

CONSOLIDATED FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION

Northwest Community Healthcare and Subsidiaries
Years Ended September 30, 2019 and 2018
With Reports of Independent Auditors

Ernst & Young LLP



Northwest Community Healthcare and Subsidiaries
Consolidated Financial Statements and Supplementary Information
Years Ended September 30, 2019 and 2018

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.....	9
Supplementary Information	
Report of Independent Auditors on Supplementary Information	45
Details of Consolidated Balance Sheet	46
Details of Consolidated Statement of Operations and Changes in Net Assets	48



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 (“Healthcare”), which comprise the consolidated balance sheets as of September 30, 2019 and 2018, 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, 2019 and 2018, 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.

Adoption of ASU No. 2014-09, *Revenue from Contracts with Customers*

As discussed in Note 2 to the consolidated financial statements, Healthcare changed its method for recognizing revenue as a result of the adoption of the amendments to the FASB Accounting Standards Codification resulting from Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, effective October 1, 2018. Our opinion is not modified with respect to this matter.



January 22, 2020

Northwest Community Healthcare and Subsidiaries

Consolidated Balance Sheets

	September 30	
	2019	2018
Assets		
Current assets:		
Cash and cash equivalents	\$ 10,592,700	\$ 29,145,972
Patient accounts receivable	70,468,878	74,277,214
Other receivables	20,721,201	20,978,015
Prepaid expenses and other	15,344,080	16,215,759
Total current assets	117,126,859	140,616,960
Assets limited as to use, at fair value:		
Internally designated for capital replacement	451,935,186	436,279,164
Internally designated for insurance	29,662,871	29,088,302
Internally designated for deferred compensation	5,524,745	5,497,181
Internally designated for endowment	1,200,000	1,200,000
Externally designated for endowment and other	3,239,673	2,168,613
	491,562,475	474,233,260
Property and equipment:		
Land and land improvements	24,474,925	23,416,153
Buildings	377,165,057	366,803,116
Fixed equipment and leasehold improvements	244,977,370	240,741,704
Major movable equipment	273,975,906	249,569,708
Construction-in-progress	47,757,332	19,519,032
	968,350,590	900,049,713
Less accumulated depreciation	(516,127,944)	(476,740,903)
	452,222,646	423,308,810
Reinsurance receivable	16,255,658	7,528,058
Other long-term assets	16,106,368	14,112,636
Total assets	\$1,093,274,006	\$1,059,799,724

Liabilities and net assets

Current liabilities:

Accounts payable	\$ 16,611,468	\$ 23,715,894
Accrued expenses and other	62,142,785	57,175,395
Current maturities of long-term debt obligations	7,925,000	7,600,000
Due to third-party payors	47,255,495	47,289,831
Total current liabilities	<u>133,934,748</u>	<u>135,781,120</u>

Long-term debt obligations, less current maturities:

Series 2008B bonds	25,055,000	26,785,000
Series 2008C bonds	25,055,000	26,785,000
Series 2011 bonds	37,300,000	39,500,000
Series 2016 bonds	132,275,000	134,540,000
Series 2016 bonds premium	17,598,690	18,534,690
Bond issuance costs	(2,247,060)	(2,385,200)
	<u>235,036,630</u>	<u>243,759,490</u>

Other long-term liabilities	19,778,734	5,765,096
Reserve for self-insurance	58,755,685	45,916,813
Pension obligation liability	10,439,896	1,809,617
Total noncurrent liabilities	<u>324,010,945</u>	<u>297,251,016</u>
Total liabilities	<u>457,945,693</u>	<u>433,032,136</u>

Net assets:

Without donor restrictions	622,560,182	617,284,606
With donor restrictions	12,768,131	9,482,982
Total net assets	<u>635,328,313</u>	<u>626,767,588</u>
Total liabilities and net assets	<u>\$1,093,274,006</u>	<u>\$1,059,799,724</u>

See accompanying notes.

Northwest Community Healthcare and Subsidiaries

Consolidated Statements of Operations
and Changes in Net Assets

	For the Year Ended September 30	
	2019	2018
Revenue		
Patient service revenue	\$ 614,618,656	\$ 586,792,137
Other operating revenue	39,689,144	36,926,417
Total revenue	<u>654,307,800</u>	<u>623,718,554</u>
Expenses		
Salaries and employee benefits	357,251,767	340,765,945
Supplies and other	131,056,307	126,607,248
Professional fees and purchased services	95,389,909	93,815,120
Depreciation and amortization	40,413,126	37,076,874
Illinois hospital assessment	22,298,211	20,362,276
Interest	8,534,376	7,807,604
Total expenses	<u>654,943,696</u>	<u>626,435,067</u>
Operating loss	(635,896)	(2,716,513)
Nonoperating revenue (expenses)		
Net investment income	13,734,578	27,342,338
Other	(5,441,196)	(16,302,799)
Net nonoperating revenue	<u>8,293,382</u>	<u>11,039,539</u>
Excess of revenue over expenses	<u>\$ 7,657,486</u>	<u>\$ 8,323,026</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	
	2019	2018
Net assets without donor restrictions		
Excess of revenue over expenses	\$ 7,657,486	\$ 8,323,026
Pension-related changes other than net periodic pension cost	(5,051,148)	2,268,171
Net assets released from restrictions used for:		
Purchase of property and equipment	3,009,858	879,917
Change in noncontrolling interests and other	(340,620)	1,121,910
Increase in net assets without donor restrictions	5,275,576	12,593,024
Net assets with donor restrictions		
Contributions and other	7,796,810	6,759,706
Investment income	41,018	150,110
Net assets released from restrictions used for:		
Purchase of property and equipment	(3,009,858)	(879,917)
Operations	(1,542,821)	(1,506,987)
Increase in net assets with donor restrictions	3,285,149	4,522,912
Increase in net assets	8,560,725	17,115,936
Net assets at beginning of period	626,767,588	609,651,652
Net assets at end of period	\$ 635,328,313	\$ 626,767,588

See accompanying notes.

