Northern Arizona Healthcare Corporation and Affiliates

Consolidated Financial Statements as of and for the Years Ended June 30, 2019 and 2018, Supplementary Information as of and for the Year Ended June 30, 2019, and Independent Auditors' Report

NORTHERN ARIZONA HEALTHCARE CORPORATION AND AFFILIATES

TABLE OF CONTENTS

	Page
INDEPENDENT AUDITORS' REPORT	1
CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED JUNE 30, 2019 AND 2018:	
Statements of Financial Position	2
Statements of Activities	3
Statements of Cash Flows	4
Notes to Consolidated Financial Statements	5–27
SUPPLEMENTARY CONSOLIDATING INFORMATION AS OF AND FOR THE YEAR ENDED JUNE 30, 2019:	28
Independent Auditors' Report on Supplementary Consolidating Information	29
Consolidating Statement of Financial Position Information	30
Consolidating Statement of Activities Information	31
Notes to Supplementary Consolidating Information	32

Deloitte.

Deloitte & Touche LLP
2901 North Central Avenue
Suite 1200
Phoenix, AZ 85012-2799
USA

Tel: +1 602 234 5100
Fax: +1 602 234 5186
www.deloitte.com

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, 2019 and 2018, 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, 2019 and 2018, 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 10, 2019

NORTHERN ARIZONA HEALTHCARE CORPORATION AND AFFILIATES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AS OF JUNE 30, 2019 AND 2018
(In thousands)

	2019	2018
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 110,398	$ 82,807
Accounts receivable—less allowance for doubtful accounts of $52,737 in 2018	96,934	94,749
Assets whose use is limited - Short-Term	17,497	-
Inventories	11,907	11,545
Prepaid expenses and other	24,618	18,085
Total current assets	261,354	207,186
ASSETS WHOSE USE IS LIMITED	654,377	654,385
PROPERTY AND EQUIPMENT—Net	269,080	258,520
DEFERRED CHARGES AND OTHER ASSETS	17,217	18,150
TOTAL ASSETS	$ 1,202,028	$ 1,138,241
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable	$ 17,018	$ 25,173
Accrued expenses	47,702	34,275
Current portion of long-term debt	6,695	6,506
Third-party payor settlements	2,809	3,230
Total current liabilities	74,224	69,184
LONG-TERM DEBT—Less current portion	197,713	204,695
ACCRUED PENSION LIABILITY	66,611	53,637
OTHER LIABILITIES	10,855	8,085
Total liabilities	349,403	335,600
NET ASSETS:		
Net Assets Without Donor Restrictions	852,625	802,641
Total net assets	852,625	802,641
TOTAL LIABILITIES AND NET ASSETS	$ 1,202,028	$ 1,138,241

See accompanying notes.

NORTHERN ARIZONA HEALTHCARE CORPORATION AND AFFILIATES

CONSOLIDATED STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2019 AND 2018
(In thousands)

	2019	2018
REVENUE:		
Net patient service	$ -	$ 695,196
Provision for doubtful accounts	-	(68,342)
Net patient service revenue	642,376	626,854
Other Operating Revenue	18,236	18,549
Total revenue	660,612	645,404
EXPENSES:		
Salaries and wages	279,879	276,249
Employee benefits	67,649	57,882
Professional fees	35,457	35,220
Supplies, services, and other	204,987	205,664
Depreciation and amortization	35,013	34,646
Interest	6,645	6,597
Total expenses	629,630	616,257
INCOME FROM OPERATIONS	30,982	29,146
Contributions to NAH Foundation	(1,700)	(9,147)
OTHER INCOME (EXPENSE):		
Investment loss—net	38,450	38,790
Impairment losses	-	(8,388)
Other income—net	833	241
EXCESS OF REVENUE OVER EXPENSES AND OTHER INCOME (EXPENSE)	68,565	50,642
PENSION RELATED CHANGES OTHER THAN NET PERIODIC PENSION COST	(18,581)	14,297
CHANGE IN NET ASSETS WITHOUT DONOR RESTRICTIONS	49,984	64,938
CHANGE IN NET ASSETS	49,984	64,938
NET ASSETS—Beginning of year	802,641	737,703
NET ASSETS—End of year	$ 852,625	$ 802,641

See accompanying notes.

