments over the expected lease term. The ROU asset is also adjusted for any lease prepayments made, lease incentives received, and initial direct costs incurred.

The lease liability is initially and subsequently recognized based on the present value of its future lease payments. Variable payments are included in the future lease payments when those variable payments depend on an index or a rate. Increases (decreases) to variable lease payments due to subsequent changes in an index or rate are recorded as variable lease cost (income) in the period in which they are incurred.

The discount rate is the implicit rate if it is readily determinable, otherwise, the Corporation has elected to use the risk-free rate. The Corporation uses the risk-free rate as of the lease commencement date for a term similar to the underlying lease.

Beloit Health System, Inc. and Affiliate

Notes to Consolidated Financial Statements

Note 2: Accounting Pronouncements Adopted (Continued)

Lease Policy - Effective 2019 (Continued)

The ROU asset is subsequently measured throughout the lease term at the amount of the remeasured lease liability (i.e., present value of the remaining lease payments), plus unamortized initial direct costs, plus (minus) any prepaid (accrued) lease payments, less the unamortized balance of lease incentives received, and any impairment recognized. Lease costs are recognized on a straight-line basis over the lease term.

The Corporation has elected, for all underlying classes of assets, to not recognize ROU assets and lease liabilities for short-term leases that have a lease term of 12 months or less at lease commencement, and do not include an option to purchase the underlying asset that the Corporation is reasonably certain to exercise. Leases containing termination clauses in which either party may terminate the lease without cause, given a notice period less than 12 months, are deemed short-term leases and those costs are included in short-term lease expense. The Corporation recognizes lease cost associated with short-term leases on a straight-line basis over the lease term.

The Corporation made an accounting policy election by class of underlying asset, for office space, to not separate the lease components of a contract and its associated non-lease components (common area maintenance (CAM), utilities, insurance, etc.). The Corporation's office space leases require variable payments for the Corporation's proportionate share of the building's property taxes, insurance, and common area maintenance. These variable lease payments are not included in lease payments used to determine lease liability and are recognized as variable costs when incurred. For all other underlying classes of assets (office and medical equipment), the Corporation separates lease and non-lease components in their determination of the lease payment.

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, 2019, and has been applied prospectively.

ASU No. 2016-18, *Statement of Cash Flows, Restricted Cash* (Topic 230)

In November 2016, the FASB issued ASU No. 2016-18, *Statement of Cash Flows, Restricted Cash* (Topic 230). The amendments in ASU No. 2016-18 require that a statement of cash flows explain the change during the period in total cash, cash equivalents, and amounts generally described as restricted cash and cash equivalents. The guidance in this ASU is effective for the Corporation's year ended December 31, 2019 and was applied retrospectively to these comparative financial statements. As a result of adopting this guidance, the Corporation recongized the following in the 2018 consolidated statement of cash flows:

	As Originally Reported	Restated
Cash and cash equivalents at beginning	\$ 17,265,825	\$ 20,416,120
Cash and cash equivalents at end	\$ 16,473,136	\$ 18,942,235
Purchases of investments and assets limited as to use	\$ (5,094,084)	\$ (5,775,280)

Beloit Health System, Inc. and Affiliate

Notes to Consolidated Financial Statements

Note 3: Patient Accounts Receivable

Patient accounts receivable consisted of the following at December 31:

	2019	2018
Patient accounts receivable	\$ 132,501,099	\$ 126,901,894
Less: Contractual adjustments and implicit price concessions	(86,916,000)	(80,661,000)
Patient accounts receivable - Net	\$ 45,585,099	\$ 46,240,894

Note 4: Investments and Assets Limited as to Use

Investments

Investments consisted of the following at December 31:

	2019	2018
Mutual funds:		
U.S. equities	\$ 31,614,297	\$ 24,091,663
Fixed income	29,152,782	26,869,258
International	16,257,552	14,671,909
Total investments	\$ 77,024,631	\$ 65,632,830

Assets Limited as to Use

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

	2019	2018
Held by trustee under bond indenture agreements	\$ 2,513,534	\$ 2,469,099
Restricted by donor for specific purpose	5,752,048	4,656,255
Restricted by donor to be maintained in perpetuity	1,948,135	1,863,847
Held by trustee under deferred compensation agreements	5,266,658	4,257,708
Board-designated	4,926,664	4,153,348
Total assets limited as to use	\$ 20,407,039	\$ 17,400,257

Beloit Health System, Inc. and Affiliate

Notes to Consolidated Financial Statements

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

Assets Limited as to Use (Continued)