Northwest Community Healthcare and Subsidiaries

Consolidated Statements of Cash Flows

	For the Year Ended September 30	
	2019	2018
Operating activities		
Change in net assets	\$ 8,560,725	\$ 17,115,935
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Pension-related changes other than net periodic pension cost	5,051,148	(2,268,171)
Restricted contributions	(7,796,810)	(4,167,564)
Depreciation and amortization	39,477,128	36,138,409
Loss (gain) on disposal of fixed assets	448,728	(191,343)
Net change in unrealized losses on investments	9,988,163	16,237,125
Changes in other assets and liabilities:		
Accounts receivable, other receivables, due to third-party payors and due to affiliates	4,030,812	(7,157,989)
Accounts payable and accrued expenses	(2,137,036)	12,781,809
Investments	(27,317,378)	(28,174,576)
Other assets and liabilities	5,428,825	3,365,885
Net cash provided by operating activities	<u>35,734,305</u>	<u>43,679,520</u>
Investing activities		
Property and equipment additions, net	(54,484,387)	(42,258,580)
Net cash used in investing activities	<u>(54,484,387)</u>	<u>(42,258,580)</u>
Financing activities		
Payments on long-term obligations	(7,600,000)	(7,315,000)
Restricted contributions	7,796,810	4,167,564
Net cash provided by (used in) financing activities	<u>196,810</u>	<u>(3,147,436)</u>
Net decrease in cash and cash equivalents	(18,553,272)	(1,726,496)
Cash and cash equivalents at beginning of period	29,145,972	30,872,468
Cash and cash equivalents at end of period	<u>\$ 10,592,700</u>	<u>\$ 29,145,972</u>
Supplemental disclosure of cash flow information		
Cash paid for interest	<u>\$ 8,673,852</u>	<u>\$ 8,575,418</u>

See accompanying notes.

Northwest Community Healthcare and Subsidiaries

Notes to Consolidated Financial Statements

September 30, 2019

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. 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.

Subsidiaries of Healthcare include the Hospital, Northwest Community Hospital Foundation (the Foundation), Central Insurance Company, Ltd. (CICL), and Northwest Community Healthcare PHO, LLC (PHO). 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 (Endo), Northwest Community Foot and Ankle Center, LLC (Foot), and EnVision Medical Imaging, LLC (EnVision). 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, 2019 and 2018) and physician investors (26% at September 30, 2019 and 2018). 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 (59.25% and 51.75% at September 30, 2019 and 2018, respectively) and physician investors (40.75% and 48.25% at September 30, 2019 and 2018, 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)

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, 2019 and 2018) and physician investors (49% at September 30, 2019 and 2018). Health Services consolidates Endo because it owns a controlling interest.

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, 2019 and 2018) and physician investors (49% at September 30, 2019 and 2018). Health Services consolidates Foot because it owns a controlling interest.

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, 2019 and 2018) and physician investors (49% at September 30, 2019 and 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, PHO, CyberKnife, DSC-II, and CICL. Endo, Foot and EnVision are consolidated in Health Services operations. NCPA had no financial transactions during 2019 and 2018, and did not hold any assets or liabilities as of September 30, 2019 and 2018. 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 Service Revenue and Patient Accounts Receivable

Patient service revenue is reported at the amount that reflects the consideration to which Healthcare expects to be entitled in exchange for providing patient care. These amounts are due from patients, third-party payors (including managed care payors and government programs) and others and includes variable consideration for retroactive revenue adjustments due to settlements of audits, reviews and investigations. Generally, patients and third-party payors are billed within days after the services are performed or shortly after discharge. Revenue is recognized as performance obligations are satisfied. Provisions for third-party payor settlements and adjustments are estimated in the periods the related services are provided and adjusted in future periods as additional information becomes available and final settlements are determined.

Laws and regulations governing the Medicare and Medicaid programs are complex and subject text to margin to interpretation. As a result, there is a possibility that recorded estimates will change by a material amount.

Patient accounts receivable balances are stated at net realizable value based upon historical and expected collection patterns that consider the corresponding payor type, the length of time the receivable is outstanding, and other material factors impacting future collectability. Healthcare does not require collateral from patients in connection with providing health care services.

Inventories

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

Northwest Community Healthcare and Subsidiaries

Notes to Consolidated Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

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. The estimated values are provided by the respective fund managers and are based on historical costs, appraisals and other estimates that require varying degrees of judgment. Management has utilized the best available information for reported values, which in some instances are valuations as of an interim date not more than 90 days before year end. 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 and amortization for property and equipment. Depreciation expense was approximately \$39,534,000 and \$37,077,000 for the years ended September 30, 2019 and 2018, respectively.

The useful lives of fixed property and equipment are as follows:

Land improvements	5-25 years
Buildings and building components	5-40 years
Fixed equipment	5-25 years
Equipment	3-15 years
Furniture	10-20 years
Software	3 years
Hardware	5 years

During 2019, an unconsolidated venture of Healthcare entered into an agreement to purchase real estate and construct an outpatient care medical building that will be leased by Healthcare. Healthcare is considered the owner of the property during the construction. The full value of the construction in progress asset was recorded at \$21,350,000 at September 30, 2019. The long-term portion of the related liability was \$14,412,000 at September 30, 2019 and is included in other non-current liabilities in the accompanying consolidated balance sheet.

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

2. Summary of Significant Accounting Policies (continued)

Bond Issuance 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 \$138,000 and \$122,000 for the years ended September 30, 2019 and 2018, respectively.

General and Professional Liability Insurance

The provision for general and professional liability claims, which are included in reserve for self-insurance, 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 \$7,911,000 at September 30, 2019 and \$8,790,000 at September 30, 2018. Healthcare performed a quantitative assessment, as of the first day of the fourth quarter, of goodwill for the organization as a whole and determined that no impairment existed as of September 30, 2019 and 2018.

Healthcare amortizes goodwill and intangible assets over a 10-year period using the straight-line method. The estimated amortization expense is \$879,000 for each of the five succeeding years. The remaining weighted average amortization period at September 30, 2019 is 9.0 years.

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. 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 \$15,000 and \$20,000 was recorded for the years ended September 30, 2019 and 2018, respectively, and is included in interest expense. The ARO liability was \$859,000 and \$844,000 as of September 30, 2019 and 2018, respectively, and is included within other long-term liabilities.

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 2019 and 2018.

Net Assets with Donor Restrictions

Net assets with donor restrictions are those assets whose use by Healthcare has been limited by donors to a specific time period or purpose, or consist of gifts with corpus values that have been restricted by donors to be maintained in perpetuity. Net assets with donor restrictions are used in accordance with the donor's wishes primarily to purchase property and equipment, to fund medical education or to fund health programs.

Assets released from restrictions to fund purchases of property and equipment are reported in the consolidated statement of operations and changes in net assets as increases to net assets without donor restrictions. Those assets released from restriction for operating purposes are reported in the consolidated statement of operations and changes in net assets as other revenue. When restricted, earnings are recorded as net assets with donor restrictions until amounts are expended in accordance with the donor's specifications.

