

Northern Arizona Healthcare Corporation and Affiliates

Consolidated Financial Statements as of and
for the Years Ended June 30, 2017 and 2016,
Supplementary Information as of and
for the Year Ended June 30, 2017, and
Independent Auditors' report

NORTHERN ARIZONA HEALTHCARE CORPORATION AND AFFILIATES

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Northern Arizona Healthcare Corporation:

We have audited the accompanying consolidated financial statements of Northern Arizona Healthcare Corporation and Affiliates (the "Corporation"), which comprise the consolidated statements of financial position as of June 30, 2017 and 2016, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Corporation as of June 30, 2017 and 2016, and the results of its activities and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Deloitte & Touche LLP

October 19, 2017

NORTHERN ARIZONA HEALTHCARE CORPORATION AND AFFILIATES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS OF JUNE 30, 2017 AND 2016 (In thousands)

	2017	2016
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 67,124	\$ 77,777
Accounts receivable—less allowance for doubtful accounts of \$68,633 and \$71,053 in 2017 and 2016, respectively	100,148	106,265
Inventories	10,682	11,188
Prepaid expenses and other	<u>11,839</u>	<u>9,626</u>
Total current assets	189,793	204,856
ASSETS WHOSE USE IS LIMITED	620,028	520,544
PROPERTY AND EQUIPMENT—Net	262,598	259,722
GOODWILL	8,388	16,292
DEFERRED CHARGES AND OTHER ASSETS	<u>17,415</u>	<u>20,538</u>
TOTAL ASSETS	<u>\$ 1,098,222</u>	<u>\$ 1,021,952</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable	\$ 17,458	\$ 12,869
Accrued expenses	44,818	44,558
Current portion of long-term debt	6,200	5,930
Third-party payor settlements	<u>3,147</u>	<u>3,256</u>
Total current liabilities	71,623	66,613
LONG-TERM DEBT—Less current portion	211,574	179,933
ACCRUED PENSION LIABILITY	70,678	87,534
OTHER LIABILITIES	<u>6,644</u>	<u>6,764</u>
Total liabilities	<u>360,519</u>	<u>340,844</u>
NET ASSETS:		
Unrestricted	737,703	680,995
Temporarily restricted	<u>-</u>	<u>113</u>
Total net assets	<u>737,703</u>	<u>681,108</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 1,098,222</u>	<u>\$ 1,021,952</u>

See accompanying notes.

NORTHERN ARIZONA HEALTHCARE CORPORATION AND AFFILIATES

CONSOLIDATED STATEMENTS OF ACTIVITIES FOR THE YEARS ENDED JUNE 30, 2017 AND 2016 (In thousands)

	2017	2016
REVENUE:		
Net patient service	\$ 631,916	\$ 652,785
Provision for doubtful accounts	<u>(40,770)</u>	<u>(53,982)</u>
Net patient service revenue—less provision for doubtful accounts	591,146	598,803
Net assets released from purpose restrictions used for operations	-	682
Other	<u>19,528</u>	<u>21,770</u>
Total revenue	<u>610,674</u>	<u>621,255</u>
EXPENSES:		
Salaries and wages	253,654	259,170
Employee benefits	66,724	61,847
Professional fees	32,557	27,025
Supplies, services, and other	191,217	190,664
Depreciation and amortization	36,121	33,850
Interest	<u>5,970</u>	<u>6,341</u>
Total expenses	<u>586,243</u>	<u>578,897</u>
INCOME FROM OPERATIONS	24,431	42,358
Contributions to NAH Foundation	(38,653)	-
OTHER INCOME (EXPENSE):		
Investment gain (loss)—net	59,646	(7,173)
Impairment losses	(7,903)	(9,917)
Other income—net	<u>455</u>	<u>360</u>
EXCESS OF REVENUE OVER EXPENSES AND OTHER INCOME (EXPENSE)	37,976	25,628
PENSION-RELATED CHANGES OTHER THAN NET PERIODIC PENSION COST	<u>18,619</u>	<u>(44,644)</u>
CHANGE IN UNRESTRICTED NET ASSETS	<u>56,595</u>	<u>(19,016)</u>
TEMPORARILY RESTRICTED NET ASSETS:		
Contributions	-	775
Net assets released from restrictions	<u>-</u>	<u>(682)</u>
CHANGE IN TEMPORARILY RESTRICTED NET ASSETS	<u>-</u>	<u>93</u>
CHANGE IN NET ASSETS	56,595	(18,923)
NET ASSETS—Beginning of year	<u>681,108</u>	<u>700,031</u>
NET ASSETS—End of year	<u>\$ 737,703</u>	<u>\$ 681,108</u>

See accompanying notes.

NORTHERN ARIZONA HEALTHCARE CORPORATION AND AFFILIATES

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED JUNE 30, 2017 AND 2016 (In thousands)

	2017	2016
OPERATING ACTIVITIES:		
Change in net assets	\$ 56,595	\$(18,923)
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Increase in investments designated as trading—net	(99,484)	(33,868)
Gain on disposal of fixed assets	(476)	(211)
Unrecognized pension cost	(16,855)	43,116
Provision for doubtful accounts	40,770	53,982
Depreciation and amortization	36,121	33,850
Impairment loss	7,903	9,917
Net change in current assets and current liabilities, exclusive of cash and cash equivalents	(23,123)	(66,892)
Decrease in deferred charges and other assets	(6,839)	(2,414)
Increase in other liabilities	<u>(120)</u>	<u>2,384</u>
Net cash (used in) provided by operating activities	<u>(5,508)</u>	<u>20,941</u>
INVESTING ACTIVITIES—Purchases of property, plant, and equipment		
	<u>(38,630)</u>	<u>(32,243)</u>
Net cash used in investing activities	<u>(38,630)</u>	<u>(32,243)</u>
FINANCING ACTIVITIES:		
Proceeds from long-term debt	40,000	-
Payments on long-term debt	<u>(6,515)</u>	<u>(6,289)</u>
Net cash provided by (used in) financing activities	<u>33,485</u>	<u>(6,289)</u>
DECREASE IN CASH AND CASH EQUIVALENTS	(10,653)	(17,591)
CASH AND CASH EQUIVALENTS—Beginning of year	<u>77,777</u>	<u>95,368</u>
CASH AND CASH EQUIVALENTS—End of year	<u>\$ 67,124</u>	<u>\$ 77,777</u>

See accompanying notes.