NORTHERN ARIZONA HEALTHCARE CORPORATION AND AFFILIATES

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2019 AND 2018
(In thousands)

	2019	2018
OPERATING ACTIVITIES:		
Change in net assets	$ 49,984	$ 64,938
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Decrease (Increase) in investments designated as trading	(17,481)	(29,929)
Gain on disposal of fixed assets	(691)	(73)
Pension-related changes other than net periodic expense	18,581	(14,297)
Provision for doubtful accounts	-	68,342
Depreciation and amortization	35,013	34,646
Impairment loss	-	8,388
Net change in current assets and current liabilities, exclusive of cash and cash equivalents:		
Patient accounts receivables	(2,185)	(62,942)
Other current assets	(6,895)	(7,108)
Accrued payroll and related	13,426	(10,545)
Other current liabilities	(8,576)	7,798
Decrease in deferred charges and other noncurrent assets	933	(735)
Postretirement benefits and other	(5,607)	(2,744)
Increase in other liabilities	2,772	1,440
Net cash provided by operating activities	79,274	57,179
INVESTING ACTIVITIES:		
Purchases of property and equipment	(44,882)	(33,878)
Purchases of financial assets	(8)	(1,045)
Net cash used in investing activities	(44,890)	(34,923)
FINANCING ACTIVITIES:		
Payments on long-term debt	(6,793)	(6,573)
Net cash used in financing activities	(6,793)	(6,573)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	27,591	15,683
CASH AND CASH EQUIVALENTS—Beginning of year	82,807	67,124
CASH AND CASH EQUIVALENTS—End of year	$ 110,398	$ 82,807
SUPPLEMENTAL CASH FLOW INFORMATION:		
Cash paid for interest	$ 6,184	$ 6,472

See accompanying notes.

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 health care, 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,VVMC and NAH. The Corporation owns 100% interest in NAHPG. The Board has approved dissolution of this LLC to be effective January 1, 2020. 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. The Obligated Group members consist of all wholly owned affiliates of the Corporation except for NAHPG.

- Northern Arizona Healthcare Orthopedic Surgery Center, LLC (NAHOSC) is an ambulatory surgery center and recovery care center that provides outpatient surgical services. The entity was acquired 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, 2019 and 2018, NAH's bank balances totaled $110,398,000 and $82,807,000, 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 $109,148,000 and $81,557,000 that was above the insured limit at June 30, 2019 and 2018, 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 are stated at estimated net realizable amounts from patients, third-party payors and other insurers to which the Corporation expects to be entitled in exchange for providing patient care. Management periodically reviews the adequacy of the implicit price concessions (during 2019) or the allowance for uncollectable accounts (during 2018) based on historical experience, trends in health care coverage, and other collection indicators.

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, 2019 and 2018, 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, 2019 and 2018, the Corporation has recorded within assets whose use is limited $82,177,000 and $115,589,000, 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 (loss) gain is $(8,078,000) and $7,850,000 for the years ended June 30, 2019 and 2018, 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. The Corporation 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, the Corporation 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 2019 and 2018, the Corporation recorded an impairment loss of $0 and $8,388,000, respectively, on the goodwill associated with the NAHOSC, as the NAHOSC goodwill was fully written down to 0 at the end of 2018.

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 2019 and 2018, the Corporation did not record long-lived impairment losses, in addition to the goodwill impairment mentioned above.

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 net assets without donor restrictions, which are excluded from this total, consistent with industry practice, include pension-related changes other than net periodic pension cost.

Revenue— As further discussed in Note 2, under recently adopted accounting pronouncements, Accounting Standard Update (ASU) 2014-09 was issued to clarify the principles for recognizing revenue, to remove inconsistencies and weaknesses in revenue recognition requirements, and to provide a more robust framework for addressing revenue issues. The Corporation adopted ASU 2014-09 using a modified retrospective method of application, and the Corporation's accounting policies related to revenues were revised accordingly effective July 1, 2018.

The Corporation recognizes revenues in the period in which the Corporation satisfies its performance obligations under contracts by transferring services to customers. Net operating revenues are recognized in the amounts to which the Corporation expects to be entitled, which are the transaction prices allocated to the distinct services.

Net Patient Service Revenue— The Corporation's main source of revenue is net patient service revenue principally for patients covered by Medicare, Medicaid, managed care and other health plans, as well as certain uninsured patients. As discussed in Note 3, the Corporation's performance obligations are to provide health care services to the patients.

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, 2019 the Corporation recorded an increase to net patient service revenue of $421,000 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 $278,000 and $337,000 in Medicare and Medicaid incentive payments were recognized in other revenue for the years ended June 30, 2019 and 2018, 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, 2019 and 2018, costs incurred by the Corporation relating to the provision of charity care amounted to $4,448,000 and $3,909,000, respectively. The following is a summary of the Corporation's community benefit for the years ended June 30, 2019 and 2018 (in thousands):

	2019	2018
Traditional charity care—at cost	$4,448	$3,909
Total	$4,448	$3,909

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—Effective July 1, 2018, the Corporation adopted Accounting Standard Update (ASU) 2014-09, Revenue from Contracts with Customers (Topic 606) using a modified retrospective method of application to all contracts existing on July 1, 2018. ASU 2014-09 supersedes the revenue recognition requirements in Topic 605, Revenue Recognition, and most industry-specific guidance, and creates a Topic 606, Revenue from Contracts with Customers. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

Adoption of ASU 2014-09 resulted in changes to the Corporation's presentation and disclosure of revenue primarily related to uninsured or underinsured patients. Prior to the adoption of ASU 2014-09, a significant portion of the Corporation's provision for uncollectible accounts included within net patient service revenues related to self-pay patients, as well as co-pays, co-insurance amounts and deductibles owed to the Corporation by patients with insurance. Under ASU 2014-09, the estimated uncollectible amounts due from these patients are generally considered implicit price concessions that are a direct reduction to net patient service revenue and not reflected separately as a provision for uncollectible accounts. For the year ended June 30, 2019, the Corporation

recorded $62,076,000 of implicit price concessions as a direct reduction of net patient service revenues that would have been recorded as provision for uncollectible accounts prior to the adoption of ASU 2014-09.

