Catholic Health Initiatives

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Quarterly Report

As of September 30, 2017 and for the three months ended September 30, 2017 and 2016

Information Concerning Catholic Health Initiatives

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This Quarterly Report should be reviewed in conjunction with the information contained in the Annual Report dated September 15, 2017 (the "Annual Report") which can be found on http://emma.msrb.org.

Certain of the discussions included in this Quarterly Report may include forward-looking statements. Such statements are generally identiifiable by the terminology used such as "believes," "anticipates," "intends," "scheduled," "plans," "expects," "estimates," "budget" or other similar words. Such forward-looking statements are primarily included in PARTS II, III, IV and V. These statements reflect the current views of management with respect to future events based on certain assumptions, and are subject to risks and uncertainties. Catholic Health Initiatives, a Colorado non-profit corporation (the "Corporation"), undertakes no obligation to publicly update or review any forward-looking statement as a result of new information or future events.

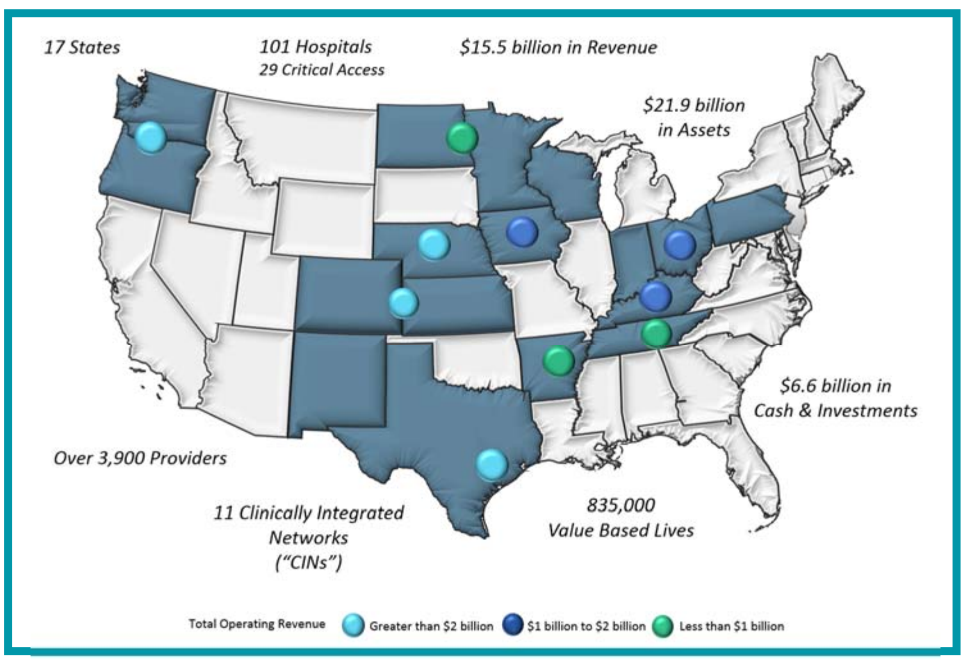
References to "CHI" in this Quarterly Report are to the Corporation and all of the affiliates and subsidiaries ("Participants") consolidated with it pursuant to generally accepted accounting principles ("GAAP"). References to the Corporation are references only to the parent corporation, and should not be read to include any of the Participants.

Unless otherwise noted, all financial information in this Quarterly Report, for the three months ended 2017 and 2016, refers to continuing operations only.

PART I: OVERVIEW

CHI is a group of non-profit and for profit organizations that comprise one of the nation's largest Catholic health care systems, serving more than four million people each year through operations and facilities that span the continuum of care, including acute care hospitals; physician practices; long-term care facilities; assisted-living and residential-living facilities; community-based health services; home care; research and development; medical and nursing education; reference laboratory services; virtual health services; managed care programs; and clinically integrated networks. Today, CHI has operations in 17 states, with a service area that covers approximately 54 million people, or approximately 17% of the U.S. population.

CHI is currently comprised of ten regions that are operated as integrated health systems including several joint operating agreements ("JOAs"), joint operating companies ("JOCs") or joint ventures. The geographic diversity and total operating revenues by region for the fiscal year ended June 30, 2017 are depicted in the accompanying map.



PART II: Q1 FY2018 HIGHLIGHTS & SUMMARY

CHI's excess of revenues over expenses for the three months ended September 30, 2017 totaled $135.3 million or 3.5%, compared to $36.6 million or 0.9% for the three months ended September 30, 2016. Results for the three months ended September 30, 2017 generated an operating EBIDA before restructuring, impairment and other losses of $237.0 million. When adjusted for transactional gains and other one-time items, this represents a $103.1 million increase over the corresponding period of the prior fiscal year. The year over year improvement was driven primarily by the continued performance improvement efforts which began to take hold in the second half of fiscal year 2017 and led by:

- Labor improvements – total labor costs as a percentage of net patient services revenues decreased to 50.5% for the three months ended September 30, 2017, compared to 53.4% for the corresponding period of the prior fiscal year. CHI continues to address labor productivity across the enterprise, as well as monitoring growth initiatives in certain physician practices where labor costs and medical professional fees have been added in anticipation of future increased patient volumes.
- Supply cost improvements – total supply cost as a percentage of net patient services revenues decreased to 17.1% for the three months ended September 30, 2017, compared to 17.9% in the corresponding period of the prior fiscal year due to expense management initiatives and changes in service mix.

The improved operating results for the three months ended September 30, 2017 also included the negative impact of Hurricane Harvey in the Texas region, which caused the temporary closure and evacuation of two facilities as a result of the storm in late August. The Texas region incurred additional expenses and losses of revenues, estimated at approximately $25.8 million. CHI is currently evaluating insurance recovery amounts related to the storm, which have not been reflected in the reported financial results.

The Kentucky region's results (excluding discontinued operations) continued to show strong improvement, reporting operating EBIDA before restructuring, impairment and other losses of $31.5 million for the three months ended September 30, 2017, compared to $7.5 million in the corresponding period of the prior fiscal year. Revenue improved as a result of contract rate increases and increased acuity, while total expenses declined as a result of improvement initiatives in labor, supply and other expense categories.

Operating EBIDA before restructuring, impairment and other losses

$ in millions	Three Months Ended September 30 FY17	FY18	Chg	% Chg
	Unaudited			
Totals before transactional gains and other items	$ 127.6	$ 230.7	$ 103.1	80.8%
Transactional gains and other items[1]	7.4	6.3	(1.1)	
Operating EBIDA before restructuring, impairment and other losses	$ 135.0	$ 237.0	$ 102.0	75.6%

[1] Includes favorable bad debt adjustments of $13.6 million, and unfavorable reimbursement documentation matters of $(7.3) million for the three months ended September 30, 2017. Includes unfavorable net revenue adjustments of $(6.7) millon and gains on real estate transactions of $14.1 million for the three months ended September 30, 2016.

In addition to the operational initiatives across the system, the three months ended September 30, 2017 continued to see the transition of KentuckyOne Health ("KentuckyOne") highlighted below and detailed in *Part III: Strategic Affiliations & Acquisitions - Pending and Completed Divestitures.*

- In May 2017, the Corporation's Board approved the divestiture of substantially all of the KentuckyOne Louisville-area acute care operations. The marketing and sales process will continue thru the remainder of fiscal year 2018.

- The Corporation and KentuckyOne transitioned the University of Louisville Medical Center operations, management and control back to the University of Louisville ("U of L"), effective July 1, 2017.
- The Corporation assumed complete ownership of KentuckyOne, effective September 1, 2017, when the Corporation purchased the non-controlling interest from the remaining partner for $150 million.

Restructuring, impairment and other losses totaled $14.2 million for the three months ended September 30, 2017, a decrease of $29.2 million when compared to the corresponding period of the prior fiscal year as various costs related to performance improvement and reorganization activities have been completed.

Finally, non-operating performance for the three months ended September 30, 2017 continued to be strong, with investment gains of $214.9 million, offset by a slight decrease in the fair value of interest rate swaps and other non-operating items of ($1.7) million.

PART III: STRATEGIC AFFILIATIONS & ACQUISITIONS

CHI actively engages in ongoing monitoring and evaluation of potential facility expansion, relationships with academic health center partners, mergers, acquisitions, divestitures, and affiliation opportunities consistent with its strategic goal of creating, maintaining and/or strengthening its CINs in key existing markets and, in certain cases, new markets. CHI's strategic vision is supported by focused system growth in both existing and new markets, as evidenced by recent acquisition activity and strategic divestitures, and realignments, certain of which are described below.

Pending and Completed Affiliations/Acquisitions

Dignity Health. On October 24, 2016, CHI and Dignity Health signed a non-binding letter of intent to explore aligning their organizations and expanding their mission of service in communities across the nation.

The boards and sponsors of the two health systems are evaluating the potential alignment to strengthen their leadership role in transforming health care through increased access and enhanced clinical excellence.

The letter of intent follows the September 2016 announcement that the two systems formed a partnership called the Precision Medicine Alliance LLC, which will create the largest community-based precision medicine program in the country.

The organizations complement one another in many other important ways. CHI brings a diverse geographic footprint with proven clinical service lines and home health capabilities, as well as successful partnerships in research and education. Dignity Health has an operating model that has scaled enterprise-wide initiatives to ensure consistent practices across the system, and is well known for its work with innovative, diversified care-delivery partnerships. There is no geographical overlap of acute care facilities of the two health systems.

Dignity Health owns and operates 39 hospitals in California, Arizona and Nevada and 400+ ancillary care sites across 22 states. As of and for the fiscal year ended June 30, 2017 Dignity Health reported approximately $17.4 billion of total assets, $7.0 billion of net assets and $12.9 billion in total operating revenue. Any definitive agreement would need to be approved by Dignity Health's governing body and both organizations' Boards, and also requires the approval by the California Attorney General and other regulatory agencies as well as satisfaction of customary closing conditions.

The Corporation and Dignity Health are in the final stages of the due diligence process to assess the potential alignment of the ministries and are pleased with the progress made to date. The Corporation and Dignity Health will share additional information as it becomes available. The Corporation can give no assurance that the transaction will occur.

Pending and Completed Divestitures

KentuckyOne Health. In November 2012, KentuckyOne entered into a Joint Operating Agreement ("Kentucky JOA") and an Academic Affiliation Agreement ("AAA") (collectively "Agreements") with U of L, University Medical Center, Inc. ("UMC"), which owns the University of Louisville Hospital, and other parties.

On December 17, 2016, KentuckyOne, UMC and U of L agreed to restructure their existing Kentucky JOA. Under the terms of the revised agreement, the operations, management and control of the University of Louisville Hospital was transferred back to UMC effective July 1, 2017. The AAA was also restructured and various transition services agreements were entered into in connection with the transfer of the University of Louisville Hospital to UMC.

As described in *Part II: Fiscal Year 2017 Highlights and Summary*, in May 2017, the Corporation approved a plan to sell or otherwise dispose of substantially all of KentukcyOne's Louisville market acute care operations, including certain entities of Jewish Hospital and St. Mary's Healthcare, Inc. ("JHSMH"). As a result, the Corporation will refocus the Kentucky region on a smaller community footprint, centered in central and eastern Kentucky. The Corporation assumed complete ownership of KentuckyOne, effective September 1, 2017, when the Corporation purchased the non-controlling interest from the remaining partner for $150 million in cash consideration.

The following summarizes the financial results of UMC and JHSMH reported in the CHI consolidated statements of changes in net assets:

	Three Months Ended September 30		
$ in millions	2017	2016	% Chg
	Unaudited		
UMC			
Operating revenues	$ -	$125.4	N/A
Operating EBIDA before restructuring, impairment and other losses	$ -	$3.7	N/A
JHSMH			
Operating revenues	$181.7	$189.1	(3.9)%
Operating EBIDA before restructuring, impairment and other losses	$(20.4)	$(16.7)	(22.2)%

The CHI consolidated balance sheets included UMC total assets of $605.5 million and total liabilities of $330.3 million at June 30, 2017. Upon deconsolidation of UMC on July 1, 2017, CHI incurred a loss of $319.2 million recognized in the CHI consolidated statements of changes in net assets. The CHI consolidated balance sheets include JHSMH discontinued operations total assets held for sale of $394.2 million and total liabilities held for sale of $34.3 million at September 30, 2017.

QualChoice. In May 2016, the Corporation approved a plan to sell or otherwise dispose of certain entities of QualChoice, a consolidated CHI subsidiary, whose primary business is to develop, manage and market commercial and Medicare Advantage health insurance programs, as well as a wide range of products and administrative services. A letter of intent for the Medicare Advantage health insurance operations has been received, with an anticipated sale in fiscal year 2018. Although there has been significant interest in the QualChoice Health commercial operations, the uncertainty surrounding the Affordable Care Act and current political environment has delayed the anticipated sale of this operation to a timeline outside of the Corporation's control. The Corporation remains committed to selling or otherwise disposing of the QualChoice Health commercial operations and continues to actively market these operations (see *Part II* for further information).

The following summarizes the financial results of QualChoice reported in the CHI consolidated statements of changes in net assets:

	Three Months Ended September 30		
$ in millions	2017	2016	% Chg
	Unaudited		
QualChoice			
Operating revenues	$132.6	$154.3	(14.1)%
Operating EBIDA before restructuring	$(4.3)	$(9.6)	55.0%

The CHI consolidated balance sheets include the discontinued operations of QualChoice. At September 30, 2017, total assets held for sale were $162.0 million and total liabilities held for sale were $120.4.

Real Estate and Other Asset Sales. During fiscal years 2018 and 2017, certain CHI affiliates sold various real estate assets as part of a long-term effort to improve the mix of owned and leased assets. In conjunction with the sale, those CHI affiliates entered into 10-year operating lease agreements with the buyer, and in accordance with ASC 840-40 – Leases – Sale-Lease Back Transactions, certain of the gains on the sale of the real estate assets were deferred and will be amortized to lease expense over the life of the operating leases.

For the three months ended September 30, 2017 and for fiscal year 2017, real estate assets with a net book value of $14.2 million and $281.8 million, respectively, were sold for gross proceeds of $33.6 million and $366.5 million, respectively. As a result of the sale, CHI recognized $4.0 million and $22.0 million gain on sales in the consolidated statements of operations for the three months ended September 30, 2017, and for the year ended June 30, 2017, respectively. CHI also recorded short-term deferred gains of $1.5 million and $5.8 million, and long-term deferred gains of $13.6 million and $52.2 million for the three months ended September 2017, and for fiscal year 2017, respectively. On the CHI consolidated balance sheets, the short-term deferred gains are a component of accrued expenses, and the long-term deferred gains are a component of other long-term liabilities. The deferred gains will be amortized against rent expense over the terms of the respective operating lease agreements.

***Pathology Associates Medical Laboratories, LLC (PAML).* Certain of CHI's affiliates owned an interest in PAML.** In February 2017, the Corporation and those affiliates entered into a definitive agreement with Laboratory Corporation of America Holdings (LabCorp) to sell all of such interests in PAML to LabCorp. As part of the agreement, LabCorp will also acquire direct and indirect interests in three CHI joint ventures with PAML in the states of Colorado, Kentucky and Washington. The agreement will close in stages which began in May 2017, and will contine through 2018. Non-refundable gross sales proceeds attributable to the Corporation and its affiliates of $96.7 million were received in May 2017, resulting in a net gain on sale of $40.2 million.

Additionally, certain CHI affiliates also sold various other ambulatory assets during fiscal year 2017 for net proceeds of $101.7 million reflected within other operating revenues as gain on sale on the consolidated statement of operations for the year ended June 30, 2017.

PART IV: SELECTED FINANCIAL DATA

The selected financial data that follows has been prepared by management, based on (i) CHI's unaudited interim financial statements as of September 30, 2017 and June 30, 2017, and for the three months ended September 30, 2017 and 2016. The unaudited financial statements include all adjustments, consisting of normal recurring accruals, which management of CHI considers necessary for a fair presentation of the combined financial position and results of operations for these periods. The unaudited interim financial statements for the three months ended September 30, 2017 are not necessarily indicative of the results that may be expected for the full fiscal year ending June 30, 2018.