NORTHERN ARIZONA HEALTHCARE CORPORATION AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

1. ORGANIZATION

Description of Business—Northern Arizona Healthcare Corporation (the “Corporation”) is a not-for-profit tax-exempt corporation that provides administrative and other services to affiliated organizations. The Corporation controls the activities of the following wholly owned affiliates:

- Flagstaff Medical Center, Inc. (FMC), a not-for-profit tax-exempt corporation located in Flagstaff, Arizona, provides general medical and surgical acute care, behavioral health services, and a full range of outpatient services.
- Verde Valley Medical Center (VVMC), a not-for-profit tax-exempt corporation located in Cottonwood, Arizona, provides general medical and surgical acute care, behavioral health service, and a full range of outpatient services.
- Northern Arizona Healthcare Provider Group, LLC (NAHPG) is a physician organization comprising the employed physicians of FMC and VVMC. The Corporation owns 100% interest in NAHPG. This LLC will be dissolved in the coming months.
- Northern Arizona Healthcare Orthopedic Surgery Center, LLC (NAHOSC) is an ambulatory surgery center and recovery care center that provides outpatient surgery services. An asset purchase agreement was entered into by NAHOSC for the purchase of certain assets of Summit Surgery and Recovery Care Center, Inc. in December 2014. The acquisition was completed in May 2015. The recovery care center portion of this asset has been closed since May 2016.
- PathfinderHealth, LLC operates a regional, clinically integrated care delivery system functioning as an Accountable Care Organization. The Corporation is the sole member.

The Corporation holds a 50% noncontrolling interest in Northern Arizona Senior Living Community, LLC, d/b/a The Peaks (“The Peaks”). The Peaks operates a senior living, mentoring, and skilled nursing facility located in Flagstaff, Arizona. The Peaks is accounted for using the equity method of accounting.

Mission Statement—The primary mission of the Corporation is to improve the health of the people and communities that the Corporation serves. In short the mission is “Improving health, healing people.”

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation—The accompanying consolidated financial statements include the accounts of the Corporation and each of its wholly owned affiliates. All significant intercompany accounts and transactions have been eliminated in consolidation.

Use of Estimates—The preparation of the Corporation’s consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents—Cash and cash equivalents include all highly liquid investments with an original maturity of three months or less, excluding amounts whose use is limited by the Corporation’s board of directors (the “Board”) designation or other arrangements under trust agreements.

Fair Value of Financial Instruments—Carrying value of financial instruments classified as current assets and current liabilities approximates fair value based on the liquidity of these financial instruments and the short-term maturities of these instruments. The fair values of other financial instruments are disclosed in their respective notes.

Net Patient Accounts Receivable—Net patient accounts receivable and net patient service revenue have been adjusted to the estimated amounts expected to be received based on contracted rates for the services rendered. These estimated amounts are subject to further adjustments upon review by third-party payors. For uninsured patients that do not qualify for charity care, the Corporation recognizes revenue on the basis of its standard or discounted rates. Historically, a significant portion of the uninsured patients will be unable or unwilling to pay for the services provided. Accordingly, the Corporation records an allowance for doubtful accounts and provision for doubtful accounts, related to uninsured patients, in the period the services were provided using an entity-wide assessment based on historical collection experience. Management regularly reviews payment data for each major payor in evaluating the sufficiency of the allowance for doubtful accounts.

During 2017, the Corporation experienced a slight decrease in self-pay revenue as a result of the Arizona Medicaid Restoration Program and the establishment of the state insurance exchange under the Affordable Care Act. This also resulted in a slight decrease in the provision for doubtful accounts.

Inventories—Inventories, consisting principally of supplies, are stated at the lower of cost (first-in, first-out method) or market.

Assets Whose Use Is Limited—Assets whose use is limited include investments set aside by the Board for future capital improvements over which the Board retains control and may at its discretion subsequently use for other purposes. In addition, assets whose use is limited include assets held by a trustee under bond indenture agreements.

Investments in equity securities, with readily determinable fair values, and all investments in US Treasury securities, corporate debt securities, government agency securities, and registered investment funds are measured at fair value in the accompanying consolidated statements of financial position (see Note 5). The Corporation has determined that all investments held at June 30, 2017 and 2016, are designated as trading securities. Accordingly, investment income, including realized gains and losses on investments, unrealized gains and losses on investments, and interest and dividends, are included in excess of revenues over expenses, unless the income or loss is restricted by donor or law.

The Corporation invests in various investment securities, which are exposed to various risks, such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the consolidated statements of financial position.

As of June 30, 2017 and 2016, the Corporation has recorded within assets whose use is limited \$123,299,000 and \$108,380,000, respectively, in alternative investments. The Corporation accounts for its ownership interests in these alternative investments under the equity method based on the net asset value per share of the fund held by the Corporation. The hedge fund net asset value is provided to the Corporation by each of the hedge fund managers. The net asset value is determined based on the estimated fair value of each of the underlying investments held in the hedge fund. However, the hedge fund investment holdings may include investments in private investment funds whose values have been estimated by the hedge fund managers in the absence of readily ascertainable fair values. Due to the inherent uncertainty of these estimates, these values may differ from the values that would have been used had a ready market for these investments existed. The investment income recorded is based on the Corporation's proportionate share of the hedge fund portfolio net asset value. The Corporation's share of the hedge funds unrealized gain (loss) \$10,911,000 and \$(4,390,000) for the years ended June 30, 2017 and 2016, respectively.

Property and Equipment—Property and equipment are recorded at cost, if purchased, or fair value on the date received, if donated. Depreciation expense is recorded on a straight-line basis over the estimated useful life of each class of depreciable asset, which ranges from three to 40 years. Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets.

Goodwill—Purchases of acquired businesses have been allocated to the assets and liabilities acquired based on the estimated fair values on the respective acquisition dates. Based on these values, the excess purchase price over the fair value of net assets acquired was allocated to goodwill.

The Corporation evaluates goodwill for impairment at least annually and more frequently if certain indicators are encountered. Goodwill is tested at the reporting unit level, defined as an operating segment or one level below an operating segment (a "component"), with the fair value of the reporting unit being compared to its carrying amount. If the fair value of the reporting unit is greater than its carrying amount, the goodwill of the reporting unit is not considered to be impaired. During 2017 and 2016, the Corporation recorded an impairment loss of \$7,903,000 and \$8,000,000, respectively, on the goodwill associated with the Northern Arizona Healthcare Orthopedic Surgery Center. In addition, a \$1,917,000 impairment loss was recorded on the goodwill associated with the Verde Valley Medical Imaging Center during 2016.

