

CONSOLIDATED FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION

Northwest Community Healthcare and Subsidiaries
Years Ended September 30, 2018 and 2017
With Reports of Independent Auditors

Ernst & Young LLP



Northwest Community Healthcare and Subsidiaries
Consolidated Financial Statements and Supplementary Information
Years Ended September 30, 2018 and 2017

Contents

Report of Independent Auditors	1
Consolidated Financial Statements	
Consolidated Balance Sheets	3
Consolidated Statements of Operations and Changes in Net Assets	5
Consolidated Statements of Cash Flows	7
Notes to Consolidated Financial Statements	8
Supplementary Information	
Report of Independent Auditors on Supplementary Information	40
Details of Consolidated Balance Sheet	41
Details of Consolidated Statement of Operations and Changes in Net Assets	43



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, 2018 and 2017, 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, 2018 and 2017, 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 22, 2019

Northwest Community Healthcare and Subsidiaries

Consolidated Balance Sheets

	September 30	
	2018	2017
Assets		
Current assets:		
Cash and cash equivalents	\$ 29,145,972	\$ 30,872,468
Patient accounts receivable, less allowances for uncollectible accounts (September 30, 2018 – \$14,448,000; September 30, 2017 – \$11,857,000)	74,277,214	78,956,735
Other receivables	20,978,015	13,082,337
Prepaid expenses and other	16,215,759	15,259,715
Total current assets	140,616,960	138,171,255
Assets limited as to use, at fair value:		
Investments restricted under bond financings	–	12,643,063
Internally designated for capital replacement	436,279,164	414,933,564
Internally designated for insurance	29,088,302	26,509,978
Internally designated for deferred compensation	5,497,181	4,995,701
Internally designated for endowment	1,200,000	1,200,000
Externally designated for endowment and other	2,168,613	2,013,503
	474,233,260	462,295,809
Property and equipment, at cost:		
Land and land improvements	23,416,153	23,111,095
Buildings	366,803,116	359,186,859
Fixed equipment and leasehold improvements	240,741,704	235,772,502
Major movable equipment	249,569,708	207,901,114
Construction-in-progress	19,519,032	5,818,749
	900,049,713	831,790,319
Less accumulated depreciation	(476,740,903)	(413,854,558)
	423,308,810	417,935,761
Reinsurance receivable	7,528,058	10,063,686
Other long-term assets	14,112,636	11,986,504
Total assets	\$ 1,059,799,724	\$ 1,040,453,015

	September 30	
	2018	2017
Liabilities and net assets		
Current liabilities:		
Accounts payable	\$ 23,715,894	\$ 21,854,024
Accrued expenses and other	57,175,395	46,255,456
Current maturities of long-term debt obligations	7,600,000	7,315,000
Due to third-party payors	47,289,831	51,231,663
Total current liabilities	<u>135,781,120</u>	<u>126,656,143</u>
Long-term debt obligations, less current maturities:		
Series 2008B bonds	26,785,000	28,510,000
Series 2008C bonds	26,785,000	28,510,000
Series 2011 bonds	39,500,000	41,500,000
Series 2016 bonds	134,540,000	136,690,000
Series 2016 bonds premium	18,534,690	19,473,155
Bond issuance costs	(2,385,200)	(2,507,318)
	<u>243,759,490</u>	<u>252,175,837</u>
Asset retirement obligation	844,429	823,833
Other long-term liabilities	4,920,667	1,642,470
Reserve for self-insurance	45,916,813	48,212,056
Pension obligation liability	1,809,617	1,291,023
Total noncurrent liabilities	<u>297,251,016</u>	<u>304,145,219</u>
Total liabilities	<u>433,032,136</u>	<u>430,801,362</u>
Net assets:		
Unrestricted	617,284,606	604,691,582
Temporarily restricted	8,026,438	3,513,527
Permanently restricted	1,456,544	1,446,544
Total net assets	<u>626,767,588</u>	<u>609,651,653</u>
Total liabilities and net assets	<u><u>\$ 1,059,799,724</u></u>	<u><u>\$ 1,040,453,015</u></u>

See accompanying notes.

Northwest Community Healthcare and Subsidiaries

Consolidated Statements of Operations and Changes in Net Assets

	For the Year Ended September 30	
	2018	2017
Revenue		
Net patient service revenue (net of contractual allowances)	\$ 612,088,468	\$ 547,092,483
Provision for uncollectible accounts	(25,296,331)	(19,814,503)
Net patient service revenue after provision for uncollectible accounts	<u>586,792,137</u>	<u>527,277,980</u>
Other operating revenue	36,926,417	38,752,455
Total revenue	<u>623,718,554</u>	<u>566,030,435</u>
Expenses		
Salaries and employee benefits	340,765,945	310,249,679
Supplies and other	126,607,248	116,095,310
Professional fees and purchased services	93,815,120	99,052,512
Depreciation and amortization	37,076,874	38,958,606
Illinois hospital assessment	20,362,276	19,714,947
Interest	7,807,604	7,422,887
Total expenses	<u>626,435,067</u>	<u>591,493,941</u>
Operating loss	(2,716,513)	(25,463,506)
Nonoperating revenue (expenses)		
Net investment income	27,342,338	43,563,363
Other	(16,302,799)	(816,691)
Net nonoperating revenue (expenses)	<u>11,039,539</u>	<u>42,746,672</u>
Excess of revenue over expenses	<u>\$ 8,323,026</u>	<u>\$ 17,283,166</u>

See accompanying notes.