The CHI consolidated financial information should be read in conjunction with the unaudited financial statements, related notes, and other financial information of CHI included in Appendix A of this Quarterly Report.

The results of operations for recently acquired entities that have been accounted for as acquisitions are included in the CHI consolidated financial and operating information from the respective dates of acquisition.

CHI participates in JOAs with hospital-based organizations in Colorado, Iowa and Ohio. The agreements generally provide for, among other things, joint management of the combined operations of the local facilities included in the JOAs through JOCs. CHI retains ownership of the assets, liabilities, equity, revenues and expenses of the CHI facilities that participate in the JOAs. Transfers of assets from facilities owned by the JOA participants are generally restricted under the terms of the agreements. The financial statements of the CHI facilities managed under all JOAs are included in the CHI consolidated financial statements.

As of September 30, 2017, CHI has investment interests of 65%, 50%, and 50% in JOCs based in Colorado, Iowa, and Ohio, respectively. CHI's interests in the JOCs are included in investments in unconsolidated organizations and totaled $405.2 million at September 30, 2017. CHI recognizes its investment in all JOCs under the equity method of accounting. The JOCs provide various levels of services to the related JOA sponsors, and operating expenses of the JOCs are allocated to each sponsoring organization.

A. The following table provides condensed consolidated balance sheets for CHI as of September 30, 2017 and June 30, 2017.

CHI Condensed Consolidated Balance Sheets	*Unaudited* September 30, 2017	June 30, 2017
Assets	(in Thousands)	
Current assets:		
Cash and equivalents	$ 669,628	$ 810,235
Net patient accounts receivable	2,151,144	2,064,050
Assets of discontinued operations	559,120	1,187,811
Other current assets	780,043	757,938
Total current assets	4,159,935	4,820,034
Investments and assets limited as to use:		
Internally designated investments	5,226,603	5,546,290
Restricted investments	1,238,078	1,211,731
Total investments and assets limited as to use	6,464,681	6,758,021
Property and equipment, net	8,215,250	8,378,161
Other assets	2,056,522	1,975,534
Total assets	$ 20,896,388	$ 21,931,750
Liabilities and net assets		
Current liabilities:		
Accounts payable and accrued expenses	$ 1,970,643	$ 2,279,800
Liabilities of discontinued operations	154,680	444,724
Short-term and current portion of debt	2,386,468	2,112,742
Total current liabilities	4,511,791	4,837,266
Other liabilities	2,830,551	2,840,324
Long-term debt	6,193,830	6,527,426
Total liabilities	13,536,172	14,205,016
Net assets:		
Unrestricted	7,048,056	7,415,388
Temporarily restricted	214,384	214,250
Permanently restricted	97,776	97,096
Total net assets	7,360,216	7,726,734
Total liabilities and net assets	$ 20,896,388	$ 21,931,750

B. The following table presents condensed consolidated statements of operations for CHI for the three months ended September 30, 2017 and 2016.

CHI Condensed Consolidated Statements of Operations	*Unaudited* Three Months Ended September 30 2017	2016
Revenues	(in Thousands)	
Net patient services revenues	$ 3,494,810	$ 3,412,615
Other	200,959	246,020
Total operating revenues	3,695,769	3,658,635
Expenses		
Salaries and employee benefits	1,765,987	1,823,955
Supplies, purchased services and other	1,692,800	1,699,654
Depreciation and amortization	225,588	200,772
Interest	75,110	71,528
Total operating expenses before restructuring, impairment and other losses	3,759,485	3,795,909
Loss from operations before restructuring, impairment and other losses	(63,716)	(137,274)
Restructuring, impairment and other losses	14,170	43,396
Loss from operations	(77,886)	(180,670)
Nonoperating gains	213,231	217,234
Excess of revenues over expenses	$ 135,345	$ 36,564

1. CRITICAL ACCOUNTING POLICIES

The preparation of financial statements in conformity with GAAP requires that management make assumptions, estimates and judgments affecting the amounts reported in the financial statements, including the notes thereto, and related disclosures of commitments and contingencies, if any. Management considers critical accounting policies to be those that require more significant judgments and estimates in the preparation of its financial statements, including the following: recognition of net patient services revenues, which includes contractual allowances, bad debt and charity care reserves; cost report settlements; impairment of goodwill, intangibles and long-lived assets; provisions for bad debt; valuations of investments; and reserves for losses and expenses related to health care professional and general liability risks. In making such judgments and estimates, management relies on historical experience and on other assumptions believed to be reasonable under the circumstances. Actual results could differ materially from the estimates. A description of CHI's significant accounting policies can be found in Note 1 of the *Consolidated Interim Financial Statements (unaudited) for the Three Months Ended September 30, 2017 and 2016* included in Appendix A of this Quarterly Report.

PART V: MANAGEMENT'S DISCUSSION & ANALYSIS

The following table provides key balance sheet metrics for CHI as of September 30, 2017 and June 30, 2017.

CHI Key Balance Sheet Metrics	*Unaudited* September 30, 2017	 June 30, 2017
Consolidated Balance Sheet Summary		
Total assets	$ 20.9 billion	$ 21.9 billion
Total liabilities	$ 13.5 billion	$ 14.2 billion
Total net assets	$ 7.4 billion	$ 7.7 billion
Financial Position and Leverage Ratios		
Total cash and unrestricted investments	$ 5.9 billion	$ 6.4 billion
Days of cash on hand[1]	150	161
Total debt	$ 8.6 billion	$ 8.6 billion
Debt to capitalization[2]	54.9%	53.8%

[1] (Cash and equivalents + Investments and assets limited as to use: Internally designated investments)/((Total operating expenses before restructuring, impairment and other losses last twelve months - Depreciation and amortization last twelve months)/365). For the days of cash on hand last twelve months one day of operating expenses represented $39.4 million and $39.6 million at September 30, 2017 and June 30, 2017, respectively.

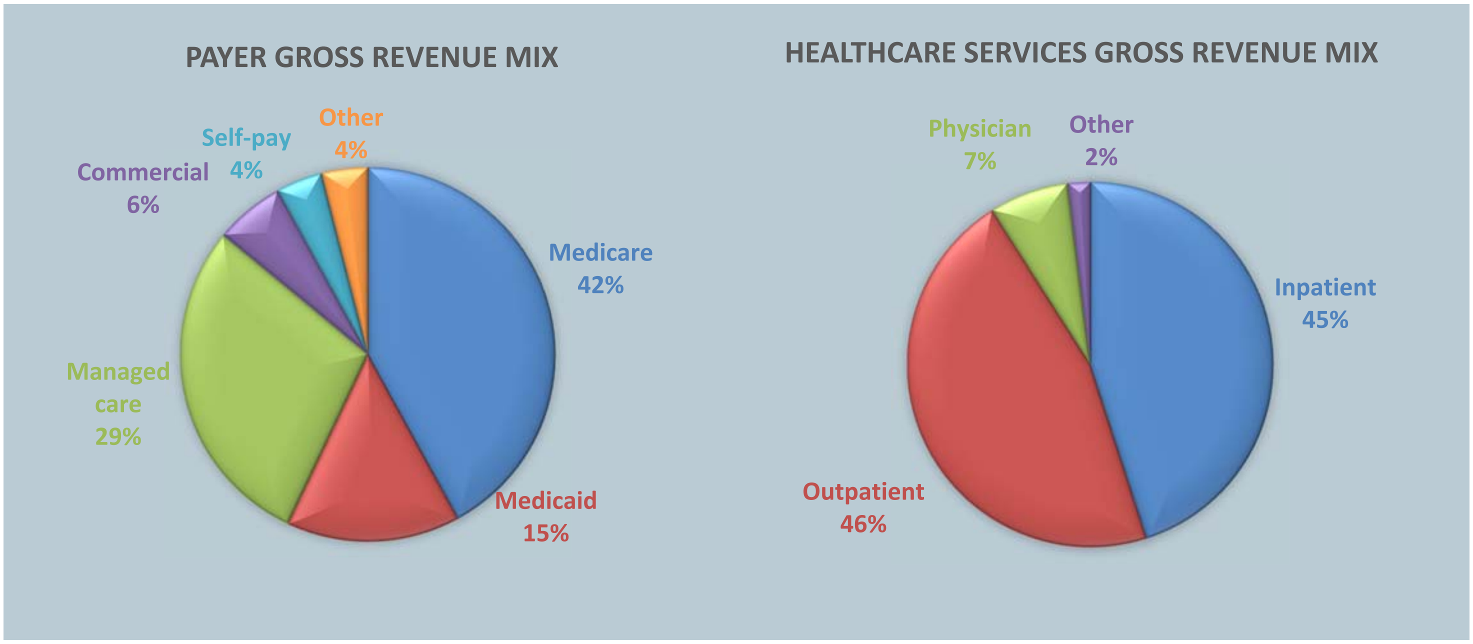
[2] (Short-term and current portion of debt + Long-term debt)/(Short-term and current portion of debt + Long-term debt + Unrestricted net assets).

The following table presents key operating metrics and utilization statistics for CHI for the three months ended September 30, 2017 and 2016.

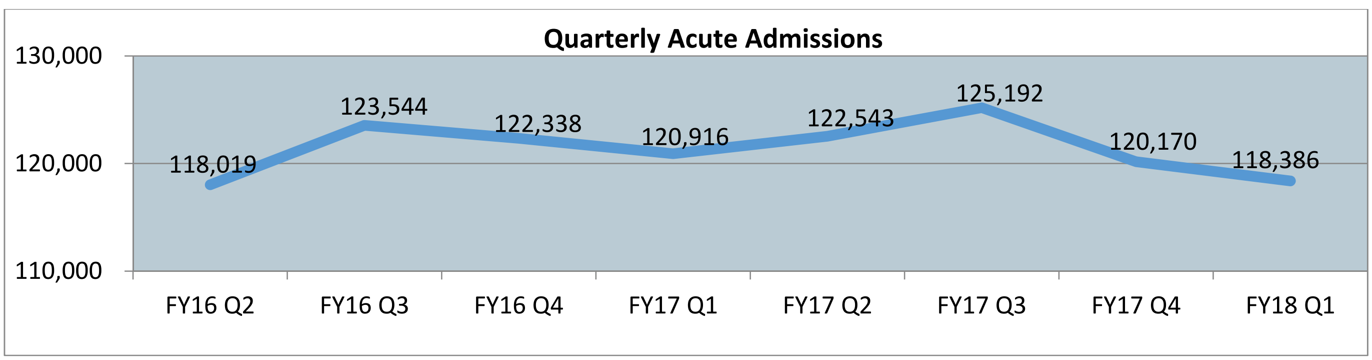
CHI Key Operating Metrics and Utilization Statistics	Three Months Ended September 30, 2017	 2016
	Unaudited	
Consolidated Revenues, Expenses and Key Operating Metrics*		
Total net patient services revenues	$ 3.5 billion	$ 3.4 billion
Total operating revenues	$ 3.7 billion	$ 3.7 billion
Total operating expenses before restructuring, impairment and other losses	$ 3.8 billion	$ 3.8 billion
Operating EBIDA before restructuring, impairment and other losses[1]	$ 237.0 million	$ 135.0 million
Operating EBIDA margin before restructuring, impairment and other losses[2]	6.4%	3.7%
Operating loss before restructuring, impairment and other losses	$ (63.7) million	$ (137.3) million
Operating loss margin before restructuring, impairment and other losses[3]	(1.7)%	(3.8)%
Operating EBIDA[4]	$ 222.8 million	$ 91.6 million
Operating EBIDA margin[5]	6.0%	2.5%
Operating loss	$ (77.9) million	$ (180.7) million
Operating loss margin[6]	(2.1)%	(4.9)%
Excess margin[7]	3.5%	0.9%
Utilization Statistics		
Acute admissions	118,386	120,916
Acute inpatient days	544,203	561,906
Acute average length of stay in days	4.6	4.6
Long-term care days	103,216	123,626
Medicare case-mix index	1.8	1.8
Adjusted admissions[8]	264,053	268,481
Inpatient ER visits	64,529	63,711
Inpatient surgeries	36,746	37,239
Outpatient ER visits	472,235	489,289
Outpatient non-ER visits	1,354,146	1,434,537
Outpatient surgeries	57,779	60,788
Physician visits	2,652,951	2,501,325

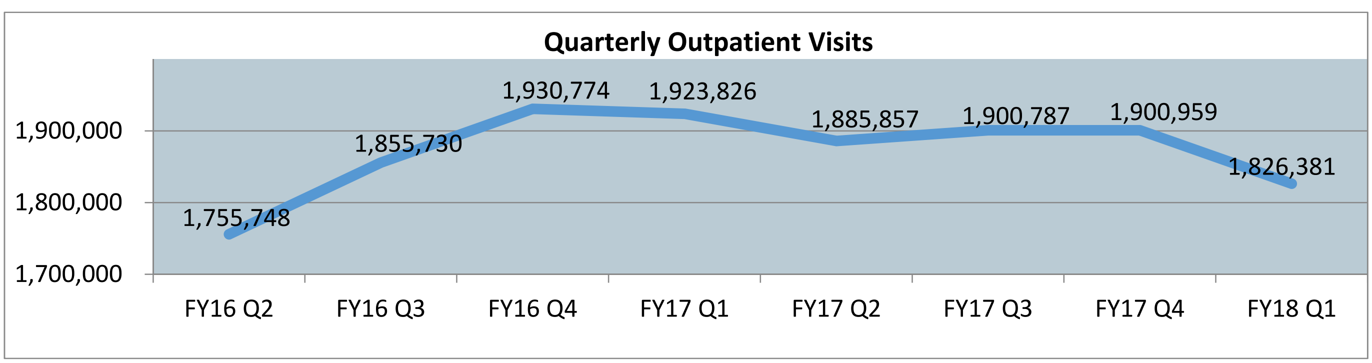
* Includes business combination gains.
[1] Income (loss) from operations before restructuring, impairment and other losses + depreciation and amortization + interest.
[2] Income (loss) from operations before restructuring, impairment and other losses + depreciation and amortization + interest/total operating revenues.
[3] Income (loss) from operations before restructuring, impairment and other losses/total operating revenues.
[4] Income (loss) from operations + depreciation and amortization + interest.
[5] Income (loss) from operations + depreciation and amortization + interest/total operating revenues.
[6] Income (loss) from operations/total operating revenues.
[7] Excess (deficit) of revenues over expenses/(total operating revenues + nonoperating gains (losses).
[8] (Total gross patient revenues/total gross inpatient revenues) x acute admissions.

The following charts represent the payer gross revenue mix and healthcare services gross revenue mix for CHI's consolidated operations as of September 30, 2017.



The following charts represent quarterly patient volume activity for CHI's consolidated operations over the previous eight quarters and includes the effects of acquisitions.





1. SUMMARY OF OPERATING RESULTS FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2017 AND 2016

OPERATING EBIDA/LOSS FROM OPERATIONS

Operating EBIDA before restructuring, impairment and other losses improved $102.0 million, or 75.5% for the three months ended September 30, 2017, compared to the corresponding period of the prior fiscal year, due to increased net patient services revenues combined with favorable expense management. CHI's productivity initiatives related to expense reduction strategies have begun to show improvements, particularly within labor costs and labor productivity. As part of CHI's on-going comprehensive expense reduction strategy, focused clinical and operational initiatives continue to be implemented to include targeted initiatives at the regional levels, as well as at corporate services.

Total net patient services revenues, normalized to exclude other net patient services revenues adjustments noted below, increased 2.1%, or $72.0 million. Impacting net patient services revenues were volume decreases of $(8.7) million, favorable shifts in acuity of $41.5 million, managed care contract increases of $43.1 million and decreases of $3.9 million related to payer mix and other changes. Total operating expenses decreased 1.0%, or $36.4 million as a result of favorable expense management within labor and supplies.