Long-Lived Asset Impairment—The Corporation reviews long-lived assets for impairment when events or changes in business conditions indicate that their carrying value may not be recoverable. The Corporation considers assets to be impaired and writes them down to fair value if expected associated cash flows are less than the carrying amounts. Fair value is determined to be the present value of the associated assets cash flows. During 2017 and 2016, the Corporation did not record long-lived impairment losses, in addition to the goodwill impairment mentioned above.

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 are reported at fair value at the date the conditions are satisfied. The gifts are reported as either temporarily or permanently restricted support, if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the accompanying consolidated statements of activities as net assets released from restrictions.

Excess of Revenues over Expenses and Other Income (Expense)—Management considers excess of revenues over expenses and other income (expense) to be the performance indicator. Changes in unrestricted net assets, which are excluded from this total, consistent with industry practice, include pension-related changes other than net periodic pension cost.

Net Patient Service Revenue—The Corporation has agreements with third-party payors that provide for payments at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, discounts from established charges, and per diem payments.

Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered, and such amounts are adjusted in future periods as adjustments become known. For the years ended June 30, 2017 and 2016, the Corporation recorded a decrease to net patient service revenue of \$2,325,000 and \$1,480,000, respectively, relating to retroactive adjustments.

Electronic Health Records Incentive Payments—Beginning in 2011, the Medicare and state Medicaid programs are providing an incentive payment to eligible hospitals and professionals if meaningful use certified electronic health care (EHR) technology is adopted and utilized. The incentive payment is recognized when management is reasonably assured that the Corporation has complied with the conditions set forth by Medicare and Medicaid and has demonstrated meaningful use of its EHR technology for the applicable attestation period. Approximately \$2,612,000 and \$2,852,000 in Medicare and Medicaid incentive payments were recognized in other revenue for the years ended June 30, 2017 and 2016, respectively. The Corporation's attestation of compliance with the meaningful use criteria is subject to audit by the federal government upon final settlement of the applicable cost report from which payments were initially calculated.

Community Benefit—The Corporation provides a broad range of benefits to the northern Arizona community it serves, including offering various community-based social service programs and a number of health-related educational programs. These services are provided to improve the general standards of health for the community. In addition, the Corporation provides care to all patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. A patient is classified as a charity patient by reference to certain policies established by the Corporation as to the ability of the patient to pay. Because the Corporation does not pursue collection of amounts determined to qualify as charity care, they are not recorded as revenue. Partial payments to which the Corporation is entitled from public assistance and other programs, on behalf of patients, that meet the charity care policy of the Corporation are reported as net patient service revenue.

The Corporation estimates charity care costs based on the most recent cost-to-charge ratio reported in FMC and VVMC's general ledger. The cost-to-charge ratio includes both direct and indirect costs incurred at FMC and VVMC. For the years ended June 30, 2017 and 2016, costs incurred by the Corporation relating to the provision of charity care and the unpaid costs of programs with the AHCCCS and Medicare program amounted to \$136,373,000 and \$93,276,000, respectively. The following is a summary of the Corporation's community benefit for the years ended June 30, 2017 and 2016 (in thousands):

	2017	2016
Traditional charity care—at cost	\$ 2,105	\$ 778
Unpaid cost of public programs—AHCCCS	98,581	60,664
Unpaid cost of public programs—Medicare	<u>35,687</u>	<u>31,834</u>
Total	<u>\$136,373</u>	<u>\$93,276</u>

In July 2016, the Corporation filed articles of organization with the Arizona Corporation Commission to form Northern Arizona Healthcare Foundation (the "Foundation"). The mission of the Foundation is to support Northern Arizona Healthcare, while advancing community health care priorities. In October 2016, the Foundation became a separate 501(c)(3) with separate management and a separate board, and is not controlled by the Corporation. Accordingly, the operations of the Foundation are not included in the operating results in fiscal year 2017, and on a go-forward basis. Additionally, during fiscal year 2017, the Corporation contributed \$38,606,000 including 113,000 of temporarily restricted funds designated for use by the Foundation by the donor to the Foundation.

Tax Status—The Corporation is a not-for-profit corporation and is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for income taxes is included in the accompanying consolidated financial statements. The Corporation's management is not aware of any events that would cause the Corporation to lose its tax-exempt status. Management has reviewed all open tax years and has determined that the Corporation has no significant uncertain tax positions.

Recent Accounting Pronouncements—In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers*. ASU No. 2014-09 outlines a single comprehensive model for entities to use in accounting for revenue from contracts with customers. This standard supersedes most other revenue recognition guidance, including industry-specific guidance. ASU No. 2014-09 is effective for accounting periods beginning after December 15, 2017. Management of the Company is in the process of evaluating the impact that the adoption of ASU No. 2014-09 will have on the consolidated financial statements. ASU No. 2015-14, *Revenue from Contracts with Customers*, deferred the effective date of this statement to accounting periods beginning after December 15, 2018.

In May 2015, the FASB issued ASU No. 2015-07, *Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*. The ASU removes the requirement to categorize within the fair value hierarchy investments for which fair values are estimated using the net asset value per share as a practical expedient provided by FASB Accounting Standards Codification 820, *Fair Value Measurement*. Disclosures about investments in certain entities that calculate net asset value per share are limited under this ASU to investments for which the entity has elected to estimate the fair value using the net asset value practical expedient. The guidance is effective for fiscal years, and

interim periods within those years, beginning after December 15, 2016. Management of the Company is in the process of evaluating the impact that the adoption of ASU No. 2015-07 will have on the consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, *Leases*. The ASU requires lessees to recognize assets and liabilities arising from leases on the consolidated balance sheet. Under the ASU, a lessee should recognize in the consolidated statements of financial position a liability to make lease payments (the lease liability) and a right-of-use asset representing its right to use the underlying asset for the lease term. ASU No. 2016-02 is effective for fiscal years beginning after December 15, 2019. Early adoption is permitted. Management of the Company is in the process of evaluating the impact that the adoption of ASU No. 2016-02 will have on the consolidated financial statements.

In August 2016, the FASB issued ASU No. 2016-14, *Not-for-Profit Entities—Presentation of Financial Statements for Not-for-Profit Entities*. The ASU makes several improvements to current reporting requirements to provide more useful information to donors, grantors, creditors, and other users of the consolidated financial statements. ASU No. 2016-14 is effective for fiscal years beginning after December 15, 2017. Early adoption is permitted. Management of the Company is in the process of evaluating the impact that the adoption of ASU No. 2016-14 will have on the consolidated financial statements.

