

CONSOLIDATED FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION

Northwest Community Healthcare and Subsidiaries
Years Ended September 30, 2017 and 2016
With Reports of Independent Auditors

Ernst & Young LLP



Northwest Community Healthcare and Subsidiaries
Consolidated Financial Statements and Supplementary Information
Years Ended September 30, 2017 and 2016

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Ernst & Young LLP
155 North Wacker Drive
Chicago, IL 60606-1787

Tel: +1 312 879 2000
Fax: +1 312 879 4000
ey.com

Report of Independent Auditors

The Audit and Compliance Committee and the Board of Directors
Northwest Community Healthcare and Subsidiaries

We have audited the accompanying consolidated financial statements of Northwest Community Healthcare and Subsidiaries, which comprise the consolidated balance sheets as of September 30, 2017 and 2016, and the related consolidated statements of operations and changes in net assets and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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



Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Northwest Community Healthcare and Subsidiaries at September 30, 2017 and 2016, and the consolidated results of their operations and their cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

Ernst + Young LLP

January 16, 2018

Northwest Community Healthcare and Subsidiaries

Consolidated Balance Sheets

	September 30	
	2017	2016
Assets		
Current assets:		
Cash and cash equivalents	\$ 30,872,468	\$ 20,608,344
Patient accounts receivable, less allowances for uncollectible accounts (September 30, 2017 – \$11,857,000; September 30, 2016 – \$9,442,000)	78,956,735	64,115,769
Other receivables	13,082,337	25,352,569
Prepaid expenses and other	15,259,715	12,796,591
Total current assets	138,171,255	122,873,273
Assets limited as to use, at fair value:		
Investments restricted under bond financings	12,643,063	12,696,321
Internally designated for operations and liquidity	–	42,935,463
Internally designated for capital replacement	414,933,564	350,960,755
Internally designated for insurance	26,509,978	30,053,670
Internally designated for deferred compensation	4,995,701	4,376,350
Internally designated for endowment	1,200,000	1,828,174
Externally designated for endowment and other	2,013,503	1,676,412
	462,295,809	444,527,145
Property and equipment, at cost:		
Land and land improvements	23,111,095	22,938,255
Buildings	359,186,859	358,165,003
Fixed equipment and leasehold improvements	235,772,502	230,286,968
Major movable equipment	207,901,114	208,266,338
Construction-in-progress	5,818,749	7,210,738
	831,790,319	826,867,302
Less accumulated depreciation	(413,854,558)	(389,985,773)
	417,935,761	436,881,529
Reinsurance receivable	10,063,686	15,451,053
Other long-term assets	11,986,504	8,169,399
Pension obligation asset	–	2,806,899
Total assets	\$ 1,040,453,015	\$ 1,030,709,298

Northwest Community Healthcare and Subsidiaries

Consolidated Balance Sheets (continued)

	September 30	
	2017	2016
Liabilities and net assets		
Current liabilities:		
Accounts payable	\$ 21,854,024	\$ 18,344,401
Accrued expenses and other	46,255,456	48,461,471
Current maturities of long-term debt obligations	7,315,000	7,010,000
Due to third-party payors	51,231,663	40,810,583
Total current liabilities	<u>126,656,143</u>	114,626,455
Long-term debt obligations, less current maturities:		
Series 2008A bonds	—	2,075,000
Series 2008B bonds	28,510,000	30,180,000
Series 2008C bonds	28,510,000	30,180,000
Series 2011 bonds	41,500,000	43,400,000
Series 2016 bonds	136,690,000	136,690,000
Series 2016 bonds premium	19,473,155	20,411,620
Bond issuance costs	(2,507,318)	(2,651,215)
	<u>252,175,837</u>	260,285,405
Asset retirement obligation	823,833	809,743
Other long-term liabilities	1,642,470	3,425,494
Reserve for self-insurance	48,212,056	52,572,344
Pension obligation liability	1,291,023	—
Total noncurrent liabilities	<u>304,145,219</u>	317,092,986
Total liabilities	<u>430,801,362</u>	431,719,441
Net assets:		
Unrestricted	604,691,582	590,406,064
Temporarily restricted	3,513,527	7,613,357
Permanently restricted	1,446,544	970,436
Total net assets	<u>609,651,653</u>	598,989,857
Total liabilities and net assets	<u><u>\$ 1,040,453,015</u></u>	<u><u>\$ 1,030,709,298</u></u>

See accompanying notes.

Northwest Community Healthcare and Subsidiaries

Consolidated Statements of Operations and Changes in Net Assets

	Year Ended September 30	
	2017	2016
Revenue		
Net patient service revenue (net of contractual allowances)	\$ 547,092,483	\$ 538,660,141
Provision for uncollectible accounts	(19,814,503)	(12,128,710)
Net patient service revenue after provision for uncollectible accounts	527,277,980	526,531,431
Other operating revenue	38,752,455	34,660,526
Total revenue	566,030,435	561,191,957
Expenses		
Salaries and employee benefits	310,249,679	290,046,582
Supplies and other	116,095,310	112,311,707
Professional fees and purchased services	99,052,512	90,374,420
Depreciation and amortization	38,958,606	40,850,586
Illinois hospital assessment	19,714,947	16,407,485
Interest	7,422,887	8,757,157
Total expenses	591,493,941	558,747,937
Operating (loss) income	(25,463,506)	2,444,020
Nonoperating revenue (expenses)		
Net investment income	43,563,363	22,991,796
Loss on early extinguishment of debt	–	(3,809,642)
Change in value of interest rate swap	–	(991,610)
Other	(816,691)	(842,367)
Net nonoperating revenue	42,746,672	17,348,177
Excess of revenue over expenses	\$ 17,283,166	\$ 19,792,197

See accompanying notes.

Northwest Community Healthcare and Subsidiaries

Consolidated Statements of Operations and Changes in Net Assets (continued)

	Year Ended September 30	
	2017	2016
Unrestricted net assets		
Excess of revenue over expenses	\$ 17,283,166	\$ 19,792,197
Pension-related changes other than net periodic pension cost	(6,831,319)	9,729,554
Net assets released from restrictions used for purchase of property and equipment	493,135	881,562
Additional capital contributions by noncontrolling interests	3,340,536	—
Increase in unrestricted net assets	14,285,518	30,403,313
Temporarily restricted net assets		
Contributions	1,772,046	3,675,630
Investment income (loss)	211,700	(221,362)
Net assets released from restrictions used for:		
Purchase of property and equipment	(493,135)	(881,562)
Operations	(5,119,333)	(1,149,346)
Other	(471,108)	—
(Decrease) increase in temporarily restricted net assets	(4,099,830)	1,423,360
Permanently restricted net assets		
Contributions	5,000	28,429
Other	471,108	(106,993)
Increase (decrease) in permanently restricted net assets	476,108	(78,564)
Increase in net assets	10,661,796	31,748,109
Net assets at beginning of year	598,989,857	567,241,748
Net assets at end of year	\$ 609,651,653	\$ 598,989,857

See accompanying notes.

Northwest Community Healthcare and Subsidiaries

Consolidated Statements of Cash Flows

	Year Ended September 30	
	2017	2016
Operating activities		
Change in net assets	\$ 10,661,796	\$ 31,748,109
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Pension-related changes other than net periodic pension cost	6,831,319	(9,729,554)
Restricted contributions	(1,777,046)	(3,704,059)
Depreciation and amortization	38,958,606	40,850,586
Provision for uncollectible accounts	19,814,503	12,128,710
(Gain) loss on disposal of fixed assets	(196,948)	93,107
Unrealized gain on investments	(26,446,923)	(577,582)
Change in value of interest rate swap	–	991,610
Changes in other assets and liabilities:		
Accounts receivable, other receivables, due to third-party payors and due to affiliates	(11,964,157)	(12,966,184)
Accounts payable and accrued expenses	1,303,608	(23,351,366)
Investments	8,678,259	(16,984,603)
Other assets and liabilities	(9,611,584)	(8,038,816)
Net cash provided by operating activities	36,251,433	10,459,958
Investing activities		
Property and equipment additions, net	(19,815,890)	(18,264,117)
Net cash used in investing activities	(19,815,890)	(18,264,117)
Financing activities		
Issuance of long-term obligations	–	157,101,620
Payments on long-term obligations	(7,010,000)	(146,490,000)
Amortization of bonds premium	(938,465)	–
Restricted contributions	1,777,046	3,704,059
Net cash (used in) provided by financing activities	(6,171,419)	14,315,679
Net increase in cash and cash equivalents	10,264,124	6,511,520
Cash and cash equivalents at beginning of year	20,608,344	14,096,824
Cash and cash equivalents at end of year	\$ 30,872,468	\$ 20,608,344
Supplemental disclosure of cash flow information		
Cash paid for interest	\$ 8,364,825	\$ 8,456,820

See accompanying notes.

Northwest Community Healthcare and Subsidiaries

Notes to Consolidated Financial Statements

September 30, 2017

1. Organization and Nature of Operations

Northwest Community Healthcare and Subsidiaries (Healthcare), a not-for-profit entity, was established to own, operate, control, and otherwise coordinate the delivery of healthcare within the service area of Northwest Community Hospital (the Hospital), and coordinate the activities of the various corporations affiliated with Healthcare. Subsidiaries of Healthcare include the Hospital, Northwest Community Hospital Foundation (the Foundation), Central Insurance Company, Ltd. (CICL), and Northwest Community Healthcare PHO, LLC (PHO). The Hospital, Foundation, and PHO are tax-exempt organizations under Section 501c(3) of the Internal Revenue Code (the Code). Healthcare's other subsidiaries include Northwest Community Health Services, Inc. (Health Services), NPC-CyberKnife, LLC (CyberKnife), Northwest Community Day Surgery Center II, LLC (DSC-II), Northwest Endo Center LLC, and Northwest Community Foot and Ankle Center, LLC, which are taxable entities.

The Hospital, located in Arlington Heights, Illinois, is a 496-bed acute care facility providing inpatient, outpatient, and emergency care services primarily to residents of Arlington Heights and the surrounding communities. Northwest Community Physicians Association, LLC (NCPA) is an inactive, not-for-profit subsidiary of the Hospital.

CICL is a captive insurance company established January 1, 2013, to provide general and professional liability coverage and workers' compensation coverage for the risks of Healthcare. CICL is a foreign corporation organized in the Cayman Islands, that does not tax its activities.

Health Services owns and operates physician practices within the Hospital's geographic area. The NCH Medical Group (NCHMG) multi-specialty physician practice (that was established in 2010) has offices in Arlington Heights, Buffalo Grove, Mt. Prospect, Lake Zurich, Palatine, and Schaumburg, Illinois.

CyberKnife was formed in June 2006 for the purpose of purchasing and owning a stereotactic radiosurgery system and leasing it to the Hospital. CyberKnife is a limited liability corporation that is owned by Healthcare (74% at September 30, 2017 and 2016) and physician investors (26% at September 30, 2017 and 2016). Healthcare consolidates CyberKnife, as Healthcare owns a majority of the units outstanding.

DSC-II was formed in 2014 for the purpose of owning and operating an ambulatory surgery center. DSC-II is a limited liability company that is owned by Healthcare (53.5% and 56% at September 30, 2017 and 2016, respectively) and physician investors (46.5% and 44% at September 30, 2017 and 2016, respectively). Healthcare consolidates DSC-II, as Healthcare owns a majority of the units outstanding.

Northwest Community Healthcare and Subsidiaries

Notes to Consolidated Financial Statements (continued)

1. Organization and Nature of Operations (continued)

Northwest Endo Center LLC (Endo) was established as of December 2015 and began operations in March 2017. Endo is a limited liability company that is owned by Health Services and physician investors of 51% and 49%, respectively, as of September 30, 2017. Health Services consolidates Endo as it owns a majority of the units outstanding.

Northwest Community Foot and Ankle Center LLC (Foot) was established and began operations in July 2017. Foot is a limited liability company that is owned by Health Services and physician investors of 51% and 49%, respectively, as of September 30, 2017. Health Services consolidates Foot as it owns a majority of the units outstanding.

2. Summary of Significant Accounting Policies

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of Healthcare, the Hospital, the Foundation, Health Services, CyberKnife, DSC-II , and CICL. Endo and Foot are consolidated in Health Services operations. NCPA had no financial transactions during 2017 and 2016, and did not hold any assets or liabilities as of September 30, 2017 and 2016. Significant intercompany transactions have been eliminated in consolidation.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the amounts disclosed in the notes to the consolidated financial statements at the date of the consolidated financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Although estimates are considered by management to be fairly stated at the time the estimates are made, actual results could differ.

Cash and Cash Equivalents

Cash and cash equivalents include highly liquid short-term investments with original maturities of three months or less from date of purchase.

Northwest Community Healthcare and Subsidiaries

Notes to Consolidated Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Patient Accounts Receivable

Healthcare evaluates the collectability of its accounts receivable based on the length of time the receivable is outstanding, payor class, and the anticipated future collectible amounts based on historical experience. Accounts receivable are charged to the allowance for uncollectible accounts when they are deemed uncollectible.

Inventories

Inventories are priced at the lower of cost, determined by the first-in, first-out method, or market.

Investments

Healthcare has designated all of its investments as trading. Investments in equity and debt securities, and mutual funds with readily determinable fair values are reported at fair value based on quoted market prices. Alternative investments, primarily limited partnerships that invest in hedge funds, are reported using the equity method of accounting based on information provided by the partnership. Income earned, realized gains (losses), and changes in unrealized gains (losses) on funds internally designated for operations and liquidity are reported as other operating revenue. All other investment income (loss), realized gains (losses), and changes in unrealized gains (losses) are reported as nonoperating revenue (expense).

Derivative Instruments

Derivative instruments, specifically interest rate swaps, are recorded on the consolidated balance sheets at their respective fair values. The Hospital had entered into an interest rate-related derivative investment (Swap) in 2013 to minimize its exposure to its variable rate debt. The derivative instruments do not qualify for hedge accounting; therefore, the change in the fair value of those derivative instruments is reflected in nonoperating revenue (expense). The changes in cash flows are reflected in interest expense. In July 2016, the repurchase of the outstanding Swap was completed, resulting in a loss of \$547,000 which was included in nonoperating income for the fiscal year ended September 30, 2016. Healthcare held no derivative instruments as of September 30, 2017.

The net amount paid by Healthcare as interest expense under the Swap agreement totaled approximately \$348,000 for the year ended September 30, 2016. The change in the fair value of the Swap agreement of \$992,000 was recorded as a nonoperating loss in 2016.

Northwest Community Healthcare and Subsidiaries
Notes to Consolidated Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Property and Equipment

Property and equipment acquisitions are recorded at cost. Healthcare uses the straight-line method of computing depreciation for property and equipment. In the year ended September 30, 2017, the Hospital re-lived its Epic software system reducing 2017 depreciation expense by approximately \$1,580,000. Depreciation expense was \$38,808,000 and \$40,586,000 for the years ended September 30, 2017 and 2016, respectively.

Deferred Financing and Other Costs

Underwriting fees and other costs related to the issuance of the Series 2016, Series 2011, and Series 2008 bonds, which are included in long-term debt, are deferred and amortized on a straight-line basis over the life of the related debt using methods that approximate the effective interest method. Bond issuance amortization expense was approximately \$151,000 and \$265,000 for the years ended September 30, 2017 and 2016, respectively. In addition, in the year ended September 30, 2016 Healthcare had deferred bond issuance costs of \$1,838,000 and recorded a \$3,810,000 nonoperating loss to write off the remaining unamortized 2008A bond issuance costs.

General and Professional Liability Insurance

The provision for general and professional liability claims includes estimates of the ultimate costs for both reported claims and claims incurred but not reported, which are included in long-term liabilities.

Reinsurance Receivable

Reinsurance receivable is recognized in a manner consistent with the liabilities relating to the underlying reinsured contracts.

Goodwill and Intangible Assets

Goodwill has been recorded at the excess of the purchase price over the fair market value of the assets purchased primarily in physician practice acquisitions. Healthcare has goodwill of \$8,991,000 and \$5,417,000 as of September 30, 2017 and 2016, respectively. The majority of the increase in fiscal 2017 was from the formation of the Endo joint venture. Healthcare performed a qualitative assessment of goodwill for the organization as a whole and determined that no impairment existed as of September 30, 2017 and 2016.

Northwest Community Healthcare and Subsidiaries

Notes to Consolidated Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Asset Retirement Obligation

Healthcare records the fair value of legal obligations associated with long-lived asset retirements in accordance with ASC 410-20, *Asset Retirement and Environmental Obligations – Asset Retirement Obligations*. The asset retirement obligation (ARO) is primarily for future asbestos remediation, but also includes certain types of environmental issues that are legally required to be remediated upon an asset's retirement, as well as contractually required asset obligations. The asset retirement obligation is accreted to the present value of the liability each year. Accretion expense of \$14,000 was recorded for the year ended September 30, 2017 and is included in operating (interest) expense. The ARO liability was \$824,000 and \$810,000 as of September 30, 2017 and 2016, respectively.

Asset Impairment

Healthcare considers whether indicators of impairment are present, and performs the necessary test to determine if the carrying value of an asset is appropriate. Impairment write-downs are recognized in operating income at the time the impairment is identified. There was no impairment of assets in 2017 and 2016.

Contributions and Restricted Net Assets

Unconditional promises to give cash and other assets to Healthcare are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the conditions have been met.

Donor-restricted contributions are reported as temporarily restricted support if they are received with donor stipulations that limit the use of the donated assets to a specific time period or purpose. Permanently restricted net assets are those that the donor stipulates must be maintained by Healthcare in perpetuity. Permanently restricted net assets increase when Healthcare receives contributions for which donor-imposed restrictions limiting the organization's use of an asset or its economic benefits neither expire with the passage of time nor can be removed by the organization meeting certain requirements.

Substantially all restricted contributions benefiting Healthcare are initially received by the Foundation. When a donor restriction is met, the Foundation transfers the temporarily restricted gift to the donor-designated entity, at which time the related net assets are released from restriction in the consolidated financial statements.

Northwest Community Healthcare and Subsidiaries

Notes to Consolidated Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Patient Service Revenue

Healthcare has agreements with third-party payors that provide for payments to Healthcare at amounts different from its established rates. Payment arrangements include prospectively determined rates, discounted charges, and per diem payments. Patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated adjustments under reimbursement agreements with third-party payors, certain of which are subject to audit by administering agencies. These adjustments are accrued on an estimated basis, and are adjusted in future periods.

Other Operating Revenue and Other Nonoperating Income

Other operating revenue is derived primarily from non-direct patient care sources such as wellness center fees, rental and management fees, PHO premium revenue, and cafeteria sales.

Other nonoperating income is primarily gain (loss) on disposal of fixed assets and the minority share of net income.

Charity Care and Community Benefit

The policy of Healthcare is to treat patients in immediate need of medical services without regard to their ability to pay for such services. Healthcare maintains records to identify and monitor the level of charity care provided. These records include the amount of estimated costs for services rendered and supplies furnished under its charity care policy. The estimated difference between the cost of services provided to Medicare and Medicaid patients and the reimbursement from these governmental programs is also monitored. Healthcare operates or funds two primary care clinics, a mobile dental clinic, and a community center serving low-income families in its service area. In addition, Healthcare provides community benefits in the form of health and wellness education, translation services, maternal/child classes, paramedic training, health screenings, support groups, physician referral, and other social services.

Healthcare policies have been established that define charity care and provide guidelines for assessing a patient's ability to pay. Evaluation procedures for charity care qualification have been established for those situations when previously unknown financial circumstances are revealed, or when incurred charges are significant when compared to the individual patient's income/or net

Northwest Community Healthcare and Subsidiaries

Notes to Consolidated Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

assets. In addition to providing traditional charity care services, Healthcare's financial assistance policy offers discounted services to uninsured patients who do not otherwise qualify for charity. The payments expected from patients are based on rates negotiated with managed care plans, with discounts determined on a sliding scale tied to the federal poverty level.

The cost to provide charity care using Healthcare's cost-to-charge ratio was \$9,939,000 and \$8,755,000 for 2017 and 2016, respectively. The ratio of costs to charges is calculated based on the Hospital's most recently filed Medicare cost report at the time the financial statements are issued.

Healthcare is compliant with provisions of the Patient Protection and Affordable Care Act that require, among other things, that hospital organizations establish a financial assistance policy and a policy relating to emergency medical care. In addition, recent policy guidelines issued by the Internal Revenue Service (IRS) under Section 501(c) have been implemented by Healthcare relating to financing assistance and patient billing requirements.

Excess of Revenue Over Expenses

The consolidated statements of operations and changes in net assets include excess of revenue over expenses. Changes in unrestricted net assets, which are excluded from excess of revenue over expenses, include net assets released from restrictions used for the purchase of property and equipment, noncontrolling investments changes, and pension-related charges other than net periodic pension cost.

Income Taxes

Healthcare, the Hospital, and the Foundation have been determined to qualify as exempt from federal income tax on related income under Section 501(a) as organizations described in Section 501(c)(3) of the Code. Most of the income received by these organizations is exempt from taxation as income related to the mission of the organizations. Accordingly, there is no material provision for income tax for these entities.

PHO and NCPA (inactive) are single-member limited liability companies and are classified as disregarded entities under the Code.

CyberKnife, DSC-II, Endo, and Foot are limited liability companies with multiple members and are treated as partnerships under the Code. As such, income taxes are paid directly by the members.

Northwest Community Healthcare and Subsidiaries

Notes to Consolidated Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Health Services is taxed as a corporation. The deferred tax benefit for net operating loss carryforwards of \$41,335,000 at September 30, 2017 is fully reserved. There is no current provision for income taxes.

CICL is incorporated under the laws of the Cayman Islands. Presently, there is no taxation imposed by the government of the Cayman Islands. If any form of taxation were to be enacted, CICL has been granted an exemption from incorporation to April 30, 2033, by the government of the Cayman Islands. Additionally, CICL is not engaged in the trade or business in any country other than the Cayman Islands. Therefore, CICL's operations do not make it liable for taxation in any other country. Accordingly, no income tax provision has been recorded related to CICL and its operations.

Reclassifications

Certain amounts in the 2016 financial statements have been reclassified to conform to the 2017 presentation. Those reclassifications had no impact on net assets or excess of revenue over expenses as previously reported.

New Accounting Pronouncements

In February 2015, the FASB issued ASU No. 2015-02, *Consolidation (Topic 810): Amendments to the Consolidation Analysis*. The guidance in this update modifies the analysis that companies must perform to determine whether certain legal entities should be consolidated, including limited partnerships and similar legal entities that would be considered variable interest entities and investments in certain investment funds. This new guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015, with early adoption permitted. Healthcare was required to adopt the new guidance on October 1, 2016, and determined there was no change required in reporting of consolidating entities.

In April 2015, the FASB issued ASU No. 2015-03, *Interest – Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs*. The amendments in this update require that the carrying amount of the debt liability be presented net of debt issuance costs, consistent with the presentation of debt discounts. The recognition and measurement guidance for debt issuance costs is not affected by the amendments in this update. This new guidance is effective for fiscal years and interim periods within those years beginning after December 15, 2015. Healthcare was required to adopt the new guidance on October 1, 2016 and reclassified the presentation of debt issuance costs from other assets to long-term debt as of September 30, 2016.

Northwest Community Healthcare and Subsidiaries

Notes to Consolidated Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

In April 2015, the FASB also issued ASU No. 2015-05, *Customer's Accounting for Fees Paid in a Cloud Computing Arrangement*. ASU No. 2015-05 provides explicit guidance on how to account for fees paid in cloud computing arrangements to remove the diversity in practice for accounting for such arrangements. These arrangements can include software as a service, platform as a service, infrastructure as a service, and other similar housing arrangements. This ASU provides guidance on inclusion of software licenses in such arrangements which the customer should account for consistent with acquisition of other software licenses. This new guidance is effective for fiscal years and interim periods within those fiscal years beginning after December 15, 2015, with early adoption permitted. Healthcare was required to adopt the new guidance on October 1, 2016 with no impact on its financial statements.

In May 2015, the FASB issued ASU No. 2015-07, *Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities That Calculate Net Asset Value Per Share (or Its Equivalent)*. Under the new guidance, investments measured at net asset value per share, which have unobservable inputs, will be excluded from the fair value hierarchy table. Other disclosure requirements for these investments are unchanged and will continue to be included in the investment disclosures. This new guidance is effective for fiscal years and interim periods within those years beginning after December 15, 2015. Healthcare was required to adopt the new guidance on October 1, 2016.

In September 2015, the FASB issued ASU No. 2015-16, *Business Combinations (Topic 805): Simplifying the Accounting for Measurement-Period Adjustments*. The standard requires that adjustments made to provisional amounts recognized in a business combination be recorded in the period such adjustments are determined rather than retrospectively adjusting previously reported amounts. This ASU is effective for fiscal years, and interim periods within those years, beginning after December 15, 2015. Healthcare was required to adopt this guidance on October 1, 2016 and there was no impact on the financial reporting for the year ended September 30, 2017.

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. The amendments in this update require not-for-profit entities that are conduit bond obligors to 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. This will result in Healthcare making additional judgments, such as estimates of the collectability of revenue. This new guidance is effective for fiscal years and interim periods within those years beginning after December 15, 2017, with early adoption not permitted. Healthcare is required to adopt the new guidance for the fiscal year beginning on October 1, 2018, and is currently evaluating the impact this guidance will have on its consolidated financial statements.

Northwest Community Healthcare and Subsidiaries

Notes to Consolidated Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*, which will require lessees to put most leases on their balance sheets but recognize expenses on their income statements in a manner similar to existing accounting standards. The guidance eliminates current real estate-specific provisions for all entities. This new guidance is effective for fiscal years and interim periods within those fiscal years beginning after December 15, 2018, with early adoption permitted. This would be October 1, 2019, for Healthcare. Entities are required to use a modified retrospective approach for leases that exist or are entered into after the beginning of the earliest comparative period in the financial statements. Full retrospective application is prohibited. Healthcare is currently evaluating the effect this ASU will have on its consolidated financial statements.

In August 2016, the FASB issued ASU No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. ASU No. 2016-14 changes certain financial statement requirements for not-for-profit (NFP) entities in the scope of ASC 958 in an effort to make the information more meaningful to users and make reporting less complex. NFP entities will no longer be required to distinguish between resources with temporary and permanent restrictions on the face of the financial statements. Additionally, NFP entities will be required to present expenses by their natural and functional classifications and present investment returns net of external and direct internal investment expenses. This new guidance is effective for fiscal years beginning after December 15, 2017, and interim periods within fiscal years beginning after December 15, 2018. The guidance is to be applied retrospectively and early adoption is permitted. Healthcare is currently evaluating the effect this ASU will have on its consolidated financial statements.

In March 2017, the FASB issued ASU 2017-07, *Compensation-Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*, which changes the presentation of periodic benefit cost components. Under this ASU, present service costs will continue to be presented within operating expenses but present amortization of prior service credits and other components of net periodic benefit cost in nonoperating gains (losses) in the consolidated statements of operations and changes in net assets. This ASU is effective for annual reporting periods beginning after December 15, 2017. Healthcare is currently evaluating the impact of this guidance on its consolidated financial statements.

3. Net Patient Service Revenue

The Hospital's net patient service revenue accounted for approximately 84% and 85% of Healthcare's consolidated net patient service revenue in 2017 and 2016, respectively. In 2017, approximately 39% of the Hospital's net patient service revenue was derived from Medicare, and

Northwest Community Healthcare and Subsidiaries

Notes to Consolidated Financial Statements (continued)

3. Net Patient Service Revenue (continued)

approximately 60% of the Hospital's net patient service revenue was derived from Medicaid, Blue Cross, and commercial managed care programs, which provide for payments to the Hospital at amounts different from its established rates. In 2016, approximately 37% of the Hospital's net patient service revenue was derived from Medicare, and approximately 61% of the Hospital's net patient service revenue was derived from Medicaid, Blue Cross, and commercial managed care programs, which provide for payments to the Hospital at amounts different from its established rates. Reimbursement under these programs is based on a specific amount per case, or a contracted price, as defined, for rendering services to program beneficiaries.

Healthcare net patient service revenue consisted of the following at September 30 (in thousands):

	2017	2016
Medicare	\$ 214,979	\$ 189,550
Medicaid	53,695	46,008
Managed care	266,640	286,847
Self-pay	5,527	9,618
Commercial	6,252	6,637
Net patient service revenue (net of contractual)	547,093	538,660
Provision for uncollectible accounts	19,815	12,129
Net patient service revenue after provision for uncollectible accounts	\$ 527,278	\$ 526,531

Net patient service revenue is reported at the estimated net realizable amounts due from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements. The Hospital recorded contractual allowances in the current period representing the difference between charges for services rendered and the expected payments under these programs, and adjusts them in future periods as final settlements through cost reports or other means are determined.

Adjustments arising from reimbursement arrangements with third-party payors are accrued for on an estimated basis in the period in which the services are rendered. Estimates for cost report settlements and contractual allowances can differ from actual reimbursement based on the results of subsequent reviews and cost report audits. The Hospital's Medicare cost reports have been audited by the Medicare fiscal intermediary through September 30, 2014. During the year ended September 30, 2017, no material changes in estimates related to the settlement of cost reports were

Northwest Community Healthcare and Subsidiaries

Notes to Consolidated Financial Statements (continued)

3. Net Patient Service Revenue (continued)

recognized in net patient service revenue for the Hospital. During the year ended September 30, 2016, an increase in net patient revenue of approximately \$3,100,000 was recognized related to changes in estimates.

Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates may change. Governmental agencies routinely conduct random regulatory investigations and compliance audits of healthcare organizations. During the last few years, various healthcare organizations have received requests for information and notices regarding alleged noncompliance with those laws and regulations, which, in some instances, have resulted in organizations entering into significant settlement agreements. The Hospital is currently undergoing a Medicaid compliance audit, and as a result, recorded amounts may change in the near term. The ultimate resolution of this matter cannot be readily determined at this time; however, management is of the opinion that any changes in recorded amounts will not have a material effect on Healthcare's consolidated financial condition. Healthcare believes that it is in compliance with applicable laws and regulations, and is not aware of any other pending or threatened investigations involving allegations of potential wrongdoing.

4. Uncollectible Accounts

Healthcare analyzes the allowance for uncollectible accounts monthly using a hindsight calculation that utilizes write-off data for all payor classes during the latest 18-month period, with write-off activity to estimate the allowance for uncollectible accounts at a point in time. The rates used in the computation of the allowance for uncollectible accounts change each month given changes in trends from these analyses or policy changes. Significant changes in payor mix, business office operations, general economic conditions, and healthcare coverage provided by federal or state governments or private insurers may have a significant impact on Healthcare's estimates, and significantly affect its liquidity, results of operations, and cash flows.

Healthcare's estimate of the allowance for uncollectible accounts and recoveries of accounts previously written off determines its provision for uncollectible accounts recorded during the period. Healthcare records the provision for uncollectible accounts at the time the services are provided for uninsured patients, since historical experience shows that the significant majority of uninsured balances will not be collected. Healthcare also supplements its analysis by monitoring self-pay utilization. Healthcare records the provision for uncollectible accounts related to self-pay after insurance accounts at the time the insurance payment has been received. Healthcare also records a provision for uncollectible accounts related to uninsured accounts to record the net self-pay accounts receivable at the estimated amounts expected to be collected.

Northwest Community Healthcare and Subsidiaries

Notes to Consolidated Financial Statements (continued)

4. Uncollectible Accounts (continued)

Healthcare manages the receivables by regularly reviewing its accounts and contracts, and by providing appropriate allowances for contractual discounts and uncollectible amounts. Healthcare typically writes off uncollected accounts receivable 120 days subsequent to the account becoming full patient responsibility. Healthcare uses sophisticated software to estimate reserve percentages, including those percentages applied to uninsured accounts and self-pay after insurance/Medicare accounts, and to account for pricing changes and for the impact of its uninsured discount policy.

Healthcare classifies accounts pending Medicaid approval as Medicaid in its accounts receivable analysis. Reserves for Medicaid receivables are based on hindsight analysis, which takes into account the approval percentage for Medicaid pending accounts when establishing reserves for Medicaid receivable balances. Supplemental calculations are also performed on current Medicaid receivables to establish reserves considered to be appropriate.

Healthcare serves certain patients whose medical care costs are not paid at established rates. These patients include those sponsored under government programs such as Medicare and Medicaid, those sponsored under private contractual agreements, charity patients, and other uninsured patients who have limited ability to pay.

Patient service revenue is reported at estimated net realizable amounts for services rendered. Healthcare recognizes patient service revenue associated with patients who have third-party payor coverage on the basis of contractual rates for the services rendered. For uninsured patients who do not qualify for charity care, revenue is recognized on the basis of discounted rates in accordance with Healthcare's policy. Estimates of contractual allowances under managed care health plans are based upon the payment terms specified in the related contractual agreements.

Patient service revenue, net of contractual allowances and discounts (but before the provision for uncollectible accounts), recognized in the period from these major payor sources for the years ended September 30, was as follows (in thousands):

	Third-Party Payors	Self-Pay	Total All Payors
Fiscal year ended:			
2017	\$ 541,566	\$ 5,527	\$ 547,093
2016	529,042	9,618	538,660

Northwest Community Healthcare and Subsidiaries

Notes to Consolidated Financial Statements (continued)

4. Uncollectible Accounts (continued)

The allowance for uncollectible accounts was \$11.9 million and \$9.4 million as of September 30, 2017 and 2016, respectively. These balances as a percent of accounts receivable, net of contractual adjustments, were 11.2% and 10.5% at September 30, 2017 and 2016, respectively. Healthcare's combined allowance for uncollectible accounts, uninsured discounts, and charity care covered approximately 86% and 61% of combined uninsured and self-pays after insurance accounts receivable at September 30, 2017 and 2016, respectively.

The increase in the allowance for uncollectible accounts during the year ended September 30, 2017, was primarily due to a change in the composition of the related accounts receivable and fully reserving all balances in the legacy accounts receivable system.

A summary of Healthcare's allowance for uncollectible accounts activity during the fiscal years ended September 30 is as follows (in thousands):

	Balance at Beginning of Year	Additions Charged to Costs and Expenses	Accounts Written Off, Net of Recoveries and Other	Balance at End of Year
Allowance for doubtful accounts:				
2017	\$ 9,442	\$ 19,815	\$ (17,400)	\$ 11,857
2016	\$ 11,353	\$ 12,129	\$ (14,040)	\$ 9,442

5. Concentrations of Credit Risk

Healthcare grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of receivables, net of reserves for contractual allowances, charity care, and uncollectible accounts, at September 30, was as follows:

	2017	2016
Medicare	30%	34%
Medicaid	15	5
Managed care	42	44
Other third-party payors	6	11
Self-pay patients	7	6
	100%	100%

Northwest Community Healthcare and Subsidiaries

Notes to Consolidated Financial Statements (continued)

6. Investments

The composition of investments restricted under bond financings and assets limited as to use at September 30 was as follows (in thousands):

	<u>2017</u>	<u>2016</u>
Assets limited as to use:		
Internally designated for operations and liquidity:		
Cash and money market funds	\$ —	\$ 409
U.S. government and agency obligations	—	11,863
Corporate bonds	—	26,840
Municipal bonds	—	3,823
Investments restricted under bond financings:		
Cash and cash equivalents	<u>12,643</u>	12,696
	12,643	55,631
Internally designated for capital replacement:		
Cash and cash equivalents	837	2,663
Alternative investments	—	28,731
Fund of funds	78,468	44,070
Mutual funds	<u>335,629</u>	275,497
	414,934	350,961
Internally designated for insurance:		
Mutual funds	26,510	30,054
Internally designated for deferred compensation:		
Mutual funds	4,996	4,376
Internally and externally designated for endowment:		
Mutual funds	3,213	3,505
Total assets limited as to use	<u>\$ 462,296</u>	<u>\$ 444,527</u>

Northwest Community Healthcare and Subsidiaries

Notes to Consolidated Financial Statements (continued)

6. Investments (continued)

The composition and presentation of investment income are as follows for the years ended September 30 (in thousands):

	2017	2016
Interest and dividends	\$ 7,523	\$ 7,678
Realized gains on investments	12,235	17,330
Change in net unrealized gains and losses on investments	26,447	578
Investment fees	(766)	(1,571)
	\$ 45,439	\$ 24,015
Reported as:		
Other operating revenue	\$ 1,664	\$ 1,244
Net investment income	43,563	22,992
Temporarily restricted investment income	212	(221)
	\$ 45,439	\$ 24,015

7. Fair Value Measurements

All investments in marketable securities are reported at fair value as defined in ASC 820, *Fair Value Measurement*.

ASC 820-10-50-2 establishes a three-level valuation hierarchy. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows:

- Level 1 – Inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.
- Level 2 – Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instruments.
- Level 3 – Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

Northwest Community Healthcare and Subsidiaries

Notes to Consolidated Financial Statements (continued)

7. Fair Value Measurements (continued)

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The following table presents the financial instruments carried at fair value, except certain alternative investments (which are reported on the equity method of accounting), as of September 30, 2017, by caption on the consolidated balance sheet by the valuation hierarchy defined above (in thousands):

	Level 1	Level 2	Level 3	Total
Assets				
Cash and cash equivalents	\$ 30,872	\$ —	\$ —	\$ 30,872
Investments restricted under bond financings:				
Cash and cash equivalents	12,643	—	—	12,643
Internally designated for capital replacement:				
Cash and cash equivalents	837	—	—	837
Mutual funds:				
U.S. equity	210,744	—	—	210,744
Fixed income	124,885	—	—	124,885
	<u>335,629</u>	—	—	<u>335,629</u>
Internally designated for insurance:				
Mutual funds:				
U.S. equity	5,304	—	—	5,304
International equity	3,181	—	—	3,181
Fixed income	18,025	—	—	18,025
	<u>26,510</u>	—	—	<u>26,510</u>
Internally designated for deferred compensation:				
Mutual funds	4,996	—	—	4,996
Internally and externally designated for endowment:				
Mutual funds:				
U.S. equity	1,410	—	—	1,410
International equity	653	—	—	653
Fixed income	1,150	—	—	1,150
	<u>3,213</u>	—	—	<u>3,213</u>
Assets at fair value	<u>\$ 414,700</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 414,700</u>

Northwest Community Healthcare and Subsidiaries

Notes to Consolidated Financial Statements (continued)

7. Fair Value Measurements (continued)

The following table presents the financial instruments carried at fair value, except certain alternative investments (which are reported on the equity method of accounting), as of September 30, 2016, by caption on the consolidated balance sheet by the valuation hierarchy defined above (in thousands):

	Level 1	Level 2	Level 3	Total
Assets				
Cash and cash equivalents	\$ 20,608	\$ —	\$ —	\$ 20,608
Investments restricted under bond financings:				
Cash and cash equivalents	12,696	—	—	12,696
Internally designated for operations and liquidity:				
Cash and money market funds	409	—	—	409
U.S. government and agency obligations	—	11,863	—	11,863
Corporate bonds	—	26,840	—	26,840
Municipal bonds	—	3,823	—	3,823
	409	42,526	—	42,935
Internally designated for capital replacement:				
Cash and cash equivalents	2,663	—	—	2,663
Mutual funds:				
U.S. equity	204,862	—	—	204,862
Fixed income	70,514	—	—	70,514
	278,039	—	—	278,039
Internally designated for insurance:				
Mutual funds:				
U.S. equity	5,402	—	—	5,402
International equity	3,180	—	—	3,180
Fixed income	21,472	—	—	21,472
	30,054	—	—	30,054
Internally designated for deferred compensation:				
Mutual funds	4,376	—	—	4,376
Internally and externally designated for endowment:				
Mutual funds:				
U.S. equity	1,473	—	—	1,473
International equity	664	—	—	664
Fixed income	1,368	—	—	1,368
	3,505	—	—	3,505
Assets at fair value	\$ 349,687	\$ 42,526	\$ —	\$ 392,213

Northwest Community Healthcare and Subsidiaries

Notes to Consolidated Financial Statements (continued)

7. Fair Value Measurements (continued)

The fair value of Level 1 investments is based on quoted market prices and is valued on a daily basis. Level 2 pricing is based on the custodian's pricing methodologies that are based on institutional bid evaluations. Institutional bid evaluations are estimated prices computed by pricing vendors. These prices are determined using observable inputs for similar securities as of the measurement date. Redemption frequency is monthly. The fair value of the interest rate swap is based on discounted cash flows adjusted for non-performance risk. The adjustment is based on bond pricing for equivalent credit-related entities.