Operating EBIDA before restructuring, impairment and other losses, adjusted for transactional gains and other items impacting operations, is as follows:

$ in millions	Three Months Ended September 30 2017	2016	Chg
	Unaudited		
Operating EBIDA before restructuring, impairment and other losses, excluding transactional gains and other items	$230.7	$127.6	$103.1
Operating EBIDA margin before restructuring, impairment and other losses, adjusted	6.3%	3.5%	2.8%
Nebraska net patient services revenue adjustments[1]	13.6	(6.7)	
Ohio compliance adjustment[2]	(7.3)	-	
Gains on real estate sales	-	14.1	
Operating EBIDA before restructuring, impairment and other losses	$237.0	$135.0	$102.0
Operating EBIDA margin before restructuring, impairment and other losses	6.4%	3.7%	2.7%

[1] Current year relates to favorable bad debt adjustments and the prior year period relates to unfavorable revenue adjustments.
[2] Related to an unfavorable reimbursement documentation matter.

Loss from operations before restructuring, impairment and other losses improved $73.6 million, or 53.6% for the three months ended September 30, 2017, compared to the corresponding period in the prior fiscal year. Operating loss before restructuring, impairment and other losses, adjusted for transactional gains and other items impacting operations, is as follows:

$ in millions	Three Months Ended September 30 2017	2016	Chg
	Unaudited		
Operating loss before restructuring, impairment and other losses, excluding transactional gains and other items	$(49.9)	$(144.7)	$94.8
Operating loss margin before restructuring, impairment and other losses, adjusted	(1.4)%	(4.0)%	2.6%
Nebraska net patient services revenue adjustments[1]	13.6	(6.7)	
Ohio compliance adjustment[2]	(7.3)	-	
Gains on real estate sales	-	14.1	
Depreciation increase on IT assets due to change in useful life	(20.1)	-	
Operating losses before restructuring, impairment and other losses	$(63.7)	$(137.3)	$73.6
Operating loss margin before restructuring, impairment and other losses	(1.7)%	(3.8)%	2.1%

[1] Current year relates to favorable bad debt adjustments and the prior year period relates to unfavorable revenue adjustments.
[2] Related to an unfavorable reimbursement documentation matter.

The table below presents total operating EBIDA before restructuring, impairment and other losses over the trailing four quarters, excluding the transactional gains and other items incurred in each quarter.

$ in millions	QTD 12/31/2016	QTD 3/31/2017	QTD 6/30/2017	QTD 9/30/2017
		Unaudited		
Operating EBIDA before restructuring, impairment and other losses, excluding transactional gains and other items	$224.7	$229.7	$182.0	$230.7
Operating EBIDA margin before restructuring, impairment and other losses, adjusted	5.9%	6.1%	4.9%	6.3%
Nebraska net patient services revenue adjustments[1]	(21.3)	-	-	13.6
Ohio compliance adjustment[2]	-	-	-	(7.3)
Gain on sale of lab operations	-	-	40.2	-
Net gain on ambulatory sale	-	85.7	-	-
Gains on real estate sales	-	5.9	1.9	-
Operating EBIDA before restructuring, impairment and other losses	$203.4	$321.3	$224.1	$237.0
Operating EBIDA margin before restructuring, impairment and other losses	5.4%	8.4%	5.9%	6.4%

[1] Current quarter relates to favorable bad debt adjustments and the prior year period relates to unfavorable revenue adjustments.
[2] Related to an unfavorable reimbursement documentation matter.

The table below presents various regional financial metrics for CHI for the three months ended September 30, 2017 and 2016. Further information on CHI's regional operating results is discussed within the regional operating trends section below.

Catholic Health Initiatives Operations Summary – Three Months Ended September 30, 2017 and 2016

Region *Unaudited*	QTD 9/30/2017 Operating EBIDA before restructuring, impairment and other losses	QTD 9/30/2016 Operating EBIDA before restructuring, impairment and other losses	QTD 9/30/2017 Operating EBIDA margin before restructuring, impairment and other losses	QTD 9/30/2016 Operating EBIDA margin before restructuring, impairment and other losses	QTD 9/30/2017 Operating revenues percentage of CHI consolidated	QTD 9/30/2016 Operating revenues percentage of CHI consolidated
	(in Thousands)					
Pacific Northwest	$ 72,881	$ 62,562	10.8%	9.8%	18.2%	17.5%
Colorado	69,198	46,949	11.6%	8.4%	16.1%	15.2%
Texas	(4,126)	6,752	(0.8)%	1.3%	14.0%	14.5%
Nebraska	66,142	19,100	12.9%	3.8%	13.9%	13.6%
Kentucky	31,539	7,573	11.4%	2.8%	7.5%	7.4%
Ohio	4,513	21,901	1.7%	7.2%	7.4%	8.3%
Iowa	13,674	16,707	5.4%	6.7%	6.9%	6.8%
Arkansas	2,440	5,117	1.3%	2.7%	5.1%	5.2%
North Dakota/Minnesota	19,155	7,658	10.4%	4.2%	5.0%	5.0%
Tennessee	13,514	13,089	8.4%	8.1%	4.4%	4.4%
National business lines[1]	7,563	4,239	10.6%	6.2%	1.9%	1.9%
Other[2]	(19,817)	(6,577)	N/A	N/A	(0.3)%	(0.1)%
Total Regional	276,676	205,070	7.5%	5.6%	100.1%	99.7%
Corporate services and other business lines[3]	(39,694)	(70,044)	N/A	N/A	(0.1)%	0.3%
Total CHI Consolidated	$ 236,982	$ 135,026	6.4%	3.7%	100.0%	100.0%

[1] Includes Home Care and Senior Living business lines.
[2] Includes the operations of Albuquerque Health Ministries and Lancaster Health Ministries MBOs as well as regional eliminations.
[3] Includes CHI Corporate and First Initiatives Insurance, Ltd. ("FIIL"), CHI's wholly-owned captive insurance company as well as CHI system eliminations.

OPERATING REVENUE AND VOLUME TRENDS

Total operating revenue, net patient services revenues, and other operating revenue changes are summarized below. Normalized amounts have been adjusted to exclude transactional gains and other items as noted above.

Three Months Ended September 30, 2017 Compared to Three Months Ended September 30, 2016

Revenue *$ In millions*	2017 *Unaudited*	2016	Chg	% Chg
Net patient services revenues	$3,494.8	$3,412.6	$ 82.2	2.4%
Other operating revenue	201 .0	246.0	(45.1)	(18.3%)
Total operating revenue	$3,695.8	$3,658.6	$37.1	1.0%
Net patient services revenues normalized[1]	3,491.3	3,419.3	72.0	2.1%
Other operating revenue normalized[2]	198.2	231.9	(33.7)	(14.5%)
Total operating revenue normalized	$3,689.5	$3,651.2	$38.3	1.0%

[1] Excludes Nebraska favorable bad debt adjustments for the three months ended September 30, 2017 and Nebraska unfavorable net revenue adjustments for the three months ended September 30, 2016, and the Ohio unfavorable reimbursement documentation matter for the three months ended September 30, 2017.

[2] Excludes the favorable JOA income share impact as a result of the Ohio reimbursement documentation matter for the three months ended September 30, 2017, and real estate gains for the three months ended September 30, 2016.

Other operating revenues for the three months ended September 30, 2017 have decreased $(45.1) million compared to the corresponding period of the prior fiscal year due primarily to reductions in gains from asset sales completed in the corresponding period of the prior fiscal year, clinical engineering support provided to external parties, revenue share payments in the prior year, premium revenues, and changes in JOA revenues.

Patient volume increases (decreases) for the three months ended September 30, 2017, as compared to the corresponding period of the prior fiscal year are summarized below:

Three Months Ended September 30, 2017 Compared to Three Months Ended September 30, 2016

Patient Volumes	% Chg	Volume Change
Adjusted Admissions	(1.6)%	(4,428)
Acute Admissions	(2.1)%	(2,530)
Acute Inpatient Days	(3.2)%	(17,703)
Inpatient ER Visits	1.3%	818
Inpatient Surgeries	(1.3)%	(493)
Outpatient ER Visits	(3.5)%	(17,054)
Outpatient Non-ER Visits	(5.6)%	(80,391)
Outpatient Surgeries	(4.9)%	(3,009)
Physician Visits	6.1%	151,626

OPERATING EXPENSES

Increases (decreases) in total operating expenses before restructuring, impairment and other losses are summarized below:

Three Months Ended September 30, 2017 Compared to Three Months Ended September 30,2016

Expense *$ In millions*	2017 *Unaudited*	2016	Chg	% Chg
Total labor	$1,766.0	$1,824.0	$(58.0)	(3.2%)
Supplies	$596.4	$611.7	$(15.3)	(2.5%)
Purchased services	424.4	437.5	$(13.1)	(3.0%)
Medical professional fees	119.4	104.7	$14.7	14.1%
Depreciation and amortization	225.6	200.8	$24.8	12.4%
All other	627.7	617.3	$10.4	1.7%
Total operating expense	$3,759.5	$3,795.9	$(36.4)	(1.0%)

Labor and productivity indicators are summarized below:

Unaudited	Three Months ended September 30 2017	2016
Labor % of net patient services revenues	50.5%	53.4%
Labor % of total operating expense	47.0%	48.1%
Supplies % of net patient services revenues	17.1%	17.9%

Reductions in total labor costs, supplies and purchased services for the three months ended September 30, 2017 were a result of strategic initiatives to reduce overall expenses across CHI as described in more detail below.

Total labor costs decreased $(63.3) million for the three months ended September 30, 2017 as a result of the reducition of 2,667 FTEs, offset by $5.3 million in increased average hourly rates. CHI continues to address labor productivity within the regions, with a particular focus on the Kentucky and Texas regions, as well as growth initiatives in certain physician practices where labor costs have been added in anticipation of future increased patient volumes.

Medical professional fees increased $14.7 million, or 14.1% for the three months ended September 30, 2017 due to growth initiatives in certain physician practices where medical professional fees costs have been added in anticipation of future increased patient volumes.

Depreciation and amortization expenses increased $24.8 million, or 12.4% for the three months ended September 30, 2017 primarily due to changes in the estimated remaining useful life of certain information technology assets.

REGIONAL OPERATING TRENDS

The Corporation periodically reviews its allocation methodology for corporate support services and may adjust those allocations based on the strategic needs and resource consumption of the regions and CHI overall. These changes in allocation methodologies may increase or decrease a region's operating results from year to year, but have no impact on the consolidated results of CHI.

Regional operations were improved primarily by favorable expense management offsetting reduced patient volumes for the three months ended September 30, 2017. The Pacific Northwest, Colorado, Texas, Nebraska and Kentucky regions represent CHI's five largest operating regions, and for the three months ended September 30, 2017, represented 69.7% of CHI's consolidated operating revenues. Additional information on these regions is discussed below.

Pacific Northwest - the region's operating EBIDA before restructuring, impairment and other losses totaled $72.9 million for the three months ended September 30, 2017, and increased $10.3 million compared to the corresponding period of the prior fiscal year. Net patient services revenues increased $38.0 million due to robust growth in outpatient surgeries and physician visits, primarily a result of the acquisition of a clinic practice in September 2016, favorable shifts in payer mix, and favorable shifts in acuity. The growth in net patient services revenues exceeded the $25.1 million in increased operating expenses compared to the corresponding period of the prior fiscal year. The reduction in operating expenses was a result of continued implementation of expense management and productivity improvements across the region. Total net revenue per adjusted admission increased 9.7% for the three months ended September 30, 2017 compared to the corresponding period of the prior fiscal year, while total operating expense per adjusted admission increased 7.6%. Total labor as a percentage of net patient services revenues decreased to 50.4% for the three months ended September 30, 2017 compared to 52.5% in the corresponding period of the prior fiscal year as a result of ongoing labor productivity improvements, representing a favorable expense variance of $14.1 million. Supply expense as a percentage of net patient services revenues declined to 13.5% for the three months ended September 30, 2017 compared to 14.2% in the corresponding period of the prior fiscal year due to revenue growth and improved utilization.

Colorado - the region's operating EBIDA before restructuring, impairment and other losses totaled $69.2 million for the three months ended September 30, 2017, and increased $22.2 million compared to the corresponding period of the prior fiscal year. Net patient services revenues increased $45.5 million, including $19.3 million in increased provider fee revenue, increased volumes and contract rate increases. The net patient services revenues increase exceeded the $18.7 million in increased operating expenses compared to the corresponding period of the prior fiscal year due to continued implementation of expense management and productivity improvements. The improvements were partially offset by $(24.9) million in increased expenses related to the state-based reimbursement program, for a net $(5.6) million reduction in operating EBIDA before restructuring, impairment and other losses as compared to the corresponding period of the prior fiscal year. Total net revenue per adjusted admission increased 7.1% for the three months ended September 30, 2017 compared to the corresponding period of the prior fiscal year, while total operating expense per adjusted admission increased 2.0%. Total labor as a percentage of net patient services revenues decreased to 39.4% for the three months ended September 30, 2017 compared to 44.3% in the corresponding period of the prior fiscal year, representing a favorable expense variance of $27.8 million. Supply expense as a percentage of net patient services revenues declined to 14.6% for the three months ended September 30, 2017 compared to 15.5% in the corresponding period of the prior fiscal year which represents a favorable expense variance of $5.0 million primarily due to revenue growth and improved utilization.

Texas - the region's operating EBIDA before restructuring, impairment and other losses totaled $(4.1) million for the three months ended September 30, 2017, and decreased $(10.9) million compared to the corresponding period of the prior fiscal year. Excluding prior year gains on asset sales of $14.1 million, results improved $3.2 million for the three months ended September 30, 2017 compared to the corresponding period of the prior fiscal year.

In late August 2017, the region was impacted by Hurricane Harvey, which caused the temporary closure and evacuation of two facilities. Although all facilities are now operational and did not incur significant physical damage, the region was negatively impacted by decreased patient volumes due to rescheduling of procedures and visits, and additional expenses, estimated at approximately $25.8 million. Management is continuing to evaluate the impact of the hurricane on its facilities and operations for potential business interruption and insurance recoveries.

Net patient services revenues decreased $(2.5) million for the three months ended September 30, 2017 and included a $(27.5) million decrease in a state-based reimbursement program compared to the corresponding period of the prior fiscal year, as well as $18.0 million of net patient services revenues from recently completed affiliations and $10.6 million in favorable acuity shifts. The change in the state-based reimbursement program had a decrease in program expenses of $11.7 million, for a net impact of $(15.8) million in reduced operating EBIDA before restructuring, impairment and other losses. Total operating expenses decreased $5.7 million for the three months ended September 30, 2017 as a result of continued implementation of expense management and productivity improvements, combined with lower expense utilization as a result of decreased patient volumes. The overall expense improvements included $22.0 million of incremental expenses related to recently completed affiliations compared to the corresponding period of the prior fiscal year. Total net revenue per adjusted admission increased 1.1% for the three months ended September 30, 2017 compared to the corresponding period of the prior fiscal year, while total operating expense per adjusted admission increased 0.6%. Total labor as a percentage of net patient services revenues decreased to 47.9% for the three months ended September 30, 2017 compared to 50.6% in the corresponding period of the prior fiscal year, representing a favorable expense variance of $13.4 million. Management is continuing to implement strategies to improve labor productivity, supply chain, and overall expense savings in the Texas region.

Nebraska - the region's operating EBIDA before restructuring, impairment and other losses totaled $66.1 million for the three months ended September 30, 2017, and increased $47.0 million compared to the corresponding period of the prior fiscal year. Results included $13.6 million and $(6.7) million in net patients services revenues adjustments for the three months ended September 30, 2017 and 2016, respectively. Operating EBIDA before restructuring, impairment and other losses, normalized to exclude the transactional gains related to asset sales totaled $52.5 million for the three months ended September 30, 2017, and increased $26.7 million compared to the corresponding period of the prior fiscal year, primarily as a result of reductions in overall operating expenses. Net patient services revenue increased $10.6 million for the three months ended September 30, 2017, due to unfavorable revenue adjustments related to the corresponding period of the prior fiscal year and favorable shifts in acuity, offset by decreases in volume and unfavorable shifts in payer mix. Total net revenue per adjusted admission increased 6.2% for the three months ended September 30, 2017 compared to the corresponding period of the prior fiscal year, while total operating expense per adjusted admission decreased (2.1)%. Total operating expenses decreased (5.8)%, or $(29.2) million for the three months ended September 30, 2017 compared to the corresponding period of the prior fiscal year as a result of continued implementation of expense management and productivity improvements. Total labor as a percentage of net patient services revenues decreased to 53.4% for the three months ended September 30, 2017 compared to 57.5% in the corresponding period of the prior fiscal year, representing a favorable expense variance of $19.5 million. Supply expense as a percentage of net patient services revenues decreased to 15.8% for the three months ended September 30, 2017 compared to 17.1% in the corresponding period of the prior fiscal year representing a favorable expense variance of $5.9 million.