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

	2019	2018
Cash and cash equivalents	\$ 4,076,846	\$ 3,626,073
Certificates of deposit	763,454	760,230
Mutual funds:		
U.S. equities	8,174,306	6,222,592
Fixed income	3,324,421	3,201,125
International	2,596,751	2,359,614
Alternatives	55,227	42,967
Split-interest agreements	738,499	593,390
Cash surrender value of life insurance	677,535	594,266
Total	\$ 20,407,039	\$ 17,400,257

Investment Return

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

	2019	2018
Interest and dividend income, net of investment fees	\$ 2,082,989	\$ 1,801,887
Realized gains and losses	1,372,485	3,081,744
Change in unrealized gains and losses on investments	9,607,966	(9,618,825)
Total investment income (loss)	\$ 13,063,440	\$ (4,735,194)

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 2019 and 2018.

Beloit Health System, Inc. and Affiliate

Notes to Consolidated Financial Statements

Note 5: Pledges Receivable and Related-Party Transactions

The Foundation has development campaigns, to 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:

	2019	2018
Less than one year	\$ 571,489	\$ 1,028,227
One to five years	425,993	492,564
Greater than five years	1,065,963	9,176
Gross pledges receivable	2,063,445	1,529,967
Less:		
Unamortized discount	72,326	89,611
Allowance for uncollectible pledges	11,700	21,475
Pledges receivable - Net	\$ 1,979,419	\$ 1,418,881

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 (1.7% and 3.0% at December 31, 2019 and 2018, 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 \$1,043,600 and \$31,700 in 2019 and 2018, 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 \$100,300 and \$75,300 in 2019 and 2018, respectively.

Beloit Health System, Inc. and Affiliate

Notes to Consolidated Financial Statements

Note 6: Property and Equipment

Property and equipment consisted of the following at December 31:

	2019	2018
Land	\$ 8,100,877	\$ 8,100,877
Land improvements	7,358,440	7,699,872
Buildings	146,406,111	144,126,526
Fixed equipment	41,962,322	40,816,172
Major movable equipment	63,137,846	59,868,011
ROU assets - finance lease	1,648,831	-
Total property and equipment	268,614,427	260,611,458
Less - Accumulated depreciation and amortization	146,260,343	135,346,692
Net depreciated value	122,354,084	125,264,766
Construction in progress	3,531,108	852,087
Property and Equipment - Net	\$ 125,885,192	\$ 126,116,853

Construction in progress at December 31, 2019 and 2018, relates to routine renovations and remodeling.

Note 7: Leases

The Corporation has obligations as a lessee for office space, office equipment, and medical equipment with initial noncancelable terms in excess of one year. The majority of leases entered into include one or more options to renew. The renewal terms can extend the lease from one month to three years. The exercise of lease renewal options is at the Corporation's sole discretion. Renewal option periods are included in the measurement of the ROU asset and lease liability when the exercise is reasonably certain to occur.

The depreciable life of assets and leasehold improvements are limited by the expected lease term, unless there is a transfer of title or purchase option reasonably certain of exercise.

The Corporation's lease agreements do not contain any material residual value guarantees or material restrictive covenants. Payments due under the lease contracts include fixed payments plus, for many of the Corporation's leases, variable payments.

Operating leases are presented separately on the Corporation's Consolidated Balance Sheets. ROU assets and liabilities arising from finance leases are included in the following asset and liability accounts on the Corporation's Consolidated Balance Sheets: Property and equipment - Net, Current maturities of long-term debt, and Long-term debt, less current maturities.

Beloit Health System, Inc. and Affiliate

Notes to Consolidated Financial Statements

Note 7: Leases (Continued)

Components of lease expense were as follows for the year ended December 31, 2019:

Lease cost:

Finance lease cost:		
Amortization of right-of-use assets	\$	390,248
Interest on lease liabilities		25,059
Operating lease cost		285,497
Short-term and variable lease cost		494,336

Total lease cost	\$	1,195,140
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Supplemental cash flow and balance sheet information related to leases is as follows for the year ended December 31, 2019:

Supplemental cash flow information

Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from finance leases	\$	25,059
Operating cash flows from operating leases		277,383
Financing cash flows from finance leases		379,547
Right-of-use assets obtained in exchange for new finance lease liabilities	\$	2,039,719
Right-of-use assets obtained in exchange for new operating lease liabilities	\$	981,526

Supplemental balance sheet information

Weighted-average remaining lease term - finance leases	4.6 years
Weighted-average remaining lease term - operating leases	3.0 years
Weighted-average discount rate - finance leases	2.1 %
Weighted-average discount rate - operating leases	2.8 %