The carrying value of cash and cash equivalents, accounts receivable, and accounts payable approximates fair value because of the short maturity of those assets and liabilities.

The estimated fair value of long-term debt (including current portion), based on quoted market prices for the same or similar issues, was and \$255,886,000 and \$272,471,000 at September 30, 2017 and 2016, respectively. The estimated fair value of long-term debt was provided by a third-party service and was based on pricing of similar debt issues. Based on these inputs, the fair value disclosure is considered a Level 2 fair value measurement.

Healthcare's investments are exposed to various kinds and levels of risk. Equity securities and mutual funds expose Healthcare to market risk, performance risk, and liquidity risk. Market risk is the risk associated with major movements of the equity markets. Performance risk is the risk associated with a company's operating performance. Fixed income securities and mutual funds expose Healthcare to interest rate risk, credit risk, and liquidity risk. As interest rates change, the values of many fixed income securities are affected, including those with fixed interest rates. Credit risk is the risk that the obligor of the security will not fulfill its obligations. Liquidity risk is affected by the willingness of market participants to buy and sell particular securities, and tends to be higher for equities related to small capitalization companies. Due to the volatility in the capital markets, there is a reasonable possibility of subsequent changes in fair value, resulting in additional gains and losses in the near term.

Northwest Community Healthcare and Subsidiaries

Notes to Consolidated Financial Statements (continued)

8. Long-Term Obligations

Healthcare's long-term debt is issued pursuant to an amended and restated master trust indenture dated June 15, 2016. The master trust indenture establishes an "Obligated Group," consisting of the Hospital and Healthcare. All members of the Obligated Group are jointly and severally obligated to pay all debt under the master trust indenture and are required to maintain their status as tax-exempt, not-for-profit health care providers.

All obligations issued under the master trust indenture are secured by a security interest in the receivables of the Obligated Group as defined in the master trust indenture.

Under the terms of the master trust indenture and reimbursement agreements obtained in relation to the Series 2011 debt, the Obligated Group must meet certain financial covenants, including minimum debt service coverage levels. As of September 30, 2017, the Obligated Group was in compliance with these covenants.

Bond interest expense during 2017 and 2016 was \$7,191,000 and \$7,979,000, respectively. Including financing fees, investment fees, and swap settlements, total interest expense was \$7,423,000 and \$8,757,000 for 2017 and 2016, respectively. No interest was capitalized for the years ended September 30, 2017 and 2016.

Series 2016A Bonds

In June 2016, the Illinois Finance Authority (IFA) issued \$136,690,000 of fixed interest rate bonds that bear coupon interest at rates ranging from 4.00% to 5.00% annually, which were sold at a premium of \$20,646,000. These bonds were used to refund the majority of the 2008A variable rate demand revenue bonds. The balance remaining as of September 30, 2017, on the 2008A bonds is \$2,075,000. The bonds are payable annually with interest payments twice a year. The bond premium balance was \$19,473,000 and \$20,412,000 at September 30, 2017 and 2016, respectively.

Series 2011 Bonds

Pursuant to the Bond Supplemental Master Indenture dated December 1, 2011, the IFA issued \$53,100,000 of variable rate demand revenue bonds (the Series 2011 debt) on behalf of the Hospital. The proceeds were used to currently refund the Series 2002B debt. The bonds were initially purchased by a bank for an initial term of ten years, and bear interest at a variable rate

Northwest Community Healthcare and Subsidiaries

Notes to Consolidated Financial Statements (continued)

8. Long-Term Obligations (continued)

based on a percentage of the London Interbank Offered Rate (LIBOR) plus an agreed-upon spread. Effective December 1, 2021, the bonds will be payable on demand. The bonds have a final maturity date of July 1, 2032. The average interest rate during fiscal 2017 and 2016 was 2.06% and 1.67%, respectively.

Series 2008A Bonds

In September 2008, the IFA issued \$154,765,000 of revenue bonds (the Series 2008A debt) on behalf of the Hospital to fund certain capital projects. Most of these bonds were refunded by the Series 2016A bonds. The remaining 2008A bonds are payable in varying installments through July 1, 2018, and bear interest at fixed rates ranging from 4.00% to 5.50% annually. Proceeds from the Series 2008A debt were used to reimburse the Hospital for prior capital expenditures and to pay issuance costs of the bonds.

Series 2008B and Series 2008C Bonds

In October 2008, the IFA issued \$86,820,000 of variable rate demand revenue bonds (the Series 2008B/C debt) on behalf of the Hospital. The proceeds were used to refinance a taxable bank loan originally obtained to refund the Obligated Group's Series 2002A debt. The bonds are payable in varying installments through July 1, 2032, and bear interest at a variable rate not to exceed 12%. The average interest rate during fiscal 2017 and 2016 was 0.76% and 0.26%, respectively.

The direct pay letter of credit securing the Series 2008 B/C debt was replaced on February 17, 2016, with irrevocable transferable letters of credit that expire on October 5, 2020. The letters of credit provide a commitment to provide funds for the purchase of Series 2008 B/C bonds that may be tendered pursuant to an optional or a mandatory tender and that have not been remarketed. Such advances convert to term loans, with principal payments payable no earlier than a year and a day from the date of the advance.

Unamortized underwriting fees and other costs related to the issuance of debt of \$2,507,000 and \$2,651,000 are included in long-term debt at September 30, 2017 and 2016, respectively.

Northwest Community Healthcare and Subsidiaries

Notes to Consolidated Financial Statements (continued)

8. Long-Term Obligations (continued)

The future principal payments on the bonds are as follows (in thousands):

	Series 2008A	Series 2008B/C	Series 2011	Series 2016	Total
Year ending September 30:					
2018	\$ 2,075	\$ 3,340	\$ 1,900	\$ –	\$ 7,315
2019	–	3,450	2,000	2,150	7,600
2020	–	3,460	2,200	2,265	7,925
2021	–	3,580	2,300	2,390	8,270
2022	–	3,700	2,400	2,530	8,630
Thereafter	–	42,830	32,600	127,355	202,785
Total principal payments	<u>\$ 2,075</u>	<u>\$ 60,360</u>	<u>\$ 43,400</u>	<u>\$ 136,690</u>	<u>\$ 242,525</u>

9. Restricted Net Assets

Restricted net assets are available for the following purposes at September 30 (in thousands):

	2017	2016
Temporarily restricted:		
Specific hospital programs	\$ 188	\$ 142
Other special uses	122	3,699
Behavioral/Mental Health	29	14
Nursing education	613	526
Women’s services	877	1,176
Community services	102	40
Cancer services	1,327	1,355
Pediatrics	42	86
Cardiac services	214	575
	<u>\$ 3,514</u>	<u>\$ 7,613</u>
Permanently restricted:		
Youth treatment center	\$ 347	\$ 307
Nursing education	875	501
Endowment – general	224	162
	<u>\$ 1,446</u>	<u>\$ 970</u>

Healthcare’s endowment consists of individual donor-restricted funds established for a variety of purposes. Net assets associated with endowment funds are classified and reported based on the donor-imposed restrictions.

Northwest Community Healthcare and Subsidiaries

Notes to Consolidated Financial Statements (continued)

9. Restricted Net Assets (continued)

Healthcare has interpreted the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA), as adopted by the state of Illinois, as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds, absent explicit donor stipulations to the contrary. As a result of this interpretation, Healthcare classifies as permanently restricted net assets the original value of gifts donated to the permanent endowment, the original value of subsequent gifts to the permanent endowment, and accumulations to the permanent endowment made in accordance with the directions of the applicable donor gift instrument at the time the accumulation is added to the fund.

Any remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the organization in a manner consistent with the donor intent or, where silent, standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, Healthcare considers the following factors in making a determination to appropriate or accumulate donor-restricted funds:

- The purposes of Healthcare and the endowment fund
- General economic conditions
- The possible effects of inflation and deflation
- The expected total return from income and the appreciation of investments

Healthcare has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment, while seeking to maintain purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that must be held in perpetuity. Under the investment policy, endowment assets are invested in a manner that is intended to produce a real return, net of inflation, of at least 5% over the long term. Actual returns in any given year may vary from this amount.

To satisfy its long-term rate-of-return objectives, Healthcare relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). Healthcare targets a diversified asset allocation that places a greater emphasis on equity-based and alternative investments to achieve its long-term objective within prudent risk constraints.

Northwest Community Healthcare and Subsidiaries

Notes to Consolidated Financial Statements (continued)

9. Restricted Net Assets (continued)

Healthcare has a policy of appropriating for distribution each year 4% of the average of the most recent 12 quarters' endowment fund balance. In establishing this policy, Healthcare considered the long-term expected return on its endowment. Accordingly, over the long term, Healthcare expects to maintain the purchasing power of the endowment assets held in perpetuity, as well as to provide additional real growth through new gifts and investment return.

The changes in restricted net assets are summarized below (in thousands):

	Temporarily Restricted	Permanently Restricted	Total
Restricted net assets, September 30, 2015	\$ 6,190	\$ 1,049	\$ 7,239
Contributions	3,675	28	3,703
Investment loss	(221)	–	(221)
Appropriation for expenditure	(2,031)	–	(2,031)
Other	–	(107)	(107)
Restricted net assets, September 30, 2016	7,613	970	8,583
Contributions	1,772	5	1,777
Investment gain	212	–	212
Appropriation for expenditure	(5,612)	–	(5,612)
Other	(471)	471	–
Restricted net assets, September 30, 2017	\$ 3,514	\$ 1,446	\$ 4,960

10. Insurance Programs

Healthcare is a defendant in certain lawsuits, and may be subject to additional claims alleging professional liability. Effective November 1, 1978, Healthcare began insuring basic professional and general liability coverage, subject to a nominal deductible, through the Chicago Hospital Risk Pooling Program (CHRPP). CHRPP was a self-insured trust established under the Illinois Religious and Charitable Risk Pooling Trust Act of 1977.

As of December 31, 2010, CHRPP discontinued the issuance of professional and general liability coverage and commenced a voluntary runoff of its claim portfolio effective January 1, 2011. As of that date, Healthcare established a self-insured retention program in which it retained the risk for all claims with individual values under \$4,000,000. An additional “buffer” self-insured retention

Northwest Community Healthcare and Subsidiaries

Notes to Consolidated Financial Statements (continued)

10. Insurance Programs (continued)

existed for the first claim that exceeds \$4,000,000. As of January 1, 2013, this was revised and Healthcare retains \$1,000,000 for each claim with an aggregate of \$3,000,000 for all claims. Healthcare obtains commercial insurance on a claims-made basis for claims exceeding the self-insured retention.

On January 1, 2013, Healthcare incorporated a related captive insurance company in the Cayman Islands. The newly formed company provides medical professional and general liability coverage for the risks of Healthcare, which was previously self-insured. In addition, the new company is providing prospective coverage for the employed physicians who were previously covered by NCHCI.

Healthcare's self-insurance and tail liabilities as of September 30, 2017 and 2016, of \$46,184,000 and \$50,913,000, respectively, are reported on the accompanying consolidated balance sheets on an undiscounted basis for the captive organization and discounted basis for the Hospital. The undiscounted gross self-insurance and tail liabilities were \$47,668,000 and \$52,441,000 at September 30, 2017 and 2016, respectively. Provisions for professional and general liability risks are based on an actuarial estimate of losses using actual loss data adjusted for industry trends and current conditions. The provision for estimated self-insured claims includes estimates of ultimate costs for both reported claims and claims incurred but not reported. A reinsurance receivable of \$10,064,000 and \$15,451,000 was recorded at September 30, 2017 and 2016, respectively.

As of April 1, 2015, Healthcare also established a self-insured retention program through the related captive insurance company for its workers' compensation risks. This had also previously been with CHRPP. Healthcare retains risk for the first \$450,000 of each claim. Healthcare also retains risk of \$100,000 for the first claim that exceeds the \$450,000 limit. Commercial insurance has been obtained on a claims-made basis for claims exceeding the self-insured retention. Healthcare's workers' compensation liabilities as of September 30, 2017 and 2016, of \$2,226,000 and \$2,492,000, respectively, are reported on the accompanying consolidated balance sheets on an undiscounted basis. Of this amount, as of September 30, 2017 and 2016, \$198,000 and \$833,000, respectively, was recorded in current liabilities.

Actuarial estimates are subject to uncertainty from various sources, including changes in claim reporting patterns, claim settlement patterns, judicial decisions, legislation, and economic conditions. The actual claim payments could be materially different from the estimate. In the opinion of management, although certain of these claims could potentially exceed Healthcare's coverage, the final premiums and costs, and the ultimate disposition of claims covered under the self-insured program, will not have a material adverse effect on the consolidated financial position of Healthcare.

Northwest Community Healthcare and Subsidiaries

Notes to Consolidated Financial Statements (continued)

11. Commitments

Healthcare leases space under operating lease agreements. There are no long-term equipment leases. Total expense recognized for operating lease agreements during fiscal 2017 and 2016 was approximately \$5,219,000 and \$5,168,000, respectively. Healthcare has no capitalized lease obligations.

As of September 30, 2017, Healthcare is required to make the following future minimum payments under the non-cancelable lease agreements (in thousands):

2018	\$	3,904
2019		3,560
2020		2,088
2021		1,953
2022		1,543
Thereafter		2,163
	\$	<u>15,211</u>

12. Employee Retirement Plans

Substantially all employees of Healthcare participate in one of two retirement plans. The Northwest Community Hospital Employees' Retirement Plan (the Plan) is a trusted, non-contributory, defined benefit plan. The Northwest Community Healthcare Employees' Retirement Plan (the DC Plan) is a defined contribution 401K plan.

Defined Benefit Plan

During fiscal 2010, the Hospital elected to freeze benefit accruals for all participants in the Plan. An amendment to the Plan eliminated all future benefit accruals, including participants' credited service, final average earnings, and final average compensation amounts used to calculate Plan benefits. A September 30 measurement date was utilized for 2017 and 2016.

Northwest Community Healthcare and Subsidiaries

Notes to Consolidated Financial Statements (continued)

12. Employee Retirement Plans (continued)

The Plan's actuarial losses (gains) included in unrestricted net assets during 2017 and 2016 were \$6,831,000 and \$(9,730,000), respectively.

The status of the Plan at September 30, and for the years then ended, is as follows (in thousands):

	<u>2017</u>	<u>2016</u>
Change in projected benefit obligation:		
Projected benefit obligation at beginning of year	\$ 168,637	\$ 171,668
Interest cost	5,069	5,678
Actuarial loss	5,420	4,446
Settlements	(13,091)	(11,166)
Benefits paid	(2,134)	(1,989)
Projected benefit obligation at end of year	<u>163,901</u>	<u>168,637</u>
Change in plan assets:		
Fair value of plan assets at beginning of year	171,444	154,709
Actual gain on plan assets	5,592	21,730
Employer contributions	800	8,160
Settlements	(13,091)	(11,166)
Benefits paid	(2,134)	(1,989)
Fair value of plan assets at end of year	<u>162,610</u>	<u>171,444</u>
Funded status as of measurement date	<u>(1,291)</u>	<u>2,807</u>
Unrestricted net assets:		
Adjustment to unrestricted net assets	(61,092)	(54,260)
Components of unrestricted net assets:		
Unrecognized net actuarial loss	61,092	54,260
Net amount recognized at end of year	<u>\$ (1,291)</u>	<u>\$ 2,807</u>

Northwest Community Healthcare and Subsidiaries

Notes to Consolidated Financial Statements (continued)

12. Employee Retirement Plans (continued)

Net periodic pension (benefit) cost for all of the Plan's participants consists of the following for the years ended September 30 (in thousands):

	<u>2017</u>	<u>2016</u>
Interest cost on projected benefit obligation	\$ 5,069	\$ 5,678
Expected return on plan assets	(13,048)	(12,526)
Net amortization and deferral	1,281	1,305
Settlement charge	4,765	3,668
Net periodic pension (benefit) cost	<u>\$ (1,933)</u>	<u>\$ (1,875)</u>

The accumulated benefit obligation for the Plan was approximately \$163,901,000 and \$168,637,000 at September 30, 2017 and 2016, respectively. Since the plan is frozen and there are no projected salary increases, accumulated and projected benefit obligations are the same.

Weighted-average assumptions used to determine benefit obligations at the measurement date are as follows:

	<u>2017</u>	<u>2016</u>
Discount rate	3.3%	2.9%

Weighted-average assumptions used to determine net periodic pension cost for the years ended September 30 are as follows:

	<u>2017</u>	<u>2016</u>
Discount rate	3.3%	3.9%
Expected long-term rate of return on plan assets	7.8	8.0

The expected long-term rate of return on plan assets was developed using expected investment returns of the Plan's investment portfolio. The portfolio's actual annual rate of return has averaged 10.0% since its inception in 2009.

Northwest Community Healthcare and Subsidiaries

Notes to Consolidated Financial Statements (continued)

12. Employee Retirement Plans (continued)

The Plan's weighted-average asset allocations at September 30, by asset category, are as follows:

Asset category	2017		2016	
	Target	Actual	Target	Actual
Equity securities	29%	27%	29%	30%
Fixed income securities	59	60	59	58
Alternative investments	12	13	12	12
	100%	100%	100%	100%

The Plan exists to provide retirement benefits for covered employees consistent with the long-term interests of the Plan's participants and their beneficiaries. The Plan's investment objectives may include, but are not limited to, the following: maintaining a portfolio of assets of appropriate liquidity and diversification which generate investment returns that, together with future contributions, are sufficient to maintain or improve the Plan's funding level; limiting the increase or variability of future contributions; and earning a rate of return in excess of a customized index.

There are no minimum employer contributions expected for 2018.

The following are the Plan's financial instruments at September 30, 2017, measured at fair value on a recurring basis by the valuation hierarchy defined in Note 7 (in thousands):

	Level 1	Level 2	Level 3	Total
Cash and money market funds	\$ 118	\$ —	\$ —	\$ 118
U.S. government and agency obligations	—	17,672	—	17,672
Mutual funds:				
U.S. equity	27,682	—	—	27,682
International equity	16,235	—	—	16,235
Fixed income	71,842	—	—	71,842
High-yield bonds	4,340	—	—	4,340
Emerging markets debt	2,883	—	—	2,883
Hedge fund of funds	—	—	21,838	21,838
	\$ 123,100	\$ 17,672	\$ 21,838	\$ 162,610

Northwest Community Healthcare and Subsidiaries

Notes to Consolidated Financial Statements (continued)

12. Employee Retirement Plans (continued)

The following are the Plan's financial instruments at September 30, 2016, measured at fair value on a recurring basis by the valuation hierarchy defined in Note 7 (in thousands):

	Level 1	Level 2	Level 3	Total
Cash and money market funds	\$ 1,508	\$ —	\$ —	\$ 1,508
Mutual funds:				
U.S. equity	30,951	—	—	30,951
International equity	18,116	—	—	18,116
Fixed income	92,209	—	—	92,209
High-yield bonds	5,208	—	—	5,208
Emerging markets debt	3,371	—	—	3,371
Hedge fund of funds	—	—	20,081	20,081
	\$ 151,363	\$ —	\$ 20,081	\$ 171,444

Fair value methodologies for Level 1 and Level 2 are consistent with the inputs described in Note 7. Fair value measurements for Level 3 represent the Plan's ownership interests in the net asset value of a limited partnership investing in hedge funds for which active markets do not exist (alternative investments). The fair values of the alternative investments that do not have readily determinable fair values are determined by the general partner or fund manager taking into consideration, among other things, the cost of the securities or other investments, prices of recent significant transfers of like assets, and subsequent developments concerning the companies or other assets to which the alternative investments relate.

There is inherent uncertainty in such valuations, and the estimated fair values may differ from the values that would have been used had a ready market for these investments existed. The Plan's alternative investments also have liquidity restrictions and can be divested only at specified times based on terms in the partnership agreements.

The Plan's investment assets are exposed to the same kinds and levels of risk as described in Note 7.

Northwest Community Healthcare and Subsidiaries

Notes to Consolidated Financial Statements (continued)

12. Employee Retirement Plans (continued)

The table below sets forth a summary of changes in the fair value of the Plan's Level 3 assets (in thousands):

	Hedge Fund of Funds
	<u> </u>
Value at September 30, 2015	\$ 18,000
Unrealized gain	2,081
Sales	—
Purchases	—
Value at September 30, 2016	<u>20,081</u>
Unrealized gain	1,757
Sales	—
Purchases	—
Value at September 30, 2017	<u>\$ 21,838</u>

The following benefit payments, which reflect expected future services, as appropriate, are expected to be paid (in thousands):

	Pension Benefits
	<u> </u>
2018	\$ 18,016
2019	16,897
2020	15,835
2021	14,774
2022	13,901
2023 to 2027	54,015

Northwest Community Healthcare and Subsidiaries

Notes to Consolidated Financial Statements (continued)

12. Employee Retirement Plans (continued)

Defined Contribution (DC) 401K Plan

In addition to the frozen plan, as of January 1, 2005, substantially all current and new employees are eligible for a defined contribution 401K Plan. Total DC employer expense was approximately \$7,677,000 and \$8,097,000 in 2017 and 2016, respectively, and is included in salaries and employee benefits expense. Healthcare matches employee contributions at a discretionary percentage per pay period.

Healthcare also sponsors two supplemental executive retirement plans. One plan had only one remaining participant who was fully vested and paid out in fiscal 2017. The total liability for these plans is \$1,642,000 and \$3,425,000 for the years ended September 30, 2017 and 2016, respectively, and is included in pension obligation liability. The related expense of \$527,000 and \$1,267,000 for 2017 and 2016, respectively, is recorded in salaries and employee benefits expense.

Healthcare also offers an Executive and Physician Income Deferral Plan (457B) which is 100% employee funded. All funds are transferred to a third-party investment firm in the name of the respective participant and no balances are reflected in Healthcare's financial statements. Healthcare had offered a physician deferred compensation program (now frozen) in which all 15 participants had vested. All funds have been moved to a third-party investment firm. The balance was \$4,996,000 and \$4,376,000 as of September 30, 2017 and 2016, respectively. The asset is presented separately in assets limited as to use and the liability is included in accrued expenses and other.

13. Functional Expenses

Healthcare provides general healthcare services to residents within its geographic location. Expenses related to providing these services are approximately as follows (in thousands):

	<u>2017</u>	<u>2016</u>
Healthcare services	\$ 415,228	\$ 393,104
General and administrative	175,382	164,759
Fundraising	884	885
	<u>\$ 591,494</u>	<u>\$ 558,748</u>

Northwest Community Healthcare and Subsidiaries

Notes to Consolidated Financial Statements (continued)

14. Illinois Hospital Assessment Program

In December 2008, the Illinois Hospital Assessment Program (HAP) was approved by the Federal Centers for Medicare and Medicaid Services. In June 2014, the Hospital was notified of revised inpatient and outpatient assessment amounts. In fiscal years 2017 and 2016, the Hospital was subject to and paid all assessments.

Under HAP, Illinois receives additional federal Medicaid funds for the state's healthcare system administered by the Illinois Department of Healthcare and Family Services. HAP includes both a payment to the Hospital from the state and an assessment against the Hospital, which is paid to the state in the same year.

The Hospital recognized the following amounts in the years ended September 30 (in thousands):

	<u>2017</u>	<u>2016</u>
HAP revenue in net patient service revenue	\$ 23,730	\$ 20,737
HAP assessment in operating expense	19,715	16,407
Net benefit from HAP	<u>\$ 4,015</u>	<u>\$ 4,330</u>

15. Subsequent Events

Healthcare evaluated events and transactions occurring subsequent to September 30, 2017, through January 16, 2018, the issuance date of these consolidated financial statements. During this period, it is management's determination that there were no other subsequent events requiring recognition that have not been recorded in the consolidated financial statements, and no subsequent events requiring disclosure in the consolidated financial statements.

Supplementary Information



Ernst & Young LLP
155 North Wacker Drive
Chicago, IL 60606-1787

Tel: +1 312 879 2000
Fax: +1 312 879 4000
ey.com

Report of Independent Auditors on Supplementary Information

The Audit and Compliance Committee and the Board of Directors
Northwest Community Healthcare and Subsidiaries

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The supplementary information is presented for purposes of additional analysis and is not a required part of the consolidated financial statements of Northwest Community Healthcare and Subsidiaries. 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 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 themselves in accordance with auditing standards generally accepted in the United States. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Ernst & Young LLP

January 16, 2018

Northwest Community Healthcare and Subsidiaries

Details of Consolidated Balance Sheet

September 30, 2017 (Unaudited)

	Northwest Community Healthcare	Northwest Community Hospital	NWC Hospital Foundation	NWC Day Surgery Center II	NPC- CyberKnife, LLC	NWC Healthcare PHO, LLC	NWC Health Services and Subsidiaries	NCH Central Insurance	Consolidating Eliminations	Total
Assets										
Current assets:										
Cash and cash equivalents	\$ 1,577,372	\$ 19,039,838	\$ 3,852,235	\$ 1,388,262	\$ 63,749	\$ 1,752,530	\$ 3,099,202	\$ 99,280	\$ -	\$ 30,872,468
Patient accounts receivable, less allowance for uncollectible accounts of \$11,857,000	-	63,419,350	-	2,979,022	-	-	12,558,363	-	-	78,956,735
Other receivables	1,296,898	9,817,495	680,458	-	-	3,566,237	746,446	6,176,984	(9,202,181)	13,082,337
Prepaid expenses and other	1,411,673	12,250,097	-	513,625	203,130	1	528,384	352,805	-	15,259,715
Due from affiliates	-	58,526,918	574,944	-	306,083	-	-	(1)	(59,407,944)	-
Total current assets	4,285,943	163,053,698	5,107,637	4,880,909	572,962	5,318,768	16,932,395	6,629,068	(68,610,125)	138,171,255
Assets limited as to use, at fair value:										
Investments restricted under bond financing	-	12,643,063	-	-	-	-	-	-	-	12,643,063
Internally designated for operations and liquidity	-	-	-	-	-	-	-	-	-	-
Internally designated for capital replacement	414,933,564	-	-	-	-	-	-	-	-	414,933,564
Internally designated for insurance	-	-	-	-	-	-	-	26,509,978	-	26,509,978
Internally designated for deferred compensation	-	-	-	-	-	-	4,995,701	-	-	4,995,701
Internally designated for endowment	-	-	1,200,000	-	-	-	-	-	-	1,200,000
Externally designated for endowment and other	-	-	2,013,503	-	-	-	-	-	-	2,013,503
	414,933,564	12,643,063	3,213,503	-	-	-	4,995,701	26,509,978	-	462,295,809
Property and equipment, at cost:										
Land and land improvements	8,547,268	14,563,827	-	-	-	-	-	-	-	23,111,095
Buildings	51,635,108	307,551,751	-	-	-	-	-	-	-	359,186,859
Fixed equipment and leasehold improvements	15,511,557	216,056,242	-	-	-	-	4,204,703	-	-	235,772,502
Major movable equipment	807,390	195,493,728	-	2,520,840	3,555,000	-	5,524,156	-	-	207,901,114
Construction-in-progress	-	5,292,239	-	11,527	-	-	514,983	-	-	5,818,749
	76,501,323	738,957,787	-	2,532,367	3,555,000	-	10,243,842	-	-	831,790,319
Less accumulated depreciation	(44,270,191)	(360,871,419)	-	(1,289,320)	(3,555,000)	-	(3,868,628)	-	-	(413,854,558)
	32,231,132	378,086,368	-	1,243,047	-	-	6,375,214	-	-	417,935,761
Interest in net assets of Foundation	-	4,960,072	-	-	-	-	-	-	(4,960,072)	-
Reinsurance receivable	-	5,362,512	-	-	-	-	-	4,701,174	-	10,063,686
Other long-term assets	(3,071,014)	3,940,373	1,215,645	3,071,014	-	-	6,830,486	-	-	11,986,504
Investment in subsidiaries	70,241,775	-	-	-	-	-	-	-	(70,241,775)	-
	67,170,761	14,262,957	1,215,645	3,071,014	-	-	6,830,486	4,701,174	(75,201,847)	22,050,190
Total assets	\$ 518,621,400	\$ 568,046,086	\$ 9,536,785	\$ 9,194,970	\$ 572,962	\$ 5,318,768	\$ 35,133,796	\$ 37,840,220	\$ (143,811,972)	\$ 1,040,453,015

Northwest Community Healthcare and Subsidiaries

Details of Consolidated Balance Sheet (continued)

September 30, 2017 (Unaudited)

	Northwest Community Healthcare	Northwest Community Hospital	NWC Hospital Foundation	NWC Day Surgery Center II	NPC- CyberKnife, LLC	NWC Healthcare PHO, LLC	NWC Health Services and Subsidiaries	NCH Central Insurance	Consolidating Eliminations	Total
Liabilities and net assets										
Current liabilities:										
Accounts payable	\$ 87,375	\$ 19,418,279	\$ 7,265	\$ 468,380	\$ –	\$ 4,937	\$ 1,867,788	\$ –	\$ –	\$ 21,854,024
Accrued expenses and other	1,415,525	32,051,741	56,140	614,084	28,789	2,624,688	15,139,010	3,527,660	(9,202,181)	46,255,456
Current maturities of long-term debt obligations	–	7,315,000	–	–	–	–	–	–	–	7,315,000
Due to third-party payors	–	51,231,663	–	–	–	–	–	–	–	51,231,663
Due to affiliates	14,915,515	1,184,016	–	4,565,333	–	2,193,910	36,549,171	–	(59,407,945)	–
Total current liabilities	16,418,415	111,200,699	63,405	5,647,797	28,789	4,823,535	53,555,969	3,527,660	(68,610,126)	126,656,143
Long-term obligations, less current maturities:										
Series 2008B bonds	–	28,510,000	–	–	–	–	–	–	–	28,510,000
Series 2008C bonds	–	28,510,000	–	–	–	–	–	–	–	28,510,000
Series 2011 bonds	–	41,500,000	–	–	–	–	–	–	–	41,500,000
Series 2016 bonds	–	136,690,000	–	–	–	–	–	–	–	136,690,000
Series 2016 bonds premium	–	19,473,155	–	–	–	–	–	–	–	19,473,155
Bond issuance costs	–	(2,507,318)	–	–	–	–	–	–	–	(2,507,318)
	–	252,175,837	–	–	–	–	–	–	–	252,175,837
Asset retirement obligation	–	823,833	–	–	–	–	–	–	–	823,833
Interest rate swap liability	–	–	–	–	–	–	–	–	–	–
Other long-term liabilities	–	1,642,470	–	–	–	–	–	–	–	1,642,470
Reserve for self-insurance	–	14,019,496	–	–	–	–	–	34,192,560	–	48,212,056
Pension obligation liability	–	1,291,023	–	–	–	–	–	–	–	1,291,023
Minority interest in subsidiary	–	–	–	–	–	–	–	–	–	–
Total noncurrent liabilities	–	269,952,659	–	–	–	–	–	34,192,560	–	304,145,219
Total liabilities	16,418,415	381,153,358	63,405	5,647,797	28,789	4,823,535	53,555,969	37,720,220	(68,610,126)	430,801,362
Net assets:										
Unrestricted	502,202,985	181,932,657	4,513,309	3,547,173	544,173	495,233	(18,422,173)	120,000	(70,241,775)	604,691,582
Temporarily restricted	–	3,513,527	3,513,527	–	–	–	–	–	(3,513,527)	3,513,527
Permanently restricted	–	1,446,544	1,446,544	–	–	–	–	–	(1,446,544)	1,446,544
Total net assets	502,202,985	186,892,728	9,473,380	3,547,173	544,173	495,233	(18,422,173)	120,000	(75,201,846)	609,651,653
Total liabilities and net assets	\$ 518,621,400	\$ 568,046,086	\$ 9,536,785	\$ 9,194,970	\$ 572,962	\$ 5,318,768	\$ 35,133,796	\$ 37,840,220	\$ (143,811,972)	\$ 1,040,453,015

Northwest Community Healthcare and Subsidiaries

Details of Consolidated Statement of Operations and Changes in Net Assets

Year Ended September 30, 2017 (Unaudited)

	Northwest Community Healthcare	Northwest Community Hospital	NWC Hospital Foundation	NWC Day Surgery Center II	NPC- CyberKnife, LLC	NWC Healthcare PHO, LLC	NWC Health Services and Subsidiaries	NCH Central Insurance	Consolidating Eliminations	Total
Revenue										
Net patient service revenue	\$ –	\$ 458,428,939	\$ –	\$ 15,124,632	\$ –	\$ –	\$ 73,542,082	\$ –	\$ (3,170)	\$ 547,092,483
Provision for uncollectible accounts	–	(16,546,716)	–	(520,980)	–	–	(2,746,807)	–	–	(19,814,503)
	–	441,882,223	–	14,603,652	–	–	70,795,275	–	(3,170)	527,277,980
Other operating revenue	10,224,703	9,009,968	382,926	5,142	684,000	17,074,585	3,823,048	10,655,155	(13,107,072)	38,752,455
Total revenue	10,224,703	450,892,191	382,926	14,608,794	684,000	17,074,585	74,618,323	10,655,155	(13,110,242)	566,030,435
Expenses										
Salaries and employee benefits	2,242,935	232,922,515	615,139	4,929,963	5,832	682,864	70,319,217	–	(1,468,786)	310,249,679
Supplies and other	1,661,335	94,204,516	121,892	7,360,874	772	3,749	16,105,739	10,306,991	(13,670,558)	116,095,310
Professional fees and purchased services	2,564,709	67,315,885	147,104	1,277,454	331,496	16,822,307	11,815,252	348,164	(1,569,859)	99,052,512
Depreciation and amortization	2,142,191	35,108,288	–	321,383	–	–	1,386,744	–	–	38,958,606
Illinois hospital assessment	–	19,714,947	–	–	–	–	–	–	–	19,714,947
Interest	–	7,422,887	–	–	–	–	–	–	–	7,422,887
Total expenses	8,611,170	456,689,038	884,135	13,889,674	338,100	17,508,920	99,626,952	10,655,155	(16,709,203)	591,493,941
Operating income (loss)	1,613,533	(5,796,847)	(501,209)	719,120	345,900	(434,335)	(25,008,629)	–	3,598,961	(25,463,506)
Nonoperating revenue (expense)										
Net investment income	43,350,182	1,555	211,626	–	–	–	–	–	–	43,563,363
Other	6,955	(44,783)	–	4,000	–	–	19,479	–	(802,342)	(816,691)
Net nonoperating revenue (expense)	43,357,137	(43,228)	211,626	4,000	–	–	19,479	–	(802,342)	42,746,672
Excess (deficit) of revenue over expenses	\$ 44,970,670	\$ (5,840,075)	\$ (289,583)	\$ 723,120	\$ 345,900	\$ (434,335)	\$ (24,989,150)	\$ –	\$ 2,796,619	\$ 17,283,166

Northwest Community Healthcare and Subsidiaries

Details of Consolidated Statement of Operations and Changes in Net Assets (continued)

Year Ended September 30, 2017 (Unaudited)

	Northwest Community Healthcare	Northwest Community Hospital	NWC Hospital Foundation	NWC Day Surgery Center II	NPC- CyberKnife, LLC	NWC Healthcare PHO, LLC	NWC Health Services and Subsidiaries	NCH Central Insurance	Consolidating Eliminations	Total
Unrestricted net assets										
Excess (deficit) of revenue over expenses	\$ 44,970,670	\$ (5,840,075)	\$ (289,583)	\$ 723,120	\$ 345,900	\$ (434,335)	\$ (24,989,150)	\$ –	\$ 2,796,619	\$ 17,283,166
Pension-related changes other than net periodic pension cost	–	(6,831,319)	–	–	–	–	–	–	–	(6,831,319)
Net assets released from restrictions used for purchase of property and equipment or operations	165,131	323,004	4,231,336	–	–	–	5,000	–	(4,231,336)	493,135
Additional capital contributions by noncontrolling interests	(124,229)	–	–	–	–	–	3,131,099	–	333,666	3,340,536
Distribution to CyberKnife investors	–	–	–	–	(184,865)	–	–	–	184,865	–
Distribution to DSC-II investors	–	–	–	(1,282,383)	–	–	–	–	1,282,383	–
Increase (decrease) in unrestricted net assets	45,011,572	(12,348,390)	3,941,753	(559,263)	161,035	(434,335)	(21,853,051)	–	366,197	14,285,518
Temporarily restricted net assets										
Contributions	–	–	1,772,046	–	–	–	–	–	–	1,772,046
Investment income	–	–	211,700	–	–	–	–	–	–	211,700
Net assets released from restrictions used for:										
Purchase of property and equipment	–	(323,004)	(493,135)	–	–	–	–	–	323,004	(493,135)
Operations	–	(758,558)	(5,119,333)	–	–	–	–	–	758,558	(5,119,333)
Other	–	–	(471,108)	–	–	–	–	–	–	(471,108)
Change in interest in net assets of Foundation	–	(2,858,025)	–	–	–	–	–	–	2,858,025	–
Increase (decrease) in temporarily restricted net assets	–	(3,939,587)	(4,099,830)	–	–	–	–	–	3,939,587	(4,099,830)
Permanently restricted net assets										
Contributions	–	–	5,000	–	–	–	–	–	–	5,000
Other	–	–	471,108	–	–	–	–	–	–	471,108
Change in interest in net assets of Foundation	–	91,714	–	–	–	–	–	–	(91,714)	–
Increase (decrease) in permanently restricted net assets	–	91,714	476,108	–	–	–	–	–	(91,714)	476,108
Increase (decrease) in net assets	45,011,572	(16,196,263)	318,031	(559,263)	161,035	(434,335)	(21,853,051)	–	4,214,070	10,661,796
Net assets at beginning of year	457,191,413	203,088,991	9,155,349	4,106,436	383,138	929,568	3,430,878	120,000	(79,415,916)	598,989,857
Net assets at end of year	\$ 502,202,985	\$ 186,892,728	\$ 9,473,380	\$ 3,547,173	\$ 544,173	\$ 495,233	\$ (18,422,173)	\$ 120,000	\$ (75,201,846)	\$ 609,651,653

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