In August 2016, the FASB issued ASU No. 2016-15, *Statement of Cash Flows—Classification of Certain Cash Receipts and Cash Payments*. The ASU addresses eight specific cash flow issues with the objective of reducing the existing diversity in practice of how certain cash receipts and cash payments are presented and classified in the consolidated statement of cash flows. ASU No. 2016-15 is effective for fiscal years beginning after December 15, 2018. Early adoption is permitted. Management of the Company is in the process of evaluating the impact that the adoption of ASU No. 2016-15 will have on the consolidated financial statements.

Subsequent Events—There are two types of subsequent events: recognized subsequent events, which provide additional evidence about conditions that existed at the consolidated balance sheet date, and unrecognized subsequent events, which provide evidence about conditions that did not exist at the consolidated balance sheet date, but arose before the consolidated financial statements were issued. Recognized subsequent events are required to be recognized in the consolidated financial statements, and unrecognized subsequent events are required to be disclosed. In the preparation of the consolidated financial statements, the Corporation has evaluated subsequent events through the date the consolidated financial statements were available for issuance, September 30, 2017. (See Note 11 for disclosed subsequent events.)

3. NET PATIENT SERVICE REVENUE

A summary of the payment arrangements with major third-party payors is as follows:

Medicare—Inpatient acute care services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. All outpatient services rendered to Medicare beneficiaries are paid at prospectively determined rates. FMC and VVMC's Medicare reimbursement is subject to final settlement with the Medicare program, based on the annual hospital specific rate per discharge. Final settlement with the Medicare program is determined after submission of annual cost reports by the Corporation and audit thereof by the Medicare fiscal intermediary.

Approximately 33% and 36% of the Corporation's net patient service revenue was derived from the Medicare program in 2017 and 2016, respectively.

The Medicare cost reports of the Corporation have been audited by the fiscal intermediary through June 30, 2015, for FMC and June 30, 2014, for VVMC. Management believes that estimated accrued settlements related to unaudited cost reports are adequate. Estimates are continually monitored and reviewed, and as settlements are made or estimates adjusted, differences are reflected in current operations. Laws and regulations governing the Medicare program are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates could change by a material amount in the near term.

AHCCCS—Inpatient and outpatient services rendered to AHCCCS program beneficiaries are reimbursed under per diem and fee schedule or discounted charge methodologies, respectively. Approximately 5% and 11% of the Corporation's net patient service revenue was derived from the AHCCCS program in 2017 and 2016, respectively.

Other Payors—The Corporation also has entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment to the Corporation under these agreements includes prospectively determined rates per discharge or discounts from established charges. Approximately 49% and 39% of the Corporation's net patient service revenue was derived from other third-party payors in 2017 and 2016, respectively.

Self-Pay—Inpatient and outpatient services rendered to self-pay patients are recorded at the Corporation's standard rates. Approximately 13% and 15% of the Corporation's net patient service revenue was derived from self-pay patients in 2017 and 2016, respectively. Self-pay patients include patients without insurance and patients with deductibles and coinsurance associated with third-party payor coverage. Management records a provision for doubtful accounts related to self-pay patients, at the time services are provided, based on historical collection experience.

4. CONCENTRATION OF CREDIT RISK

The Corporation grants credit without collateral to its patients, most of whom are insured under third-party payor agreements, which include (i) Medicare, (ii) AHCCCS, (iii) private payors (self-pay), and (iv) others, including commercial carriers and health maintenance organizations. The following table summarizes the percentage of gross accounts receivable from all payors as of June 30, 2017 and 2016:

	2017	2016
AHCCCS/Medicaid	26 %	31 %
Medicare	33	27
Self pay	14	14
Other payors (excluding self-pay)	<u>27</u>	<u>28</u>
Total	<u>100 %</u>	<u>100 %</u>

Self-pay and other amounts due consist of receivables from various payors, including individuals involved in diverse activities subject to differing economic conditions. Management does not believe there are any significant credit risks associated with

accounts receivable, except for self-pay accounts. Management continually monitors and adjusts its allowances (contractual and doubtful accounts) associated with these receivables based on recent payment trends and specific identification of uncollectible patient accounts.

5. FAIR VALUE MEASUREMENTS

Fair value is defined as an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability.

As a basis for considering such assumptions, the Corporation utilizes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value as follows:

- **Level 1**—Pricing is based on observable inputs, such as quoted prices in active markets. Financial assets in Level 1 include cash equivalents, money market investments, and registered investment funds.
- **Level 2**—Pricing inputs are based on quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques, for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of the assets or liabilities. Financial assets in Level 2 include commingled equity funds.
- **Level 3**—Pricing inputs are generally unobservable and include situations where there is little, if any, market activity for the investment. The inputs into the determination of fair value require management's judgment or estimation of assumptions that market participants would use in pricing the assets or liabilities. The fair values are therefore determined using factors that involve considerable judgment and interpretations, including, but not limited to, private and public comparables, third-party appraisals, discounted cash flow models, and fund manager estimates. Financial assets in Level 3 include alternative investment bond and equity funds.

Assets measured at fair value are based on one or more of three valuation techniques. The three valuation techniques are identified in the tables below. The valuation techniques are as follows:

- a. **Market Approach**—Prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities.
- b. **Cost Approach**—Amount that would be required to replace the service capacity of an asset (replacement cost).
- c. **Income Approach**—Techniques to convert future amounts to a single present amount based on market expectations (including present value techniques, option pricing, and excess earnings models).

The Corporation's alternative investments, amounting to \$123,299,000 and \$108,380,000 at June 30, 2017 and 2016, respectively, are accounted for using the equity method of accounting.

The following table outlines the fair value techniques used for financial assets recorded at fair value, on a recurring basis, as of June 30, 2017 and 2016, by the level of observable input and the valuation technique (in thousands):

		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Valuation Technique (a, b, and c)
2017	Balance at June 30				
Assets whose use is limited:					
Cash and cash equivalents	\$ 57	\$ 57	\$ -	\$ -	a
Commingled funds—equity funds	32,085	-	32,085	-	a
Registered investment funds:					
Equity funds	228,680	228,680	-	-	a
Equity funds—alternative investments	36,133	-	-	36,133	a, and c
Bond funds	195,907	195,907	-	-	a
Bond fund—alternative investments	<u>87,166</u>	<u>-</u>	<u>-</u>	<u>87,166</u>	a, and c
Total assets whose use is limited	<u>\$ 580,028</u>	<u>\$ 424,644</u>	<u>\$ 32,085</u>	<u>\$ 123,299</u>	
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Valuation Technique (a, b, and c)
2016	Balance at June 30				
Assets whose use is limited:					
Cash and cash equivalents	\$ 3,376	\$ 3,376	\$ -	\$ -	a
Commingled funds—equity funds	25,331	-	25,331	-	a
Registered investment funds:					
Equity funds	178,297	178,297	-	-	a
Equity funds—alternative investments	31,203	-	-	31,203	a, and c
Bond funds	205,160	205,160	-	-	a
Bond fund—alternative investments	<u>77,177</u>	<u>-</u>	<u>-</u>	<u>77,177</u>	a, and c
Total assets whose use is limited	<u>\$ 520,544</u>	<u>\$ 386,833</u>	<u>\$ 25,331</u>	<u>\$ 108,380</u>	