Kentucky - the region's operating EBIDA before restructuring, impairment and other losses (excluding discontinued operations) totaled $31.5 million for the three months ended September 30, 2017, and increased $24.0 million compared to the corresponding period of the prior fiscal year. The region's favorable results were due primarily to overall reductions in operating expenses which decreased 6.3%, or $17.4 million, as a result of continued implementation of expense management and productivity improvements. Net patient services revenues increased $12.2 million due to favorable shifts in acuity, contract rate increases and managed care payers correcting underpayments. Total net revenue per adjusted admission increased 4.8% for the three months ended September 30, 2017 compared to the corresponding period of the prior fiscal year, while total operating expense per adjusted admission decreased (6.4)%. Total labor as a percentage of net patient services revenues decreased to 45.0% for the three months ended September 30, 2017 compared to 48.6% in the corresponding period of the prior fiscal year, representing a favorable expense variance of $9.2 million. Supply expense as a percentage of net patient services revenues decreased to 18.6% for the three months ended September 30, 2017 compared to 19.8% in the corresponding period of the prior fiscal year representing a favorable expense variance of $3.0 million.

CHI Corporate services and other business lines - operating EBIDA before restructuring, impairment and other losses totaled $(39.7) million, an improvement of $30.4 million for the three months ended September 30, 2017 compared to the corresponding period of the prior fiscal year. Changes in support services activities relate to a variety of factors, and include strategic transfers of certain activities from the regions and other service lines to corporate services in order to build corporate support functions, and new implementations of system-wide services. Support services allocations to the regions consider the strategic needs and resource consumption of the regions and CHI overall. Expense decreases for the three months ended September 30, 2017 included $9.2 million in Clinical Engineering programs, $7.3 million in IT, and $6.3 million in Onshore Risk and Insurance due to reduced overall implementation activities, labor costs and external service contracts. Additionally, overall corporate services department expenses decreased $10.9 million due to a wide range of cost reduction activities including reduction of overall labor costs.

Restructuring, Impairment and Other Losses

	Three Months Ended September 30	
	2017	2016
Unaudited	(in Thousands)	
Changes in business operations	$ 7,939	$ 34,662
Severance costs	6,025	8,734
Impairment charges	206	-
Total restructuring, impairment and other losses	$ 14,170	$ 43,396
Non-cash expenses (income) related to restructuring, impairment and other losses	$ 0.2	$ -

Restructuring, impairment, and other losses include charges relating to changes in business operations, severance costs, EPIC go-live support costs, goodwill impairments, acquisition-related costs, and pension settlement activity. Changes in business operations include costs incurred periodically to implement reorganization efforts within specific operations, in order to align CHI's operations in the most strategic and cost-effective manner. The non-cash portion of total restructuring, impairment and other losses relates primarily to impairment charges, project cost abandonment charges included in changes in business operations, and pension settlement costs.

Nonoperating Results

	Three Months Ended September 30	
	2017	2016
Unaudited	*($ in thousands)*	
Investment gains, net	$ 214,937	$ 223,496
Gains (losses) on defeasance of bonds	208	(8,506)
Realized and unrealized (losses) gains on interest rate swaps	(3,982)	38
Other nonoperating gains	2,068	2,206
Total nonoperating gains	$ 213,231	$ 217,234

2. SUMMARY OF CHI BALANCE SHEETS AS OF SEPTEMBER 30, 2017 AND JUNE 30, 2017

Total assets were $20.9 billion and $21.9 billion at September 30, 2017 and June 30, 2017, respectively, representing a decrease of (4.7)%, or $(1.0) billion, during the three months ended September 30, 2017. The decrease was primarily attributable to a $(628.7) million decrease in assets of discontinued operations as a result of the deconsolidation of UMC on July 1, 2017, a decrease of $(460.3) million in cash and unrestricted investments, as described further below, as well as a $(162.9) million reduction in net property and equipment balances, a result of decreased capital spending across the regions and of real estate asset sales during the three months ended September 30, 2017.

Total cash and equivalents, and unrestricted investments were $5.9 billion and $6.4 billion at September 30, 2017 and June 30, 2017, respectively, representing a decrease of (7.2)%, or $(460.3) million during the three months ended September 30, 2017. For the three months ended September 30, 2017, CHI spent a net $(133.0) million in investing cash flow activities, including $(119.0) million of on-going capital investment activity, which includes maintenance costs for CHI's information technology program known as OneCare, IT infrastructure investments, as well as new hospital construction and facility renovations across CHI. Financing cash flow activities for the three months ended September 30, 2017, totaled $(218.0) million and include net debt and interest payments, net swap collateral receipts, and $(150.0) million for the purchase of the remaining non-controlling interest in KentuckyOne. Working capital changes and cash flows from operations, including investments and assets limited to use, were $(109.3) million for the three months ended September 30, 2017.

Days of cash on hand decreased to 150 days at September 30, 2017, from 161 at June 30, 2017. For the days of cash on hand last twelve months metric, one day of operating expenses represented $39.4 million and $39.6 million at September 30, 2017 and June 30, 2017, respectively.

Net patient accounts receivable were $2.2 billion and $2.1 billion at September 30, 2017 and June 30, 2017, respectively, representing an increase of 4.2%, or $87.1 million, during the three months ended September 30, 2017.

Total liabilities were $13.5 billion and $14.2 billion at September 30, 2017 and June 30, 2017, respectively, representing a decrease of (4.7)%, or $(668.8) million, during the three months ended September 30, 2017, including a $(290.0) million decrease in liabilities of discontinued operations as a result of the deconsolidation of UMC on July 1, 2017, a $(59.9) million decrease in outstanding debt balance, and a $(309.2) million decrease in accounts payable and accrued expenses as a result of working capital changes.

Total debt was $8.6 billion at both September 30, 2017 and June 30, 2017, respectively, representing a decrease of $(59.9) million, primarily due to $(34.5) million in net debt redemptions and $(30.5) million in scheduled debt service payments during the three months ended September 30, 2017.

The debt-to-capitalization ratio increased to 54.9% at September 30, 2017, from 53.8% at June 30, 2017, primarily as a result of a $(367.3) million decrease to unrestricted net assets. Total unrestricted net assets decreased (5.0)%, or $(367.3) million, during the three months ended September 30, 2017, primarily due to a $(319.2) million loss on the deconsolidation of UMC, a $(32.2) million net loss from discontinued operations, and a $(150.0) million decrease from the purchase of the remaining non-controlling interest in KentuckyOne, offset by $135.3 million in excess of revenues over expenses.

3. CERTAIN CONTRACTUAL OBLIGATIONS

CAPITAL OBLIGATION DOCUMENT

The requirement of the Corporation to pay amounts due on its commercial paper notes, revenue bonds, guarantees and certain swap agreements are evidenced by Obligations issued under the Capital Obligation Document ("COD"). Obligations also evidence the Corporation's agreements with banks that provide funds for the purchase of indebtedness tendered for purchase or subject to mandatory tender for purchase and not remarketed under the Corporation's self-liquidity program, funded loans and for general purpose revolving lines of credit.

At September 30, 2017, the Corporation's outstanding indebtedness evidenced by Obligations issued under the COD totaled $7.9 billion. Payment required under the COD are limited to the Obligated Group (defined in the COD), which only includes the Corporation. Certain covenants under the COD are tested based on the combination of the Obligated Group and Participants. However, holders of Obligations have no recourse to Participants or their property for payment thereof.

INDEBTEDNESS

($ in millions)	**September 30, 2017**
Capital Obligation Debt	
Fixed Rate Bonds[1]	$ 4,871
Variable Rate Bonds[2]	508
Long Term Rate Bonds[3]	142
Direct Purchase Bonds[4]	1,002
Commercial Paper Notes	815
Short term bank loans and lines of credit	584
Total Capital Obligation Debt	**$ 7,922**
Non-Capital Obligation Debt	
Other MBO Debt[5]	$ 420
Capital Leases	108
Note Payable issued to Episcopal Health Foundation	134
Total Non-Capital Obligation Debt	**$ 662**
Total CHI Debt	**$ 8,584**

[1] Excludes unamortized original issue premium, discount and issuance costs.

[2] Includes bonds that bear interest at variable rates (currently determined weekly) and are subject to optional tender for purchase by their holders, FRNs that bear interest at variable rates (currently determined weekly and monthly), for a specified period and are subject to mandatory tender as set forth below and direct purchase debt of affiliates that is placed directly with holders, bears interest at variable rates determined monthly based upon a percentage of LIBOR or SIFMA plus a spread, and is subject to mandatory tender on certain dates.

[3] Long-term rate bonds bear interest at a fixed rate for a specified period and are subject to mandatory tender at the end of such period as set forth below.

[4] Direct purchase debt of the Corporation is placed directly with holders, bears interest at variable rates determined monthly based upon a percentage of LIBOR or SIFMA plus a spread, and is subject to mandatory tender on certain dates as set forth below.

[5] Other debt is comprised mostly of $191.5 million of CHI St. Luke's affiliate debt, $94.4 million of Centura affiliate debt and $40.7 million of St. Leonard Master Trust Indenture debt.

The required principal payments on the total long-term debt during fiscal year 2018 is approximately $418.2 million. As described below, On October 30, 2017, the Corporation refinanced $250 million of this principal amount with the Colorado Taxable 2017 A Bonds.

As of the date of this report, the Corporation had the following debt instruments with credit banks, both of which are fully drawn:

Type	Bank	Drawn and Outstanding Amount	Maturity, Mandatory Tender or Stated Expiration Date
Revolving Line	PNC	$ 250.0 million	July 5, 2018
Term Loan	JPMorgan Chase Bank, National Association	333.7 million	December .19, 2018
Total debt instruments with credit banks		$ 583.7 million	

A. Direct Purchase Debt

The Corporation's direct purchase debt is subject to mandatory tender on the dates set forth below. Prior to the mandatory tender of direct purchase debt, management expects that it would analyze the then current market conditions and availability and relative cost of refinancing or restructuring alternatives which could include without limitation, conversion to another interest mode, refinancing or repayment.

Series	Par Outstanding September 30, 2017	Mandatory Tender Date
Taxable 2016	$ 200.0 million	September 30, 2018
Providence Series 2009A	$6.8 million	October 1, 2018
Providence Series 2009B	5.9 million	October 1, 2018
Providence Series 2009C	4.2 million	October 1, 2018
Colorado Taxable 2017 A[1]	250.0 million	October 29, 2018
Colorado 2011C2	118.0 million	November 10, 2018
Washington 2008A[2]	119.5 million	January 29, 2019
Colorado 2004B6[2]	54.2 million	September 15, 2020
Taxable 2013F	75.0 million	December 18, 2020
Colorado 2015-1	36.7 million	August 1, 2021
Colorado 2015-2	63.5 million	August 1, 2021
Colorado 2013C	100.0 million	December 18, 2023
Taxable 2013E	125.0 million	December 18, 2023
Colorado 2015A	18.6 million	August 1, 2024
Colorado 2015B	27.3 million	August 1, 2024
Washington 2015A	47.5 million	August 1, 2024
Total Direct Purchase Bonds	**$ 1,002.2 million**	

[1] Issued on October 30, 2017. Proceeds of the 2017A Taxable Bonds were used to pay the November 1, 2017 maturity of the 2012 Taxable Bond.

[2] Includes a "term out" provision that varies among agreements, which permits repayment after the mandatory tender date absent any defaults or events of default.

The Corporation's direct purchase agreements are publicly available, and can be accessed through the Digital Assurance Certification LLC website ("DAC") at www.dacbond.com and the Municipal Securities Rulemaking Board ("MSRB") through the Electronic Municipal Market Access ("EMMA") website of the MSRB, which can be found at http://emma.msrb.org.

B. Long-Term Rate Bonds

The Corporation's long-term rate bonds are subject to mandatory tender on the dates set forth below. Prior to the mandatory tender of long-term rate bonds, management expects that it would analyze the then current market conditions and availability and relative cost of refinancing or restructuring alternatives, which could include without limitation, conversion to another interest mode, refinancing or repayment.

Series *($ in millions)*	Par Outstanding September 30, 2017	Mandatory Tender Date
CO 2009B-3	$40.0	Nov 6, 2019
KY 2009B	60.0	Nov 10, 2021
CO 2008D-3	41.9	Nov 12, 2021
Total Long-Term Rate Bonds	**$141.9**	

C. Floating Rate Notes ("FRNs")

The Corporation's FRNs are subject to mandatory tender on the dates set forth below. Prior to the mandatory tender of the FRNs, management expects that it would analyze the then current market conditions and availability and relative cost of refinancing or restructuring alternatives, which could include without limitation, conversion to another interest mode, refinancing or repayment.

Series *($ in millions)*	Par Outstanding September 30, 2017	Mandatory Tender Date
KY 2011B-1	$ 52.7	Feb 1, 2020
KY 2011B-2	52.7	Feb 1, 2020
CO 2008C-2	26.5	Nov 12, 2020
CO 2008C-4	26.5	Nov 12, 2020
WA 2013B-1	100.0	Dec 31, 2020
WA 2013B-2	100.0	Dec 31, 2024
KY 2011B-3	52.7	Feb 1, 2025
Total FRNs	**$411.1**	

D. Variable Rate Bonds

The Corporation's variable rate demand bonds are subject to optional and mandatory tender. As of September 30, 2017, variable rate demand bonds are outstanding in the amount of $96.7 million, supported by the Corporation's self-liquidity, not by a dedicated liquidity or credit facility. See *Part V: 4. Liquidity and Capital Resources - Liquidity Arrangements*.

E. Taxable Commercial Paper

The Corporation's commercial paper note program permits the issuance of up to $881 million in aggregate principal amount outstanding, with maturities limited to 270 day periods. The Corporation has directed the commercial paper dealers to tranche the commercial paper maturities so that no greater than approximately one-third of the outstanding balance matures in any one month, and no more than $100 million matures per dealer within any five business-day period while the outstanding balance of the commercial paper is greater than $500 million. The Corporation has, from time to time, directed its dealers to deviate from such directions, and may do so again in the future. As of September 30, 2017, $815.5 million of commercial paper notes were outstanding. The commercial paper notes are supported by the Corporation's self-liquidity, and are not supported by a dedicated liquidity or credit facility. See *Part V: 4. Liquidity and Capital Resources - Liquidity Arrangements*.