Maturities of lease liabilities are as follows as of December 31, 2019:

	Operating Leases	Finance Leases
2020	\$ 282,373	\$ 418,993
2021	207,000	418,993
2022	204,375	418,993
2023	64,200	173,589
2024	-	173,589
Thereafter	-	130,192
Total lease payments	757,948	1,734,349
Less imputed interest	(30,622)	(74,177)
Total	\$ 727,326	\$ 1,660,172

Beloit Health System, Inc. and Affiliate

Notes to Consolidated Financial Statements

Note 8: Line of Credit

The Corporation has a \$12,000,000 line of credit available with a bank. No advances were outstanding as of December 31, 2019 and 2018. The line of credit expires on June 30, 2020 and bears interest at the one month LIBOR rate plus 1.25%. The Corporation had no outstanding borrowings on the line of credit at December 31, 2019 and 2018.

Note 9: Long-Term Debt

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

	2019	2018
Mortgage note with bank; due in monthly installments of \$10,820, including interest at 4.45% through January 2025; secured by certain real property	\$ 598,354	\$ 690,817
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 (2.10% at December 31, 2019)	30,535,000	31,735,000
Wisconsin Health and Educational Facilities Authority ("WHEFA") Revenue Bonds, Series 2010B, dated October 21, 2010; interest payable semi-annually at varying rates (4.75% to 5.13%) principal due in annual installments through April 2036	25,545,000	26,395,000
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 (2.37% at December 31, 2019)	6,578,725	7,302,997
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
Finance lease liability	1,660,172	-
Total	81,382,251	82,588,814
Less:		
Unamortized bond discounts	170,089	180,556
Unamortized bond premium	(311,608)	(318,477)
Unamortized bond issuance costs	797,319	845,428
Current maturities	3,373,675	2,875,503
Long-term portion	\$ 77,352,776	\$ 79,005,804

Beloit Health System, Inc. and Affiliate

Notes to Consolidated Financial Statements

Note 9: 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.

In January 2020, the Corporation refunded its Series 2010B Revenue Bonds by issuing Series 2020 Revenue Bonds with a total principal of \$21,325,000 and a premium of \$2,656,474, plus using funds held by the trustee.

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

Note 9: Long-Term Debt (Continued)

Scheduled principal payments on long-term debt at December 31, 2019, including current maturities, are summarized as follows:

2020	\$ 3,373,675
2021	3,523,336
2022	3,638,406
2023	3,518,306
2024	3,648,837
Thereafter	63,679,691
<hr/>	
Total	\$ 81,382,251

Note 10: 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	2019	2018
March 1, 2027	\$ 4,408,702	0.66% of 1-month LIBOR plus 1.25%	2.54 %	\$ (36,558)	\$ 66,161
April 1, 2036	32,500,000	0.67% of 1-month LIBOR	3.88 %	(7,347,588)	(6,019,575)
<hr/>					
Totals				\$ (7,384,146)	\$ (5,953,414)

The Corporation assesses the effectiveness of the interest rate swaps as cash flow hedge instruments on a periodic basis. For 2019 and 2018, the Corporation determined the hedge to be partially ineffective. During 2019 and 2018, the Corporation recognized nonoperating expenses of \$76,416 and income of \$80,062, 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 decreased net assets without donor restrictions by \$1,350,067 and increased net assets without donor restrictions by \$1,278,331 in 2019 and 2018, respectively.

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

Beloit Health System, Inc. and Affiliate

Notes to Consolidated Financial Statements

Note 11: 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:

	2019			
	Level 1	Level 2	Level 3	Total
Assets:				
Cash equivalents	\$ -	\$ 11,322,942	\$ -	\$ 11,322,942
Mutual funds:				
U.S. equities	39,788,603	-	-	39,788,603
Fixed income	32,477,203	-	-	32,477,203
International	18,854,303	-	-	18,854,303
Alternative	55,227	-	-	55,227
Split interest agreements	-	-	738,499	738,499
Pledges receivable	-	-	1,979,419	1,979,419
Total assets	\$ 91,175,336	\$ 11,322,942	\$ 2,717,918	\$ 105,216,196
Liability -				
Interest rate swap agreements	\$ -	\$ 7,384,146	\$ -	\$ 7,384,146

Beloit Health System, Inc. and Affiliate

Notes to Consolidated Financial Statements

Note 11: Fair Value Measurements (Continued)

	2018			
	Level 1	Level 2	Level 3	Total
Assets:				
Cash equivalents	\$ -	\$ 13,794,825	\$ -	\$ 13,794,825
Mutual funds:				
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
Total assets	\$ 77,459,128	\$ 13,794,825	\$ 2,012,271	\$ 93,266,224
Liability -				
Interest rate swap agreements	\$ -	\$ 5,953,414	\$ -	\$ 5,953,414

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

	2019	2018
Balance at beginning	\$ 2,012,271	\$ 3,033,668
Contributions and new pledges	2,472,000	43,230
Sales and receipts of pledges	(1,934,823)	(1,034,036)
Adjustments for discounting, change in allowances, and gains (losses)	168,470	(30,591)
Balance at end	\$ 2,717,918	\$ 2,012,271

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

	2019	2018
Investments per balance sheets	\$ 77,024,631	\$ 65,632,830
Assets limited as to use per balance sheets	20,407,039	17,400,257
Cash and cash equivalents per balance sheets	13,193,894	16,473,136
Pledges receivable	1,979,419	1,418,881
Subtotal	112,604,983	100,925,104
Less assets not at fair value:		
Certificates of deposit - assets limited as to use	763,454	760,230
Cash surrender value of life insurance - assets limited as to use	677,535	594,266
Cash and cash equivalents - assets limited as to use	1,045,415	865,791
Cash	4,902,383	5,438,593
Total assets from fair value table	\$ 105,216,196	\$ 93,266,224

Beloit Health System, Inc. and Affiliate

Notes to Consolidated Financial Statements

Note 12: 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:

	2019	2018
<hr/>		
Change in benefit obligation:		
Benefit obligation at beginning of year	\$ 84,736,869	\$ 88,320,914
Service cost	477,132	572,946
Interest cost	4,191,604	3,892,093
Benefits paid	(3,403,918)	(2,853,578)
Actuarial (gain) loss	11,582,795	(5,195,506)
<hr/>		
Benefit obligations at end of year	97,584,482	84,736,869
<hr/>		
Change in plan assets:		
Fair value of plan assets at beginning of year	66,198,848	69,997,468
Actual return on plan assets	11,051,919	(3,564,602)
Benefits paid	(3,403,918)	(2,853,578)
Employer Contributions	5,291,667	3,333,332
Administrative expenses	(890,026)	(713,772)
<hr/>		
Fair value of plan assets at end of year	78,248,490	66,198,848
<hr/>		
Funded status	\$ (19,335,992)	\$ (18,538,021)
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Beloit Health System, Inc. and Affiliate

Notes to Consolidated Financial Statements

Note 12: Retirement Plans (Continued)

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

	2019	2018
Pension (income) expense:		
Service cost	\$ 477,132	\$ 572,946
Interest cost	4,191,604	3,892,093
Expected return on assets	(5,364,470)	(5,524,420)
Amortization of net loss	1,837,845	1,402,461
Amortization of prior service costs	-	2,207
Total pension expense	1,142,111	345,287
Other changes in plan assets and benefit obligations recognized in net assets:		
Prior service cost	-	(2,207)
Accumulated gain	4,947,527	3,204,827
Total recognized in net assets	4,947,527	3,202,620
Total recognized as pension expense and in net assets	\$ 6,089,638	\$ 3,547,907

The estimated net actuarial loss expected to be amortized from net assets into pension expense in 2020 is \$2,281,300.

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

	2019	2018
Pension liability	\$ 19,335,992	\$ 18,538,021
Total amount recognized in net assets - Accumulated loss	\$ 32,046,878	\$ 27,099,351

The plan's accumulated benefit obligation was \$96,823,074 and \$83,920,392 at December 31, 2019 and 2018, respectively.

Beloit Health System, Inc. and Affiliate

Notes to Consolidated Financial Statements

Note 12: Retirement Plans (Continued)

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

	2019	2018
Discount rate for obligation	4.04 %	5.10 %
Discount rate for expense	5.10 %	4.50 %
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:

	2019	2018
Asset category:		
Cash and cash equivalents	2 %	2 %
Fixed income mutual funds	65 %	60 %
Equity mutual funds	33 %	37 %
Investment contract with insurance company	- %	1 %
Totals	100 %	100 %

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

Beloit Health System, Inc. and Affiliate

Notes to Consolidated Financial Statements

Note 12: 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:

	2019			
	Level 1	Level 2	Level 3	Total
Cash equivalents	\$ -	\$ 1,485,940	\$ -	\$ 1,485,940
Equity mutual funds	25,581,778	-	-	25,581,778
Fixed income mutual funds	51,180,772	-	-	51,180,772
Total assets	\$ 76,762,550	\$ 1,485,940	\$ -	\$ 78,248,490

	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
Total assets	\$ 64,749,094	\$ 1,449,754	\$ -	\$ 66,198,848

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:

2020	\$ 4,001,400
2021	\$ 4,203,200
2022	\$ 4,556,300
2023	\$ 4,750,200
2024	\$ 5,049,800
Succeeding five years	\$ 27,652,600

Contributions of \$2,500,000 are expected to be made in 2020.

Beloit Health System, Inc. and Affiliate

Notes to Consolidated Financial Statements

Note 12: 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 \$1,136,574 and \$1,134,038 related to the matching contribution in 2019 and 2018, 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 \$2,662,100 and \$2,641,000 related to the employer contribution in 2019 and 2018, 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 \$5,266,658 and \$4,257,708 at December 31, 2019 and 2018, respectively. Corresponding liabilities are recorded in the accompanying consolidated balance sheets as long-term liabilities.

Note 13: Net Assets With Donor Restrictions

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

	2019	2018
Restrictions as to time	\$ 2,717,918	\$ 2,012,271
Unappropriated earnings on endowment funds	3,222,056	2,529,998
Subject to expenditure for specific purpose:		
Hospice	1,714,368	1,468,572
Cardiology	30,463	14,413
Specific hospital departments	46,662	49,882
Endowments maintained in perpetuity, income from which is expendable	1,948,135	1,863,847
Total net assets with donor restrictions	\$ 9,679,602	\$ 7,938,983

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

Note 14: 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

Note 14: 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:

	2019		
	Without Donor Restrictions	With Donor Restrictions	Total
Board-designated endowment	\$ 824,038	\$ -	\$ 824,038
Donor-restricted endowments:			
Unappropriated earnings available	-	3,222,056	3,222,056
Donor contributions maintained in perpetuity	-	1,948,135	1,948,135
Total	\$ 824,038	\$ 5,170,191	\$ 5,994,229

	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
Total	\$ 686,433	\$ 4,393,845	\$ 5,080,278

Beloit Health System, Inc. and Affiliate

Notes to Consolidated Financial Statements

Note 14: Endowment (Continued)

Changes in endowment net assets were as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
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 depreciation	(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
Investment return:			
Interest and dividends	32,551	136,988	169,539
Net appreciation	105,054	560,750	665,804
Total investment gain	137,605	697,738	835,343
Contributions	-	84,288	84,288
Distributions	-	(5,680)	(5,680)
Endowments at December 31, 2019	\$ 824,038	\$ 5,170,191	\$ 5,994,229

Note 15: 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:

	2019		
	Inpatient	Outpatient	Total
Payors:			
Medicare	\$ 29,601,954	\$ 63,848,374	\$ 93,450,328
Medicaid	7,431,125	12,742,449	20,173,574
Other third-party payors	20,509,770	108,728,434	129,238,204
Uninsured patients	136,638	321,983	458,621
Total	\$ 57,679,487	\$ 185,641,240	\$ 243,320,727

Beloit Health System, Inc. and Affiliate

Notes to Consolidated Financial Statements

Note 15: Patient Service Revenue (Continued)

	2018		
	Inpatient	Outpatient	Total
Payors:			
Medicare	\$ 24,474,429	\$ 57,705,381	\$ 82,179,810
Medicaid	6,477,684	14,402,993	20,880,677
Other third-party payors	26,539,225	105,039,105	131,578,330
Uninsured patients	1,772,994	2,043,884	3,816,878
Total	\$ 59,264,332	\$ 179,191,363	\$ 238,455,695

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 16: 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, 2021.

Note 17: Functional Expenses

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

	2019			
	Healthcare	Management & General	Fund-raising	Total
Salaries and wages	\$ 84,794,357	\$ 17,460,257	\$ 186,305	\$ 102,440,919
Employee benefits	31,439,232	6,599,776	46,576	38,085,584
Professional fees and purchased services	28,905,137	10,884,463	72,354	39,861,954
Supplies	43,070,591	2,349,065	117,482	45,537,138
Utilities	2,207,272	615,430	-	2,822,702
Insurance	827,737	174,938	-	1,002,675
Hospital assessment	5,391,296	-	-	5,391,296
Depreciation	10,577,013	1,847,090	-	12,424,103
Interest	3,046,671	1,104,108	-	4,150,779
Grants	30,250	-	-	30,250
Total	\$ 210,289,556	\$ 41,035,127	\$ 422,717	\$ 251,747,400

Beloit Health System, Inc. and Affiliate

Notes to Consolidated Financial Statements

Note 17: Functional Expenses (Continued)

	2018			
	Healthcare	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
Total	\$ 203,108,919	\$ 37,655,506	\$ 360,780	\$ 241,125,205

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 18: 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, 2019 and 2018, the balance of these funds was \$4,926,664 and \$4,153,348, respectively.

As of December 31, 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:

	2019	2018
Financial assets:		
Cash and cash equivalents	\$ 13,193,894	\$ 16,473,136
Investments	77,024,631	65,632,830
Liquidity resource - Line of credit	12,000,000	12,000,000
Total financial assets and liquidity resources	\$ 102,218,525	\$ 94,105,966

Beloit Health System, Inc. and Affiliate

Notes to Consolidated Financial Statements

Note 19: 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 healthcare provided to the patients. The majority of the System's patients are from Beloit, Wisconsin, and the surrounding area.

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

	2019	2018
Medicare	44 %	45 %
Medicaid	15 %	14 %
Other third-party payors	31 %	29 %
Uninsured patients	10 %	12 %
Total	100 %	100 %

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, 2019, the Corporation's deposits exceeded the insured limits by approximately \$9,385,000. 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 20: Community Benefit and Charity Care

The Corporation provides healthcare 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 2019 and 2018:

- 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.

Beloit Health System, Inc. and Affiliate

Notes to Consolidated Financial Statements

Note 20: Community Benefit and Charity Care (Continued)

- Crisis intervention counseling.
- Guidance, referral, and enrollment assistance for public medical programs and other family support assistance.
- Provided discounted or free medical supplies and equipment to those unable to pay.
- Delivered hot in-home meals.
- Provided emergency bus tokens for the indigent to access healthcare services.
- Promoted participation in blood drives by employees.
- Contributed to the education of student nurses and other healthcare 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. Healthcare 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 \$33,000 and \$42,000 in 2019 and 2018, respectively.

Note 21: Commitments and Contingencies

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

Note 22: Subsequent Event

Beginning in March 2020, the United States economy began suffering adverse effects from the Covid 19 virus crisis ("CV19 Crisis"). As of the date of issuance of the consolidated financial statements the Corporation has started to see adverse impacts of the CV19 Crisis in the form of reduced patient volumes and a decline in investment values. The future impact of the CV19 Crisis on the Corporation cannot be reasonably estimated at this time.

Supplementary Information



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, 2019 and 2018, and our report thereon dated April 1, 2020, 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 42 through 52 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, 2020

Beloit Health System, Inc. and Affiliate

Consolidating Balance Sheets

December 31, 2019

Assets	Beloit Health System, Inc.	Beloit Health System Foundation, Inc.	Eliminations	Total
Current assets:				
Cash and cash equivalents	\$ 13,193,894	\$ -	\$ -	\$ 13,193,894
Patient accounts receivable - Net	45,585,099	-	-	45,585,099
Other accounts receivable	2,716,932	-	(122,997)	2,593,935
Pledges receivable	-	571,489	-	571,489
Inventory	5,365,001	-	-	5,365,001
Amounts receivable from third-party reimbursement programs	1,380,000	-	-	1,380,000
Prepaid expenses	933,806	-	-	933,806
Total current assets	69,174,732	571,489	(122,997)	69,623,224
Investments	77,024,631	-	-	77,024,631
Assets limited as to use	7,780,192	12,626,847	-	20,407,039
Property and equipment - Net	125,885,192	-	-	125,885,192
Other assets:				
Goodwill	3,300,000	-	-	3,300,000
Operating lease assets	719,852	-	-	719,852
Pledges receivable, less current portion	-	1,407,930	-	1,407,930
Total other assets	4,019,852	1,407,930	-	5,427,782
TOTAL ASSETS	\$ 283,884,599	\$ 14,606,266	\$ (122,997)	\$ 298,367,868

Beloit Health System, Inc. and Affiliate

Consolidating Balance Sheets (Continued)

December 31, 2019

Liabilities and Net Assets	Beloit Health System, Inc.	Beloit Health System Foundation, Inc.	Eliminations	Total
Current liabilities:				
Current maturities of long-term debt	\$ 3,373,675	\$ -	\$ -	\$ 3,373,675
Current portion of operating lease liabilities	266,217	-	-	266,217
Accounts payable	6,745,381	122,997	(122,997)	6,745,381
Accrued liabilities	18,859,616	-	-	18,859,616
Total current liabilities	29,244,889	122,997	(122,997)	29,244,889
Long-term liabilities:				
Long-term debt, less current maturities	77,352,776	-	-	77,352,776
Long-term portion of operating lease liabilities	461,109	-	-	461,109
Pension liability	19,335,992	-	-	19,335,992
Deferred compensation	5,266,658	-	-	5,266,658
Interest rate swap agreements	7,384,146	-	-	7,384,146
Total long-term liabilities	109,800,681	-	-	109,800,681
Total liabilities	139,045,570	122,997	(122,997)	139,045,570
Net assets:				
Without donor restrictions:				
Undesignated	144,839,029	1,242,400	-	146,081,429
Board designated	-	3,561,267	-	3,561,267
Total net assets without donor restrictions	144,839,029	4,803,667	-	149,642,696
With donor restrictions	-	9,679,602	-	9,679,602
Total net assets	144,839,029	14,483,269	-	159,322,298
TOTAL LIABILITIES AND NET ASSETS	\$ 283,884,599	\$ 14,606,266	\$ (122,997)	\$ 298,367,868

See Independent Auditor's Report on Supplementary Information.

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
Total current assets	76,736,899	1,028,227	(94,642)	77,670,484
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
Total other assets	3,300,000	390,654	-	3,690,654
TOTAL ASSETS	\$ 278,513,389	\$ 12,092,331	\$ (94,642)	\$ 290,511,078

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
Total current liabilities	32,225,491	94,642	(94,642)	32,225,491
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
Total long-term liabilities	107,754,947	-	-	107,754,947
Total liabilities	139,980,438	94,642	(94,642)	139,980,438
Net assets:				
Without donor restrictions:				
Undesignated	138,532,951	1,129,581	-	139,662,532
Board designated	-	2,929,125	-	2,929,125
Total net assets without donor restrictions	138,532,951	4,058,706	-	142,591,657
With donor restrictions	-	7,938,983	-	7,938,983
Total net assets	138,532,951	11,997,689	-	150,530,640
TOTAL LIABILITIES AND NET ASSETS	\$ 278,513,389	\$ 12,092,331	\$ (94,642)	\$ 290,511,078

See Independent Auditor's Report on Supplementary Information.

Beloit Health System, Inc. and Affiliate

Consolidating Statements of Operations

Year Ended December 31, 2019

	Beloit Health System, Inc.	Beloit Health System Foundation, Inc.	Eliminations	Total
Revenue:				
Patient service revenue	\$ 243,320,727	\$ -	\$ -	\$ 243,320,727
Other operating revenue	8,142,190	812,658	(702,993)	8,251,855
Total revenue	251,462,917	812,658	(702,993)	251,572,582
Expenses:				
Salaries and wages	102,254,614	186,305	-	102,440,919
Employee benefits	38,039,008	46,576	-	38,085,584
Professional fees and purchased services	39,789,600	72,354	-	39,861,954
Supplies	45,419,656	117,482	-	45,537,138
Utilities	2,822,702	-	-	2,822,702
Insurance	997,417	5,258	-	1,002,675
Hospital assessment	5,391,296	-	-	5,391,296
Depreciation	12,424,103	-	-	12,424,103
Interest	4,150,779	-	-	4,150,779
Grants - Beloit Health System, Inc. and other	-	2,731,802	(2,701,552)	30,250
Total expenses	251,289,175	3,159,777	(2,701,552)	251,747,400
Income (loss) from operations	173,742	(2,347,119)	1,998,559	(174,818)
Nonoperating income (loss) - Investment gain and other	10,526,013	998,879	-	11,524,892
Excess (deficiency) of revenue over expenses	10,699,755	(1,348,240)	1,998,559	11,350,074
Other changes in net assets without donor restrictions:				
Change in fair value of effective portion of interest rate swap agreements	(1,350,067)	-	-	(1,350,067)
Net assets released from restrictions for capital improvements	1,998,559	1,998,559	(1,998,559)	1,998,559
Forgiveness of Foundation receivable	(94,642)	94,642	-	-
Change in pension obligation other than expense	(4,947,527)	-	-	(4,947,527)
Increase in net assets without donor restrictions	\$ 6,306,078	\$ 744,961	\$ -	\$ 7,051,039

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
Revenue:				
Patient service revenue	\$ 238,455,695	\$ -	\$ -	\$ 238,455,695
Other operating revenue	7,979,545	604,004	-	8,583,549
Total revenue	246,435,240	604,004	-	247,039,244
Expenses:				
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. and other	-	1,208,848	(1,208,848)	-
Total expenses	240,757,231	1,576,822	(1,208,848)	241,125,205
Income (loss) from operations	5,678,009	(972,818)	1,208,848	5,914,039
Nonoperating income - Investment income 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
Other changes in net assets without donor restrictions:				
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 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 Changes in Net Assets

Year Ended December 31, 2019

	Beloit Health System, Inc.	Beloit Health System Foundation, Inc.	Eliminations	Total
Increase (decrease) in net assets without donor restrictions	\$ 6,306,078	\$ 744,961	\$ -	\$ 7,051,039
Net assets with donor restrictions:				
Contributions	-	3,849,497	-	3,849,497
Investment income	-	696,105	-	696,105
Net assets released from restrictions for capital improvements	-	(1,998,559)	-	(1,998,559)
Net assets released from restrictions for operations	-	(806,424)	-	(806,424)
Increase in net assets with donor restrictions	-	1,740,619	-	1,740,619
Change in net assets	6,306,078	2,485,580	-	8,791,658
Net assets at beginning	138,532,951	11,997,689	-	150,530,640
Net assets at end	\$ 144,839,029	\$ 14,483,269	\$ -	\$ 159,322,298

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 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

See Independent Auditor's Report on Supplementary Information.

Beloit Health System, Inc.

Balance Sheets

December 31, 2019 and 2018

Assets	2019	2018
Current assets:		
Cash and cash equivalents	\$ 13,193,894	\$ 16,473,136
Patient accounts receivable - Net	45,585,099	46,240,894
Other accounts receivable	2,716,932	5,792,955
Inventory	5,365,001	5,585,672
Amounts receivable from third-party reimbursement programs	1,380,000	1,355,000
Prepaid expenses	933,806	1,289,242
Total current assets	69,174,732	76,736,899
Investments	77,024,631	65,632,830
Assets limited as to use	7,780,192	6,726,807
Property and equipment - Net	125,885,192	126,116,853
Other assets	4,019,852	3,300,000
TOTAL ASSETS	\$ 283,884,599	\$ 278,513,389

Beloit Health System, Inc.

Balance Sheets (Continued)

December 31, 2019 and 2018

Liabilities and Net Assets	2019	2018
Current liabilities:		
Current maturities of long-term debt	\$ 3,373,675	\$ 2,875,503
Current portion of operating lease liabilities	266,217	-
Accounts payable	6,745,381	8,567,478
Accrued liabilities	18,859,616	20,782,510
Total current liabilities	29,244,889	32,225,491
Long-term liabilities:		
Long-term debt, less current maturities	77,352,776	79,005,804
Long-term portion of operating lease liabilities	461,109	-
Pension liability	19,335,992	18,538,021
Deferred compensation	5,266,658	4,257,708
Interest rate swap agreements	7,384,146	5,953,414
Total long-term liabilities	109,800,681	107,754,947
Total liabilities	139,045,570	139,980,438
Net assets without donor restrictions	144,839,029	138,532,951
TOTAL LIABILITIES AND NET ASSETS	\$ 283,884,599	\$ 278,513,389

See Independent Auditor's Report on Supplementary Information.

Beloit Health System, Inc.

Statements of Operations

Years Ended December 31, 2019 and 2018

	2019	2018
Revenue:		
Patient service revenue	\$ 243,320,727	\$ 238,455,695
Other operating revenue	8,142,190	7,979,545
Total revenue	251,462,917	246,435,240
Expenses:		
Salaries and wages	102,254,614	97,177,395
Employee benefits	38,039,008	37,832,053
Professional fees and purchased services	39,789,600	38,341,220
Supplies	45,419,656	41,803,506
Utilities	2,822,702	2,904,742
Insurance	997,417	950,903
Hospital assessment	5,391,296	5,478,670
Depreciation	12,424,103	12,328,634
Interest	4,150,779	3,940,108
Total expenses	251,289,175	240,757,231
Income from operations	173,742	5,678,009
Nonoperating income (loss) - Investment income (loss) and other	10,526,013	3,936,529
Excess of revenue over expenses	10,699,755	9,614,538
Other changes in net assets without donor restrictions:		
Changes in net unrealized gains and losses on investments	-	(8,602,204)
Change in fair value of effective portion of interest rate swap agreements	(1,350,067)	1,278,331
Net assets released from restrictions for capital improvements	1,998,559	1,208,848
Other	-	45,551
Forgiveness of Foundation receivable	(94,642)	(77,377)
Change in pension obligation other than pension expense	(4,947,527)	(3,340,912)
Increase in net assets without donor restrictions	\$ 6,306,078	\$ 126,775

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