The changes in Level 3 instruments measured on a recurring basis for the years ended June 30, 2017 and 2016, are as follows (in thousands):

Balance—June 30, 2015	\$106,770
Net realized and unrealized losses	(4,390)
Purchases	15,750
Settlements	<u>(9,750)</u>
Balance—June 30, 2016	108,380
Net realized and unrealized gains	14,917
Purchases	18,492
Settlements	<u>(18,490)</u>
Balance—June 30, 2017	<u>\$123,299</u>

6. ASSETS WHOSE USE IS LIMITED

A summary of assets whose use is limited at June 30, 2017 and 2016, is as follows (in thousands):

	2017	2016
Restricted by the Board for capital improvements (includes alternatives)	\$580,028	\$520,544
Restricted by the Series 2017A Bond indenture	<u>40,000</u>	<u>-</u>
Total	<u>\$620,028</u>	<u>\$520,544</u>

A summary of investment income, net, for the years ended June 30, 2017 and 2016, is as follows (in thousands):

	2017	2016
Interest income	\$11,323	\$ 11,080
Alternative investment unrealized gain (loss)	11,480	(4,390)
Realized gain (loss)—net	4,809	(1,630)
Unrealized gain (loss) on investments other than alternative investments—net	<u>32,034</u>	<u>(12,233)</u>
Total	<u>\$59,646</u>	<u>\$ (7,173)</u>

7. PROPERTY AND EQUIPMENT

A summary of property and equipment, at June 30, 2017 and 2016, is as follows (in thousands):

	2017	2016
Land and improvements	\$ 25,820	\$ 22,286
Buildings and improvements	334,993	314,808
Equipment	<u>295,658</u>	<u>281,345</u>
	656,471	618,439
Less accumulated depreciation	<u>421,077</u>	<u>393,500</u>
	235,394	224,939
Construction in progress	<u>27,204</u>	<u>34,783</u>
Total	<u>\$262,598</u>	<u>\$259,722</u>

Depreciation expense was \$36,121,000 and \$33,850,000 for the years ended June 30, 2017 and 2016, respectively.

8. LONG-TERM DEBT

A summary of long-term debt, at June 30, 2017 and 2016, is as follows (in thousands):

	2017	2016
Series 2011 Hospital Revenue bonds, collateralized by property and equipment, bearing interest rates fixed annually ranging from 4.0% to 5.25% as defined in the bond agreement. Principal is due in annual installments ranging from \$1,000,000 to \$6,480,000 through October 2026. The unamortized premium was approximately \$2,928,000 and \$3,513,000 at June 30, 2017 and 2016, respectively. The bond premium is amortized using straight-line method over the life of the bonds, which approximates the effective interest method. The average interest rates for the fiscal years ended June 30, 2017 and 2016, was 4.97% and 4.97%, respectively.	\$ 57,138	\$ 61,953
Series 2015A Hospital Revenue bonds, collateralized by pledge of gross receivables, bearing interest rates fixed annually at 3.75% as defined in the bond agreement. Principal is due in annual installments ranging from \$1,395,000 to \$5,400,000 through October 2038.	76,595	78,295
Series 2015B Hospital Revenue bonds, collateralized by pledge of gross receivables, bearing interest rates fixed annually at 2.28% as defined in the bond agreement. Principal is due in annual installments ranging from \$2,500,000 to \$5,550,000 beginning October 1, 2017, through October 2038. Bonds are subject to mandatory tender on June 1, 2025.	45,615	45,615
Series 2017A Hospital Revenue bonds, collateralized by pledge of gross receivables, bearing a variable rate of interest that is set monthly as defined by the bond agreement. Principal is due in annual installments ranging from \$9,545,000 to \$10,465,000 beginning October 1, 2039, through October 2042. The average monthly interest rate for the years ended June 30, 2017, was 1.24%. Bonds are subject to mandatory tender for purchase on each Mandatory Indexed Put date for the Bonds.	40,000	-
Total debt	219,348	185,863
Less current portion	6,200	5,930
Long-term debt	213,148	179,933
Less unamortized bond costs	(1,574)	(873)
Long-term debt	<u>\$211,574</u>	<u>\$179,060</u>

The bond agreements relating to certain loans place restrictions on the operations of the Obligated Group members, which among other things include minimum debt-service coverage ratios, minimum liquidity ratios, limits on encumbrances and liens, and minimum

insurance coverage. The Obligated Group members consist of all wholly owned affiliates of the Corporation except for NAHPG. At June 30, 2017 and 2016, the Obligated Group was in compliance with these debt covenants.

The estimated fair value of the Corporation's long-term debt, at June 30, 2017 and 2016, was \$220,212,000 and \$190,762,000, respectively. The estimated fair value was determined based on quoted market values for identical or comparable debt obligations.

Principal maturities of long-term debt for each of the next five years ended June 30 and in the aggregate thereafter are as follows (in thousands):

2018	\$ 6,200
2019	6,470
2020	6,695
2021	7,035
2022	6,580
Thereafter	<u>183,440</u>
Total principal payments	216,420
Total premium	<u>2,928</u>
Total debt	<u>\$219,348</u>

A summary of bond interest costs, for the years ended June 30, 2017 and 2016, is as follows (in thousands):

	2017	2016
Interest cost:		
Capitalized	\$ 226	\$ 98
Charged to operations	<u>5,970</u>	<u>6,341</u>
Total	<u>\$6,196</u>	<u>\$6,439</u>

9. PENSION PLANS

Defined Benefit Pension Plan—The Corporation has a noncontributory defined benefit pension plan (the "Pension Plan"), which covers substantially all of its employees whose employment began prior to July 1, 2000. The Pension Plan is frozen to employees that commenced employment after July 1, 2000. The Pension Plan provides a defined benefit based on years of service and final average salary.