Under the new standard, subsequent changes in estimate of collectability due to a change in the financial status of a payor, for example, a bankruptcy, will be recognized as bad debt expense in operating expenses under supplies, services and other on the consolidated statements of activities. Additionally, upon adoption of ASU 2014-09 the allowance for uncollectible accounts of $52,737,000 as of July 1, 2018 was reclassified as a component of patient accounts receivable. Other than these changes in presentation on the consolidated statement of activities and consolidated statements of financial position, the adoption of ASU 2014-09 did not have a material impact on the consolidated results of activities for the year ended June 30, 2019, and the Corporation does not expect it to have a material impact on its consolidated results of operations on a prospective basis.

As part of the adoption of ASU 2014-09, the Corporation elected two of the available practical expedients provided for in the standard. First, the Corporation does not adjust the transaction price for any financing components as those were deemed to be insignificant. Additionally, the Corporation expenses all incremental customer contract acquisition costs as incurred because such costs are not material and would be amortized over a period less than one year. The ASU also requires an entity to disclose sufficient information to enable the financial statement users to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

Effective July 1, 2018 the Corporation adopted ASU No. 2016-14, *Presentation of Financial Statements for Not-for-Profit Entities* (Topic 958) to improve the financial reporting of not-for-profit entities. The guidance requires two classes of net assets instead of the previous three and enhances disclosures. The Corporation adopted the ASU retrospectively and has adjusted the presentation of its consolidated financial statements accordingly. As the Corporation only has one class of net assets the adoption of ASU 2016-14 did not have a material impact on the consolidated financial statements.

In August 2018, the FASB issued ASU 2018-14, *Compensation-Retirement Benefits-Defined Benefit Plans-General (Subtopic 715-20): Disclosure Framework-Changes to the Disclosure Requirements for Defined Benefit Pans*. The amendments in ASU 2018-14 remove, clarify, and add certain disclosure requirements as part of the FASB's disclosure framework project to improve the effectiveness of the notes to the financial statements. The Corporation will adopt ASU 2018-14 in the reporting period beginning July 1, 2021 and is currently evaluating the impact on the consolidated financial statements.

Also in August 2018, the FASB issued ASU 208-13 *Fair Value Measurement (Topic 820): Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement,* which modifies and improves the effectiveness of fair value measurement disclosures as part of FASB's disclosure framework project. The Corporation will adopt ASU 2018-13 in the reporting period beginning July 1, 2020 and is currently evaluating the impact on the consolidated financial statements.

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 will implement ASC 842 for its fiscal year 2020.

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 10, 2019. (See Note 11 for disclosed subsequent events.)

3. NET PATIENT SERVICE REVENUE

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

Performance obligations are determined based on the nature of the services the Corporation provides. Revenues for performance obligations satisfied over time are recognized based on actual charges incurred in relation to total expected charges. The Corporation believes that this method provides a faithful depiction of the transfer of services over the term of performance obligations based on the inputs needed to satisfy the obligations. Generally, performance obligations satisfied over time relate to patients in the Corporation's hospitals receiving inpatient acute care services. The Corporation measures performance obligations from admission to the point when there are no further services required for that patient, which is generally at the time of discharge. Revenues for performance obligations satisfied at a point in time, which generally relate to patients receiving outpatient services, are recognized when goods or services are provided and the Corporation does not believe the patient requires additional goods or services.

Because all of the Corporation's performance obligations relate to contracts with a duration of less than one year, the Corporation has elected to apply the optional exemption provided in FASB Accounting Standards Codification (ASC) 606-10-50-14(a) and, therefore, the Corporation is not required to disclose the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied or partially unsatisfied at the end of the reporting period. The unsatisfied or partially unsatisfied performance obligations referred to above are primarily related to inpatient acute care services at the end of the reporting period. The performance obligations for these contracts are generally completed when the patients are discharged, which generally occurs within days or weeks of the end of the reporting period.

The Corporation determines the transaction price based on gross charges for goods and services provided, reduced by contractual adjustments provided to third-party payors, discounts provided to uninsured patients in accordance with the Corporation's policies, and implicit price concessions provided primarily to uninsured patients. The Corporation determines its estimates of contractual adjustments and discounts based on contractual agreements, its discount policies, and historical experience using the portfolio approach. The Corporation determines its estimate of implicit price concessions based on its historical

collection experience with classes of patients using a portfolio approach as a practical expedient to account for patient contracts as collective groups rather than individually. The financial statement effects of using this practical expedient are not materially different from an individual contract approach.

Agreements with third-party payors typically provide for payments at amounts less than established charges. 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 34% and 30% of the Corporation's net patient service revenue was derived from the Medicare program in 2019 and 2018, respectively.

The Medicare cost reports of the Corporation have been audited by the fiscal intermediary through June 30, 2016, 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.

A significant portion of the Corporation's revenue is generated under agreements with Medicare and Medicaid. Payments for services covered by Medicare are based on federal regulations specific to the type of service provided. Medicare pays for most services at a prospective rate. Hospital facilities that meet certain requirements receive additional funds in partial payment for the cost of medical education and caring for the indigent. The rates for services covered by Medicaid are determined by the regulations of the state in which the beneficiary is a resident. Laws and regulations concerning government programs, including Medicare and Medicaid, are complex and subject to varying interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount. Included in net patient service revenues are Medicaid supplemental payments which are funded through state financial arrangements commonly referred to as provider taxes. Under provider tax arrangements, states collect taxes from healthcare providers and then use the revenue to pay the providers as a Medicaid expenditure, which allows the states to then claim additional federal matching funds on the additional reimbursements. Current federal law provides for a cap on the maximum allowable provider tax as a percentage of the provider's total revenue. There can be no assurance that federal law will continue to provide matching federal funds on state Medicaid expenditures funded through provider taxes, or that the current caps on provider taxes will not be reduced. The Corporation, specifically FMC and VVMC, participates in assessment programs in the state in which it operates. For the year ended June 30, 2019, the Corporation recognized $255,780,000 in revenue and $9,118,883 in expenses relating to these programs. For the year ended June 30, 2018, the Corporation recognized $201,227,000 in revenue and $8,471,579 in expenses relating to these programs.

Arizona Health Care Cost Containment System (AHCCCS)—Inpatient and outpatient services rendered to AHCCCS program beneficiaries are reimbursed under per diem and fee schedule or discounted charge methodologies, respectively. Approximately 6% and 2% of the Corporation's net patient service revenue was derived from the AHCCCS program in 2019 and 2018, 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 45% and 48% of the Corporation's net patient service revenue was derived from other third-party payors in 2019 and 2018, respectively.

Self-Pay—Inpatient and outpatient services rendered to self-pay patients are recorded at the Corporation's standard rates. Approximately 15% and 20% of the Corporation's net patient service revenue was derived from self-pay patients in 2019 and 2018, 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.

Settlements with third-party payors for retroactive adjustments due to audits, reviews or investigations are considered variable consideration and are included in the determination of the estimated transaction price for providing patient care. The Corporation uses the expected value method of calculating estimated revenue, receivables and liabilities as it relates to third-party settlements. These settlements are estimated based on the terms of the payment agreement with the payor, correspondence from the payor and the Corporation's historical settlement activity, including an assessment to ensure that it is probable that a significant reversal in the amount of cumulative revenue recognized will

not occur when the uncertainty associated with the retroactive adjustment is subsequently resolved. Estimated settlements are adjusted in future periods as adjustments become known (that is, new information becomes available), or as years are settled or are no longer subject to such audits, reviews, and investigations. In relation to certain government programs, primarily Medicare, this is generally referred to as the "cost report" filing and settlement process. In 2019 and 2018, net patient service revenues increased by $421,000 and decrease by $83,000, respectively, relating to changes in estimates for prior years' settlements from Medicare, Medicaid, and other programs.

Generally patients who are covered by third-party payors are responsible for related co-pays, co-insurance and deductibles, which vary in amount. The Corporation also provides services to uninsured patients, and offers uninsured patients a discount from standard charges. The total discounts provided to uninsured patients under this policy were $16,067,000 and $14,060,000 for the years ended June 30, 2019 and 2018, respectively. The Corporation estimates the transaction price for patients with co-pays, co-insurance, and deductibles and for those who are uninsured based on historical collection experience and current market conditions. The initial estimate of the transaction price is determined by reducing the standard charge by any contractual adjustments, discounts, and implicit price concessions. Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to patient service revenue in the period of the change. Subsequent changes that are determined to be the result of an adverse change in the patient's ability to pay are recorded as bad debt expense. Bad debt expense for the year ended June 30, 2019 was immaterial.

Consistent with the Corporation's mission, care is provided to patients regardless of their ability to pay. Therefore, the Corporation has determined it has provided implicit price concessions to uninsured patients and patients with other uninsured balances (for example, copays and deductibles). The implicit price concessions included in estimating the transaction price represent the difference between amounts billed to patients and the amounts the Corporation expects to collect based on its collection history with those patients.

Patients who meet the Corporation's criteria for charity care are provided care without charge or at amounts less than established rates. Such amounts determined to qualify as charity care are not reported as revenue.

Revenue disclosures under ASC 606 include enhanced disclosures on the disaggregation of revenue. The composition of net patient care service revenue by payor and service line for the year ended June 30, 2019 is as follows:

		Ratio
Medicaid	$ 41,224	6%
Medicare	241,048	38%
Commercial and other	360,104	56%
Total net patient service revenue by payor	$ 642,376	100%

		Ratio
Hospital Operations	$597,953	93%
Physician Operations	35,189	6%
Surgery Center	8,955	1%
Home Health	279	0%
Total net patient service revenue by service line	$642,376	100%

Under ASC 605, the Corporation's revenue disclosure shows the sources of net patient service revenue before provision for uncollectible accounts for the year ended June 30, 2018 is as follows:

		Ratio
Medicaid	$ 16,004	2%
Medicare	207,433	30%
Commercial and other	471,759	68%
Net patient service revenue before provision for uncollectible accounts	$695,196	100%

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, 2019 and 2018:

	2019	2018
AHCCCS/Medicaid	32 %	30 %
Medicare	25	26
Self-pay	14	11
Other payors (excluding self-pay)	29	33
Total	100 %	100 %

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 the adequacy of the implicit price concessions (during 2019) or the allowance for uncollectable accounts (during 2018) based on historical experience, trends in health care coverage, and other collection indicators allowances.

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 $82,177,000 and $115,589,000 at June 30, 2019 and 2018, 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, 2019 and 2018, by the level of observable input and the valuation technique (in thousands):

2019	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)
Investments:					
Cash and cash equivalents	$ 35,208	$ 35,208	$ -	$ -	a
Commingled funds—equity funds	40,802	-	40,802	-	a
Registered investment funds:					
Equity funds	228,779	228,779	-	-	a
Equity funds—alternative investments	17,303	-	-	17,303	a and c
Bond funds	266,358	266,358	-	-	a
Bond fund—alternative investments	64,874	-	-	64,874	a and c
Total fair value measurement investments	$653,324	$530,345	$40,802	$ 82,177	

2018	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)
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	80,947	-	-	80,947	a and c
Total fair value measurement investments	$616,723	$463,944	$37,190	$115,589	

The changes in NAV instruments measured on a recurring basis for the years ended June 30, 2019 and 2018, are as follows (in thousands):

Balance—June 30, 2017	$123,299
Net realized and unrealized gains	9,617
Purchases	14,060
Settlements	(31,387)
Balance—June 30, 2018	115,589
Net realized and unrealized gains	807
Purchases	
Settlements	(34,218)
Balance—June 30, 2019	$ 82,178

6. ASSETS WHOSE USE IS LIMITED

A summary of assets whose use is limited at June 30, 2019 and 2018, is as follows (in thousands):

	2019	2018
Limited by the Board of Directors' approval	$653,324	$616,723
Restricted by the Pathfinder Health LLC escrow account	1,053	1,045
Restricted by the Series 2017A Bond indenture	17,497	36,617
Total	$671,874	$654,385

A summary of investment income, net, for the years ended June 30, 2019 and 2018, is as follows (in thousands):

	2019	2018
Interest income	$15,497	$11,670
Alternative investment unrealized (loss) gain	(8,078)	7,850
Realized gain—net	29,690	4,607
Unrealized (loss) gain on investments other than alternative investments—net	(508)	14,663
Total	$36,601	$38,790

7. PROPERTY AND EQUIPMENT

A summary of property and equipment, at June 30, 2019 and 2018, is as follows (in thousands):

	2019	2018
Land and improvements	$ 25,969	$ 25,986
Buildings and improvements	352,579	336,943
Equipment	340,162	306,712
Gross Balance	$718,710	$669,641
Less accumulated depreciation	486,489	453,453
Gross Balance, Less Accumulated Depreciation	$232,221	$216,188
Construction in progress	36,859	42,332
Net Property and Equipment	$269,080	$258,520

Depreciation expense was approximately $35,013,000 and $34,646,000 for the years ended June 30, 2019 and 2018, respectively.

8. LONG-TERM DEBT

A summary of long-term debt, at June 30, 2019 and 2018, is as follows (in thousands):

	2019	2018
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 $1,900,000 and $2,390,000 at June 30, 2019 and 2018, 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, 2019 and 2018, was 4.97% and 4.97%, respectively.	$ 46,941	$ 52,100
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.	73,095	74,895
Series 2015B Hospital Revenue bonds, collateralized by pledge of gross receivables, bearing interest rates fixed annually at 2.771% 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, 2019, was 2.62%. Bonds are subject to mandatory tender for purchase on each Mandatory Indexed Put date for the Bonds.	40,000	40,000
Total debt	205,651	212,610
Less current portion	6,695	6,506
Long-term debt	198,956	206,104
Less unamortized bond costs	(1,243)	(1,409)
Long-term debt	$197,713	$204,695

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, 2019 and 2018, the Obligated Group was in compliance with these debt covenants.

The estimated fair value of the Corporation's long-term debt, at June 30, 2019 and 2018, was $206,768,015 and $213,524,371, 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 follow (in thousands):

2020	$ 7,135
2021	7,421
2022	6,911
2023	8,067
2024	8,349
Thereafter	167,768
Total debt	$205,651

A summary of bond interest costs, for the years ended June 30, 2019 and 2018, is as follows (in thousands):

	2019	2018
Interest cost:		
Capitalized	$ 302	$ 140
Charged to operations	6,645	6,597
Total	$6,947	$6,737

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, but it continued to accrue benefits for the employees in the Plan. The Pension Plan provides a defined benefit based on years of service and final average salary. On January 1, 2015, pension accruals for all participants were frozen.

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, 2019 and 2018, as provided by consulting actuaries (in thousands):

	2019	2018
Change in benefit obligation:		
Benefit obligation—beginning of year	$215,072	$234,032
Service cost	-	-
Interest cost	8,972	8,867
Actuarial (gain) loss	18,982	(10,058)
Benefit payments	(9,112)	(9,598)
Annuity purchase	(7,340)	(8,170)
Benefit obligation—end of year	$226,574	$215,073

	2019	2018
Change in plan assets:		
Fair value of plan assets—beginning of year	$161,432	$163,353
Actual return on plan assets	9,433	12,706
Employer contribution	5,495	3,140
Benefit payments	(9,112)	(9,598)
Annuity purchase	(7,340)	(8,170)
Fair value of plan assets—end of year	$159,908	$161,431
Accrued pension liability	$ (66,611)	$ (53,637)
Unrecognized net actuarial loss	93,867	75,225
Unrecognized prior service cost	-	-

The accumulated benefit obligation for the defined benefit plan was $226,574,000 and $215,072,000 at June 30, 2019 and 2018, respectively.

Net pension cost includes the following components for the years ended June 30, 2019 and 2018 (in thousands):

	2019	2018
Service cost	$ -	$ -
Interest cost	8,972	8,867
Expected return on plan assets	(11,189)	(11,167)
Recognized net actuarial loss	2,096	2,695
Amortization of prior service cost	-	-
Net periodic pension cost	$ (121)	$ 395

Weighted-average assumptions used to determine the projected benefit obligation, at June 30, 2019 and 2018, are as follows:

	2019	2018
Discount rate	3.7 %	4.3 %
Expected return on plan assets	6.8 %	7.0 %

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

	2019	2018
Discount rate	4.3 %	3.9 %
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 60% 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 US 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, 2019 and 2018, by asset category and fair value hierarchy level, are as follows (in thousands):

	Balance at June 30, 2019	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	$ 17,399	$ 17,399	$ -	$ -	a
Commingled funds—equity funds	18,630	-	18,630	-	a
Registered investment funds:					
Equity funds	61,354	61,354	-	-	a
Equity funds—alternative investments	2,477	-	-	2,477	a and c
Bond funds	49,656	49,656	-	-	a
Bond funds—alternative investments	10,438	-	-	10,438	a and c
	$159,954	$128,409	$18,630	$12,915	

	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	14,375	-	-	14,375	a and c
	$161,432	$117,857	$18,372	$25,203	

The following summarizes the changes in fair value of the Pension Plan's NAV assets for the years ended June 30, 2019 and 2018 (in thousands):

Alternative Investments	2019	2018
Balance—beginning of year	$25,203	$28,804
Purchase of alternative investments	-	2,412
Sale of alternative investments	(12,748)	(8,194)
Realized gain	870	1,416
Unrealized (loss) gain	(410)	765
Balance—end of year	$12,915	$25,203
Alternative investments subject to one-year redemption lockup period	$ -	$ -

The Corporation is expected to contribute $7,327,000 to its Pension Plan in fiscal year 2020.

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

2020	$10,001
2021	10,368
2022	10,834
2023	11,307
2024	11,735
Years 2025–2029	62,715

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 $10,235,000 and $7,729,000 in 2019 and 2018, respectively. In addition the NAH Board approved 401(k) discretionary contributions of $4,432,000 and $4,297,000 in 2019 and 2018, respectively.

10. FINANCIAL ASSETS AND LIQUIDITY RESOURCES

As of June 30, 2019, financial assets and liquidity resources available within one year for general expenditures such as operating expenses, scheduled principal payments on debt and capital expenditures not financed by debt are as follows (in thousands):

	2019
Financial assets:	
Cash and cash equivalents	$110,398
Accounts receivable	96,934
Assets whose use is limited	17,497
Total	224,829
Liquidity resources—unused line of credit	-
Total	-
Total financial assets and liquidity resources available within one year	$224,829

The Corporation considers assets whose use is limited to be available within one year for general expenditures. An exception are the Corporation's Board Designated assets of $653,324. These assets could be liquidated and funds received within one year. However these assets have historically remained invested in the Corporation's investment portfolio. There are no immediate plans to liquidate any of these funds for general expenditures.

The Corporation utilizes an internally managed investment fund to meet cash needs for general expenditures of the organization. On a regular basis either: (1) excess funds generated from the Corporation's operations are transferred to the internally managed investment fund, or (2) liquidity needs for general expenditures are sourced from the investment fund. The level of cash kept in the investment fund is based on management's determination of future working capital needs, debt service requirements, fixed capital needs, and other cash outflows of the organization.

On a regular basis the Corporation calculates the amount of its unrestricted cash and investments that are available within certain time frames. As of June 30, 2019, all of the Corporation's unrestricted cash and cash equivalents was available in two business days or less.

11. COMMITMENTS AND CONTINGENT LIABILITIES

Health Care Regulatory Environment—The healthcare 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 $300,000 per employee, or dependent, and has purchased insurance for claims incurred per employee or dependent in excess of this amount. The Corporation has recorded $3,703,000 and $2,945,000 for employee medical benefit obligations as of June 30, 2019 and 2018, respectively. The Corporation is fully insured for dental benefit claims and has incurred premium costs of $2,290,000 and $2,095,000 as of June 30, 2019 and 2018, 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 professional and general liability claims up to $1,000,000 per claim under a claims-made insurance policy. In August 2012, the Corporation added an additional one-time $1,000,000 buffer layer to the retention limit. The Corporation also purchased insurance in 2012 to cover physician's professional and general liability with a per-claim self-insured retention 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

professional and general liability claims at June 30, 2019 and 2018, the Corporation recorded an estimated self-insurance obligation of approximately $10,171,000 and $9,205,000, 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 approximately $1,512,000 and $1,812,000 as of June 30, 2019 and 2018, respectively, relating to the estimated professional and general liability 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 non-cancelable operating lease arrangements with initial or remaining terms of one year or more consist of the following at June 30, 2019 (in thousands):

2020	$ 4,951
2021	4,506
2022	4,192
2023	3,954
2024	3,596
Thereafter	4,870
	$26,069

Contingencies— 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.

12. SUBSEQUENT EVENT

A medical malpractice claim with a date loss of September 12, 2015, which was served on the Corporation on July 1, 2016, was settled on September 23, 2019. The claim was settled within the Corporation's self-insured retention limit of $1,000,000 plus the onetime retention buffer layer of $1,000,000 by a $1,500,000 contribution from the Corporation to the plaintiffs. The corporation has recorded a liability for this claim which is included in the statements of financial position at June 30, 2019.

* * * * * *

SUPPLEMENTARY INFORMATION

Deloitte.

Deloitte & Touche LLP
2901 North Central Avenue
Suite 1200
Phoenix, AZ 85012-2799
USA

Tel: +1 602 234 5100
Fax: +1 602 234 5186
www.deloitte.com

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 10, 2019

NORTHERN ARIZONA HEALTHCARE CORPORATION AND AFFILIATES

CONSOLIDATING STATEMENT OF FINANCIAL POSITION INFORMATION
AS OF JUNE 30, 2019
(In thousands)

	FMC	VVMC	NAHC Administration	NAHC Home Health and Hospice	NAHOSC	Subtotal Obligated Group	NAHPG	Intercompany Eliminations	Consolidated
ASSETS									
CURRENT ASSETS:									
Cash and cash equivalents	$ 42,973	$ 43,862	$ 8,796	$ 1	$ 10,634	$ 106,266	$ 4,132	$ -	$ 110,398
Accounts receivable—net	72,132	20,844	-	-	1,379	94,355	2,579	-	96,934
Asset whose use is limited - Short term	7,375	10,122	-	-	-	17,497	-	-	17,497
Inventories	7,970	3,209	-	-	728	11,907	-	-	11,907
Prepaid expenses and other	10,431	5,039	11,043	-	90	26,603	1,522	(3,507)	24,618
Total current assets	$140,881	$ 83,076	$ 19,839	$ 1	$12,831	$ 256,628	$ 8,233	$ (3,507)	$ 261,354
ASSETS WHOSE USE IS LIMITED	478,159	175,165	1,053	-	-	654,377	-	-	654,377
PROPERTY AND EQUIPMENT—Net	147,436	79,585	16,533	3,894	16,985	264,433	4,647	-	269,080
DEFERRED CHARGES AND OTHER ASSETS	8,953	4,249	(142,287)	-	-	(129,085)	-	146,302	17,217
TOTAL ASSETS	$775,429	$342,075	$(104,862)	$3,895	$29,816	$1,046,353	$12,880	$142,795	$1,202,028
LIABILITIES AND NET ASSETS									
CURRENT LIABILITIES:									
Accounts payable	$ 11,984	$ 6,975	$ 681	$ -	$ 300	$ 19,940	$ 585	$ (3,507)	$ 17,018
Accrued expenses	31,557	5,698	8,190	78	306	45,829	1,873	-	47,702
Current portion of long-term debt	4,872	1,063	-		760	6,695	-	-	6,695
Third-party payor settlements	1,229	1,580	-	-	-	2,809	-	-	2,809
Total current liabilities	49,642	15,316	8,871	78	1,366	75,273	2,458	(3,507)	74,224
LONG-TERM DEBT—Less current portion	124,498	43,344	-	-	29,871	197,713	-	-	197,713
ACCRUED PENSION LIABILITY	37,435	20,117	9,059	-	-	66,611	-	-	66,611
OTHER LIABILITIES	8,531	2,324	-	-	-	10,855	-	-	10,855
Total liabilities	220,106	81,101	17,930	78	31,237	350,452	2,458	(3,507)	349,403
NET ASSETS:									
Net assets without donor restrictions	555,323	260,974	(122,792)	3,817	(1,421)	695,901	10,422	146,302	852,625
Total net assets	555,323	260,974	(122,792)	3,817	(1,421)	695,901	10,422	146,302	852,625
TOTAL LIABILITIES AND NET ASSETS	$775,429	$342,075	$(104,862)	$3,895	$29,816	$1,046,353	$12,880	$142,795	$1,202,028

NORTHERN ARIZONA HEALTHCARE CORPORATION AND AFFILIATES

CONSOLIDATING STATEMENT OF ACTIVITIES INFORMATION
FOR THE YEAR ENDED JUNE 30, 2019
(In thousands)

	FMC	VVMC	NAHC Administration	NAHC Home Health and Hospice	NAHOSC	Subtotal Obligated Group	NAHPG	Intercompany Eliminations	Consolidated
REVENUE:									
Net patient service revenue	$445,048	$152,906	$ -	$ 278	$ 8,955	$607,187	$ 35,189	$ -	$ 642,376
Other Operating Revenue	9,744	4,763	977	-	1,101	16,585	1,651	-	18,236
Total revenue	454,792	157,669	977	278	10,056	623,772	36,840	-	660,612
EXPENSES:									
Salaries and wages	142,520	52,050	32,843	586	2,552	230,551	49,328	-	279,879
Employee benefits	35,370	12,744	8,584	147	661	57,506	10,143	-	67,649
Professional fees	24,172	2,890	2,334	-	76	29,472	5,985	-	35,457
Supplies, services, and other	124,953	35,004	31,213	204	4,549	195,923	9,064	-	204,987
Depreciation and amortization	18,294	8,567	5,083	225	742	32,911	2,102	-	35,013
Interest	4,102	1,363	-	-	1,180	6,645	-	-	6,645
Corporate expense allocation from NAHC	54,818	18,778	(79,080)	173	388	(4,923)	4,923	-	-
Total expenses	404,229	131,396	977	1,335	10,148	548,085	81,545	-	629,630
INCOME (LOSS) FROM OPERATIONS	50,563	26,273	-	(1,057)	(92)	75,687	(44,705)	-	30,982
Contributions to NAH Foundation	(1,505)	(195)	-	-	-	(1,700)	-	-	(1,700)
OTHER INCOME (EXPENSE):									
Investment gain (loss)—net	27,920	10,497	-	-	30	38,447	3	-	38,450
Impairment Losses	-	-	-	-	-	-	-	-	-
Loss from Equity Investment	-	-	(44,705)		-	(44,705)		44,705	-
Other income (loss)-net	309	568	301	(297)	-	881	(48)	-	833
EXCESS OF REVENUE OVER EXPENSES AND OTHER INCOME (EXPENSE)	77,287	37,143	(44,404)	(1,354)	(62)	68,610	(44,750)	44,705	68,565
PENSION-RELATED CHANGES OTHER THAN NET PERIODIC PENSION COST	(8,767)	(6,524)	(3,290)	-	-	(18,581)	-	-	(18,581)
CHANGE IN NET ASSETS WITHOUT DONOR RESTRICTIONS	68,520	30,619	(47,694)	(1,354)	(62)	50,029	(44,750)	44,705	49,984
CHANGE IN NET ASSETS	68,520	30,619	(47,694)	(1,354)	(62)	50,029	(44,750)	44,705	49,984
NET ASSETS—Beginning of year	550,189	235,309	(96,545)	4,051	(5,364)	687,640	13,404	101,597	802,641
NET ASSET TRANSFERS FROM (TO) AFFILIATES	(63,386)	(4,954)	21,447	1,120	4,005	(41,768)	41,768	-	-
NET ASSETS—End of year	$ 555,323	$ 260,974	$ (122,792)	$ 3,817	$ (1,421)	$ 695,901	$ 10,422	$ 146,302	$ 852,625

NORTHERN ARIZONA HEALTHCARE CORPORATION AND AFFILIATES

NOTES TO SUPPLEMENTARY CONSOLIDATING INFORMATION AS OF AND FOR THE YEAR ENDED JUNE 30, 2019

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.