F. Swap Agreements

The Corporation or its affiliates are currently party to 39 swap transactions that had an aggregate notional amount of approximately $1.6 billion at September 30, 2017. The 39 transactions have varying termination dates ranging from 2017 to 2047. The swap agreements require the Corporation (or with respect to certain swap agreements, affiliates of the Corporation) to provide collateral if its respective liability, determined on a mark-to-market basis, exceeds a specified threshold that varies based upon the rating on the Corporation's long-term indebtedness. The swap agreements of Memorial East Texas and Centura Health do not require collateral postings. The fair value of the swaps is estimated based on the present value sum of anticipated future net cash settlements until the swaps' maturities. Cash collateral balances are netted against the fair value of the swaps, and the net amount is reflected in other liabilities in the accompanying consolidated balance sheets. At September 30, 2017, the net swap liability reflected in other liabilities was $29.6 million, net of swap collateral posted of $254.8 million. The swap agreements, excluding the Centura Health swap, are secured by Obligations issued under the COD. *(See Note 7 in the Consolidated Interim Financial Statements (unaudited) for the Three Months Ended September 30, 2017 and 2016.)*

Obligated Party	Type	Outstanding Notional September 30, 2017	Termination Date
Corporation[1]	Total Return	$ 86.4 million	October 23, 2017-January 16, 2020
Corporation	Fixed Payer	150.9 million	May 1, 2025
Corporation	Fixed Payer	235.4 million	March 1, 2032
Corporation	Fixed Payer	98.8 million	September 1, 2036
Corporation	Fixed Payer	127.3 million	September 1, 2036
Corporation	Fixed Payer	19.6 million	September 1, 2036
Corporation	Fixed Payer	99.4 million	December 1, 2036
Corporation	Fixed Payer	149.1 million	December 1, 2036
CHI St. Luke's	Fixed Payer	124.4 million	February 18, 2031
CHI St. Luke's	Fixed Payer	101.1 million	February 15, 2032
CHI St. Luke's	Fixed Payer	100.0 million	February 15, 2047
CHI St. Luke's	Fixed Payer	100.0 million	February 15, 2047
Centura Health[2]	Fixed Payer	15.1 million	May 20, 2024
Madonna Manor	Total Return	27.5 million	August 15, 2020
Memorial East Texas	Fixed Payer	25.2 million	February 15, 2035
Memorial East Texas	Fixed Payer	17.8 million	February 15, 2028
St. Joseph Regional Health[3]	Total Return	56.4 million	April 4, 2018 - August 15, 2020
St. Joseph Regional Health	Fixed Payer	45.6 million	January 1, 2028
St. Joseph Regional Health	Basis	30.0 million	March 1, 2028
Total Notional Amount		**$1,610.0 million**	

[1]Represents 17 Total Return Swaps.
[2] Not secured by CHI COD obligations.
[3] Represents 5 Total Return Swaps.

4. LIQUIDITY AND CAPITAL RESOURCES

Cash Equivalents and Internally Designated Investments

CHI holds highly liquid investments to enhance its ability to satisfy liquidity needs. Asset allocations are reviewed on a monthly basis and compared to investment allocation targets included within CHI's investment policy. At September 30, 2017 and June 30, 2017, CHI had cash and equivalents and internally designated investments (including net unrealized gains and losses) as described in the table below.

(in Thousands)	September 30, 2017 *Unaudited*	June 30, 2017
Cash and equivalents	$ 669,628	$ 810,235
Internally designated investments	5,226,603	5,546,290
Total	**$ 5,896,231**	**$ 6,356,525**

CHI maintains an Operating Investment Program (the "Program") administered by the Corporation. The Program is structured as a limited partnership with the Corporation as the managing general partner.

The Program contracts with investment advisers to manage the investments within the Program. Substantially all CHI long-term investments are held in the Program. The Corporation requires all Participants to invest in the Program. The Program consists of equity securities, fixed-income securities and alternative investments (e.g., private equity, hedge funds and real estate interests). The asset allocation is established by the Finance Committee of the Board of Stewardship Trustees. At September 30, 2017, the asset allocation for the Program's Long-Term Pool was 45%

equity securities, 30% fixed-income securities, 25% alternative investments, and 0% cash and equivalents. Alternative investments within the Program have limited liquidity. As of September 30, 2017, illiquid investments not available for redemption totaled $371.9 million, and investments available for redemption within 180 days at the request of the Program totaled $820.4 million. The asset allocation for the Program's Intermediate Pool was 100% fixed-income securities. As of September 30, 2017, 90.8% of the Program's assets were invested in the Long-Term Pool, with 9.2% of assets invested in the Intermediate Pool. The Program's return was 3.4% for the three months ended September 30, 2017.

LIQUIDITY ARRANGEMENTS

The Corporation maintains several liquidity facilities that are dedicated to funding optional or mandatory tenders of its variable rate debt and paying the maturing principal of the commercial paper notes in the event remarketing proceeds are unavailable for such purpose. At June 30, 2017, no amounts were drawn on these lines. The Corporation's dedicated self-liquidity lines are set forth below and can be found at http://emma.msrb.org.

CHI Dedicated Self-Liquidity Lines – September 30, 2017

Bank	Committed Amount	Expiration
Bank of New York Mellon	50.0 million	Dec 15, 2017*
PNC Bank	125.0 million	Aug 24, 2018
MUFG Union Bank	75.0 million	Sept 28, 2018
J.P. Morgan	50.0 million	Sept 30, 2018
Northern Trust	65.0 million	June 28, 2019
Total Self-Liquidity Lines	**$ 365.0 million**	

* The Corporation is in discussions to renew the line.

5. LIQUIDITY REPORT

CHI posts a liquidity report monthly, which can be found at www.catholichealth.net and http://emma.msrb.org.

PART VI: LEGAL PROCEEDINGS

PENDING LITIGATION/REGULATORY MATTERS

CHI operates in a highly litigious industry. As a result, various lawsuits, claims and regulatory proceedings have been instituted or asserted against it from time to time. CHI has knowledge of certain pending suits against certain of its entities that have arisen in the ordinary course of business. In the opinion of management, CHI maintains adequate insurance and/or other financial reserves to cover the estimated potential liability for damages in these cases, or, to the extent such liability is uninsured, adverse decisions will not have a material adverse effect on the financial position or operations of CHI.

General Observation Relating to Status as Health Care System. CHI, like all major health care systems, periodically may be subject to investigations or audits by federal, state and local agencies involving compliance with a variety of laws and regulations. These investigations seek to determine compliance with, among other things, laws and regulations relating to Medicare and Medicaid reimbursement, including billing practices for certain services. Violation of such laws could result in substantial monetary fines, civil and/or criminal penalties and exclusion from participation in Medicare, Medicaid or similar programs.

St. Joseph–London. Following a voluntary disclosure of compliance-related issues concerning cardiac stent cases performed at a CHI direct affiliate, St. Joseph London ("SJHS"), by a single, independent/non-employed interventional cardiologist, on January 22, 2014, SJHS entered into a settlement agreement with the federal government, the Commonwealth of Kentucky, and three relators and paid $16.5 million to resolve civil and administrative monetary claims raised in a *qui tam* lawsuit relating to certain diagnostic and therapeutic cardiac procedures performed at SJHS's facility and the financial relationship with certain cardiac physicians and physician groups. In addition, SJHS entered into a five-year corporate integrity agreement ("CIA") with the OIG that imposes certain compliance oversight obligations solely at SJHS's facility. The CIA is approaching the end (in February 2018) of its fourth year.

In a separate matter, numerous civil lawsuits were filed against the Corporation and SJHS claiming damages for alleged unnecessary cardiac stent placements and other cardiac procedures. Both CHI and SJHS vigorously defended the lawsuits. The first case, *Edward Marshall, et al. v. Catholic Health Initiatives et al.*, Case No. 11-CI-00972, was tried to a defense verdict in favor of both CHI and SJHS. Plaintiffs agreed to dismiss the second case to be tried, *Blair Apgar and Mary Apgar, his wife v. Catholic Health Initiatives, et al.,* Case No. 12-CI-00445. CHI and SJHS were dismissed before trial from the third case to be tried, *James Davis*, part of *Anthony Adams et al. v. Catholic Health Initiatives, et al.*, Case No. 12-CI-00802, which resulted in a defense verdict in favor of the remaining defendants. The fourth case, *LeMaster v. Catholic Health Initiatives, et al.,* Case No. 12-CI-00975, which was originally scheduled for trial in April 2016, was dismissed by the court following a grant of summary judgment in favor of SJHS due to plaintiff's failure to establish a causal link between the alleged negligence and plaintiff's injuries. The fifth case, *Dolly Wathen*, also part of *Anthony Adams, et al. v. Catholic Health Initiatives, et al.,* Case No. 12-CI-00802, was dismissed by plaintiffs prior to trial. The sixth case, *Kevin Ray Wells, Sr. v. Catholic Health Initiatives, et. al.,* Case No. 12-CI-00090, was tried to verdict in August 2016. The jury found in favor of the plaintiff and awarded compensatory damages in an amount just under $1.3 million and punitive damages of $20.0 million. Post-trial motions were filed and, while the trial court did not set aside the verdict, it did reduce the punitive damage award to $5.0 million. The rulings of the trial court are now being appealed. The *E/O Vada Owens v. Catholic Health Initiatives, et al.* Case No. 12-CI-00405 commenced trial on January 9, 2017 in the Circuit Court of Laurel County with the Honorable Judge Lay presiding. Prior to the case going to the jury, a Settlement in Principle was reached with Plaintiffs on all of the cardiac claims and settlement in those claims has now been finalized, including the *E/O Owens*, but excluding *Kevin Wells* which remains on appeal. Management believes that adequate reserves have been established and that the outcome of the current litigation will not have a material adverse effect on the financial position or results of operations of CHI.

Pension Plan Litigation. In May 2013, the Corporation and two employees were named as defendants in a class action lawsuit under the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), challenging the "church plan" status of one of CHI's defined benefit plans. *Medina v. Catholic Health Initiatives, et. al.*, Civil No 13-1249 (District of Colorado). Subsequently, the Complaint was amended to name additional CHI-related defendants. The Complaint alleges that CHI's defined benefit plan (i) does not meet the definition of a "church plan" under ERISA; (ii) does not satisfy ERISA's minimum funding standards; (iii) violates various other provisions of ERISA applicable to covered defined benefit plans; or (iv) alternatively, if CHI's defined benefit plan qualifies for "church plan" status, the "church plan" exemption is nonetheless an unconstitutional accommodation under the Establishment Clause of the First Amendment. On December 8, 2015, the U.S. District Court for the District of Colorado entered summary judgment in favor of CHI and the individual defendants on all of plaintiff's claims, dismissing the claims with prejudice, and awarding defendants their costs. Plaintiff filed a notice of appeal on January 6, 2016. The parties filed their briefs with the Tenth Circuit Court of Appeals and oral argument on the appeal was originally scheduled for January 18, 2017. However, the hearing was stayed when the United States Supreme Court granted *certiorari* on the legal question of whether only a church can establish a "church plan" within the meaning of ERISA in other non-CHI-related "church plan" litigation (i.e., *Advocate Health Care Network v. Stapleton*, *St. Peter's Healthcare System v. Kaplan*, and *Dignity Health v. Rollins*). The Supreme Court heard oral arguments on the noted legal question on March 27, 2017 and rendered its decision on the question on June 5, 2017, finding that such plans do not have to be established by a church in order to qualify for ERISA's church plan exemption. While the Supreme Court's decision was rendered in non-CHI-related litigation, it is dispositive of one of the questions in the CHI "church plan" litigation and is a very favorable finding for CHI. Following the Supreme Court's ruling in those cases, the Tenth Circuit Court of Appeals scheduled and heard oral arguments on the remaining questions in the CHI case on September 7, 2017. The parties to the CHI "church plan" litigation are now awaiting the Tenth Circuit's decision. While no assurance can be given as to the outcome of the appeal, management does not believe that the matter, if decided adversely to CHI, would have a material adverse effect on the financial position or results of operations of CHI.

Washington State Attorney General Civil Litigation. The Washington State Attorney General's office ("WA AG") filed two civil lawsuits recently: (i) on August 31, 2017, the WA AG filed a civil lawsuit in the U.S. District Court for the Western District of Washington against Franciscan Health System and Franciscan Medical Group (collectively "CHI Franciscan Health"), and two physician practices, The Doctors Clinic ("TDC") and WestSound Orthopaedics, P.S. ("WSO"). The lawsuit seeks to unwind CHI Franciscan Health's 2016 transactions with TDC and WSO, claiming that they resulted in increased prices and decreased competition for health care on Kitsap Peninsula in violation of federal antitrust laws and the Washington Consumer Protection Act, and further seeks monetary disgorgement, civil penalties and fees. CHI Franciscan Health and TDC have jointly filed a motion to dismiss one part of this lawsuit, WSO has filed an answer, and all defendants are working collaboratively to defend the suit vigorously; and (ii) on September 5, 2017, the WA AG filed a civil lawsuit in Pierce County Superior Court, Washington, against St. Joseph Medical Center ("SJMC") alleging that SJMC violated the Washington Consumer Protection Act by failing to comply with Washington State's charity care laws and regulations from 2012 to the present, allegedly resulting in a failure to provide charity care to patients who would have qualified for charity care assistance under state law and FHS's charity care policy. The lawsuit seeks civil penalties, restitution to patients, attorneys' fees and other relief. CHI Franciscan Health has filed an answer to this lawsuit and discovery is proceeding. While no assurance can be given as to the outcome of these two litigation matters, management does not believe that the matters, if decided adversely to CHI Franciscan Health, would have a material adverse effect on the financial position or results of operations of CHI.

APPENDIX A

CATHOLIC HEALTH INITIATIVES

CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Unaudited)

As of September 30, 2017 and for the Three Months Ended September 30, 2017 and 2016

Consolidated Interim Financial Statements (Unaudited)

Catholic Health Initiatives
As of September 30, 2017, and for the Three
Months Ended September 30, 2017 and 2016
With Review Report of Independent Auditors

Catholic Health Initiatives

Consolidated Financial Statements (Unaudited)

As of September 30, 2017, and for the Three
Months Ended September 30, 2017 and 2016

Contents

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Review Report of Independent Auditors

The Board of Stewardship Trustees
Catholic Health Initiatives

We have reviewed the consolidated financial information of Catholic Health Initiatives, which comprise the consolidated balance sheet as of September 30, 2017, and the related consolidated statements of operations, changes in net assets and cash flows for the three-month periods ended September 30, 2017 and 2016.

Management's Responsibility for the Financial Information

Management is responsible for the preparation and fair presentation of the interim financial information in conformity with U.S. generally accepted accounting principles; this includes the design, implementation and maintenance of internal control sufficient to provide a reasonable basis for the preparation and fair presentation of interim financial information in conformity with U.S. generally accepted accounting principles.

Auditor's Responsibility

Our responsibility is to conduct our review in accordance with auditing standards generally accepted in the United States applicable to reviews of interim financial information. A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in the United States, the objective of which is the expression of an opinion regarding the financial information. Accordingly, we do not express such an opinion.

Report on Balance Sheet as of June 30, 2017

We have previously audited, in accordance with auditing standards generally accepted in the United States, the consolidated balance sheet of Catholic Health Initiatives as of June 30, 2017, and the related consolidated statements of operations, changes in net assets and cash flows for the year then ended (not presented herein), and we expressed an unmodified audit opinion on those consolidated financial statements in our report dated September 15, 2017. As described in Note 3 to the unaudited interim financial statements, Catholic Health Initiatives applied ASC 205-20, *Presentation of Financial Statements – Discontinued Operations*, on a retrospective basis resulting in revision of the June 30, 2017 consolidated balance sheet. We have not audited and reported on the revised balance sheet reflecting the application of ASC 205-20.

Conclusion

Based on our review, we are not aware of any material modifications that should be made to the consolidated financial information referred to above for it to be in conformity with U.S. generally accepted accounting principles.