Substantially all donor restricted contributions benefiting Healthcare are initially received by the Foundation. When a donor restriction is met, the Foundation transfers the donor 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)

Other Operating Revenue and Other Nonoperating Revenue (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 revenue (expense) includes the gain (loss) on disposal of fixed assets and the minority share of net income. In addition, an adjustment recorded in 2018 related to 2016 is reflected in other nonoperating revenue (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.

The cost to provide charity care using Healthcare's cost-to-charge ratio was \$5,209,000 and \$9,460,000 for 2019 and 2018, 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. The charity care declined from fiscal year 2018 to fiscal year 2019 due to changes in the charity care policy in late fiscal 2018 related to both underinsured and uninsured patients. Healthcare made changes to the percentage of the Federal Poverty Guidelines to qualify for charity care, as well as the discount percentage available on self-pay balances.

Northwest Community Healthcare and Subsidiaries

Notes to Consolidated Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

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 net assets without donor restrictions 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 \$37,353,000 and \$35,876,000 at September 30, 2019 and 2018, respectively, 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

Northwest Community Healthcare and Subsidiaries

Notes to Consolidated Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

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 2018 financial statements have been reclassified to conform to the 2019 presentation. Those reclassifications had no impact on net assets or excess of revenue over expenses as previously reported.

New Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers (Topic 606)*. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to its customers in an amount that reflects the consideration to which the entity expects to be entitled in exchanges for those goods and services. Healthcare adopted this guidance effective October 1, 2018, using the full retrospective method. The adoption of the new accounting standard impacted the presentation of the consolidated financial statement of operations for its provision for bad debts. Subsequent the adoption of the new standard, the provision for bad debts is now reflected as an implicit price concession, as defined in the standard, and therefore a reduction to patient service revenue.

In January 2016, the FASB issued ASU 2016-01, *Recognition and Measurement of Financial Assets and Financial Liabilities*, 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 February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. The guidance introduces a lessee model that brings most leases on the balance sheet. The standard also aligns certain of the underlying principles of the new lessor model with those in ASU 2014-09. This standard was effective for Healthcare effective October 1, 2019, and was adopted using a modified retrospective

Northwest Community Healthcare and Subsidiaries

Notes to Consolidated Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

approach. Healthcare recorded a right of use asset and right of use liability of approximately \$15,600,000 due to the adoption of this standard. This guidance did not have a material impact on Healthcare's consolidated statement of operations and changes in net assets.

In August 2016, the FASB issued ASU 2016-14, *Presentation of Financial Statements of Not-For-Profit Entities (Topic 958)*. The guidance requires net assets to be categorized either as net assets with donor restrictions or net assets without donor restrictions rather than the previous required three classes of net assets. The guidance also requires additional quantitative and qualitative disclosures and expenses to be disclosed by both their natural and functional classifications. Healthcare adopted this guidance for the annual reporting period effective September 30, 2019 having no impact to the financial position, results of operations or cash flows.

In November 2016, the FASB issued ASU 2016-18, *Restricted Cash*. 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 March 2017, the FASB issued ASU 2017-07, *Compensation – Retirement Benefits (Topic 715)*. 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 June 2018, FASB issued ASU 2018-08, *Not-for-Profit Entities (Topic 958) Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*. ASU 2018-08 distinguishes between contributions and exchange transactions and determines which guidance is applied. Contributions fall under Topic 958 while exchange transactions fall under Topic 606. The amendments clarify how an entity determines whether a resource provider is participating in an exchange transaction by evaluating whether a resource provider is receiving commensurate value in return for the resources. The amendments in this ASU may result in more grants and contracts being accounted for as either contributions or conditional contributions than observed in practice

Northwest Community Healthcare and Subsidiaries

Notes to Consolidated Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

under previous guidance. This guidance is effective for contributions received within annual periods beginning after June 15, 2018 including interim periods within those annual periods. Healthcare adopted ASU 2018-08 effective October 1, 2018. There was no significant impact to Healthcare's consolidated statements of operations and changes in net assets from implementation of ASU 2018-08.

In August 2018, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2018-15, *Intangibles – Goodwill and Other – Internal Use Software (Subtopic 350-40) Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract*. ASU 2018-15 aligns the requirements for capitalizing implementation costs incurred in a hosting agreement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. Costs for implementation activities in the application development stage are capitalized depending on the nature of the costs, while costs incurred during the preliminary and post-implementation project stages as well as training costs and data conversions are expensed as performed. Capitalized implementation costs are amortized over the term of the hosting agreement including non-cancellable periods and extensions the customer will most likely exercise. The expense is amortized to the same line item as the fees associated with the hosting agreement. ASU 2018-15 permits early adoption in any interim period for all entities. This guidance is effective for fiscal years beginning after December 15, 2020 and interim periods beginning after December 15, 2021. Healthcare is evaluating the effect this guidance will have on its consolidated financial statements.

In May 2019, the FASB issued ASU 2019-06, *Intangibles – Goodwill and Other (Topic 350), Business Combinations (Topic 805) and Not-for-Profit Entities (Topic 958)*. This guidance allows not-for-profits to apply accounting alternatives in Topic 350 and Topic 805. A not-for-profit entity can amortize goodwill on a straight line basis over 10 years, or less than 10 years if the not-for-profit entity demonstrates that a shorter useful life is more appropriate. A not-for-profit entity that elects this accounting alternative is required to make an accounting policy election to test goodwill for impairment at either the entity level or the reporting unit level. The guidance is effective immediately and should be applied prospectively for goodwill recognized after the alternative is adopted. The guidance will be applied to existing goodwill as of the beginning of the annual period of adoption. Healthcare elected to adopt this guidance. Goodwill is amortized straight-line over a 10-year period, with the initial amount of \$879,000 being recorded for the year ended September 30, 2019.

Northwest Community Healthcare and Subsidiaries

Notes to Consolidated Financial Statements (continued)

3. Patient Service Revenue

Patient Service Revenue

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

Performance obligations are identified based on the nature of the services provided. Revenue associated with performance obligations satisfied over time is recognized based on actual charges incurred in relation to total expected (or actual) charges. Performance obligations satisfied over time relate to patients who receive inpatient acute care services. Healthcare measures the performance obligation from admission into the hospital to the point when there are no further services required for the patient, which is generally at the time of discharge. For outpatient services, the performance obligation is satisfied as the patient simultaneously receives and consumes the benefits provided as the services are performed. In the case of the outpatient services, recognition of the obligation over time yields the same result as recognizing the obligation at a point in time. Management believes this method provides a faithful depiction of the transfer of services over the term of performance obligations based on the inputs needed to satisfy the obligations.

Healthcare uses a portfolio approach to account for categories of patient contracts as a collective group rather than recognizing revenue on an individual contract basis. The portfolios consist of major payor classes for inpatient revenue and major payor classes and types of services provided for outpatient revenue. Based on the historical collection trends and other analyses, Healthcare believes that revenue recognized by utilizing the portfolio approach approximates the revenue that would have been recognized if an individual contract approach were used.

Healthcare determines the transaction price, which involves significant estimates and judgment, based on standard charges for goods and services provided, reduced by explicit and implicit price concessions, including contractual adjustments provided to third-party payors, discounts provided to uninsured and underinsured patients in accordance with policy and/or implicit price concessions based on the historical collection experience of patient accounts. Healthcare determines the transaction price associated with services provided to patients who have third-party payor covered

Northwest Community Healthcare and Subsidiaries

Notes to Consolidated Financial Statements (continued)

3. Patient Service Revenue (continued)

based on reimbursement terms per contractions agreements, discount policies and historical experience. For uninsured and underinsured patients who do not qualify for charity care, Healthcare determines the transaction price associated with services on the basis of charges reduced by implicit price concessions. Implicit price concessions included the estimate of the transaction price are based on historical collection experience for applicable patient portfolios. Patients who meet Healthcare's criteria for free care "charity" are provided care without charge; such amounts are not reported as revenue. Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to patient service revenue in the period of the change. Settlements with third-party payors for retroactive adjustments due to audits, reviews or investigations are considered variable consideration and are included in the determination of the estimated transaction price for providing patient care using the most likely outcome method. These settlements are estimated based on the terms of the payment agreements with the payor, correspondence from the payor and historical settlement activity, including an assessment to ensure that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the retroactive adjustment is subsequently resolved. Estimated settlements are adjusted in future periods as new information becomes available or as years are settled or are no longer subject to such audits, reviews and investigations.

For the years ended September 30, 2019 and 2018, changes in Healthcare's estimates of implicit price concessions, discounts and contractual adjustments or other reductions to expected payments for performance obligations in prior periods was not significant.

Currently, Illinois utilizes supplemental reimbursement programs to supplement reimbursement to providers to offset a portion of the cost of providing care to Medicaid and indigent patients. These programs are designed with input from the Centers for Medicare and Medicaid Services and are funded with a combination of state and federal resources including assessments levied on the providers. Reimbursement under these programs is reflected in patient service revenue and the assessment is reflected in other expense. See Note 14 for disclosure of these amounts.

As Healthcare's performance obligations relate to contracts with a duration of less than one year, Healthcare has elected to apply the optional exemption provided in Topic 606 and, therefore, is not required to disclose the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied or partially unsatisfied at the end of the reporting periods. The unsatisfied or partially unsatisfied performance obligations referred to above are primarily related to inpatient acute services at the end of the reporting period. The performance obligations for these contracts are generally completed when the patients are discharged, which generally occurs within days or weeks at the end of the reporting period.

Northwest Community Healthcare and Subsidiaries

Notes to Consolidated Financial Statements (continued)

3. Patient Service Revenue (continued)

Healthcare has entered into payment arrangements with patients that allow for payments over a term in excess of one year. Healthcare has evaluated historical collections in excess of one year and current market interest rates to determine where a significant financing component exists which would require adjustments to the promised amount of considerations from patients and third-party payors. Healthcare has determined that the impact of implicit financing arrangements for payments agreements in excess of one year is insignificant to the consolidated statements of operations and changes in net assets.

Healthcare does not incur significant incremental costs in obtaining contracts with patients. As permitted in the guidance, any costs which are incurred, are expensed in the period of occurrence, as the amortization of any asset that Healthcare would have recognized is one year or less in duration.

Management has determined the nature, amount, timing and uncertainty of revenues and cash flows are affected by payor and business service line. The composition of patient service revenue by payors for the years ended September 30, 2019 and 2018, are as follows (in thousands):

	<u>2019</u>	<u>2018</u>
Medicare	\$ 230,048	\$ 222,114
Medicaid	53,982	53,387
Managed care	322,397	304,962
Self-pay	2,147	1,192
Commercial	6,045	5,137
Patient service revenue	<u>\$ 614,619</u>	<u>\$ 586,792</u>

Deductibles, copayments and coinsurance under third-party payment programs which are the patient's responsibility are included within the primary payor category.

Northwest Community Healthcare and Subsidiaries

Notes to Consolidated Financial Statements (continued)

3. Patient Service Revenue (continued)

The composition of patient service revenue by service line for the year ended September 30, 2019, is as follows (in thousands):

	2019	2018
Hospital	\$ 507,494	\$ 479,897
Medical Group	91,197	87,599
Other	15,928	19,296
Total	\$ 614,619	\$ 586,792

Patient Accounts Receivable

Healthcare's patient accounts receivable is reported at the amount that reflects the consideration to which it expects to be entitled, in exchange for providing patient care.

Patient accounts receivable are reported at net realizable value based on certain assumptions. For third-party payors including Medicare, Medicaid and Managed Care, the net realizable value is based on the estimated contractual reimbursement percentage, which is based on current contract prices or historical paid claims data by payor. For self-pay, the net realizable value is determined using estimates of historical collection experience including an analysis by aging category. These estimates are adjusted for expected recoveries and any anticipated changes in trends including significant changes in payor mix, shared revenue cycle operations, economic conditions or trends in federal and state governmental healthcare coverage.

The composition of patient accounts receivable is summarized as follows (in thousands):

	September 30	
	2019	2018
Medicare	\$ 28,144	\$ 26,983
Medicaid	7,418	9,243
Managed care	25,318	28,647
Self-pay	8,129	2,124
Commercial	1,460	7,280
Patient accounts receivable	\$ 70,469	\$ 74,277

Northwest Community Healthcare and Subsidiaries

Notes to Consolidated Financial Statements (continued)

4. Investments

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

	<u>2019</u>	<u>2018</u>
Internally designated for capital replacement:		
Fund of funds	\$ 89,061	\$ 84,722
Mutual funds	362,874	351,557
	<u>451,935</u>	<u>436,279</u>
Internally designated for insurance:		
Mutual funds	29,663	29,088
Internally designated for deferred compensation:		
Mutual funds	5,525	5,497
Internally and externally designated for endowment and other:		
Mutual funds	4,440	3,369
Total assets limited as to use	<u>\$ 491,563</u>	<u>\$ 474,233</u>

Northwest Community Healthcare and Subsidiaries

Notes to Consolidated Financial Statements (continued)

4. Investments (continued)

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

	2019		2018	
Interest and dividends	\$	11,421	\$	12,101
Realized gains on investments		15,058		34,886
Change in net unrealized gains and losses on investments		(9,988)		(16,237)
Investment fees		(2,180)		(2,222)
	\$	14,311	\$	28,528
Reported as:				
Other operating revenue	\$	535	\$	1,036
Net investment income		13,735		27,342
With donor restrictions investment income		41		150
	\$	14,311	\$	28,528

5. 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)

5. 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, 2019, 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	\$ 10,593	\$ —	\$ —	\$ 10,593
Internally designated for capital replacement:				
Mutual funds:				
U.S. equity	159,497	—	—	159,497
Fixed income	203,377	—	—	203,377
	<u>362,874</u>	—	—	<u>362,874</u>
Internally designated for insurance:				
Mutual funds:				
U.S. equity	5,615	—	—	5,615
International equity	3,252	—	—	3,252
Fixed income	20,796	—	—	20,796
	<u>29,663</u>	—	—	<u>29,663</u>
Internally designated for deferred compensation:				
Mutual funds	5,525	—	—	5,525
Internally and externally designated for endowment:				
Mutual funds:				
U.S. equity	1,554	—	—	1,554
International equity	1,110	—	—	1,110
Fixed income	1,776	—	—	1,776
	<u>4,440</u>	—	—	<u>4,440</u>
Assets at fair value	<u>\$ 413,095</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 413,095</u>
Investments recorded at fair value based on net asset value				<u>\$ 89,061</u>

Northwest Community Healthcare and Subsidiaries

Notes to Consolidated Financial Statements (continued)

5. 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, 2018, 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	\$ 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>—</u>	<u>—</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>—</u>	<u>—</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>—</u>	<u>—</u>	<u>3,369</u>
Assets at fair value	<u>\$ 418,657</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 418,657</u>
Investments recorded at fair value based on net asset value				<u>\$ 84,722</u>

Northwest Community Healthcare and Subsidiaries

Notes to Consolidated Financial Statements (continued)

5. 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.

Because of the timing of the preparation and delivery of financial statements for limited partnership investments, the use of the most recently available financial statements provided by the general partners results in a one month delay in the inclusion of the limited partnership results in Healthcare's consolidated statements of operations and changes in net assets due to the results based on September 30 investment statements. Due to this delay, these consolidated financial statements do not reflect the market conditions experienced in the last month of the fiscal year 2019 and 2018 for the limited partnership investments.

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 \$246,267,000 and \$237,804,000 at September 30, 2019 and 2018, 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)

6. 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, 2019, the Obligated Group was in compliance with these covenants.

Bond interest expense during 2019 and 2018 was \$7,743,000 and \$7,637,000, respectively. Including financing fees and investment fees, total interest expense was \$8,535,000 and \$7,808,000 for 2019 and 2018, respectively. No interest was capitalized for the years ended September 30, 2019 and 2018.

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 \$17,599,000 and \$18,535,000 at September 30, 2019 and 2018, 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)

6. 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 2019 and 2018 was 3.21% and 2.70%, respectively.

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 2019 and 2018 was 1.60% and 1.30%, 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 \$2,247,000 and \$2,385,000 are included in long-term debt at September 30, 2019 and 2018, respectively.

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

6. 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:				
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
2024	3,890	2,700	2,795	9,385
Thereafter	35,100	27,400	121,905	184,405
Total principal payments	<u>\$ 53,570</u>	<u>\$ 39,500</u>	<u>\$ 134,540</u>	<u>\$ 227,610</u>

7. Net Assets With Donor Restrictions

Net assets with donor restrictions are available for the following purposes at September 30 (in thousands):

	2019	2018
With restriction:		
Specific hospital programs	\$ 4,827	\$ 1,159
Other special uses	215	235
Behavioral/Mental Health	49	36
Nursing education	2,359	1,882
Women's services	1,050	1,306
Community services	26	41
Cancer services	2,472	2,074
Pediatrics	155	72
Cardiac services	1,043	2,106
Youth treatment center	348	348
Endowment – general	224	224
	<u>\$ 12,768</u>	<u>\$ 9,483</u>

Northwest Community Healthcare and Subsidiaries

Notes to Consolidated Financial Statements (continued)

7. Net Assets With Donor Restrictions (continued)

Internally Designated for Endowment

The Board has designated a portion of net assets without donor restrictions as a board designated endowment for the purpose of funding the Foundation's operational expenses.

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.

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)

7. Net Assets With Donor Restrictions (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.

8. Net Assets Without Donor Restrictions

Net assets without donor restrictions are comprised of the following at September 30 (in thousands):

	<u>2019</u>	<u>2018</u>
Undesignated	\$ 621,360	\$ 616,085
Internally designated for endowment	1,200	1,200
	<u>\$ 622,560</u>	<u>\$ 617,285</u>

9. Functional Operating Expenses

Operating expenses directly attributable to a specific functional area of Healthcare are reported as expenses of those functional areas. Expenses are directly allocated, using a variety of methods, to functional departments at the time they are incurred. General and administrative expenses primarily include legal, finance, purchasing and human resources.

Northwest Community Healthcare and Subsidiaries

Notes to Consolidated Financial Statements (continued)

9. Functional Operating Expenses (continued)

Functional operating expenses for year ended September 30, 2019, are as follows (in thousands):

	Health Care Services	General and Administrative	Fundraising	Consolidated
Salaries, wages and benefits	\$ 264,017	\$ 92,546	\$ 689	\$ 357,252
Supplies and other	104,920	26,043	93	131,056
Professional fees and purchased services	53,992	41,282	116	95,390
Depreciation and amortization	23,940	16,473	–	40,413
Illinois Hospital assessment	22,298	–	–	22,298
Interest	–	8,535	–	8,535
Total operating expenses	\$ 469,167	\$ 184,879	\$ 898	\$ 654,944

Functional operating expenses for year ended September 30, 2018, are as follows (in thousands):

	Health Care Services	General and Administrative	Fundraising	Consolidated
Salaries, wages and benefits	\$ 251,054	\$ 89,096	\$ 616	\$ 340,766
Supplies and other	107,459	19,029	119	126,607
Professional fees and purchased services	49,594	44,165	56	93,815
Depreciation and amortization	22,076	15,001	–	37,077
Illinois Hospital assessment	20,362	–	–	20,362
Interest	–	7,808	–	7,808
Total operating expenses	\$ 450,545	\$ 175,099	\$ 791	\$ 626,435

Northwest Community Healthcare and Subsidiaries

Notes to Consolidated Financial Statements (continued)

10. Liquidity

Healthcare maintains a policy of structuring its financial assets to be available as its general expenditures, liabilities and other obligations come due. In addition, as part of its liquidity management, Healthcare invests cash in excess of daily requirements in various investments.

Healthcare's financial assets available within one year of the consolidated balance sheet date of September 30, 2019, for general expenditures are as follows (in thousands):

Current assets:	
Cash and cash equivalents	\$ 10,593
Patient accounts receivable	70,469
Third-party payors receivables	<u>5,600</u>
Total current assets	86,662
Asset limited as to use:	
Internally designated for capital	451,935
Held for self-insurance	29,663
Donor restricted	4,440
Deferred compensation	<u>5,525</u>
Total assets limited as to use	<u>491,563</u>
Total financial assets	<u>\$ 578,225</u>
Less	
Amounts unavailable to management for general operating expenditures:	
Held for self-insurance	\$ 29,663
Donor restricted	4,440
Deferred compensation	<u>5,525</u>
Total amounts unavailable to management for general operating expenditures	<u>39,628</u>
Total financial assets available to management for general expenditure within one year	<u>\$ 538,597</u>

Northwest Community Healthcare and Subsidiaries

Notes to Consolidated Financial Statements (continued)

11. 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 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, 2019 and 2018, of \$56,064,000 and \$43,531,000, 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 2019 and 2018. The undiscounted gross self-insurance and tail liabilities were \$56,670,000 and \$44,525,000 at September 30, 2019 and 2018, 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 \$16,256,000 and \$7,528,000 was recorded at September 30, 2019 and 2018, 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

Northwest Community Healthcare and Subsidiaries

Notes to Consolidated Financial Statements (continued)

11. Insurance Programs (continued)

has been obtained on a claims-made basis for claims exceeding the self-insured retention. Healthcare's workers' compensation liabilities as of September 30, 2019 and 2018, of \$2,770,000 and \$2,759,000, respectively, are reported on the accompanying consolidated balance sheets on an undiscounted basis. Of this amount, as of September 30, 2019 and 2018, \$78,000 and \$223,000, 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.

12. Commitments

Healthcare leases space under operating lease agreements. There are no long-term equipment leases. Total expense recognized for operating lease agreements during fiscal 2019 and 2018 was approximately \$7,831,000 and \$7,029,000, respectively.

As of September 30, 2019, Healthcare is required to make the following future minimum payments under the non-cancelable lease agreements (in thousands):

2020	\$	3,633
2021		3,366
2022		2,453
2023		1,652
2024		1,569
Thereafter		3,487
	\$	<u>16,160</u>

Northwest Community Healthcare and Subsidiaries

Notes to Consolidated Financial Statements (continued)

13. 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.

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 2019 and 2018.

The Plan's actuarial losses (gains) included in net assets without donor restrictions during 2019 and 2018 were \$4,969,000 and \$(2,268,000), respectively.

Northwest Community Healthcare and Subsidiaries

Notes to Consolidated Financial Statements (continued)

13. Employee Retirement Plans (continued)

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

	<u>2019</u>	<u>2018</u>
Change in projected benefit obligation:		
Projected benefit obligation at beginning of year	\$ 148,340	\$ 163,901
Interest cost	5,179	5,377
Actuarial loss	15,975	(4,009)
Settlements	(14,620)	(14,579)
Benefits paid	(2,569)	(2,350)
Projected benefit obligation at end of year	<u>152,305</u>	148,340
Change in plan assets:		
Fair value of plan assets at beginning of year	146,530	162,610
Actual gain on plan assets	12,524	849
Settlements	(14,620)	(14,579)
Benefits paid	(2,569)	(2,350)
Fair value of plan assets at end of year	<u>141,865</u>	146,530
Funded status as of measurement date	<u>(10,440)</u>	(1,810)
Net assets without donor restrictions:		
Adjustment to net assets without donor restrictions	(63,792)	(58,824)
Components of net assets without donor restrictions:		
Unrecognized net actuarial loss	63,792	58,824
Net amount recognized at end of year	<u>\$ (10,440)</u>	<u>\$ (1,810)</u>

Northwest Community Healthcare and Subsidiaries

Notes to Consolidated Financial Statements (continued)

13. 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):

	2019	2018
Interest cost on projected benefit obligation	\$ 5,179	\$ 5,377
Expected return on plan assets	(9,034)	(11,693)
Net amortization and deferral	1,524	1,475
Settlement charge	5,992	5,778
Other	–	1,850
Net periodic pension cost (benefit)	\$ 3,661	\$ 2,787

The accumulated benefit obligation for the Plan was approximately \$152,305,000 and \$148,340,000 at September 30, 2019 and 2018, 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:

	2019	2018
Discount rate	2.8%	4.0%

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

	2019	2018
Discount rate	4.0%	3.3%
Expected long-term rate of return on plan assets	6.5	6.7

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 8.45% since its inception in 2009.

Northwest Community Healthcare and Subsidiaries

Notes to Consolidated Financial Statements (continued)

13. Employee Retirement Plans (continued)

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

Asset category	2019		2018	
	Target	Actual	Target	Actual
Equity securities	15%	12%	15%	11%
Fixed income securities	75	76	75	73
Alternative investments	10	12	10	16
	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 2020.

The following are the Plan's financial instruments at September 30, 2019, measured at fair value on a recurring basis by the valuation hierarchy defined in Note 5 (in thousands):

	Level 1	Level 2	Level 3	Total
Cash and money market funds	\$ 736	\$ –	\$ –	\$ 736
U.S. government and agency obligations	–	25,004	–	25,004
Mutual funds:				
U.S. equity	8,307	–	–	8,307
International equity	7,219	–	–	7,219
Fixed income	77,911	–	–	77,911
High-yield bonds	3,070	–	–	3,070
Emerging markets debt	2,018	–	–	2,018
Hedge fund of funds	–	–	17,600	17,600
	\$ 99,261	\$ 25,004	\$ 17,600	\$ 141,865

Northwest Community Healthcare and Subsidiaries

Notes to Consolidated Financial Statements (continued)

13. Employee Retirement Plans (continued)

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 5 (in thousands):

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
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
	<u>\$ 110,472</u>	<u>\$ 19,822</u>	<u>\$ 16,236</u>	<u>\$ 146,530</u>

Fair value methodologies for Level 1 and Level 2 are consistent with the inputs described in Note 5. 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 5.

Northwest Community Healthcare and Subsidiaries

Notes to Consolidated Financial Statements (continued)

13. 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, 2017	\$ 21,838
Unrealized gain	1,898
Sales	(7,500)
Purchases	<u> —</u>
Value at September 30, 2018	16,236
Unrealized gain	1,364
Sales	—
Purchases	<u> —</u>
Value at September 30, 2019	<u><u>\$ 17,600</u></u>

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

	Pension Benefits
	<u> </u>
2020	\$ 17,807
2021	15,902
2022	14,569
2023	13,329
2024	12,571
2025 to 2029	47,077

Northwest Community Healthcare and Subsidiaries

Notes to Consolidated Financial Statements (continued)

13. 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 \$8,765,000 and \$8,297,000 in 2019 and 2018, 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 \$2,209,000 and \$2,302,000 for the years ended September 30, 2019 and 2018, respectively, and is included in pension obligation liability. The related expense of \$376,000 and \$700,904 for 2019 and 2018, 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 \$5,525,000 and \$5,497,000 as of September 30, 2019 and 2018, respectively. The asset is presented separately in assets limited as to use and the liability is included in accrued expenses and other.

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 2019 and 2018, 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>2019</u>	<u>2018</u>
HAP revenue in patient service revenue	\$ 24,516	\$ 23,689
HAP assessment in operating expense	<u>22,298</u>	<u>20,362</u>
Net benefit from HAP	<u>\$ 2,218</u>	<u>\$ 3,327</u>

15. Subsequent Events

Healthcare evaluated events and transactions occurring subsequent to September 30, 2019, through January 22, 2020, 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, 2020

Northwest Community Healthcare and Subsidiaries

Details of Consolidated Balance Sheet

September 30, 2019

	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	\$ 83,371	\$ 3,620,875	\$ 534,864	\$ 219,536	\$ 111,140	\$ 974,024	\$ 2,789,233	\$ 2,259,657	\$ -	\$ 10,592,700
Patient accounts receivable	13,114,463	52,093,793	-	1,902,025	-	-	3,358,597	-	-	70,168,878
Other receivables	962,693	16,528,037	-	98,893	-	6,748,724	686,199	7,283,749	(11,587,094)	20,721,201
Prepaid expenses and other	1,137,904	13,118,614	-	538,437	-	-	546,320	2,805	-	15,344,080
Due from affiliates	-	19,713,506	3,672,672	-	322,173	-	52,002,984	111,461	(75,822,796)	-
Total current assets	15,298,431	105,074,825	4,207,536	2,758,891	433,313	7,722,748	59,383,333	9,657,672	(87,409,890)	117,126,859
Assets limited as to use, at fair value:										
Internally designated for capital replacement	451,935,186	-	-	-	-	-	-	-	-	451,935,186
Internally designated for insurance	-	-	-	-	-	-	-	29,662,871	-	29,662,871
Internally designated for deferred comp	-	-	-	-	-	-	5,524,745	-	-	5,524,745
Internally designated for endowment	-	-	1,200,000	-	-	-	-	-	-	1,200,000
Externally designated for endowment and other	-	-	3,239,673	-	-	-	-	-	-	3,239,673
	451,935,186	-	4,439,673	-	-	-	5,524,745	29,662,871	-	491,562,475
Property and equipment:										
Land and land improvements	9,203,742	15,271,183	-	-	-	-	-	-	-	24,474,925
Buildings	58,459,782	318,705,275	-	-	-	-	-	-	-	377,165,057
Fixed equipment and leasehold improvements	17,265,204	219,944,076	-	193,432	-	-	7,574,658	-	-	244,977,370
Major movable equipment	2,224,967	253,345,646	-	4,810,980	3,555,000	-	10,039,313	-	-	273,975,906
Construction-in-progress	24,505,072	22,838,303	-	71,241	-	-	342,716	-	-	47,757,332
	111,658,767	830,104,483	-	5,075,653	3,555,000	-	17,956,687	-	-	968,350,590
Less accumulated depreciation	(48,625,803)	(452,977,631)	-	(3,492,863)	(3,555,000)	-	(7,476,647)	-	-	(516,127,944)
	63,032,964	377,126,852	-	1,582,790	-	-	10,480,040	-	-	452,222,646
Interest in net assets of Foundation	-	12,768,133	-	-	-	-	-	-	(12,768,133)	-
Reinsurance receivable	-	11,040,775	-	-	-	-	-	5,214,883	-	16,255,658
Other long-term assets	(3,071,014)	3,136,000	5,702,008	3,071,014	-	-	7,268,360	-	-	16,106,368
Investment in subsidiaries	69,627,320	-	-	-	-	-	-	-	(69,627,320)	-
	66,556,306	26,944,908	5,702,008	3,071,014	-	-	7,268,360	5,214,883	(82,395,453)	32,362,026
Total assets	\$ 596,822,887	\$ 509,146,585	\$ 14,349,217	\$ 7,412,695	\$ 433,313	\$ 7,722,748	\$ 82,656,478	\$ 44,535,426	\$ (169,805,343)	\$ 1,093,274,006

Northwest Community Healthcare and Subsidiaries

Details of Consolidated Balance Sheet (continued)

	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, net assets, and equity										
Current liabilities:										
Accounts payable	\$ 663,475	\$ 14,756,294	\$ 24,257	\$ 527,956	\$ -	\$ -	\$ 639,486	\$ -	\$ -	\$ 16,611,468
Accrued expenses and other	4,449,288	44,382,714	322,420	695,105	6,903	1,399,457	17,614,196	4,709,796	(11,437,094)	62,142,785
Current maturities of long-term debt obligations	-	7,925,000	-	-	-	-	-	-	-	7,925,000
Due to third-party payors	-	45,938,281	-	-	-	-	1,317,214	-	-	47,255,495
Due to affiliates	69,450,337	-	-	2,255,443	-	4,117,016	-	-	(75,822,796)	-
Total current liabilities	74,563,100	113,002,289	346,677	3,478,504	6,903	5,516,473	19,570,896	4,709,796	(87,259,890)	133,934,748
Long-term obligations, less current maturities:										
Series 2008B bonds	-	25,055,000	-	-	-	-	-	-	-	25,055,000
Series 2008C bonds	-	25,055,000	-	-	-	-	-	-	-	25,055,000
Series 2011 bonds	-	37,300,000	-	-	-	-	-	-	-	37,300,000
Series 2016 bonds	-	132,275,000	-	-	-	-	-	-	-	132,275,000
Series 2016 bonds premium	-	17,598,690	-	-	-	-	-	-	-	17,598,690
Bond issuance costs	-	(2,247,060)	-	-	-	-	-	-	-	(2,247,060)
	-	235,036,630	-	-	-	-	-	-	-	235,036,630
Other long-term liabilities	14,412,303	3,068,298	-	-	-	-	2,298,133	-	-	19,778,734
Reserve for self-insurance	-	19,200,055	-	-	-	-	-	39,705,630	(150,000)	58,755,685
Pension obligation liability	-	10,439,896	-	-	-	-	-	-	-	10,439,896
Total noncurrent liabilities	14,412,303	267,744,879	-	-	-	-	2,298,133	39,705,630	(150,000)	324,010,945
Total liabilities	88,975,403	380,747,168	346,677	3,478,504	6,903	5,516,473	21,869,029	44,415,426	(87,409,890)	457,945,693
Net assets:										
Without donor restrictions	507,847,484	115,631,286	1,234,409	3,934,191	426,410	2,206,275	60,787,449	120,000	(69,627,322)	622,560,182
With donor restrictions	-	12,768,131	12,768,131	-	-	-	-	-	(12,768,131)	12,768,131
Total net assets	507,847,484	128,399,417	14,002,540	3,934,191	426,410	2,206,275	60,787,449	120,000	(82,395,453)	635,328,313
Total liabilities and net assets	\$ 596,822,887	\$ 509,146,585	\$ 14,349,217	\$ 7,412,695	\$ 433,313	\$ 7,722,748	\$ 82,656,478	\$ 44,535,426	\$ (169,805,343)	\$ 1,093,274,006

Northwest Community Healthcare and Subsidiaries

Details of Consolidated Statement of Operations and Changes in Net Assets

Year Ended September 30, 2019

	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										
Patient service revenue	\$ 91,197,346	\$ 507,493,713	\$ -	\$ 14,365,963	\$ -	\$ -	\$ 7,808,243	\$ -	\$ (6,246,609)	\$ 614,618,656
Other operating revenue	11,954,321	14,462,743	434,004	110,124	684,000	16,953,855	83,264,218	10,222,178	(98,396,299)	39,689,144
Total revenue	103,151,667	521,956,456	434,004	14,476,087	684,000	16,953,855	91,072,461	10,222,178	(104,642,908)	654,307,800
Expenses										
Salaries and employee benefits	34,437,450	250,304,310	688,754	4,785,700	5,832	1,192,920	66,051,457	1,442,579	(1,657,235)	357,251,767
Supplies and other	16,088,676	108,720,372	93,117	6,982,773	1,770	22,214	4,507,342	8,439,170	(13,799,127)	131,056,307
Professional fees and purchased services	86,838,967	63,700,097	116,057	1,311,374	330,762	15,738,721	16,382,646	340,429	(89,369,144)	95,389,909
Depreciation and amortization	2,220,219	36,216,719	-	283,726	-	-	1,692,462	-	-	40,413,126
Illinois hospital assessment	-	22,298,211	-	-	-	-	-	-	-	22,298,211
Interest	300	8,534,076	-	-	-	-	-	-	-	8,534,376
Total expenses	139,585,612	489,773,785	897,928	13,363,573	338,364	16,953,855	88,633,907	10,222,178	(104,825,506)	654,943,696
Operating income (loss)	(36,433,945)	32,182,671	(463,924)	1,112,514	345,636	-	2,438,554	-	182,598	(635,896)
Nonoperating revenue (expense)										
Net investment income (loss)	13,712,022	-	21,484	-	-	-	1,072	-	-	13,734,578
Other	-	(3,444,758)	-	-	-	-	(1,194,893)	-	(801,545)	(5,441,196)
Net nonoperating revenue (expense)	13,712,022	(3,444,758)	21,484	-	-	-	(1,193,821)	-	(801,545)	8,293,382
Excess (deficit) of revenue over expenses	\$ (22,721,923)	\$ 28,737,913	\$ (442,440)	\$ 1,112,514	\$ 345,636	\$ -	\$ 1,244,733	\$ -	\$ (618,947)	\$ 7,657,486

Northwest Community Healthcare and Subsidiaries

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

Year Ended September 30, 2019

	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
Net assets without donor restrictions										
Excess (deficit) of revenue over expenses	\$ (22,721,923)	\$ 28,737,913	\$ (442,440)	\$ 1,112,514	\$ 345,636	\$ –	\$ 1,244,733	\$ –	\$ (618,947)	\$ 7,657,486
Transfers (to) from affiliates	–	(37,000,000)	–	–	–	–	37,000,000	–	–	–
Pension-related changes other than net periodic pension cost	–	(5,051,148)	–	–	–	–	–	–	–	(5,051,148)
Net assets released from restrictions used for:										
Purchase of property and equipment	–	3,009,858	–	–	–	–	–	–	–	3,009,858
Change in noncontrolling interests and other	–	–	–	–	–	–	1,194,893	–	(1,535,513)	(340,620)
Distribution to Endo Center investors	–	–	–	–	–	–	(1,118,542)	–	1,118,542	–
Distribution to CyberKnife investors	–	–	–	–	(468,097)	–	–	–	468,097	–
Distribution to DSC-II investors	–	–	–	(1,110,005)	–	–	–	–	1,110,005	–
Increase (decrease) in net assets without donor restrictions	(22,721,923)	(10,303,377)	(442,440)	2,509	(122,461)	–	38,321,084	–	542,184	5,275,576
Net assets with donor restrictions										
Contributions	–	–	7,796,810	–	–	–	–	–	–	7,796,810
Other	–	1,000,000	–	–	–	–	–	–	(1,000,000)	–
Investment income	–	–	41,018	–	–	–	–	–	–	41,018
Net assets released from restrictions used for:										
Purchase of property and equipment	–	(3,009,858)	(3,009,858)	–	–	–	–	–	3,009,858	(3,009,858)
Operations	–	(556,532)	(1,542,821)	–	–	–	–	–	556,532	(1,542,821)
Change in interest in net assets of Foundation	–	5,851,539	–	–	–	–	–	–	(5,851,539)	–
Increase (decrease) in net assets with donor restrictions	–	3,285,149	3,285,149	–	–	–	–	–	(3,285,149)	3,285,149
Increase (decrease) in net assets	(22,721,923)	(7,018,228)	2,842,709	2,509	(122,461)	–	38,321,084	–	(2,742,965)	8,560,725
Net assets at beginning of period	530,569,407	135,417,644	11,159,831	3,931,682	548,871	2,206,275	22,466,365	120,000	(79,652,487)	626,767,588
Net assets at end of period	\$ 507,847,484	\$ 128,399,416	\$ 14,002,540	\$ 3,934,191	\$ 426,410	\$ 2,206,275	\$ 60,787,449	\$ 120,000	\$ (82,395,452)	\$ 635,328,313

About EY

EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. Information about how EY collects and uses personal data and a description of the rights individuals have under data protection legislation are available via ey.com/privacy. For more information about our organization, please visit ey.com.

© 2020 Ernst & Young LLP.
All Rights Reserved.

ey.com