Northwest Community Healthcare and Subsidiaries

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

	For the Year Ended September 30	
	2018	2017
Unrestricted net assets		
Excess of revenue over expenses	\$ 8,323,026	\$ 17,283,166
Pension-related changes other than net periodic pension cost	2,268,171	(6,831,319)
Net assets released from restrictions used for:		
Purchase of property and equipment	879,917	493,135
Capital contributions by noncontrolling interests and other	1,121,910	3,340,536
Increase in unrestricted net assets	12,593,024	14,285,518
Temporarily restricted net assets		
Contributions and other	6,749,706	1,772,046
Investment income	150,110	211,700
Net assets released from restrictions used for:		
Purchase of property and equipment	(879,917)	(493,135)
Operations	(1,506,988)	(5,119,333)
Other	-	(471,108)
Increase (decrease) in temporarily restricted net assets	4,512,911	(4,099,830)
Permanently restricted net assets		
Contributions	10,000	5,000
Other	-	471,108
Increase in permanently restricted net assets	10,000	476,108
Increase in net assets	17,115,935	10,661,796
Net assets at beginning of period	609,651,653	598,989,857
Net assets at end of period	\$ 626,767,588	\$ 609,651,653

See accompanying notes.

Northwest Community Healthcare and Subsidiaries

Consolidated Statements of Cash Flows

	For the Twelve Months Ended September 30	
	2018	2017
Operating activities		
Change in net assets	\$ 17,115,935	\$ 10,661,796
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Pension-related changes other than net periodic pension cost	(2,268,171)	6,831,319
Restricted contributions	(4,167,564)	(1,777,046)
Depreciation and amortization	37,076,874	38,958,606
Provision for uncollectible accounts	25,296,331	19,814,503
Gain on disposal of fixed assets	(191,343)	(196,948)
Unrealized losses (gains) on investments	16,237,125	(26,446,923)
Changes in other assets and liabilities:		
Accounts receivable, other receivables, due to third-party payors and due to affiliates	(32,454,320)	(11,964,157)
Accounts payable and accrued expenses	12,781,809	1,303,608
Investments	(28,174,576)	8,678,259
Other assets and liabilities	3,365,885	(9,611,584)
Net cash provided by operating activities	44,617,985	36,251,433
Investing activities		
Property and equipment additions, net	(42,258,580)	(19,815,890)
Net cash used in investing activities	(42,258,580)	(19,815,890)
Financing activities		
Payments on long-term obligations	(7,315,000)	(7,010,000)
Amortization of bonds premium	(938,465)	(938,465)
Restricted contributions	4,167,564	1,777,046
Net cash used in financing activities	(4,085,901)	(6,171,419)
Net (decrease) increase in cash and cash equivalents	(1,726,496)	10,264,124
Cash and cash equivalents at beginning of period	30,872,468	20,608,344
Cash and cash equivalents at end of period	\$ 29,145,972	\$ 30,872,468
Supplemental disclosure of cash flow information		
Cash paid for interest	\$ 8,575,418	\$ 8,364,826

See accompanying notes.

Northwest Community Healthcare and Subsidiaries

Notes to Consolidated Financial Statements

September 30, 2018

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, Northwest Community Foot and Ankle Center, LLC, and EnVision Medical Imaging, 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, 2018 and 2017) and physician investors (26% at September 30, 2018 and 2017). 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 (51.75% and 53.5% at September 30, 2018 and 2017, respectively) and physician investors (48.25% and 46.5% at September 30, 2018 and 2017, 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 in December 2015 and began operations in March 2017. Endo is a limited liability corporation that is owned by Health Services (51% at September 30, 2018 and 2017) and physician investors (49% at September 30, 2018 and 2017). Health Services consolidates Endo because it owns a controlling interest.

Northwest Community Foot and Ankle Center, LLC (Foot) was established and began operations in July 2017. Foot is a limited liability corporation that is owned by Health Services (51% at September 30, 2018 and 2017) and physician investors (49% at September 30, 2018 and 2017). Health Services consolidates Foot because it owns a controlling interest.

EnVision Medical Imaging, LLC (EnVision) was established and began operations in July 2018. EnVision is a limited liability corporation that is owned by Health Services (51% at September 30, 2018) and physician investors (49% at September 30, 2018). Health Services consolidates EnVision because it owns a controlling interest.

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, Foot and EnVision are consolidated in Health Services operations. NCPA had no financial transactions during 2018 and 2017, and did not hold any assets or liabilities as of September 30, 2018 and 2017. 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.

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

2. Summary of Significant Accounting Policies (continued)

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.

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. All other investment income (loss), realized gains (losses), and changes in unrealized gains (losses) are reported as nonoperating revenue (expense).

Property and Equipment

Property and equipment acquisitions are recorded at cost. Healthcare uses the straight-line method of computing depreciation for property and equipment. Depreciation expense was approximately \$37,077,000 and \$38,959,000 for the years ended September 30, 2018 and 2017, respectively.

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

2. Summary of Significant Accounting Policies (continued)

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 \$122,000 and \$151,000 for the years ended September 30, 2018 and 2017, respectively.