Ernst & Young LLP

November 7, 2017

Catholic Health Initiatives
Consolidated Balance Sheets
(In Thousands)
(Unaudited)

	September 30, 2017	June 30, 2017
Assets		
Current assets:		
Cash and equivalents	**$ 669,628**	$ 810,235
Net patient accounts receivable, less allowances for bad debts of $956,798 and $955,830 at September and June, respectively	**2,151,144**	2,064,050
Other accounts receivable	**226,830**	249,350
Current portion of investments and assets limited as to use	**93,241**	65,161
Inventories	**295,500**	290,267
Assets of discontinued operations	**559,120**	1,187,811
Prepaid and other	**164,472**	153,160
Total current assets	**4,159,935**	4,820,034
Investments and assets limited as to use:		
Internally designated for capital and other funds	**5,092,893**	5,282,910
Mission and ministry fund	**132,292**	126,795
Capital resource pool	**1,418**	136,585
Held by trustees	**75,733**	76,850
Held for insurance purposes	**906,930**	876,370
Restricted by donors	**255,415**	258,511
Total investments and assets limited as to use	**6,464,681**	6,758,021
Property and equipment, net	**8,215,250**	8,378,161
Investments in unconsolidated organizations	**1,340,472**	1,320,017
Intangible assets and goodwill, net	**418,343**	420,659
Notes receivable and other	**297,707**	234,858
Total assets	**$ 20,896,388**	$ 21,931,750

Continued on following page

Catholic Health Initiatives
Consolidated Balance Sheets (continued)
(In Thousands)
(Unaudited)

	September 30, 2017	June 30, 2017
Liabilities and net assets		
Current liabilities:		
Compensation and benefits	**$ 598,630**	$ 632,857
Third-party liabilities, net	**109,658**	91,008
Accounts payable and accrued expenses	**1,262,355**	1,555,935
Liabilities of discontinued operations	**154,680**	444,724
Variable-rate debt with self-liquidity	**96,700**	96,700
Commercial paper and current portion of debt	**2,289,768**	2,016,042
Total current liabilities	**4,511,791**	4,837,266
Pension liability	**1,083,694**	1,110,983
Self-insured reserves and claims	**644,310**	633,392
Other liabilities	**1,102,547**	1,095,949
Long-term debt	**6,193,830**	6,527,426
Total liabilities	**13,536,172**	14,205,016
Net assets:		
Net assets attributable to CHI	**6,745,067**	7,047,905
Net assets attributable to noncontrolling interests	**302,989**	367,483
Unrestricted	**7,048,056**	7,415,388
Temporarily restricted	**214,384**	214,250
Permanently restricted	**97,776**	97,096
Total net assets	**7,360,216**	7,726,734
Total liabilities and net assets	**$ 20,896,388**	$ 21,931,750

See accompanying notes.

Catholic Health Initiatives
Consolidated Statements of Operations
(In Thousands)
(Unaudited)

	Three Months Ended September 30, 2017	2016
Revenues:		
Net patient services revenues before provision for doubtful accounts	**3,690,808**	3,599,430
Provision for doubtful accounts	**(195,998)**	(186,815)
Net patient services revenues	**3,494,810**	3,412,615
Other operating revenues:		
Donations	**8,353**	8,243
Changes in equity of unconsolidated organizations	**4,105**	8,386
Hospital ancillary revenues	**84,291**	83,514
Other	**104,210**	145,877
Total other operating revenues	**200,959**	246,020
Total operating revenues	**3,695,769**	3,658,635
Expenses:		
Salaries and wages	**1,489,732**	1,539,733
Employee benefits	**276,255**	284,222
Purchased services, medical professional fees and consulting	**561,510**	561,677
Supplies	**596,437**	611,732
Utilities	**51,775**	55,315
Rentals, leases, maintenance and insurance	**222,524**	222,915
Depreciation and amortization	**225,588**	200,772
Interest	**75,110**	71,528
Other	**260,554**	248,015
Total operating expenses before restructuring, impairment and other losses	**3,759,485**	3,795,909
Loss from operations before restructuring, impairment and other losses	**(63,716)**	(137,274)
Restructuring, impairment and other losses	**14,170**	43,396
Loss from operations	**(77,886)**	(180,670)
Nonoperating gains:		
Investment gains, net	**214,937**	223,496
Gains (losses) on early extinguishment of debt	**208**	(8,506)
Realized and unrealized (losses) gains on interest rate swaps	**(3,982)**	38
Other nonoperating gains	**2,068**	2,206
Total nonoperating gains	**213,231**	217,234
Excess of revenues over expenses	**135,345**	36,564
Excess (deficit) of revenues over expenses attributable to noncontrolling interests	**2,415**	(83)
Excess of revenues over expenses attributable to CHI	**$ 132,930**	$ 36,647

See accompanying notes.

Catholic Health Initiatives

Consolidated Statements of Changes in Net Assets

(In Thousands)

	Unrestricted Net Assets					
	Attributable to CHI	Attributable to Noncontrolling Interests	Total	Temporarily Restricted Net Assets	Permanently Restricted Net Assets	Total Net Assets
Balances, July 1, 2016	$ 6,704,217	$ 423,424	$ 7,127,641	$ 224,524	$ 94,931	$ 7,447,096
Excess of revenues over expenses	90,354	19,948	110,302	–	–	110,302
Net loss from discontinued operations	(116,891)	(18,500)	(135,391)	–	–	(135,391)
Change in pension funded status	335,923	73	335,996	–	–	335,996
Temporarily and permanently restricted contributions	–	–	–	40,754	2,034	42,788
Net assets released from restriction for capital	33,737	–	33,737	(33,737)	–	–
Net assets released from restriction for operations	–	–	–	(19,939)	–	(19,939)
Investment (losses) income	(423)	–	(423)	7,811	1,113	8,501
Distributions to noncontrolling owners	–	(28,935)	(28,935)	–	–	(28,935)
Other changes in net assets	988	(28,527)	(27,539)	(5,163)	(982)	(33,684)
Net increase (decrease) in net assets	343,688	(55,941)	287,747	(10,274)	2,165	279,638
Balances, June 30, 2017	7,047,905	367,483	7,415,388	214,250	97,096	7,726,734
Excess of revenues over expenses	132,930	2,415	135,345	–	–	135,345
Net loss from discontinued operations	(346,653)	(4,724)	(351,377)	–	–	(351,377)
Change in pension funded status	(4,360)	4,360	–	–	–	–
Temporarily and permanently restricted contributions	–	–	–	6,198	75	6,273
Net assets released from restriction for capital	3,957	–	3,957	(3,957)	–	–
Net assets released from restriction for operations	–	–	–	(2,036)	–	(2,036)
Investment income	–	–	–	3,286	521	3,807
Distributions to noncontrolling owners	–	(9,247)	(9,247)	–	–	(9,247)
Purchase of noncontrolling interest	(91,483)	(58,517)	(150,000)	–	–	(150,000)
Other changes in net assets	2,771	1,219	3,990	(3,357)	84	717
Net (decrease) increase in net assets	(302,838)	(64,494)	(367,332)	134	680	(366,518)
Balances, September 30, 2017 (unaudited)	**$ 6,745,067**	**$ 302,989**	**$ 7,048,056**	**$ 214,384**	**$ 97,776**	**$ 7,360,216**

See accompanying notes.

Catholic Health Initiatives
Consolidated Statements of Cash Flows
(In Thousands)
(Unaudited)

	Three Months Ended September 30, 2017	2016
Operating activities		
Decrease in net assets	**$ (366,518)**	$ (19,711)
Adjustments to reconcile (decrease) increase in net assets to net cash provided by operating activities:		
Loss on deconsolidation of subsidiary	**319,167**	–
Purchase of noncontrolling interest	**150,000**	–
Depreciation and amortization	**225,588**	200,772
Provision for bad debts	**195,998**	186,815
Changes in equity of unconsolidated organizations	**(4,105)**	(8,386)
Net gains on sales of facilities and investments in unconsolidated organizations	**(6,496)**	(17,531)
Noncash operating expenses (income) related to restructuring, impairment and other losses	**206**	–
(Gains) losses on early extinguishment of debt	**(208)**	8,506
Increase in fair value of interest rate swaps	**(3,524)**	(9,689)
Noncash pension adjustments	**(14,603)**	(7,028)
Pension cash contributions	**(12,686)**	(3,211)
Net changes in current assets and liabilities:		
Net patient and other accounts receivable	**(247,968)**	(158,080)
Other current assets	**(15,257)**	(58,933)
Current liabilities	**(279,021)**	(386,375)
Other changes	**(837)**	12,809
Net cash used in operating activities, before net change in investments and assets limited as to use	**(60,264)**	(260,042)
Net decrease (increase) in investments and assets limited as to use	**270,633**	(166,849)
Net cash provided by (used in) operating activities	**210,369**	(426,891)
Investing activities		
Purchases of property, equipment, and other capital assets	**(119,025)**	(201,783)
Investments in unconsolidated organizations	**(35,692)**	(20,006)
Proceeds from asset sales	**22,913**	197,431
Distributions from investments in unconsolidated organizations	**18,974**	9,189
Net (issuance) repayments of notes receivable	**(30,107)**	2,503
Other changes	**9,974**	16,052
Net cash (used in) provided by investing activities	**(132,963)**	3,386
Financing activities		
Proceeds from issuance of debt and bank loans	**254,695**	15,109
Repayment of debt	**(317,746)**	(150,188)
Swap cash collateral received	**4,284**	5,365
Distributions to noncontrolling owners	**(9,246)**	(5,979)
Purchase of noncontrolling interest	**(150,000)**	–
Net cash used in financing activities	**(218,013)**	(135,693)
Decrease in cash and equivalents	**(140,607)**	(559,198)
Cash and equivalents at beginning of period	**810,235**	1,171,511
Cash and equivalents at end of period	**$ 669,628**	$ 612,313

See accompanying notes.

1. Summary of Significant Accounting Policies

Organization

Catholic Health Initiatives (CHI), established in 1996, is a tax-exempt Colorado corporation and has been granted an exemption from federal income tax under Section 501(c)(3) of the Internal Revenue Code. CHI sponsors market-based organizations (MBO) and other facilities operating in 17 states and includes 100 hospitals, including three academic medical centers, and 29 critical access facilities; community health service organizations; accredited nursing colleges; home health agencies; and other facilities that span the inpatient and outpatient continuum of care. CHI also has an offshore captive insurance company, First Initiatives Insurance, Ltd. (FIIL).

The mission of CHI is to nurture the healing ministry of the Church, supported by education and research. Fidelity to the Gospel urges CHI to emphasize human dignity and social justice as CHI creates healthier communities.

Basis of Presentation

The consolidated interim financial statements of CHI as of September 30, 2017, and for the three months ended September 30, 2017, reflect all adjustments, consisting only of normal recurring adjustments, which in the opinion of management are necessary to fairly state its financial position, results of operations and cash flows for the periods presented. The consolidated interim financial statements have been prepared in accordance with U.S. generally accepted accounting principles (GAAP) for interim reporting, and accordingly, certain information and footnote disclosures normally included in annual financial statements prepared in accordance with U.S. GAAP have been condensed or omitted pursuant to U.S. GAAP. However, CHI believes that the disclosures are adequate to make the information presented not misleading. These consolidated interim financial statements should be read in conjunction with the audited financial statements as of and for the year ended June 30, 2017.

The preparation of financial statements in conformity with U. S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. Actual results could vary from the estimates. Operating results for the three months ended September 30, 2017, are not necessarily indicative of the results that may be expected for any future period or for a full fiscal year as revenues, expenses, assets and liabilities can vary during each quarter of the year.

1. Summary of Significant Accounting Policies (continued)

Reclassifications

Certain reclassifications were made to the fiscal year 2017 consolidated financial statement presentation to conform to the 2018 presentation – effective July 1, 2017, CHI ceased consolidating the operations of UMC. The results of operations of UMC for the previous fiscal year are no longer reported in the consolidated statement of operations, but are now reported as discontinued operations in the consolidated statements of changes in net assets. The assets and liabilities of UMC are reflected as assets and liabilities of discontinued operations on the consolidated balance sheets. See Note 3, *Acquisitions, Affiliations and Divestitures*.

Principles of Consolidation

CHI consolidates all direct affiliates in which it has sole corporate membership or ownership (Direct Affiliates) and all entities in which it has greater than 50% equity interest with commensurate control. All significant intercompany accounts and transactions are eliminated in consolidation.

Fair Value of Financial Instruments

Financial instruments consist primarily of cash and equivalents, patient accounts receivable, investments and assets limited as to use, notes receivable and accounts payable. The carrying amounts reported in the consolidated balance sheets for these items, other than investments and assets limited as to use, approximate fair value. See Note 6, *Fair Value of Assets and Liabilities*, for a discussion of the fair value of investments and assets limited as to use.

Cash and Equivalents

Cash and equivalents include all deposits with banks and investments in interest-bearing securities with maturity dates of 90 days or less from the date of purchase. In addition, cash and equivalents include deposits in short-term funds held by professional managers. The funds generally invest in high-quality, short-term debt securities, including U.S. government securities, securities issued by domestic and foreign banks, such as certificates of deposit and bankers' acceptances, repurchase agreements, asset-backed securities, high-grade commercial paper, and corporate short-term obligations.

Net Patient Accounts Receivable and Net Patient Services Revenues

Net patient accounts receivable has been adjusted to the estimated amounts expected to be collected. These estimated amounts are subject to further adjustments upon review by third-party payors.

1. Summary of Significant Accounting Policies (continued)

The provision for bad debts is based upon management's assessment of historical and expected net collections, taking into consideration historical business and economic conditions, trends in health care coverage, and other collection indicators. Management routinely assesses the adequacy of the allowances for uncollectible accounts based upon historical write-off experience by payor category. The results of these reviews are used to modify, as necessary, the provision for bad debts and to establish appropriate allowances for uncollectible net patient accounts receivable. After satisfaction of amounts due from insurance, CHI follows established guidelines for placing certain patient balances with collection agencies, subject to the terms of certain restrictions on collection efforts as determined by each facility. The provision for bad debts is presented in the consolidated statement of operations as a deduction from patient services revenues (net of contractual allowances and discounts) since CHI accepts and treats all patients without regard to the ability to pay.

Details of CHI's allowance activity is as follows (in thousands):

	Reserve for Contractual Allowance	Allowance for Bad Debts	Reserve for Charity	Total Accounts Receivable Allowances
Balance at July 1, 2016	$ (3,553,575)	$ (909,994)	$ (171,921)	$ (4,635,490)
Additions	(34,877,877)	(843,705)	(1,046,622)	(36,768,204)
Reductions	34,993,719	797,869	998,438	36,790,026
Balance at June 30, 2017	(3,437,733)	(955,830)	(220,105)	(4,613,668)
Additions	**(9,001,582)**	**(195,998)**	**(228,814)**	**(9,426,394)**
Reductions	**8,729,454**	**195,030**	**212,800**	**9,137,284**
Balance at September 30, 2017	**$ (3,709,861)**	**$ (956,798)**	**$ (236,119)**	**$ (4,902,778)**

CHI records net patient services revenues in the period in which services are performed. CHI has agreements with third-party payors that provide for payments at amounts different from its established rates. The basis for payment under these agreements includes prospectively determined rates, cost reimbursement and negotiated discounts from established rates, and per diem payments.

Net patient services revenues are reported at the estimated net realizable amounts from patients, third-party payors and others for services rendered, including estimated retroactive adjustments due to future audits, reviews and investigations, and excluding estimated amounts considered uncollectible. The differences between the estimated and actual adjustments are recorded as part of net patient services revenues in future periods, as the amounts become known, or as years are no longer subject to such audits, reviews and investigations.

1. Summary of Significant Accounting Policies (continued)

Investments and Assets Limited as to Use

Investments and assets limited as to use include assets set aside by CHI for future long-term purposes, including capital improvements and self-insurance. In addition, assets limited as to use include amounts held by trustees under bond indenture agreements, amounts contributed by donors with stipulated restrictions and amounts held for Mission and Ministry programs.

CHI has designated its investment portfolio as trading as the portfolio is actively managed to achieve investment returns. Accordingly, unrealized gains and losses on marketable securities are reported within excess (deficit) of revenues over expenses. In addition, cash flows from the purchases and sales of marketable securities are reported as a component of operating activities in the accompanying consolidated statements of cash flows.

Direct investments in equity securities with readily determinable fair values and all direct investments in debt securities have been measured at fair value in the accompanying consolidated balance sheets. Investment income or loss (including realized gains and losses on investments, interest and dividends) is included in excess (deficit) of revenues over expenses unless the income or loss is restricted by donor or law.

Investments in limited partnerships and limited liability companies are recorded using the equity method of accounting (which approximates fair value as determined by the net asset values of the related unitized interests) with the related changes in value in earnings reported as investment income in the accompanying consolidated financial statements.

Inventories

Inventories, primarily consisting of pharmacy drugs, and medical and surgical supplies, are stated at lower of cost (first-in, first-out method) or market.