The Corporation recognizes the funded status (i.e., the difference between the fair value of plan assets and the projected benefit obligation) of its Pension Plan on the consolidated statements of financial position, with a corresponding adjustment to net assets. The following table sets forth the Corporation's defined benefit pension plan funded status as of June 30, 2017 and 2016, as provided by consulting actuaries (in thousands):

	2017	2016
Change in benefit obligation:		
Benefit obligation—beginning of year	\$237,573	\$206,325
Service cost		
Interest cost	8,604	9,212
Actuarial (gain) loss	(3,089)	29,879
Benefit payments	<u>(9,056)</u>	<u>(7,843)</u>
Benefit obligation—end of year	<u>\$234,032</u>	<u>\$237,573</u>
	2017	2016
Change in plan assets:		
Fair value of plan assets—beginning of year	\$150,043	\$161,865
Actual return on plan assets	22,366	(5,296)
Employer contribution	-	1,317
Benefit payments	<u>(9,056)</u>	<u>(7,843)</u>
Fair value of plan assets—end of year	<u>\$163,353</u>	<u>\$150,043</u>
Accrued pension liability	\$ (70,679)	\$ (87,530)
Unrecognized net actuarial loss	89,518	108,133
Unrecognized prior service cost	-	-

The accumulated benefit obligation for the defined benefit plan was \$234,032,000 and \$237,573,000 at June 30, 2017 and 2016, respectively.

Net pension cost includes the following components for the years ended June 30, 2017 and 2016 (in thousands):

	2017	2016
Service cost	\$ -	\$ -
Interest cost	8,604	9,212
Expected return on plan assets	(10,195)	(11,061)
Recognized net actuarial loss	3,355	1,638
Amortization of prior service cost	<u>-</u>	<u>-</u>
Net periodic pension cost	<u>\$ 1,764</u>	<u>\$ (211)</u>

Weighted-average assumptions used to determine the projected benefit obligation, at June 30, 2017 and 2016, are as follows:

	2017	2016
Discount rate	3.9 %	3.7 %
Expected return on plan assets	7.0	7.0

Weighted-average assumptions used to determine the net periodic benefit cost for the fiscal are as follows:

	2017	2016
Discount rate	3.7 %	4.6 %
Expected return on plan assets	7.0	7.0

The Pension Plan's asset allocation and investment strategies are designed to earn returns on plan assets consistent with a reasonable and prudent level of risk. Investments are diversified across classes, sectors, and manager style to minimize the risk of large losses. The Corporation uses investment managers specializing in each asset category and, where appropriate, provides the investment manager with specific guidelines, which include allowable and/or prohibited investment types. The Corporation regularly monitors manager performance and compliance with investment guidelines.

The target allocations for plan assets are 50%–80% equity securities, 20%–40% fixed-income securities, and 0%–5% cash. Equity and registered investment fund securities include US and international investments and range from large-cap to small-cap companies. Fixed-income securities include corporate debt securities of companies from diversified industries, mortgage-backed securities, and US Treasury securities. The expected rate of return actuarial assumption considers the historical long-term rate of return of assets across all of these asset classes.

The fair values of the Pension Plan's assets at June 30, 2017 and 2016, by asset category and fair value hierarchy level, are as follows (in thousands):

	Balance at June 30, 2017	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Valuation Technique (a, b, and c)
Money market	\$ 799	\$ 799	\$ -	\$ -	a
Commingled funds—equity funds	17,638	-	17,638	-	a
Registered investment funds:					
Equity funds	85,812	85,812	-	-	a
Equity funds—alternative investments	12,894	-	-	12,894	a, and c
Bond funds	30,300	30,300	-	-	a
Bond funds—alternative investments	<u>15,910</u>	<u>-</u>	<u>-</u>	<u>15,910</u>	a, and c
	<u>\$ 163,353</u>	<u>\$ 116,911</u>	<u>\$ 17,638</u>	<u>\$ 28,804</u>	
	Balance at June 30, 2016	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Valuation Technique (a, b, and c)
Money market	\$ 1,383	\$ 1,383	\$ -	\$ -	a
Commingled funds—equity funds	31,061	-	31,061	-	a
Registered investment funds:					
Equity funds	56,869	56,869	-	-	a
Equity funds—alternative investments	9,289	-	-	9,289	a, and c
Bond funds	37,242	37,242	-	-	a
Bond funds—alternative investments	<u>14,190</u>	<u>-</u>	<u>-</u>	<u>14,190</u>	a, and c
	<u>\$ 150,043</u>	<u>\$ 95,494</u>	<u>\$ 31,061</u>	<u>\$ 23,479</u>	

The following summarizes the changes in fair value of the Pension Plan's Level 3 assets for the years ended June 30, 2017 and 2016 (in thousands):

Alternative Investments	2017	2016
Balance—beginning of year	\$23,479	\$25,051
Purchase of alternative investments	3,000	-
Sale of alternative investments	(1,409)	-
Realized gain (loss)	90	-
Unrealized gain(loss)	<u>3,644</u>	<u>(1,572)</u>
Balance—end of year	<u>\$28,804</u>	<u>\$23,479</u>
Alternative investments subject to one-year redemption lockup period	<u>\$ -</u>	<u>\$ 3,354</u>

The Corporation is not expected to contribute to its Pension Plan in fiscal year 2018.

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

2018	\$ 9,842
2019	10,359
2020	10,901
2021	11,388
2022	11,810
Years 2023–2027	64,417

401(k) Plan—The Corporation sponsors a 401(k) plan for the Corporation's employees. The 401(k) plan allows employees to contribute funds through a pretax option and an after-tax option. Both options follow the same guidelines for employee and Corporation contributions. All of the Corporation's employees may participate in the 401(k) plan and are eligible for contributions from the Corporation. The Corporation will match 100% of each employee's contribution up to 4% of his or her salary. All employees are also eligible for an additional 2% discretionary contribution, which is based on the Corporation's financial performance and is awarded when the Corporation achieves certain financial targets. Employees immediately vest in their own contributions to the 401(k) plan, vest in the employer pay period match after three years, and vest in the year-end discretionary employer contributions after three years of qualifying service. The Corporation's contributions to the 401(k) plan totaled approximately \$9,968,000 and \$9,185,000 in 2017 and 2016, respectively.

10. COMMITMENTS AND CONTINGENT LIABILITIES

Health Care Regulatory Environment—The health care industry is subject to numerous laws and regulations of federal, state, and local governments. These laws and regulations include, but are not limited to, matters, such as licensure, accreditation, government health care program participation requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Violations of these laws and regulations could result in expulsion from government health care programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services

previously billed. Other than normal operational or licensure citations or shortcomings of the nature commonly found in surveys of hospitals and other customary regulatory matters that are subject to the active attention of the Corporation's administration and Compliance Department, management believes the Corporation is in compliance with fraud and abuse laws and regulations, as well as other applicable government laws and regulations. Compliance with such laws and regulations can be subject to future government review and interpretation, as well as regulatory actions unknown or unasserted at this time.

Insurance—The Corporation retains a layer of liability for employee medical benefits up to \$275,000 per employee, or dependent, and has purchased insurance for claims incurred per employee or dependent in excess of this amount. The Corporation has recorded \$3,911,000 and \$3,659,000 for employee medical benefit obligations as of June 30, 2017 and 2016, respectively. The Corporation is fully insured for dental benefit claims and has incurred premium costs of \$2,175,000 and \$1,981,000 as of June 30, 2017 and 2016, respectively.

The Corporation purchases professional and general liability (PL/GL) insurance to cover medical malpractice claims for physicians and hospital claims. There are known claims and incidents that may be asserted arising from services provided to patients. Through June 30, 2002, the Corporation's professional and general liability insurance had a per-claim deductible of \$50,000 under a claims-made insurance policy. Effective July 1, 2002, the Corporation began retaining liability for PL/GL claims up to \$1,000,000 per claim under a claims-made insurance policy. In August 2012, the Corporation added an additional onetime \$1,000,000 buffer layer to the retention limit. The Corporation also purchased insurance to cover physician's PL/GL with a per-claim self-insured retention (SIR) of \$100,000 under a claims-made insurance policy. The physician's policy was integrated into the overall corporate PL/GL policy in 2013.

The Corporation records a liability for estimates of future payments related to professional and general claims that have not been paid as of year-end. A portion of this estimated payable represents an estimate of claims incurred but not reported (IBNR) to the Corporation. The IBNR claims estimate is developed using actuarial assumptions based upon payment patterns, historical development, and other relevant factors. Those estimates are subject to the effects of trends in claim severity and frequency. Although considerable variability is inherent in such estimates, management believes that the reserves for unpaid claims are adequate. The estimates are periodically reviewed by a third-party actuary and adjusted as necessary as experience develops or new information becomes known; such adjustments are included in current operations. Related to PL/GL claims at June 30, 2017 and 2016, the Corporation recorded an estimated self-insurance obligation of \$7,341,000 and \$7,755,000, respectively, in accrued expenses and other liabilities in the consolidated statements of financial position, which includes the liability to be paid by the Corporation's excess insurance carrier. The Corporation recorded a liability and corresponding insurance recovery of \$1,878,000 and \$2,108,000 as of June 30, 2017 and 2016, respectively, relating to the estimated PL/GL claims to be covered by the excess insurance carriers.

The Corporation is insured for workers' compensation claims under a first dollar coverage plan whereby the insurer has assumed full risk for the workers' compensation claims. Accordingly, the Corporation has not recorded any insurance recovery or claim liability associated with workers' compensation claims.

Leases—Future minimum lease payments, by year and in the aggregate, under noncancelable operating lease arrangements with initial or remaining terms of one year or more consist of the following at June 30, 2017 (in thousands):

2018	\$1,163
2019	653
2020	358
2021	86
2022	32
Thereafter	<u>473</u>
Total	<u>\$2,765</u>

11. SUBSEQUENT EVENT

A medical malpractice claim with a date of loss of November 7, 2013, and served on November 2, 2015, went to mediation on September 5, 2017. American International Group (AIG) was present for negotiations and the claim was settled in excess of the Corporation's SIR level of \$1,000,000 and the additional onetime buffer layer of \$1,000,000. As the SIR is being used and there is substantive defense costs that remains to be determined, the apportioned percentages between defense and indemnification also remains to be determined. The entire \$2,000,000 will be exhausted with the excess carrier (AIG) responsible for the remaining total settlement amount of \$4.25 million.

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SUPPLEMENTARY INFORMATION



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INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY CONSOLIDATING INFORMATION

Board of Directors
Northern Arizona Healthcare Corporation:

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidated statements of financial position information and activities information are presented for purposes of additional analysis and are not a required part of the consolidated 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 of America. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Deloitte & Touche LLP

October 19, 2017

NORTHERN ARIZONA HEALTHCARE CORPORATION AND AFFILIATES

CONSOLIDATING STATEMENT OF FINANCIAL POSITION INFORMATION

AS OF JUNE 30, 2017

(In thousands)

	VVMC	FMC	NAHC Administration	NAHC Home Health and Hospice	NAHOSC	Subtotal Obligated Group	NAHPG	Intercompany Eliminations	Consolidated
ASSETS									
CURRENT ASSETS:									
Cash and cash equivalents	\$ 20,235	\$ 24,862	\$ 6,234	\$ 1,036	\$ 3,827	\$ 56,194	\$ 10,930	\$ -	\$ 67,124
Accounts receivable—net	25,802	69,072	-	-	2,014	96,888	3,260	-	100,148
Inventories	2,574	7,257	-	-	816	10,647	35	-	10,682
Prepaid expenses and other	<u>1,592</u>	<u>9,233</u>	<u>2,456</u>	<u>-</u>	<u>62</u>	<u>13,343</u>	<u>1,405</u>	<u>(2,909)</u>	<u>11,839</u>
Total current assets	50,203	110,424	8,690	1,036	6,719	177,072	15,630	(2,909)	189,793
ASSETS WHOSE USE IS LIMITED	155,471	464,557	-	-	-	620,028	-	-	620,028
PROPERTY AND EQUIPMENT—Net	69,290	146,243	22,605	4,597	17,825	260,560	2,038	-	262,598
GOODWILL	-	-	-	-	8,388	8,388	-	-	8,388
DEFERRED CHARGES AND OTHER ASSETS	<u>15,711</u>	<u>16,353</u>	<u>(66,297)</u>	<u>-</u>	<u>173</u>	<u>(34,060)</u>	<u>-</u>	<u>51,475</u>	<u>17,415</u>
TOTAL ASSETS	<u>\$ 290,675</u>	<u>\$ 737,577</u>	<u>\$(35,002)</u>	<u>\$ 5,633</u>	<u>\$ 33,105</u>	<u>\$ 1,031,988</u>	<u>\$ 17,668</u>	<u>\$ 48,566</u>	<u>\$ 1,098,222</u>
LIABILITIES AND NET ASSETS									
CURRENT LIABILITIES:									
Accounts payable	\$ 6,628	\$ 12,095	\$ 1,111	\$ -	\$ 269	\$ 20,103	\$ 264	\$ (2,909)	\$ 17,458
Accrued expenses	5,905	28,874	7,133	124	502	42,538	2,280	-	44,818
Current portion of long-term debt	983	4,500	-	-	717	6,200	-	-	6,200
Third-party payor settlements	<u>1,561</u>	<u>1,586</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,147</u>	<u>-</u>	<u>-</u>	<u>3,147</u>
Total current liabilities	15,077	47,055	8,244	124	1,488	71,988	2,544	(2,909)	71,623
LONG-TERM DEBT—Less current portion	45,560	134,659	-	-	31,355	211,574	-	-	211,574
ACCRUED PENSION LIABILITY	20,002	42,195	8,481	-	-	70,678	-	-	70,678
OTHER LIABILITIES	<u>1,930</u>	<u>4,714</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,644</u>	<u>-</u>	<u>-</u>	<u>6,644</u>
Total liabilities	<u>82,569</u>	<u>228,623</u>	<u>16,725</u>	<u>124</u>	<u>32,843</u>	<u>360,884</u>	<u>2,544</u>	<u>(2,909)</u>	<u>360,519</u>
NET ASSETS:									
Unrestricted	208,106	509,135	(51,727)	5,509	262	671,285	14,943	51,475	737,703
Temporary restricted	<u>-</u>	<u>(181)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(181)</u>	<u>181</u>	<u>-</u>	<u>-</u>
Total net assets	<u>208,106</u>	<u>508,954</u>	<u>(51,727)</u>	<u>5,509</u>	<u>262</u>	<u>671,104</u>	<u>15,124</u>	<u>51,475</u>	<u>737,703</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 290,675</u>	<u>\$ 737,577</u>	<u>\$(35,002)</u>	<u>\$ 5,633</u>	<u>\$ 33,105</u>	<u>\$ 1,031,988</u>	<u>\$ 17,668</u>	<u>\$ 48,566</u>	<u>\$ 1,098,222</u>