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 as the excess of the purchase price over the fair market value of the assets purchased primarily related to physician practice acquisitions. Healthcare has goodwill of \$8,790,000 and \$8,891,000 as of September 30, 2018 and 2017, respectively. Healthcare performed a qualitative assessment of goodwill for the organization as a whole and determined that no impairment existed as of September 30, 2018 and 2017.

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

Northwest Community Healthcare and Subsidiaries

Notes to Consolidated Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

asset retirement obligation is accreted to the present value of the liability each year. Accretion expense of \$20,000 and \$14,000 was recorded for the year ended September 30, 2018 and 2017, respectively, and is included in interest expense. The ARO liability was \$844,000 and \$824,000 as of September 30, 2018 and 2017, 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 2018 and 2017.

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.

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

Northwest Community Healthcare and Subsidiaries

Notes to Consolidated Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

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 (Expense)

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 (expense) includes the gain (loss) on disposal of fixed assets and the minority share of net income. In addition, an adjustment recorded in the current year related to 2016 is reflected in other nonoperating income (expense).

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 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.

Northwest Community Healthcare and Subsidiaries

Notes to Consolidated Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

The cost to provide charity care using Healthcare's cost-to-charge ratio was \$9,460,000 and \$9,939,000 for 2018 and 2017, 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, Foot and EnVision 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.

Health Services is taxed as a corporation. The deferred tax benefit for net operating loss carryforwards of \$35,876,000 at September 30, 2018 is fully reserved. There is no current provision for income taxes.

Northwest Community Healthcare and Subsidiaries

Notes to Consolidated Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

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 2017 financial statements have been reclassified to conform to the 2018 presentation. Those reclassifications had no impact on net assets or excess of revenue over expenses as previously reported.

New Accounting Pronouncements

In March 2017, the Financial Accounting Standards Board (FASB) issued guidance related to the presentation of net periodic pension cost. This new guidance requires that the service cost component be reported in the same line item as compensation costs arising from services rendered by the pertinent employees during the period. The other components of net pension benefit costs are required to be presented separately from the service cost component and outside a subtotal of income from operations. This new guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. Healthcare is evaluating the effect this guidance will have on its consolidated financial statements.

In November 2016, the FASB issued guidance related to the statements of cash flow. The guidance will require restricted cash and restricted cash equivalents to be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. This guidance is effective for the fiscal years and interim periods within those fiscal years beginning after December 15, 2018. Healthcare is evaluating the effect this guidance will have on its consolidated financial statements.

In August 2016, the FASB issued guidance related to the presentation of financial statements of not-for-profit entities. The guidance will require net assets to be categorized either as net assets with donor restrictions or net assets without donor restrictions rather than the currently required three classes of net assets. The guidance also requires additional quantitative and qualitative

Northwest Community Healthcare and Subsidiaries

Notes to Consolidated Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

disclosures and expenses to be disclosed by both their natural and functional classifications. This guidance is effective for fiscal years beginning after December 15, 2017, but for interim periods beginning after December 15, 2018. Healthcare is evaluating the effect this guidance will have on its consolidated financial statements; however, the guidance is not expected to have an effect on revenues in excess of expenses on the consolidated statements of operations and changes in net assets.

In February 2016, the FASB issued guidance related to lease accounting. The guidance will require leases that are currently classified as operating leases under current guidance to be recognized on the balance sheet as lease assets and liabilities by lessees. This new guidance is effective for fiscal years and interim periods within those fiscal years beginning after December 15, 2018. Healthcare is evaluating the effect this guidance will have on its consolidated financial statements.

In January 2016, the FASB issued guidance requiring financial instruments accounted for on the equity method to be measured at fair value, with changes in fair value recognized in net income. This new guidance is effective for fiscal years and interim periods within those fiscal years beginning after December 15, 2018. Healthcare is evaluating the effect this guidance will have on its consolidated financial statements.

In May 2014, the FASB issued guidance related to recognizing revenue from contracts with customers. The guidance outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance, and requires significantly expanded disclosures about revenue recognition. The core principle of the revenue model is that an entity recognizes 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. The requirements of the guidance will result in changes to the presentation and disclosure of revenue from services to patients. Currently, a significant portion of Healthcare's provision for uncollectible accounts relates to uninsured patients as well as deductibles and co-pays due from patients with insurance. Under the new guidance, the uncollectible amounts due from patients will generally be reported as a direct reduction to net patient service revenue and will result in a significant reduction in the amounts presented separately as provision for uncollectible accounts.

Northwest Community Healthcare and Subsidiaries

Notes to Consolidated Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Although the adoption of the new guidance will have a significant impact on the amounts presented in certain categories of Healthcare's consolidated statements of operations and changes in net assets, it is not expected to materially impact Healthcare's financial position, results of operations or cash flows. Effective October 1, 2018, Healthcare adopted this guidance using the modified retrospective method. There was no material transition adjustment recorded.