Assets and Liabilities of Discontinued Operations

Assets and liabilities of discontinued operations represent assets and liabilities that are expected to be sold within one year or were disposed of other than by sale. For the disposal group of assets and liabilities that is expected to be sold within one year, it is classified as held for sale if it meets certain criteria. For long-lived assets held for sale, an impairment charge is recorded if the carrying amount of the asset exceeds its fair value less costs to sell. Such valuations include estimates of fair values generally based upon firm offers, discounted cash flows and incremental direct costs to transact a sale (Level 2 and Level 3 inputs).

1. Summary of Significant Accounting Policies (continued)

Property and Equipment

Property and equipment are stated at historical cost or, if donated or impaired, at fair value at the date of receipt or impairment. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed using the straight-line method. Buildings and improvements are depreciated over estimated useful lives of 5 to 84 years, equipment over 3 to 30 years, and land improvements over 2 to 25 years. For property and equipment under capital lease, amortization is determined over the shorter period of the lease term or the estimated useful life of the property and equipment.

For the three months ended September 30, 2017 and 2016, CHI sold various real estate assets across the enterprise as part of its long-term effort to improve the mix of owned and leased assets. In conjunction with the sales, CHI entered into 10-year operating lease agreements with the buyers, and in accordance with Accounting Standards Codification (ASC) 840-40, *Leases – Sale-Lease Back Transactions*, certain of the gains on the sales of the real estate assets were deferred and will be amortized to lease expense over the life of the operating leases.

For the three months ended September 30, 2017 and 2016, real estate assets with a net book value of $14.2 million and $176.8 million, respectively, were sold for gross proceeds of $33.6 million and $195.9 million, respectively. As a result, CHI recognized $4.0 million and $14.2 million in gains on the sales, reflected in other operating revenues in the consolidated statements of operations for the three months ended September 30, 2017 and 2016, respectively. CHI also recorded short-term deferred gains of $1.5 million and $0.7 million, respectively, and long-term deferred gains of $13.6 million and $6.2 million, respectively, for the three months ended September 30, 2017 and 2016. On the consolidated balance sheets, the short-term deferred gains are a component of accrued expenses, and the long-term deferred gains are a component of other long-term liabilities.

Interest cost incurred during the period of construction of major capital projects is capitalized as a component of the cost of acquiring those assets. Capitalized interest of $2.2 million and $3.0 million was recorded in the three months ended September 30, 2017 and 2016, respectively.

Costs incurred in the development and installation of internal-use software are expensed if they are incurred in the preliminary project stage or post-implementation stage, while certain costs are capitalized if incurred during the application development stage. Internal-use software is amortized over its expected useful life, generally between 2 and 15 years, with amortization beginning when the project is completed and the software is placed in service.

1. Summary of Significant Accounting Policies (continued)

Investments in Unconsolidated Organizations

Investments in unconsolidated organizations are accounted for under the cost or equity method of accounting, as appropriate, based on the relative percentage of ownership or degree of influence over that organization. The income or loss on the equity method investments is recorded in the consolidated statements of operations as changes in equity of unconsolidated organizations.

Intangible Assets and Goodwill

Intangible assets are comprised primarily of trade names, which are amortized over the estimated useful lives ranging from 10 to 25 years using the straight-line method. The weighted average useful life of the trade names is 16 years. Amortization expense of $2.3 million and $4.2 million was recorded in the three months ended September 30, 2017 and 2016, respectively.

Goodwill is not amortized but is subject to annual impairment tests during the third quarter of the fiscal year, as well as more frequent reviews whenever circumstances indicate a possible impairment may exist; no such circumstances were identified at September 30, 2017. Impairment testing of goodwill is done at the reporting unit level by comparing the fair value of the reporting unit’s net assets against the carrying value of the reporting unit’s net assets, including goodwill. Each MBO is defined as a reporting unit for purposes of impairment testing. The fair value of the reporting unit’s net assets is generally estimated based on quantitative analysis of discounted cash flows (Level 3 measurement). The fair value of goodwill is determined by assigning fair values to assets and liabilities, with the remaining fair value reported as the implied fair value of goodwill.

During fiscal year 2017, the Houston MBO acquired various physician and diagnostic operations in Texas, which resulted in the recognition of $43.9 million of total goodwill, calculated as the difference between the consideration paid and the fair value of assets acquired and liabilities assumed. As of March 31, 2017, CHI performed a goodwill impairment review of the Houston MBO which determined that the goodwill attributable to the Houston MBO was impaired, and total goodwill impairment charges of $43.9 million were reflected in the consolidated statements of operations for the three month periods ended December 31, 2016 and March 31, 2017.

1. Summary of Significant Accounting Policies (continued)

The changes in the carrying amount of goodwill and intangibles is as follows as of the beginning of each fiscal period presented (in thousands):

	September 30, 2017	June 30, 2017
Intangible assets, beginning of period	**$ 236,034**	$ 251,776
Acquisitions	**-**	4,783
Sales and other adjustments	**(257)**	(20,525)
Intangible assets, end of period	**235,777**	236,034
Accumulated amortization, beginning of period	**(47,370)**	(50,680)
Intangible amortization expense	**(2,251)**	(12,581)
Sales and other adjustments	**192**	15,891
Accumulated amortization, end of period	**(49,429)**	(47,370)
Intangible assets, net	**186,348**	188,664
Goodwill, beginning of period	**231,995**	208,564
Acquisitions	**-**	67,567
Impairments	**-**	(44,136)
Goodwill, end of period	**231,995**	231,995
Total intangible assets and goodwill, net	**$ 418,343**	$ 420,659

Notes Receivable and Other Assets

Other assets consist primarily of notes receivable, pledges receivable, deferred compensation assets, long-term prepaid service contracts, deposits and other long-term assets. A summary of notes receivable and other assets is as follows (in thousands):

	September 30, 2017	June 30, 2017
Notes receivable:		
From related entities	**$ 19,575**	$ 135
Other	**41,860**	20,560
Long-term pledge receivables	**38,080**	37,911
Reinsurance recoverable on unpaid losses and loss adjustment expense	**29,089**	29,089
Deferred compensation assets	**56,532**	58,558
Other long-term assets	**112,571**	88,605
Total notes receivable and other	**$ 297,707**	$ 234,858

1. Summary of Significant Accounting Policies (continued)

Net Assets

Temporarily restricted net assets are those whose use has been limited by donors to a specific time period or purpose. Permanently restricted net assets consist of gifts with corpus values that have been restricted by donors to be maintained in perpetuity, including endowment funds. Temporarily restricted net assets and earnings on permanently restricted net assets, including earnings on endowment funds, are used in accordance with the donor's wishes primarily to purchase equipment, to provide charity care, and to provide other health and educational programs and services.

Unconditional promises to receive cash and other assets are reported at fair value at the date the promise is received. Conditional promises and indications of donors' intentions to give are reported at fair value at the date the conditions are met or the gifts are received. All unrestricted contributions are included in the excess (deficit) of revenue over expenses as donation revenues. Other gifts are reported as either temporarily or permanently restricted if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as donations revenue when restricted for operations or as unrestricted net assets when restricted for property and equipment.

Performance Indicator

The performance indicator is the excess (deficit) of revenues over expenses, which includes all changes in unrestricted net assets other than changes in the pension liability funded status, net assets released from restrictions for property acquisitions, cumulative effect of changes in accounting principles, discontinued operations, contributions of property and equipment, and other changes not required to be included within the performance indicator under U.S. generally accepted accounting principles (U.S. GAAP).

Operating and Nonoperating Activities

CHI's primary mission is to meet the health care needs in its market areas through a broad range of general and specialized health care services, including inpatient acute care, outpatient services, physician services, long-term care, and other health care services. Activities directly associated with the furtherance of this purpose are considered to be operating activities. Other activities that result in gains or losses peripheral to CHI's primary mission are considered to be nonoperating. Nonoperating activities include investment earnings, gains/losses from extinguishment of debt, net interest cost and changes in fair value of interest rate swaps, and the nonoperating component of Joint Operating Agreement (JOA) income share adjustments. Any infrequent and nonreciprocal contribution that CHI makes to enter a new market community or to expand upon existing affiliations is also classified as nonoperating.

1. Summary of Significant Accounting Policies (continued)

Charity Care

As an integral part of its mission, CHI accepts and provides medically necessary health care to all patients without regard to the patient's financial ability to pay. Services to patients are classified as charity care in accordance with standards established across all MBOs. Charity care represents services rendered for which partial or no payment is expected, and includes the cost of providing services to persons who cannot afford health care due to inadequate resources and/or who are uninsured or underinsured. CHI determines the cost of charity care on the basis of an MBO's total cost as a percentage of total charges applied to the charges incurred by patients qualifying for charity care under CHI's policy. This amount is not included in net patient services revenue in the accompanying consolidated statements of operations and changes in net assets. The estimated cost of charity care provided was $61.6 million and $58.8 million for the three months ended September 30, 2017 and 2016, respectively, for continuing operations.

Other Operating Revenues

Other operating revenues include services sold to external health care providers, gains on acquisitions of subsidiaries, cafeteria sales, rental income, retail pharmacy and durable medical equipment sales, auxiliary and gift shop revenues, electronic health records incentive payments, gains and losses on asset disposals, the operating portion of revenue-sharing income or expense associated with Direct Affiliates that are part of JOAs, premium revenues, and revenues from other miscellaneous sources.

Derivative and Hedging Instruments

CHI uses derivative financial instruments (interest rate swaps) in managing its capital costs. These interest rate swaps are recognized at fair value on the consolidated balance sheets. CHI has not designated its interest rate swaps related to CHI's long-term debt as hedges. The net interest cost and change in the fair value of such interest rate swaps is recognized as a component of nonoperating gains (losses) in the accompanying consolidated statements of operations. It is CHI's policy to net the value of collateral on deposit with counterparties against the fair value of its interest rate swaps in other liabilities on the consolidated balance sheets.

1. Summary of Significant Accounting Policies (continued)

Functional Expenses

CHI provides healthcare services, including inpatient, outpatient, ambulatory, long-term care and community-based services to individuals within the various geographic areas supported by its facilities. Support services include administration, finance and accounting, information technology, public relations, human resources, legal, mission services, and other functions that are supported centrally for all of CHI. Support services expenses as a percentage of total operating expenses were approximately 5.3% and 5.7% for the three months ended September 30, 2017 and 2016, respectively.

Restructuring, Impairment, and Other Losses

Restructuring, impairment, and other losses include charges relating to changes in business operations, severance costs, EPIC go-live support costs, goodwill impairments, acquisition-related costs, and pension settlement activity. Changes in business operations include costs incurred periodically to implement reorganization efforts within specific operations, in order to align CHI's operations in the most strategic and cost-effective manner.

Details of CHI's restructuring, impairment and other losses is as follows (in thousands):

	Three Months Ended September 30,	
	2017	**2016**
Changes in business operations	**$ 7,939**	$ 34,662
Severance costs	**6,025**	8,734
Impairment charges	**206**	-
Restructuring, impairment and other losses from continuing operations	**$ 14,170**	$ 43,396
Restructuring, impairment and other losses from discontinued operations	**$ 321,859**	$ 5,589

Noncash impairment charges included in the consolidated statements of operations totaled $0.2 million for the three months ended September 30, 2017. Discontinued operations are reported in the consolidated statements of changes in net assets. For the three months ended September 30, 2017, the discontinued operations include the loss on deconsolidation of University Medical Center (UMC), a subsidiary of CHI – see Note 3, *Acquisitions, Affiliations and Divestitures.*

1. Summary of Significant Accounting Policies (continued)

Income Taxes

CHI is a tax-exempt Colorado corporation and has been granted an exemption from federal income tax under Section 501(c)(3) of the Internal Revenue Code. CHI owns certain taxable subsidiaries and engages in certain activities that are unrelated to its exempt purpose and therefore subject to income tax.

Management reviews its tax positions annually and has determined that there are no material uncertain tax positions that require recognition in the accompanying consolidated financial statements.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. Actual results could vary from the estimates.

2. Joint Operating Agreements and Investments in Unconsolidated Organizations

Joint Operating Agreements

CHI participates in JOAs with hospital-based organizations in three separate market areas. The agreements generally provide for, among other things, joint management of the combined operations of the local facilities included in the JOAs through Joint Operating Companies (JOC). CHI retains ownership of the assets, liabilities, equity, revenues and expenses of the CHI facilities that participate in the JOAs. The financial statements of the CHI facilities managed under all JOAs are included in the CHI consolidated financial statements. Transfers of assets from facilities owned by the JOA participants generally are restricted under the terms of the agreements.

As of September 30, 2017, and June 30, 2017, CHI has investment interests of 65%, 50%, and 50% in JOCs based in Colorado, Iowa, and Ohio, respectively. CHI's interests in the JOCs are included in investments in unconsolidated organizations and totaled $405.2 million and $381.7 million at September 30, 2017, and June 30, 2017, respectively. CHI recognizes its investment in all JOCs under the equity method of accounting. The JOCs provide varying levels of services to the related JOA sponsors, and operating expenses of the JOCs are allocated to each sponsoring organization.

2. Joint Operating Agreements and Investments in Unconsolidated Organizations

Investments in Unconsolidated Organizations

CHI holds noncontrolling interests in various organizations, accounted for under the cost or equity method of accounting, as appropriate. Significant investments are described below:

Conifer Health Solutions (Conifer) – As of September 30, 2017, and June 30 2017, CHI holds a 23.8% equity method investment in Conifer totaling $623.8 million and $614.0 million, respectively. The investment in Conifer was acquired as part of a multi-year agreement with Conifer where Conifer provides revenue cycle services and health information management solutions for CHI acute care operations. Since CHI was granted incremental shares in Conifer in conjunction with the multi-year agreement with Conifer, CHI also has a deferred income balance related to the Conifer agreement of $424.1 million and $431.1 million, as of September 30, 2017, and June 30, 2017, respectively, reported in other liabilities on the accompanying consolidated balance sheets. The deferred income balances are being amortized straight line over the remaining agreement term expiring in January 2033, offsetting revenue cycle services fees paid to Conifer, which are reported in purchased services expense in the accompanying consolidated statements of operations.

As a result of CHI recording its incremental equity ownership in Conifer at fair value, the carrying value of its equity method investment in Conifer was $248.5 million and $253.3 million greater than CHI's equity interest in the underlying net assets of Conifer as of September 30, 2017 and June 30, 2017, respectively, due to basis differences in the carrying amounts of the tangible and intangible assets of $181.8 million and $186.6 million, respectively, and of goodwill of $66.7 million in both periods. Goodwill is not amortized but is subject to annual impairment tests during the third quarter of the fiscal year, as well as more frequent reviews whenever circumstances indicate a possible impairment may exist. No impairment of goodwill was identified as of September 30, 2017 and June 30, 2017. The basis differences of the tangible and intangible assets are being amortized over the average useful lives of the underlying assets, ranging from 8 to 25 years, as a reduction of CHI's equity earnings in Conifer.

3. Acquisitions, Affiliations, and Divestitures

There were no significant business combinations and affiliations during the three months ended September 30, 2017. The following table is a summary of significant business combinations and affiliations that occurred during the fiscal year ended June 30, 2017 (in thousands):

Fiscal year 2017		
Purchase consideration:		
Cash	**$**	**64,432**
Current liabilities		**723**
Debt		**27,755**
	$	**92,910**
Purchase price allocation:		
Inventory	**$**	**3,041**
Property and equipment		**39,681**
Intangible assets		**11,180**
Goodwill		**43,865**
Current liabilities		**(752)**
Debt		**(4,105)**
	$	**92,910**

During fiscal year 2017, CHI entered into various business combinations and affiliations, including the acquisition by a subsidiary of CHI of the operations of a multi-specialty group in the state of Texas. The operations include a general acute care hospital and emergency room, an ambulatory surgery center, a management company, and an independent physician association comprising of more than 80 health care providers. For the three months ended September 30, 2017, the affiliations and acquisitions reported a combined $18.4 million in operating revenues and $(3.6) million in deficit of revenues over expenses in the CHI consolidated results of operations.

Had CHI owned the above acquired entities as of the beginning of the 2017 fiscal year, CHI's unaudited pro forma results for the three months ended September 30, 2016, would have been as presented below (in thousands):

		2016 Pro Forma Total CHI
Operating revenues	$	3,685,307
Operating loss before restructuring		(135,324)
Excess of revenues over expenses	$	38,513

3. Acquisitions, Affiliations, and Divestitures (continued)

Unaudited pro forma information is not necessarily indicative of the historical results that would have been obtained had the transaction actually occurred on those dates, nor of future results.

KentuckyOne Health Noncontrolling Interest – Effective September 1, 2017, CHI became the sole owner of KentuckyOne Health through the purchase of the noncontrolling interest from the remaining partner for $150.0 million in cash consideration. The transaction resulted in a reduction of unrestricted net assets, reflected in the consolidated statement of changes in net assets.

Dignity Health – On October 24, 2016, CHI and Dignity Health signed a nonbinding letter of intent to explore aligning their organizations and expanding their mission of service in communities across the nation. The potential alignment would strengthen CHI and Dignity Health's leadership role in transforming health care through increased patient access and enhanced clinical excellence. The boards and sponsors of the two health systems are continuing to evaluate the potential alignment and are in the final stages of the due diligence process. CHI can give no assurance that the transaction will occur.

Discontinued Operations

The UMC, JHSMH and QualChoice Health operations are reflected as discontinued operations, with JHSMH and QualChoice Health assets and liabilities reflected as held for sale, in accordance with ASC 205-20, *Presentation of Financial Statements – Discontinued Operations.*

Effective on July 1, 2017, and in accordance with the agreement entered into in December 2016 between KentuckyOne Health and UMC, UMC took over the management of its assets and CHI ceased consolidating the UMC operations. The transaction resulted in a loss on deconsolidation of $319.2 million for the three months ended September 30, 2017, reflected in discontinued operations in the consolidated statement of changes in net assets, and equal to the net assets of UMC as of June 30, 2017. The assets and liabilities of UMC for the prior fiscal year were also reclassified and reflected as assets and liabilities of discontinued operations on the consolidated balance sheet.

In May 2017, CHI approved a plan to sell or otherwise dispose of certain entities of Jewish Hospital and St. Mary's Healthcare, Inc. System (JHSMH). CHI is proceeding with its plan to sell these operations and anticipates closing on a sale by the end of the fiscal year.

3. Acquisitions, Affiliations, and Divestitures (continued)

In May 2016, CHI approved a plan to sell or otherwise dispose of certain entities of QualChoice Health, Inc. (QualChoice Health), a consolidated CHI subsidiary, whose primary business is to develop, manage and market commercial and Medicare Advantage health insurance programs, as well as a wide range of products and administrative services. A letter of intent for the Medicare Advantage health insurance operations has been received, with an anticipated sale in fiscal year 2018. Although there has been significant interest in the QualChoice Health commercial operations, the uncertainty surrounding the Affordable Care Act and current political environment has delayed the anticipated sale of this operation to a timeline outside of CHI's control. CHI remains committed to selling or otherwise disposing of the QualChoice Health commercial operations and continues to actively market these operations.

A reconciliation of major classes of assets and liabilities of the discontinued operations is presented below (in thousands):

	September 30, 2017		**June 30, 2017**		
	Held for Sale	**Total**	**Held for Sale**	**UMC**	**Total**
Cash	**$ -**	**$ -**	$ -	$ 222,931	$ 222,931
Accounts receivable	**-**	**-**	-	90,198	90,198
Other accounts receivable	**12,649**	**12,649**	31,204	1,788	32,992
Investments held for insurance purposes	**127,147**	**127,147**	132,519	28,450	160,969
Property and equipment, net	**383,544**	**383,544**	380,495	191,153	571,648
Intangibles	**-**	**-**	-	53,178	53,178
Other assets	**33,379**	**33,379**	35,725	17,769	53,494
Total major classes of assets of the discontinued operations	**556,719**	**556,719**	579,943	605,467	1,185,410
Other assets classified as held for sale	**2,401**	**2,401**	2,401	-	2,401
Total assets classified as discontinued operations	**$ 559,120**	**$ 559,120**	$ 582,344	$ 605,467	$ 1,187,811
Compensation and benefits	**$ 34,313**	**$ 34,313**	$ 48,530	$ 9,766	$ 58,296
Accounts payable and accrued expenses	**46,425**	**46,425**	44,898	127,993	172,891
Debt	**9,914**	**9,914**	10,258	62,241	72,499
Self-insured reserves	**64,028**	**64,028**	62,049	2,388	64,437
Other liabilities	**-**	**-**	-	76,601	76,601
Total major classes of liabilities of the discontinued operations	**$ 154,680**	**$ 154,680**	$ 165,735	$ 278,989	$ 444,724

3. Acquisitions, Affiliations, and Divestitures (continued)

The $2.4 million of other assets classified as held for sale as of September 30, 2017 and June 30, 2017, represent real estate assets which are scheduled to be sold in fiscal year 2018, measured at the lower of their carrying amount or fair value less cost to sell.

Operating results of discontinued operations are reported in the accompanying consolidated statements of changes in net assets and are summarized as follows (in thousands):

	Three Months Ended September 30, 2017	Three Months Ended September 30, 2016
Net patient services revenues	**$ 179,432**	$ 305,959
Other operating revenues	**134,824**	164,869
Total operating revenues	**314,256**	470,828
Salaries, wages and employee benefits	**113,943**	168,931
Purchased services and medical claims	**155,763**	191,445
Depreciation and amortization	**877**	16,949
Other expenses	**73,279**	137,384
Total operating expenses before restructuring and other losses	**343,862**	514,709
Loss from operations before restructuring and other losses	**(29,606)**	(43,881)
Restructuring and other losses	**(321,859)**	(5,589)
Loss from operations	**(29,606)**	(43,881)
Nonoperating income losses	**88**	2,784
Deficit of revenues over expenses	**$ (351,377)**	$ (46,686)

The discontinued operations reported $1.3 million and $14.2 million in capital expenditures for the three months ended September 30, 2017 and 2016, respectively.

4. Net Patient Services Revenues

Net patient services revenues are derived from services provided to patients who are either directly responsible for payment or are covered by various insurance or managed care programs. CHI receives payments from the federal government on behalf of patients covered by the Medicare program, from state governments for Medicaid and other state-sponsored programs, from certain private insurance companies and managed care programs, and from patients themselves. A summary of payment arrangements with major third-party payors follows:

4. Net Patient Services Revenues (continued)

Medicare – Inpatient acute care and certain outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge or procedure. These rates vary according to patient classification systems based on clinical, diagnostic and other factors. Certain CHI facilities have been designated as critical access hospitals and, accordingly, are reimbursed their cost of providing services to Medicare beneficiaries. Professional services rendered by physicians are paid based on the Medicare allowable fee schedule.

Medicaid – Inpatient services rendered to Medicaid program beneficiaries are primarily paid under the traditional Medicaid plan at prospectively determined rates per discharge. Certain outpatient services are reimbursed based on a cost reimbursement methodology, fee schedules or discounts from established charges.

Other – CHI has also entered into payment agreements with certain managed care and commercial insurance carriers, health maintenance organizations and preferred provider organizations. The basis for payment to CHI under these agreements includes prospectively determined rates per discharge, discounts from established charges and prospectively determined daily rates.

CHI's Medicare, Medicaid and other payor utilization percentages, based upon net patient services revenues before provision for doubtful accounts, are summarized as follows:

	Three Months Ended September 30,	
	2017	**2016**
Medicare	**35%**	35%
Medicaid	**12**	13
Managed care	**40**	35
Self-pay	**3**	4
Commercial and other	**10**	13
	100%	100%

Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. Estimated settlements related to Medicare and Medicaid of $104.5 million and $90.2 million at September 30, 2017, and June 30, 2017, respectively, are included in third-party liabilities. Net patient services revenues from continuing operations increased by $1.5 million and $7.5 million for the three months ended September 30, 2017 and 2016, respectively, due to favorable changes in estimates related to prior-year settlements.

5. Investments and Assets Limited as to Use

CHI’s investments and assets limited as to use are reported in the accompanying consolidated balance sheets as presented in the following table (in thousands):

	September 30, 2017	June 30, 2017
Cash and equivalents	**$ 195,489**	$ 150,960
CHI Investment Program	**5,435,739**	5,703,077
Marketable equity securities	**274,780**	274,671
Marketable fixed-income securities	**622,152**	664,155
Hedge funds and other investments	**29,762**	30,319
	6,557,922	6,823,182
Less current portion	**(93,241)**	(65,161)
	$ 6,464,681	$ 6,758,021

CHI attempts to reduce its market risk by diversifying its investment portfolio using cash equivalents, fixed-income securities, marketable equity securities and alternative investments. Most of the U.S. Treasury, money market funds and corporate debt obligations as well as exchange-traded marketable securities held directly by CHI and by the CHI Investment Program (the Program) have an actively traded market. However, CHI also invests in commercial paper, mortgage-backed or other asset-backed securities, alternative investments (hedge funds, private equity investments, real estate funds, funds of funds, etc.), collateralized debt obligations, municipal securities and other investments that have potential complexities in valuation based upon the current conditions in the credit markets. For some of these instruments, evidence supporting the determination of fair value may not come from trading in active primary or secondary markets. Because these investments may not be readily marketable, the estimated value is subject to uncertainty and, therefore, may differ from the value that would have been used had an active market for such investments existed. Such differences could be material. However, management reviews the CHI investment portfolio on a regular basis and seeks guidance from its professional portfolio managers related to U.S. and global market conditions to determine the fair value of its investments. CHI believes the carrying amount of these financial instruments in the accompanying consolidated financial statements is a reasonable estimate of fair value.

5. Investments and Assets Limited as to Use (continued)

The majority of all CHI long-term investments are held in the Program. The Program is structured under a Limited Partnership Agreement with CHI as managing general partner and numerous limited partners, most sponsored by CHI. The partnership provides a vehicle whereby virtually all entities associated with CHI, as well as certain other unrelated entities, can optimize investment returns while managing investment risk. Entities participating in the Program that are not consolidated in the accompanying financial statements have the ability to direct their invested amounts and liquidate and/or withdraw their interest without penalty as soon as practicable based on market conditions but within 180 days of notification. The Limited Partnership Agreement permits a simple-majority vote of the noncontrolling limited partners to terminate the partnership. Accordingly, CHI recognizes only the unitized portion of Program assets attributable to CHI and its direct affiliates. Program assets attributable to CHI and its Direct Affiliates represented 89% of total Program assets at September 30, 2017 and June 30, 2017.

The Program asset allocation is as follows:

	September 30, 2017	**June 30, 2017**
Equity securities	**43%**	41%
Fixed-income securities	**37**	39
Alternative investments	**19**	19
Cash and equivalents	**1**	1
	100%	100%

The CHI Finance Committee (the Committee) of the Board of Stewardship Trustees is responsible for determining asset allocations among fixed-income, equity, and alternative investments. At least annually, the Committee reviews targeted allocations and, if necessary, makes adjustments to targeted asset allocations. Given the diversity of the underlying securities in which the Program invests, management does not believe there is a significant concentration of credit risk.

The Program allocation to alternative investments is based upon contractual commitment levels to various funds. These commitments are drawn by the fund managers as opportunities arise to invest the capital. As of September 30, 2017, the Program had committed to invest $815.0 million in 41 funds, of which $706.2 million had been invested. The remaining $108.8 million will be invested when, and if, requested by the funds. Alternative investments within the Program have limited liquidity. As of September 30, 2017, illiquid investments not available for redemption totaled $371.9 million, and investments available for redemption within 180 days at the request of the Program totaled $820.4 million.

5. Investments and Assets Limited as to Use (continued)

Investment gains are comprised of the following (in thousands):

	Three Months Ended September 30, 2017	2016
Dividend and interest income	**$ 32,719**	$ 28,669
Net realized gains	**59,786**	58,498
Net unrealized gains	**122,432**	136,329
Total investment gains from continuing operations	**214,937**	223,496
Total investment gains from discontinued operations	**88**	2,783
Total investment gains	**$ 215,025**	$ 226,279

Direct expenses of the Program are less than 0.3% of total assets for the prior fiscal year and are estimated to remain below this level in the current fiscal year. Fees paid to the alternative investment managers are not included in the total expense calculation as they are not a direct expense of the Program.

6. Fair Value of Assets and Liabilities

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. ASC 820, *Fair Value Measurements and Disclosures*, establishes a fair value hierarchy that prioritizes the inputs used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 inputs) and the lowest priority to unobservable inputs (Level 3 inputs).

The three levels of the fair value hierarchy and a description of the valuation methodologies used for instruments measured at fair value are as follows:

Level 1 – Valuation is based upon quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2 – Valuation is based upon quoted prices for similar assets and liabilities in active markets or other inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial asset or liability.

6. Fair Value of Assets and Liabilities (continued)

Level 3 – Valuation is based upon other unobservable inputs that are significant to the fair value measurement.

Certain of CHI's alternative investments are made through limited liability companies (LLC) and limited liability partnerships (LLP). These LLCs and LLPs provide CHI with a proportionate share of the investment gains (losses). CHI accounts for its ownership in the LLCs and LLPs under the equity method. CHI also accounts for its ownership in the Program under the equity method. As such, these investments are excluded from the scope of ASC 820.

Financial assets and liabilities measured at fair value on a recurring basis were determined using the market approach based upon the following inputs at September 30, 2017, and June 30, 2017 (in thousands):

	September 30, 2017			
	Fair Value Measurements at Reporting Date Using			
		(Level 1)	(Level 2)	(Level 3)
	Fair Value as of September 30	Quoted Prices in Active Markets	Other Observable Inputs	Unobservable Inputs
Assets				
Assets limited as to use:				
Cash and short-term investments	$ 195,489	$ 150,512	$ 44,977	$ –
Equity securities	274,780	274,780	–	–
Fixed-income securities	622,152	173,198	448,954	–
Other investments	2,944	–	–	2,944
Deferred compensation assets:				
Cash and short-term investments	5,865	5,865	–	–
	$ 1,101,230	$ 604,355	$ 493,931	$ 2,944
Liabilities				
Interest rate swaps	$ 284,387	$ –	$ 284,387	$ –
Contingent consideration	87,821	–	–	87,821
Deferred compensation liability	5,865	5,865	–	–
	$ 378,073	$ 5,865	$ 284,387	$ 87,821

6. Fair Value of Assets and Liabilities (continued)

	June 30, 2017							
	Fair Value Measurements at Reporting Date Using							
			(Level 1)		(Level 2)		(Level 3)	
	Fair Value as of June 30		Quoted Prices in Active Markets		Other Observable Inputs		Unobservable Inputs	
Assets								
Assets limited as to use:								
Cash and short-term investments	$	150,960	$	130,400	$	20,560	$	–
Equity securities		274,671		274,671		–		–
Fixed-income securities		664,155		170,425		493,730		–
Other investments		3,523		–		–		3,523
Deferred compensation assets:								
Cash and short-term investments		6,708		6,708		–		–
	$	1,100,017	$	582,204	$	514,290	$	3,523
Liabilities								
Interest rate swaps	$	287,990	$	–	$	287,990	$	–
Contingent consideration		87,959		–		–		87,959
Deferred compensation liability		6,708		6,708		–		–
	$	382,657	$	6,708	$	287,990	$	87,959

The fair values of the securities included in Level 1 were determined through quoted market prices. Level 1 instruments include money market funds, mutual funds and marketable debt and equity securities. The fair values of Level 2 instruments were determined through evaluated bid prices based on recent trading activity and other relevant information, including market interest rate curves and referenced credit spreads; estimated prepayment rates, where applicable, are used for valuation purposes and are provided by third-party services where quoted market values are not available. Level 2 instruments include corporate fixed-income securities, government bonds, mortgage and asset-backed securities, and interest rate swaps. The fair values of Level 3 securities are determined primarily through information obtained from the relevant counterparties for such investments. