

Northern Arizona Healthcare Corporation and Affiliates

Consolidated Financial Statements as of and
for the Years Ended June 30, 2018 and 2017,
Supplementary Information as of and
for the Year Ended June 30, 2018, 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, 2018 and 2017, 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, 2018 and 2017, 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, 2018

NORTHERN ARIZONA HEALTHCARE CORPORATION AND AFFILIATES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS OF JUNE 30, 2018 AND 2017 (In thousands)

	2018	2017
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 82,807	\$ 67,124
Accounts receivable—less allowance for doubtful accounts of \$52,737 and \$68,633 in 2018 and 2017, respectively	94,749	100,148
Inventories	11,545	10,682
Prepaid expenses and other	<u>18,085</u>	<u>11,839</u>
Total current assets	207,186	189,793
ASSETS WHOSE USE IS LIMITED	654,385	620,028
PROPERTY AND EQUIPMENT—Net	258,520	262,598
GOODWILL	-	8,388
DEFERRED CHARGES AND OTHER ASSETS	<u>18,150</u>	<u>17,415</u>
TOTAL ASSETS	<u>\$1,138,241</u>	<u>\$1,098,222</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable	\$ 25,173	\$ 17,458
Accrued expenses	34,275	44,818
Current portion of long-term debt	6,506	6,200
Third-party payor settlements	<u>3,230</u>	<u>3,147</u>
Total current liabilities	69,184	71,623
LONG-TERM DEBT—Less current portion	204,695	211,574
ACCRUED PENSION LIABILITY	53,637	70,678
OTHER LIABILITIES	<u>8,085</u>	<u>6,644</u>
Total liabilities	<u>335,600</u>	<u>360,519</u>
NET ASSETS:		
Unrestricted	<u>802,641</u>	<u>737,703</u>
Total net assets	<u>802,641</u>	<u>737,703</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$1,138,241</u>	<u>\$1,098,222</u>

See accompanying notes.

NORTHERN ARIZONA HEALTHCARE CORPORATION AND AFFILIATES

CONSOLIDATED STATEMENTS OF ACTIVITIES FOR THE YEARS ENDED JUNE 30, 2018 AND 2017 (In thousands)

	2018	2017
REVENUE:		
Net patient service	\$695,196	\$631,916
Provision for doubtful accounts	<u>(68,342)</u>	<u>(40,770)</u>
Net patient service revenue—less provision for doubtful accounts	626,854	591,146
Other	<u>18,549</u>	<u>19,528</u>
Total revenue	<u>645,404</u>	<u>610,674</u>
EXPENSES:		
Salaries and wages	276,249	253,654
Employee benefits	57,882	66,724
Professional fees	35,220	32,557
Supplies, services, and other	205,664	191,217
Depreciation and amortization	34,646	36,121
Interest	<u>6,597</u>	<u>5,970</u>
Total expenses	<u>616,257</u>	<u>586,243</u>
INCOME FROM OPERATIONS	29,146	24,431
CONTRIBUTIONS TO NAH FOUNDATION	(9,147)	(38,653)
OTHER INCOME (EXPENSE):		
Investment gain—net	38,790	59,646
Impairment losses	(8,388)	(7,903)
Other income—net	<u>241</u>	<u>455</u>
EXCESS OF REVENUE OVER EXPENSES AND OTHER INCOME	50,642	37,976
PENSION-RELATED CHANGES OTHER THAN NET PERIODIC PENSION COST	<u>14,297</u>	<u>18,619</u>
CHANGE IN UNRESTRICTED NET ASSETS	<u>64,938</u>	<u>56,595</u>
TEMPORARILY RESTRICTED NET ASSETS:		
Contributions	-	-
Net assets released from restrictions	<u>-</u>	<u>-</u>
Change in temporarily restricted net assets	<u>-</u>	<u>-</u>
CHANGE IN NET ASSETS	64,938	56,595
NET ASSETS—Beginning of year	<u>737,703</u>	<u>681,108</u>
NET ASSETS—End of year	<u>\$802,641</u>	<u>\$737,703</u>

See accompanying notes.

NORTHERN ARIZONA HEALTHCARE CORPORATION AND AFFILIATES

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED JUNE 30, 2018 AND 2017 (In thousands)

	2018	2017
OPERATING ACTIVITIES:		
Change in net assets	\$ 64,938	\$ 56,595
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Increase in investments designated as trading	(29,929)	(59,484)
Gain on disposal of fixed assets	(73)	(476)
Pension-related changes other than net periodic expense	(14,297)	(18,619)
Provision for doubtful accounts	68,342	40,770
Depreciation and amortization	34,646	36,121
Impairment loss	8,388	7,903
Net change in current assets and current liabilities, exclusive of cash and cash equivalents		
Patient accounts receivables	(62,942)	(34,643)
Other current assets	(7,108)	(1,707)
Accrued payroll and related	(10,545)	260
Other current liabilities	7,798	12,967
Decrease in deferred charges and other noncurrent assets	(735)	(6,839)
Postretirement benefits and other	(2,744)	1,764
Increase (decrease) in other liabilities	<u>1,440</u>	<u>(120)</u>
Net cash provided by operating activities	<u>57,179</u>	<u>34,492</u>
INVESTING ACTIVITIES:		
Purchases of property and equipment	(33,878)	(38,630)
Purchases of financial assets	<u>(1,045)</u>	<u>(40,000)</u>
Net cash (used in) investing activities	<u>(34,923)</u>	<u>(78,630)</u>
FINANCING ACTIVITIES:		
Proceeds from long-term debt	-	40,000
Payments on long-term debt	<u>(6,573)</u>	<u>(6,515)</u>
Net cash (used in) provided by financing activities	<u>(6,573)</u>	<u>33,485</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	15,683	(10,653)
CASH AND CASH EQUIVALENTS—Beginning of year	<u>67,124</u>	<u>77,777</u>
CASH AND CASH EQUIVALENTS—End of year	<u>\$ 82,807</u>	<u>\$ 67,124</u>
SUPPLEMENTAL CASH FLOW INFORMATION:		
Cash paid for interest	<u>\$ 6,472</u>	<u>\$ 7,307</u>

See accompanying notes.

NORTHERN ARIZONA HEALTHCARE CORPORATION AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

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 its 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 care through inpatient and outpatient settings, and a comprehensive array of quality 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, inpatient behavioral healthcare, and a full range of quality 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. The Board has approved dissolution of this LLC to be effective January 1, 2019, the entity will be dissolved with the Arizona Corporation Commission whereby equity balances from NAHPG will be transferred to NAH. Additionally, NAHPG will become part of the obligated group.
- Northern Arizona Healthcare Orthopedic Surgery Center, LLC (NAHOSC), acquired in May 2015, is an ambulatory surgery center and recovery care center that provides outpatient surgical services. The entity was acquired in May 2015, with closure of the recovery care center occurring May 2016.
- PathfinderHealth, LLC is an Accountable Care Organization consisting of an integrated network of providers that work together to redesign the delivery of care to achieve high quality and efficient care coordination. The Corporation is the sole member.

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 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.

Custodial Credit Risk Deposits—Custodial credit risk is the risk that in the event of a bank failure, NAH’s deposits may not be returned to it. NAH does not have a policy for custodial credit risk. As of June 30, 2018 and 2017, NAH’s bank balances totaled \$82,807,000 and \$67,124,000, respectively, and were not exposed to custodial credit risk, as the uninsured deposits are with financial institutions that are individually required by state law to have government deposits collateralized at a rate of 110% of the deposits. Such collateral is considered to be held in NAH’s name. NAH maintains bank deposit accounts that are insured by the Federal Deposit Insurance Corporation (FDIC) up to a limit of \$250,000 per depositor. NAH had a cash balance of \$81,557,000 and \$65,874,000 that was above the insured limit at June 30, 2018 and 2017, respectively.

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 2018, the Corporation experienced a slight increase in revenue from Arizona Health Care Cost Containment System (AHCCCS), a state Medicaid program, whereby reimbursement is often less than traditional payor sources. Accordingly, this resulted in a corresponding increase in contractual allowances and lower net revenues.

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

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, 2018 and 2017, 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, 2018 and 2017, the Corporation has recorded within assets whose use is limited \$115,589,000 and \$123,299,000, 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) is \$7,850,000 and \$10,911,000 for the years ended June 30, 2018 and 2017, 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 depreciable asset, which ranges from 3 to 40 years. Estimated useful lives of equipment and software vary generally from 3 to 10 years. Buildings and improvements are depreciated over estimated useful lives ranging generally from 10 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.

Goodwill is not amortized but subject to annual impairment tests 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. We used the discounted cash flow ("DCF") method, which is considered appropriate when a Corporation's future returns are expected to be "substantially different" from current returns. After

consideration of the specific facts, we utilized the discounted future returns method, specifically the discounted cash flow method. This method was selected because the reporting unit's ("RU") projected net cash flows are more reflective of future expectations than to the RU's historical results. During 2018 and 2017, the Corporation recorded an impairment loss of \$8,388,000 and \$7,903,000, respectively, on the goodwill associated with the NAHOSC.

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 2018 and 2017, 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, 2018 and 2017, the Corporation recorded a decrease to net patient service revenue of \$3,230,223 and \$2,325,000, 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 \$337,000 and \$2,612,000 in Medicare and Medicaid incentive payments were recognized in other revenue for the years ended June 30, 2018 and 2017,

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, 2018 and 2017, costs incurred by the Corporation relating to the provision of charity care amounted to \$3,909,000 and \$2,105,000, respectively. The following is a summary of the Corporation's community benefit for the years ended June 30, 2018 and 2017 (in thousands):

	2018	2017
Traditional charity care—at cost	<u>\$3,909</u>	<u>\$2,105</u>
Total	<u>\$3,909</u>	<u>\$2,105</u>

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.

Correction of Immaterial Misstatement— Subsequent to the issuance of the Corporation's 2017 consolidated financial statements, management determined that \$40,000,000 related to the purchase of assets held by a trustee under bond indenture agreements was incorrectly classified as an operating cash outflow. Accordingly, the Corporation made a prior period adjustment to reflect the purchase of assets as an investing cash outflow rather than as an operating cash outflow in the accompanying statement of cash flows for the year ended June 30, 2017, to correct such amounts. This adjustment had no effect on the Corporation's previously-reported statement of financial position or statement of activities as of and for the year ended June 30, 2017. The Corporation evaluated the adjustment considering both quantitative and qualitative factors and concluded it was immaterial to the previously issued financial statements.

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 (Topic 606)* (ASU No. 2014-09). ASU No. 2014-09 will supersede existing revenue recognition standards with a single model, unless those contracts are within the scope of other standards (e.g., an insurance entity's insurance contracts). The revenue recognition principle in ASU No. 2014-09 is that an entity should recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In addition, new and enhanced disclosures will be required. Companies can adopt the new standard either using the full retrospective approach, a modified retrospective approach with practical expedients, or a cumulative effect upon adoption approach. ASU No. 2014-09 is effective for annual and interim reporting periods beginning after December 15, 2018. The Corporation is currently evaluating the effect of the new revenue recognition guidance.

In February 25, 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*. The new guidance will require organizations that lease assets—referred to as “lessees”—to recognize in the balance sheet the assets and liabilities for the rights and obligations created by those leases with lease terms of more than 12 months. This will increase the reported assets and liabilities—in some cases very significantly. ASU No. 2016-02 will take effect for the Corporation for its fiscal year beginning after December 15, 2019. Early adoption is permitted for all entities. The Corporation is evaluating the impact that the adoption of ASU No. 2016-02 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, October 19, 2018. (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 30% and 33% of the Corporation's net patient service revenue was derived from the Medicare program in 2018 and 2017, respectively.

The Medicare cost reports of the Corporation have been audited by the fiscal intermediary through June 30, 2015, for FMC and June 30, 2016, 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/Medicaid—Inpatient and outpatient services rendered to AHCCCS program beneficiaries are reimbursed under per diem and fee schedule or discounted charge methodologies, respectively. Approximately 2% and 5% of the Corporation’s net patient service revenue was derived from the AHCCCS program in 2018 and 2017, 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 48% and 49% of the Corporation’s net patient service revenue was derived from other third-party payors in 2018 and 2017, respectively.

Self-Pay—Inpatient and outpatient services rendered to self-pay patients are recorded at the Corporation’s standard rates. Approximately 20% and 13% of the Corporation’s net patient service revenue was derived from self-pay patients in 2018 and 2017, 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, 2018 and 2017:

	2018	2017
AHCCCS/Medicaid	30 %	26 %
Medicare	26	33
Self pay	11	14
Other payors (excluding self-pay)	<u>33</u>	<u>27</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.
- **Net Asset Value (NAV)**—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 NAV 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 NAV investments amount to \$115,589,000 and \$123,299,000 at June 30, 2018 and 2017, 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, 2018 and 2017, by the level of observable input and the valuation technique (in thousands):

	Balance at June 30	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (NAV)	Valuation Technique (a, b, and c)
2018					
Investments:					
Cash and cash equivalents	\$ 4,237	\$ 4,237	\$ -	\$ -	a
Commingled funds—equity funds	37,190	-	37,190	-	a
Registered investment funds:					
Equity funds	253,300	253,300	-	-	a
Equity funds—alternative investments	34,642	-	-	34,642	a, and c
Bond funds	206,407	206,407	-	-	a
Bond fund—alternative investments	<u>80,947</u>	<u>-</u>	<u>-</u>	<u>80,947</u>	a, and c
Total fair value measurement investments	<u>\$ 616,723</u>	<u>\$ 463,944</u>	<u>\$ 37,190</u>	<u>\$ 115,589</u>	
	Balance at June 30	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (NAV)	Valuation Technique (a, b, and c)
2017					
Investments:					
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 fair value measurement investments	<u>\$ 580,028</u>	<u>\$ 424,644</u>	<u>\$ 32,085</u>	<u>\$ 123,299</u>	

The changes in NAV instruments measured on a recurring basis for the years ended June 30, 2018 and 2017, are as follows (in thousands):

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	123,299
Net realized and unrealized gains	9,617
Purchases	14,060
Settlements	<u>(31,387)</u>
Balance—June 30, 2018	<u>\$115,589</u>

6. ASSETS WHOSE USE IS LIMITED

A summary of assets whose use is limited at June 30, 2018 and 2017, is as follows (in thousands):

	2018	2017
Limited by the Board of Directors' approval	\$616,723	\$580,028
Restricted by the Pathfinder Health LLC escrow account	1,045	-
Restricted by the Series 2017A Bond indenture	<u>36,617</u>	<u>40,000</u>
Total	<u>\$654,385</u>	<u>\$620,028</u>

A summary of investment income, net, for the years ended June 30, 2018 and 2017, is as follows (in thousands):

	2018	2017
Interest income	\$11,670	\$11,323
Alternative investment unrealized gain	7,850	11,480
Realized gain (loss)—net	4,607	4,809
Unrealized gain (loss) on investments other than alternative investments—net	<u>14,663</u>	<u>32,034</u>
Total	<u>\$38,790</u>	<u>\$59,646</u>

7. PROPERTY AND EQUIPMENT

A summary of property and equipment, at June 30, 2018 and 2017, is as follows (in thousands):

	2018	2017
Land and improvements	\$ 25,986	\$ 25,820
Buildings and improvements	336,943	334,993
Equipment	<u>306,712</u>	<u>295,658</u>
Gross balance	669,641	656,471
Less accumulated depreciation	<u>453,453</u>	<u>421,077</u>
Net P&E balance	216,188	235,394
Construction in progress	<u>42,332</u>	<u>27,204</u>
Total P&E	<u>\$258,520</u>	<u>\$262,598</u>

Depreciation expense was \$34,646,000 and \$36,121,000 for the years ended June 30, 2018 and 2017, respectively.

8. LONG-TERM DEBT

A summary of long-term debt, at June 30, 2018 and 2017, is as follows (in thousands):

	2018	2017
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 \$2,239,000 and \$2,928,000 at June 30, 2018 and 2017, 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, 2018 and 2017, was 4.97% and 4.97%, respectively.	\$ 52,100	\$ 57,138
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.	74,895	76,595
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, 2018, was 1.65%. Bonds are subject to mandatory tender for purchase on each Mandatory Indexed Put date for the Bonds.	<u>40,000</u>	<u>40,000</u>
Total debt	212,610	219,348
Less current portion	<u>6,506</u>	<u>6,200</u>
Long-term debt	206,104	213,148
Less unamortized bond costs	<u>(1,409)</u>	<u>(1,574)</u>
Long-term debt	<u>\$204,695</u>	<u>\$211,574</u>

The bond agreements relating to Series 2011, 2015A, and 2015B place restrictions on the operations of the Obligated Group members (Consolidated Balance, less NAHPG component), 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, 2018 and 2017, the Obligated Group was in compliance with these debt covenants.

The estimated fair value of the Corporation's long-term debt, at June 30, 2018 and 2017, was \$213,524,371 and \$220,212,000, 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):

2019	\$ 6,995
2020	7,135
2021	7,421
2022	6,911
2023	8,067
Thereafter	<u>176,081</u>
 Total debt	 <u>\$212,610</u>

A summary of interest costs, for the years ended June 30, 2018 and 2017, is as follows (in thousands):

	2018	2017
Interest cost:		
Capitalized	\$ 140	\$ 226
Charged to operations	<u>6,597</u>	<u>5,970</u>
 Total	 <u>\$6,737</u>	 <u>\$6,196</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, 2018 and 2017, as provided by consulting actuaries (in thousands):

	2018	2017
Change in benefit obligation:		
Benefit obligation—beginning of year	\$234,032	\$237,573
Service cost	-	-
Interest cost	8,867	8,604
Actuarial (gain) loss	(10,058)	(3,089)
Benefit payments	(9,598)	(9,056)
Annuity purchase	<u>(8,170)</u>	<u>-</u>
Benefit obligation—end of year	<u>\$215,072</u>	<u>\$234,032</u>
	2018	2017
Change in plan assets:		
Fair value of plan assets—beginning of year	\$163,353	\$150,043
Actual return on plan assets	12,706	22,366
Employer contribution	3,140	-
Benefit payments	(9,598)	(9,056)
Annuity purchase	<u>(8,170)</u>	<u>-</u>
Fair value of plan assets—end of year	<u>\$161,432</u>	<u>\$163,353</u>
Accrued pension liability	\$ (53,637)	\$ (70,679)
Unrecognized net actuarial loss	75,225	89,518
Unrecognized prior service cost	-	-

The accumulated benefit obligation for the defined benefit plan was \$215,073,000 and \$234,032,000 at June 30, 2018 and 2017, respectively.

Net pension cost includes the following components for the years ended June 30, 2018 and 2017 (in thousands):

	2018	2017
Service cost	\$ -	\$ -
Interest cost	8,867	8,604
Expected return on plan assets	(11,167)	(10,195)
Recognized net actuarial loss	2,695	3,355
Amortization of prior service cost	<u>-</u>	<u>-</u>
Net periodic pension cost	<u>\$ 395</u>	<u>\$ 1,764</u>

Weighted-average assumptions used to determine the projected benefit obligation, at June 30, 2018 and 2017, are as follows:

	2018	2017
Discount rate	4.3 %	3.9 %
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:

	2018	2017
Discount rate	3.9 %	3.7 %
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 70% equity securities, 10% fixed-income securities, and 30% liability hedging assets. The allowable ranges within each of these categories are 20%–80% equity securities, 0%–20% fixed income securities, and 20%–80% liability hedging assets. 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. Liability hedging assets include long-term U.S. government securities and investment grade corporate bonds. 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, 2018 and 2017, by asset category and fair value hierarchy level, are as follows (in thousands):

	Balance at June 30, 2018	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (NAV)	Valuation Technique (a, b, and c)
Money market	\$ 20,812	\$ 20,812	\$ -	\$ -	a
Commingled funds—equity funds	18,372	-	18,372	-	a
Registered investment funds:					
Equity funds	55,497	55,497	-	-	a
Equity funds—alternative investments	10,828	-	-	10,828	a, and c
Bond funds	41,548	41,548	-	-	a
Bond funds—alternative investments	<u>14,375</u>	<u>-</u>	<u>-</u>	<u>14,375</u>	a, and c
	<u>\$ 161,432</u>	<u>\$ 117,857</u>	<u>\$ 18,372</u>	<u>\$ 25,203</u>	
	Balance at June 30, 2017	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (NAV)	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>	

The following summarizes the changes in fair value of the Pension Plan's NAV assets for the years ended June 30, 2018 and 2017 (in thousands):

Alternative Investments	2018	2017
Balance—beginning of year	\$28,804	\$23,479
Purchase of alternative investments	2,412	3,000
Sale of alternative investments	(8,194)	(1,409)
Realized gain (loss)	1,416	90
Unrealized gain(loss)	<u>765</u>	<u>3,644</u>
Balance—end of year	<u>\$25,203</u>	<u>\$28,804</u>
Alternative investments subject to one-year redemption lockup period	<u>\$ -</u>	<u>\$ -</u>

The Corporation is expected to contribute \$5,485,795 to its Pension Plan in fiscal year 2019.

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

2019	\$ 9,930
2020	10,442
2021	10,929
2022	11,331
2023	11,741
Years 2024–2027	63,213

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 \$7,729,000 and \$9,968,000 in 2018 and 2017, 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 \$2,945,000 and \$3,911,000 for employee medical benefit obligations as of June 30, 2018 and 2017, respectively. The Corporation is fully insured for dental benefit claims and has incurred premium costs of \$2,095,000 and \$2,175,000 as of June 30, 2018 and 2017, 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, 2018 and 2017, the Corporation recorded an estimated self-insurance obligation of \$9,205,000 and \$7,341,000, 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 \$1,812,000 and \$1,878,000 as of June 30, 2018 and 2017, 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, 2018 (in thousands):

2019	\$1,027
2020	354
2021	87
2022	32
2023	32
Thereafter	<u>3</u>
Total	<u>\$1,535</u>

11. SUBSEQUENT EVENT

A discovery request was served upon Northern Arizona Healthcare by the U.S. Health and Human Services OIG on August 17, 2018. The events giving rise to the discovery request include the acquisition of Summit Surgery and Recovery Care Center in fiscal year 2015, receipt of DSH Pool 5 funding in February 2017 stemming from an intergovernmental agreement between Williams Hospital District and AHCCCS, and donations and grants from NAH to Northern Arizona Healthcare Foundation. Although we believe all transactions identified in the discovery request comply with current laws and regulations, and available interpretations, there can be no assurance that regulatory authorities enforcing these laws will determine the transactions are fully compliant. An adverse determination could subject Northern Arizona Healthcare to liabilities under prevailing statutes, including criminal penalties, civil monetary penalties and exclusion from participation in Medicare, Medicaid and other federal health care programs.

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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 consolidating 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, 2018

NORTHERN ARIZONA HEALTHCARE CORPORATION AND AFFILIATES

CONSOLIDATING STATEMENT OF FINANCIAL POSITION INFORMATION

AS OF JUNE 30, 2018

(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	\$ 36,977	\$ 27,179	\$ 6,213	\$ 124	\$ 6,900	\$ 77,394	\$ 5,413	\$ -	\$ 82,807
Accounts receivable—net	19,664	68,956	-	-	1,353	89,973	4,775	-	94,749
Inventories	2,814	7,977	-	-	729	11,519	26	-	11,545
Prepaid expenses and other	1,430	9,813	9,085	-	104	20,432	1,051	(3,397)	18,085
Total current assets	60,885	113,925	15,298	124	9,086	199,318	11,265	(3,397)	207,186
ASSETS WHOSE USE IS LIMITED	165,353	487,988	1,045	-	-	654,385	-	-	654,385
PROPERTY AND EQUIPMENT—Net	68,386	146,380	16,871	4,025	17,593	253,255	5,265	-	258,520
GOODWILL	-	-	-	-	-	-	-	-	-
DEFERRED CHARGES AND OTHER ASSETS	15,735	17,268	(116,450)	-	-	(83,447)	-	101,597	18,150
TOTAL ASSETS	<u>\$ 310,359</u>	<u>\$ 765,560</u>	<u>\$(83,237)</u>	<u>\$ 4,149</u>	<u>\$ 26,679</u>	<u>\$ 1,023,511</u>	<u>\$ 16,530</u>	<u>\$ 98,200</u>	<u>\$ 1,138,241</u>
LIABILITIES AND NET ASSETS									
CURRENT LIABILITIES:									
Accounts payable	\$ 7,314	\$ 17,404	\$ 2,906	\$ -	\$ 284	\$ 27,908	\$ 662	\$ (3,397)	\$ 25,173
Accrued expenses	3,144	24,217	3,968	99	385	31,811	2,464	-	34,275
Current portion of long-term debt	1,024	4,686	-	-	796	6,506	-	-	6,506
Third-party payor settlements	1,500	1,730	-	-	-	3,230	-	-	3,230
Total current liabilities	12,982	48,037	6,874	99	1,465	69,455	3,126	(3,397)	69,184
LONG-TERM DEBT—Less current portion	44,466	129,652	-	-	30,577	204,695	-	-	204,695
ACCRUED PENSION LIABILITY	15,179	32,021	6,436	-	-	53,637	-	-	53,637
OTHER LIABILITIES	2,424	5,661	-	-	-	8,085	-	-	8,085
Total liabilities	<u>75,050</u>	<u>215,370</u>	<u>13,310</u>	<u>99</u>	<u>32,042</u>	<u>335,871</u>	<u>3,126</u>	<u>(3,397)</u>	<u>335,600</u>
NET ASSETS:									
Unrestricted	235,309	550,190	(96,546)	4,050	(5,363)	687,640	13,404	101,597	802,641
Temporary restricted	-	-	-	-	-	-	-	-	-
Total net assets	<u>235,309</u>	<u>550,190</u>	<u>(96,546)</u>	<u>4,050</u>	<u>(5,363)</u>	<u>687,640</u>	<u>13,404</u>	<u>101,597</u>	<u>802,641</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 310,359</u>	<u>\$ 765,560</u>	<u>\$(83,237)</u>	<u>\$ 4,149</u>	<u>\$ 26,679</u>	<u>\$ 1,023,511</u>	<u>\$ 16,530</u>	<u>\$ 98,200</u>	<u>\$ 1,138,241</u>

See notes to supplementary consolidating information.

NORTHERN ARIZONA HEALTHCARE CORPORATION AND AFFILIATES

CONSOLIDATING STATEMENT OF ACTIVITIES INFORMATION FOR THE YEAR ENDED JUNE 30, 2018 (In thousands)

	VVMC	FMC	NAHC Administration	NAHC Home Health and Hospice	NAHOSC	Subtotal Obligated Group	NAHPG	Intercompany Eliminations	Consolidated
REVENUE:									
Net patient service	\$ 175,221	\$ 473,775	\$ 3,136	\$ 298	\$ 8,542	\$ 660,972	\$ 34,224	\$ -	\$ 695,196
Provision for doubtful accounts	(29,627)	(31,624)	(4,971)	(3)	(821)	(67,046)	(1,295)	-	(68,342)
Net patient service revenue—less provision for doubtful accounts	145,594	442,151	(1,835)	295	7,721	593,926	32,929	-	626,854
Net assets released from purpose restrictions used for operations	-	-	-	-	-	-	-	-	-
Other	3,362	12,163	1,105	17	1,052	17,701	849	-	18,549
Total revenue	148,956	454,314	729	312	8,773	611,626	33,778	-	645,404
EXPENSES:									
Salaries and wages	52,654	138,984	31,145	535	2,505	225,822	50,427	-	276,249
Employee benefits	8,494	30,992	7,396	27	618	47,527	10,355	-	57,882
Professional fees	3,098	24,972	741	-	43	28,854	6,366	-	35,220
Supplies, services, and other	35,140	125,725	27,889	253	4,509	193,515	12,149	-	205,664
Depreciation and amortization	8,236	16,811	7,835	223	899	34,004	642	-	34,646
Interest	1,365	4,024	-	-	1,209	6,597	-	-	6,597
Corporate expense allocation between affiliates	17,308	53,215	(75,005)	144	379	(3,960)	3,960	-	-
Total expenses	126,294	394,722	-	1,182	10,162	532,358	83,899	-	616,257
INCOME FROM OPERATIONS	22,662	59,592	(729)	(870)	(1,387)	79,268	(50,121)	-	29,149
CONTRIBUTIONS TO NAH FOUNDATION	(422)	(8,625)	(100)	-	-	(9,147)	-	-	(9,147)
OTHER INCOME (EXPENSE):									
Investment gain (loss)—net	10,407	28,376	4	-	1	38,788	2	-	39,790
Impairment losses	-	-	-	-	(8,388)	(8,388)	-	-	(8,388)
Loss from equity investment	-	-	(50,121)	-	-	(50,121)	-	50,121	-
Other income (loss)—net	23	11	200	(32)	4	206	35	-	241
EXCESS OF REVENUE OVER EXPENSES AND OTHER INCOME (EXPENSE)	32,671	79,354	(50,747)	(901)	(9,771)	50,606	(50,084)	50,121	50,642
PENSION-RELATED CHANGES OTHER THAN NET PERIODIC PENSION COST									
	4,055	8,522	1,719	-	-	14,297	-	-	14,297
CHANGE IN UNRESTRICTED NET ASSETS	36,726	87,877	(49,027)	(901)	(9,771)	64,903	(50,084)	50,121	64,938
TEMPORARILY RESTRICTED NET ASSETS:									
Contributions	-	-	-	-	-	-	-	-	-
Net assets released from restrictions	-	-	-	-	-	-	-	-	-
Increase in temporarily restricted net assets	-	-	-	-	-	-	-	-	-
CHANGE IN NET ASSETS	36,726	87,877	(49,027)	(901)	(9,771)	64,903	(50,084)	50,121	64,938
NET ASSETS—Beginning of year	208,104	508,954	(51,728)	5,511	263	671,104	15,123	51,476	737,703
NET ASSET TRANSFERS (TO) FROM AFFILIATES	(9,520)	(46,638)	4,210	(559)	4,144	(48,364)	48,364	-	-
NET ASSETS—End of year	\$ 235,310	\$ 550,193	\$ (96,545)	\$ 4,050	\$ (5,364)	\$ 687,643	\$ 13,403	\$ 101,597	\$ 802,641

See notes to supplementary consolidating information.

NORTHERN ARIZONA HEALTHCARE CORPORATION AND AFFILIATES

NOTES TO SUPPLEMENTARY CONSOLIDATING INFORMATION AS OF AND FOR THE YEAR ENDED JUNE 30, 2018

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.