3. Net Patient Service Revenue

The Hospital's net patient service revenue accounted for approximately 82% and 84% of Healthcare's consolidated net patient service revenue in 2018 and 2017, respectively. In 2018, approximately 40% of the Hospital's net patient service revenue was derived from Medicare, and approximately 59% 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 2017, approximately 39% of the Hospital's net patient service revenue was derived from Medicare, and 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. 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 for the years ended September 30, (in thousands):

	2018	2017
Medicare	\$ 243,425	\$ 214,979
Medicaid	61,030	53,695
Managed care	298,088	266,640
Self-pay	3,841	5,527
Commercial	5,704	6,252
Net patient service revenue (net of contractual allowances)	612,088	547,093
Provision for uncollectible accounts	25,296	19,815
Net patient service revenue after provision for uncollectible accounts	\$ 586,792	\$ 527,278

Northwest Community Healthcare and Subsidiaries

Notes to Consolidated Financial Statements (continued)

3. Net Patient Service Revenue (continued)

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, 2015. During the year ended September 30, 2018, no material changes in estimates related to the settlement of cost reports were recognized in net patient service revenue for the Hospital.

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. 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.

Northwest Community Healthcare and Subsidiaries

Notes to Consolidated Financial Statements (continued)

4. Uncollectible Accounts (continued)

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.

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.

Northwest Community Healthcare and Subsidiaries

Notes to Consolidated Financial Statements (continued)

4. Uncollectible Accounts (continued)

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:			
2018	\$ 608,247	\$ 3,841	\$ 612,088
2017	541,565	5,527	547,092

The allowance for uncollectible accounts was \$14,448,000 and \$11,857,000 as of September 30, 2018 and 2017, respectively. These balances as a percent of accounts receivable, net of contractual adjustments, were 13.3% and 11.4% at September 30, 2018 and 2017, respectively. Healthcare's combined allowance for uncollectible accounts, uninsured discounts, and charity care covered approximately 86% of combined uninsured and self-pays after insurance accounts receivable at both September 30, 2018 and 2017.

The increase in the allowance for uncollectible accounts during the year ended September 30, 2018, was primarily due to the increase in Medicaid pending accounts, as well as continued increases in bad debt write offs due to high deductible plans and increased co-insurance.

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:				
2018	\$ 11,857	\$ 25,296	\$ (22,705)	\$ 14,448
2017	9,442	19,815	(17,400)	11,857

Northwest Community Healthcare and Subsidiaries

Notes to Consolidated Financial Statements (continued)

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:

	2018	2017
Medicare	36%	37%
Medicaid	12	10
Managed care	39	40
Other third-party payors	10	11
Self-pay patients	3	2
	100%	100%

6. Investments

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

	2018	2017
Assets limited as to use:		
Investments restricted under bond financings:		
Cash and cash equivalents	\$ —	\$ 12,643
	—	12,643
Internally designated for capital replacement:		
Cash and cash equivalents	—	837
Fund of funds	84,722	78,468
Mutual funds	351,557	335,629
	436,279	414,934
Internally designated for insurance:		
Mutual funds	29,088	26,510
Internally designated for deferred compensation:		
Mutual funds	5,497	4,996
Internally and externally designated for endowment and other:		
Mutual funds	3,369	3,213
Total assets limited as to use	\$ 474,233	\$ 462,296

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):

	2018		2017
Interest and dividends	\$ 12,101	\$	7,523
Realized gains on investments	34,886		12,235
Change in net unrealized gains and losses on investments	(16,237)		26,447
Investment fees	(2,222)		(766)
	\$ 28,528	\$	45,439
Reported as:			
Other operating revenue	\$ 1,036	\$	1,664
Net investment income	27,342		43,563
Temporarily restricted investment income	150		212
	\$ 28,528	\$	45,439

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, 2018, 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	\$ 29,146	\$ —	\$ —	\$ 29,146
Internally designated for capital replacement:				
Mutual funds:				
U.S. equity	149,986	—	—	149,986
Fixed income	201,571	—	—	201,571
	<u>351,557</u>	—	—	<u>351,557</u>
Internally designated for insurance:				
Mutual funds:				
U.S. equity	5,848	—	—	5,848
International equity	3,117	—	—	3,117
Fixed income	20,123	—	—	20,123
	<u>29,088</u>	—	—	<u>29,088</u>
Internally designated for deferred compensation:				
Mutual funds	5,497	—	—	5,497
Internally and externally designated for endowment:				
Mutual funds:				
U.S. equity	1,152	—	—	1,152
International equity	938	—	—	938
Fixed income	1,279	—	—	1,279
	<u>3,369</u>	—	—	<u>3,369</u>
Assets at fair value	<u>\$ 418,657</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 418,657</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, 2017, by caption on the consolidated balance sheet by the valuation hierarchy defined above (in thousands):

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
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>—</u>	<u>—</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>—</u>	<u>—</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>—</u>	<u>—</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 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 carrying value of cash and cash equivalents, prepaid expenses, accounts receivable, and accounts payable, accrued expenses and due to third-party payors 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 \$237,804,000 and \$255,886,000 at September 30, 2018 and 2017, 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. Mutual funds that include equity securities 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. Mutual funds that include fixed income securities 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, 2018, the Obligated Group was in compliance with these covenants.

Bond interest expense during 2018 and 2017 was \$7,637,000 and \$7,191,000, respectively. Including financing fees and investment fees, total interest expense was \$7,808,000 and \$7,423,000 for 2018 and 2017, respectively. No interest was capitalized for the years ended September 30, 2018 and 2017.

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 remaining 2008A bonds were fully paid off as of July 1, 2018. The bonds are payable annually with interest payments twice a year. The bond premium balance was \$18,535,000 and \$19,473,000 at September 30, 2018 and 2017, 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 2018 and 2017 was 2.70% and 2.06%, 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 were paid off on July 1, 2018. These bonds accrued interest at fixed rates ranging from 4.38% to 5.50% annually.

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 2018 and 2017 was 1.30% and 0.76%, 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 \$2,385,000 and \$2,507,000 are included in long-term debt at September 30, 2018 and 2017, 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 2008B/C	Series 2011	Series 2016	Total
Year ending September 30:				
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
2023	3,840	2,500	2,655	8,995
Thereafter	38,990	30,100	124,700	193,790
Total principal payments	<u>\$ 57,020</u>	<u>\$ 41,500</u>	<u>\$ 136,690</u>	<u>\$ 235,210</u>

9. Restricted Net Assets

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

	2018	2017
Temporarily restricted:		
Specific hospital programs	\$ 1,159	\$ 188
Other special uses	235	122
Behavioral/Mental Health	36	29
Nursing education	997	613
Women's services	1,306	877
Community services	41	102
Cancer services	2,074	1,327
Pediatrics	72	42
Cardiac services	2,106	214
	<u>\$ 8,026</u>	<u>\$ 3,514</u>
Permanently restricted:		
Youth treatment center	\$ 347	\$ 347
Nursing education	885	875
Endowment – general	224	224
	<u>\$ 1,456</u>	<u>\$ 1,446</u>

Northwest Community Healthcare and Subsidiaries

Notes to Consolidated Financial Statements (continued)

9. Restricted Net Assets (continued)

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.

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.

Northwest Community Healthcare and Subsidiaries

Notes to Consolidated Financial Statements (continued)

9. Restricted Net Assets (continued)

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.

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, 2016	\$ 7,613	\$ 971	\$ 8,584
Contributions	1,772	5	1,777
Investment loss	212	–	212
Appropriation for expenditure	(5,612)	–	(5,612)
Other	(471)	471	–
Restricted net assets, September 30, 2017	3,514	1,447	4,961
Contributions and other	6,750	10	6,760
Investment gain	150	–	150
Appropriation for expenditure	(2,388)	–	(2,388)
Restricted net assets, September 30, 2018	\$ 8,026	\$ 1,457	\$ 9,483

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.

Northwest Community Healthcare and Subsidiaries

Notes to Consolidated Financial Statements (continued)

10. Insurance Programs (continued)

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 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, 2018 and 2017, of \$43,531,000 and \$46,184,000, respectively, are reported on the accompanying consolidated balance sheets on an undiscounted basis for the captive organization and discounted basis for the Hospital. The Hospital tail liability is determined using discount rate of 3% for 2018 and 2017. The undiscounted gross self-insurance and tail liabilities were \$44,525,000 and \$47,668,000 at September 30, 2018 and 2017, 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 \$7,528,000 and \$10,064,000 was recorded at September 30, 2018 and 2017, 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, 2018 and 2017, of \$2,759,000 and \$2,226,000, respectively, are reported on the accompanying consolidated balance sheets on an undiscounted basis. Of this amount, as of September 30, 2018 and 2017, \$223,000 and \$198,000, respectively, was recorded in current liabilities.

Northwest Community Healthcare and Subsidiaries

Notes to Consolidated Financial Statements (continued)

10. Insurance Programs (continued)

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.

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 2018 and 2017 was approximately \$7,029,000 and \$5,219,000, respectively.

As of September 30, 2018, Healthcare is required to make the following future minimum payments under the non-cancelable lease agreements (in thousands):

2019	\$	3,846
2020		2,613
2021		2,377
2022		2,026
2023		1,808
Thereafter		5,516
	\$	<u>18,186</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 trustee, non-contributory, defined benefit plan. The Northwest Community Healthcare Employees' Retirement Plan (the DC Plan) is a defined contribution 401K plan.

Northwest Community Healthcare and Subsidiaries

Notes to Consolidated Financial Statements (continued)

12. Employee Retirement Plans (continued)

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 2018 and 2017.

The Plan's actuarial losses (gains) included in unrestricted net assets during 2018 and 2017 were \$(2,268,000) and \$6,831,000, respectively.

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

	2018	2017
Change in projected benefit obligation:		
Projected benefit obligation at beginning of year	\$ 163,901	\$ 168,637
Interest cost	5,377	5,069
Actuarial loss	(4,009)	5,420
Settlements	(14,579)	(13,091)
Benefits paid	(2,350)	(2,134)
Projected benefit obligation at end of year	148,340	163,901
Change in plan assets:		
Fair value of plan assets at beginning of year	162,610	171,443
Actual gain on plan assets	849	5,592
Employer contributions	-	800
Settlements	(14,579)	(13,091)
Benefits paid	(2,350)	(2,134)
Fair value of plan assets at end of year	146,530	162,610
Funded status as of measurement date	(1,810)	(1,291)
Unrestricted net assets:		
Adjustment to unrestricted net assets	(58,824)	(61,092)
Components of unrestricted net assets:		
Unrecognized net actuarial loss	58,824	61,092
Net amount recognized at end of year	\$ (1,810)	\$ (1,291)

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):

	2018	2017
Interest cost on projected benefit obligation	\$ 5,377	\$ 5,069
Expected return on plan assets	(11,693)	(13,048)
Net amortization and deferral	1,475	1,281
Settlement charge	5,778	4,765
Other	1,850	—
Net periodic pension cost (benefit)	\$ 2,787	\$ (1,933)

The accumulated benefit obligation for the Plan was approximately \$148,340,000 and \$163,901,000 at September 30, 2018 and 2017, 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:

	2018	2017
Discount rate	4.0%	3.3%

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

	2018	2017
Discount rate	3.3%	2.9%
Expected long-term rate of return on plan assets	6.7	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 9.2% 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	2018		2017	
	Target	Actual	Target	Actual
Equity securities	15%	11%	29%	27%
Fixed income securities	75	73	59	60
Alternative investments	10	16	12	13
	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 2019.

The following are the Plan's financial instruments at September 30, 2018, 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	\$ 8,126	\$ —	\$ —	\$ 8,126
U.S. government and agency obligations	—	19,822	—	19,822
Mutual funds:				
U.S. equity	8,719	—	—	8,719
International equity	7,563	—	—	7,563
Fixed income	80,576	—	—	80,576
High-yield bonds	3,301	—	—	3,301
Emerging markets debt	2,187	—	—	2,187
Hedge fund of funds	—	—	16,236	16,236
	\$ 110,472	\$ 19,822	\$ 16,236	\$ 146,530

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, 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

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, 2016	\$ 20,081
Unrealized gain	1,757
Sales	—
Purchases	—
Value at September 30, 2017	<u>21,838</u>
Unrealized gain	1,898
Sales	(7,500)
Purchases	—
Value at September 30, 2018	<u>\$ 16,236</u>

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

	Pension Benefits
	<u> </u>
2019	\$ 17,961
2020	16,301
2021	15,274
2022	13,990
2023	13,079
2024 to 2028	50,483

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 \$8,297,000 and \$7,677,000 in 2018 and 2017, 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 \$2,302,000 and \$1,642,000 for the years ended September 30, 2018 and 2017, respectively, and is included in pension obligation liability. The related expense of \$700,904 and \$527,000 for 2018 and 2017, 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 \$5,497,000 and \$4,996,000 as of September 30, 2018 and 2017, 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 for the years ended September 30 (in thousands):

	<u>2018</u>	<u>2017</u>
Healthcare services	\$ 446,660	\$ 415,228
General and administrative	178,983	175,382
Fundraising	792	884
	<u>\$ 626,435</u>	<u>\$ 591,494</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 2018 and 2017, 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>2018</u>	<u>2017</u>
HAP revenue in net patient service revenue	\$ 23,689	\$ 23,730
HAP assessment in operating expense	<u>20,362</u>	<u>19,715</u>
Net benefit from HAP	<u>\$ 3,327</u>	<u>\$ 4,015</u>

15. Subsequent Events

Healthcare evaluated events and transactions occurring subsequent to September 30, 2018, through January 22, 2019, 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 22, 2019

Northwest Community Healthcare and Subsidiaries

Details of Consolidated Balance Sheet

September 30, 2018 (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 & Subsidiaries	Central Insurance Company, LLC	Consolidating Eliminations	Total
Assets										
Current assets:										
Cash and cash equivalents	\$ 56,373	\$ 15,315,826	\$ 4,430,098	\$ 76,800	\$ 109,755	\$ 1,821,848	\$ 6,462,142	\$ 873,130	\$ -	\$ 29,145,972
Patient accounts receivable, less allowance for uncollectible accounts \$10,734,000	18,792	56,508,910	-	1,984,599	-	-	15,764,913	-	-	74,277,214
Other receivables	124,311	14,734,641	1,138,209	-	-	8,805,939	782,224	5,435,194	(10,042,503)	20,978,015
Prepaid expenses and other	1,028,081	13,194,190	12,450	512,313	-	-	1,465,920	2,805	-	16,215,759
Due from affiliates	-	14,769,238	186,796	-	560,986	-	318,371	111,461	(15,946,852)	-
Total current assets	1,227,557	114,522,805	5,767,553	2,573,712	670,741	10,627,787	24,793,570	6,422,590	(25,989,355)	140,616,960
Assets limited as to use, at fair value:										
Investments restricted under bond financing	-	-	-	-	-	-	-	-	-	-
Internally designated for capital replacement	436,279,164	-	-	-	-	-	-	-	-	436,279,164
Internally designated for insurance	-	-	-	-	-	-	-	29,088,302	-	29,088,302
Internally designated for deferred comp	-	-	-	-	-	-	5,497,181	-	-	5,497,181
Internally designated for endowment	-	-	1,200,000	-	-	-	-	-	-	1,200,000
Externally designated for endowment and other	-	-	2,168,613	-	-	-	-	-	-	2,168,613
	436,279,164	-	3,368,613	-	-	-	5,497,181	29,088,302	-	474,233,260
Property and equipment, at cost:										
Land and land improvements	8,547,268	14,868,885	-	-	-	-	-	-	-	23,416,153
Buildings	51,984,413	314,818,703	-	-	-	-	-	-	-	366,803,116
Fixed equipment and leasehold improvements	15,814,330	218,812,045	-	-	-	-	6,115,329	-	-	240,741,704
Major movable equipment	1,193,165	230,280,363	-	4,810,980	3,555,000	-	9,730,200	-	-	249,569,708
Construction-in-progress	-	17,053,173	-	11,527	-	-	2,454,332	-	-	19,519,032
	77,539,176	795,833,169	-	4,822,507	3,555,000	-	18,299,861	-	-	900,049,713
Less accumulated depreciation	(46,362,970)	(417,837,572)	-	(3,209,137)	(3,555,000)	-	(5,776,224)	-	-	(476,740,903)
	31,176,206	377,995,597	-	1,613,370	-	-	12,523,637	-	-	423,308,810
Interest in net assets of Foundation	-	9,482,983	-	-	-	-	-	-	(9,482,983)	-
Reinsurance receivable	-	2,721,404	-	-	-	-	-	4,806,654	-	7,528,058
Other long-term assets	(3,071,014)	4,015,000	2,097,422	3,071,014	-	-	8,000,214	-	-	14,112,636
Investment in subsidiaries	70,169,525	-	-	-	-	-	-	-	(70,169,525)	-
	67,098,511	16,219,387	2,097,422	3,071,014	-	-	8,000,214	4,806,654	(79,652,508)	21,640,694
Total assets	\$ 535,781,438	\$ 508,737,789	\$ 11,233,588	\$ 7,258,096	\$ 670,741	\$ 10,627,787	\$ 50,814,602	\$ 40,317,546	\$ (105,641,863)	\$ 1,059,799,724

Northwest Community Healthcare and Subsidiaries

Details of Consolidated Balance Sheet (continued)

September 30, 2018 (Unaudited)

	Northwest Community Healthcare	Northwest Community Hospital	NWC Hospital Foundation	NWC Day Surgery Center	NPC- CyberKnife, LLC	NWC Healthcare PHO, LLC	NWC Health Services & Subsidiaries	NCH Central Insurance	Consolidating Eliminations	Total
Liabilities and net assets										
Current liabilities:										
Accounts payable	\$ 253,027	\$ 20,512,237	\$ 5,763	\$ 474,065	\$ -	\$ 2,544	\$ 2,468,258	\$ -	\$ -	\$ 23,715,894
Accrued expenses and other	1,019,619	38,184,890	67,994	613,763	121,870	2,267,144	19,781,201	5,011,417	(9,892,503)	57,175,395
Current maturities of long-term debt obligations	-	7,600,000	-	-	-	-	-	-	-	7,600,000
Due to third-party payors	-	46,567,107	-	-	-	-	722,724	-	-	47,289,831
Due to affiliates	4,269,957	859,244	-	2,238,586	-	6,151,824	2,427,243	-	(15,946,854)	-
Total current liabilities	5,542,603	113,723,478	73,757	3,326,414	121,870	8,421,512	25,399,426	5,011,417	(25,839,357)	135,781,120
Long-term obligations, less current maturities:										
Series 2008B bonds	-	26,785,000	-	-	-	-	-	-	-	26,785,000
Series 2008C bonds	-	26,785,000	-	-	-	-	-	-	-	26,785,000
Series 2011 bonds	-	39,500,000	-	-	-	-	-	-	-	39,500,000
Series 2016 bonds	-	134,540,000	-	-	-	-	-	-	-	134,540,000
Series 2016 bonds premium	-	18,534,690	-	-	-	-	-	-	-	18,534,690
Bond issuance costs	-	(2,385,200)	-	-	-	-	-	-	-	(2,385,200)
	-	243,759,490	-	-	-	-	-	-	-	243,759,490
Asset retirement obligation	-	844,429	-	-	-	-	-	-	-	844,429
Other long-term liabilities	-	4,920,667	-	-	-	-	-	-	-	4,920,667
Reserve for self-insurance	-	10,880,684	-	-	-	-	-	35,186,129	(150,000)	45,916,813
Pension obligation liability	-	1,809,617	-	-	-	-	-	-	-	1,809,617
Total noncurrent liabilities	-	262,214,887	-	-	-	-	-	35,186,129	(150,000)	297,251,016
Total liabilities	5,542,603	375,938,365	73,757	3,326,414	121,870	8,421,512	25,399,426	40,197,546	(25,989,357)	433,032,136
Net assets:										
Unrestricted	530,238,835	125,934,662	1,676,849	3,931,682	548,871	2,206,275	22,796,956	120,000	(70,169,524)	617,284,606
Temporarily restricted	-	8,026,438	8,026,438	-	-	-	-	-	(8,026,438)	8,026,438
Permanently restricted	-	1,456,544	1,456,544	-	-	-	-	-	(1,456,544)	1,456,544
Total net assets	530,238,835	135,417,644	11,159,831	3,931,682	548,871	2,206,275	22,796,956	120,000	(79,652,506)	626,767,588
Total liabilities and net assets	\$ 535,781,438	\$ 511,356,009	\$ 11,233,588	\$ 7,258,096	\$ 670,741	\$ 10,627,787	\$ 48,196,382	\$ 40,317,546	\$ (105,641,863)	\$ 1,059,799,724

Northwest Community Healthcare and Subsidiaries

Details of Consolidated Statement of Operations and Changes in Net Assets

Year Ended September 30, 2018 (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 & Subsidiaries	NCH Central Insurance	Consolidating Eliminations	Total
Revenue										
Net patient service revenue	\$ 148,325	\$ 501,833,214	\$ –	\$ 14,242,806	\$ –	\$ –	\$ 95,864,123	\$ –	\$ –	\$ 612,088,468
Provision for uncollectible accounts	(932)	(21,936,649)	–	(358,906)	–	–	(2,999,844)	–	–	(25,296,331)
	147,393	479,896,565	–	13,883,900	–	–	92,864,279	–	–	586,792,137
Other operating revenue	10,128,418	9,292,348	411,570	10,205	684,000	22,834,686	7,421,467	10,830,169	(24,686,446)	36,926,417
Total revenue	10,275,811	489,188,913	411,570	13,894,105	684,000	22,834,686	100,285,746	10,830,169	(24,686,446)	623,718,554
Expenses										
Salaries and employee benefits	2,844,555	242,292,062	615,544	4,805,027	5,832	931,940	90,840,591	–	(1,569,606)	340,765,945
Supplies and other	2,070,066	104,163,774	118,856	6,915,658	–	27,120	18,754,644	10,472,518	(15,915,388)	126,607,248
Professional fees and purchased services	2,496,035	59,864,326	57,088	1,224,379	303,024	20,164,584	16,094,695	357,651	(6,746,662)	93,815,120
Depreciation and amortization	2,036,043	33,211,158	–	83,976	–	–	1,745,697	–	–	37,076,874
Illinois hospital assessment	–	20,362,276	–	–	–	–	–	–	–	20,362,276
Interest	–	7,807,604	–	–	–	–	–	–	–	7,807,604
Total expenses	9,446,699	467,701,200	791,488	13,029,040	308,856	21,123,644	127,435,627	10,830,169	(24,231,656)	626,435,067
Operating income (loss)	829,112	21,487,713	(379,918)	865,065	375,144	1,711,042	(27,149,881)	–	(454,790)	(2,716,513)
Nonoperating revenue (expenses)										
Net investment income	27,206,738	–	135,600	–	–	–	–	–	–	27,342,338
Other	–	(15,225,938)	–	178,545	–	–	(564,545)	–	(690,861)	(16,302,799)
Net nonoperating revenue (expenses)	27,206,738	(15,225,938)	135,600	178,545	–	–	(564,545)	–	(690,861)	11,039,539
Excess (deficit) of revenue over expenses	\$ 28,035,850	\$ 6,261,775	\$ (244,318)	\$ 1,043,610	\$ 375,144	\$ 1,711,042	\$ (27,714,426)	\$ –	\$ (1,145,651)	\$ 8,323,026

Northwest Community Healthcare and Subsidiaries

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

Year Ended September 30, 2018 (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 & Subsidiaries	NCH Central Insurance	Consolidating Eliminations	Total
Unrestricted net assets										
Excess (deficit) of revenue over expenses	\$ 28,035,850	\$ 6,261,775	\$ (244,318)	\$ 1,043,610	\$ 375,144	\$ 1,711,042	\$ (27,714,426)	\$ –	\$ (1,145,651)	\$ 8,323,026
Transfers (to) from affiliates	–	(68,000,000)	–	–	–	–	68,000,000	–	–	–
Pension-related changes other than net periodic pension cost	–	2,268,171	–	–	–	–	–	–	–	2,268,171
Net assets released from restrictions used for:										
Purchase of property and equipment or operations	–	879,917	–	–	–	–	–	–	–	879,917
Other	–	2,592,142	(2,592,142)	–	–	–	–	–	–	–
Capital contributions by noncontrolling interests and other	–	–	–	28,900	–	–	1,732,694	–	(639,684)	1,121,910
Distribution to Endo Center investors	–	–	–	–	–	–	(799,139)	–	799,139	–
Distribution to CyberKnife investors	–	–	–	–	(370,446)	–	–	–	370,446	–
Distribution to DSC-II investors	–	–	–	(688,001)	–	–	–	–	688,001	–
Increase (decrease) in unrestricted net assets	28,035,850	(55,997,995)	(2,836,460)	384,509	4,698	1,711,042	41,219,129	–	72,251	12,593,024
Temporarily restricted net assets										
Contributions	–	–	6,749,706	–	–	–	–	–	–	6,749,706
Investment income	–	–	150,110	–	–	–	–	–	–	150,110
Net assets released from restrictions used for:										
Purchase of property and equipment	–	(879,917)	(879,917)	–	–	–	–	–	879,917	(879,917)
Operations	–	(1,413,435)	(1,506,988)	–	–	–	–	–	1,413,435	(1,506,988)
Change in interest in net assets of Foundation	–	6,806,263	–	–	–	–	–	–	(6,806,263)	–
Increase in temporarily restricted net assets	–	4,512,911	4,512,911	–	–	–	–	–	(4,512,911)	4,512,911
Permanently restricted net assets										
Contributions	–	–	10,000	–	–	–	–	–	–	10,000
Change in interest in net assets of Foundation	–	10,000	–	–	–	–	–	–	(10,000)	–
Increase in permanently restricted net assets	–	10,000	10,000	–	–	–	–	–	(10,000)	10,000
Increase (decrease) in net assets	28,035,850	(51,475,084)	1,686,451	384,509	4,698	1,711,042	41,219,129	–	(4,450,660)	17,115,935
Net assets at beginning of period	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
Net assets at end of period	\$ 530,238,835	\$ 135,417,644	\$ 11,159,831	\$ 3,931,682	\$ 548,871	\$ 2,206,275	\$ 22,796,956	\$ 120,000	\$ (79,652,506)	\$ 626,767,588

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