See notes to financial statements.

NORTHERN ARIZONA HEALTHCARE CORPORATION AND AFFILIATES

CONSOLIDATING STATEMENT OF ACTIVITIES INFORMATION FOR THE YEAR ENDED JUNE 30, 2017

(In thousands)

	VVMC	FMC	NAHC Administration	NAHC Home Health and Hospice	NAHOSC	Subtotal Obligated Group	NAHPG	Intercompany Eliminations	Consolidated
REVENUE:									
Net patient service	\$ 153,056	\$ 443,656	\$ -	\$ 1,831	\$ 4,377	\$ 602,920	\$ 28,996	\$ -	\$ 631,916
Provision for doubtful accounts	(14,031)	(25,157)	-	(1,552)	482	(40,258)	(512)	-	(40,770)
Net patient service revenue—less provision for doubtful accounts	139,025	418,499	-	279	4,859	562,662	28,484	-	591,146
Net assets released from purpose restrictions used for operations	-	-	-	-	-	-	-	-	-
Other	2,939	13,454	1,100	29	1,005	18,527	1,001	-	19,528
Total revenue	141,964	431,953	1,100	308	5,864	581,189	29,485	-	610,674
EXPENSES:									
Salaries and wages	51,609	129,933	27,550	470	2,407	211,969	41,685	-	253,654
Employee benefits	12,263	37,939	7,271	139	643	58,255	8,469	-	66,724
Professional fees	4,963	24,673	688	-	12	30,336	2,221	-	32,557
Supplies, services, and other	32,491	117,822	28,715	256	4,449	183,733	7,484	-	191,217
Depreciation and amortization	9,094	16,528	8,632	215	961	35,430	691	-	36,121
Interest	1,314	3,420	-	-	1,236	5,970	-	-	5,970
Corporate expense allocation between affiliates	18,782	48,491	(71,764)	166	516	(3,809)	3,809	-	-
Total expenses	130,516	378,806	1,092	1,246	10,224	521,884	64,359	-	586,243
INCOME FROM OPERATIONS	11,448	53,147	8	(938)	(4,360)	59,305	(34,874)	-	24,431
Contributions to NAH Foundation	(5,165)	(33,488)	-	-	-	(38,653)	-	-	(38,653)
OTHER INCOME (EXPENSE):									
Investment gain (loss)—net	15,651	43,995	-	-	-	59,646	-	-	59,646
Impairment losses	-	-	-	-	(7,903)	(7,903)	-	-	(7,903)
Loss from Equity Investment	-	-	(34,874)	-	-	(34,874)	-	34,874	-
Other income (loss)—net	117	348	(9)	(5)	4	455	-	-	455
EXCESS OF REVENUE OVER EXPENSES AND OTHER INCOME (EXPENSE)	22,051	64,002	(34,875)	(943)	(12,259)	37,976	(34,874)	34,874	37,976
PENSION-RELATED CHANGES OTHER THAN NET PERIODIC PENSION COST	7,195	12,954	(1,530)	-	-	18,619	-	-	18,619
CHANGE IN UNRESTRICTED NET ASSETS	29,246	76,956	(36,405)	(943)	(12,259)	56,595	(34,874)	34,874	56,595
TEMPORARILY RESTRICTED NET ASSETS:									
Contributions	-	-	-	-	-	-	-	-	-
Net assets released from restrictions	-	-	-	-	-	-	-	-	-
Increase in temporarily restricted net assets	-	-	-	-	-	-	-	-	-
CHANGE IN NET ASSETS	29,246	76,956	(36,405)	(943)	(12,259)	56,595	(34,874)	34,874	56,595
NET ASSETS—Beginning of year	184,836	467,971	(12,363)	5,876	8,318	654,638	9,868	16,602	681,108
NET ASSET TRANSFERS (TO) FROM AFFILIATES	(5,978)	(35,973)	(2,960)	578	4,204	(40,129)	40,129	-	-
NET ASSETS—End of year	<u>\$ 208,104</u>	<u>\$ 508,954</u>	<u>\$ (51,728)</u>	<u>\$ 5,511</u>	<u>\$ 263</u>	<u>\$ 671,104</u>	<u>\$ 15,123</u>	<u>\$ 51,476</u>	<u>\$ 737,703</u>

See notes to financial statements.

NORTHERN ARIZONA HEALTHCARE CORPORATION AND AFFILIATES

NOTES TO SUPPLEMENTARY CONSOLIDATING INFORMATION AS OF AND FOR THE YEAR ENDED JUNE 30, 2017

Basis of Presentation: Certain allocations and intercompany transactions have been made to present the financial position and results of the operations of each individual Affiliate. Specific allocations have been made based on a rationale and systematic basis and include:

- Land and buildings that are owned by the Corporation have been allocated to the Affiliate that is most responsible for its use and/or occupies the majority of the building.
- Rental income and the corresponding expenses have been presented in the same Affiliate as the related land and buildings.
- Deferred charges and other assets include equity intercompany investments balances, eliminated on a consolidated basis.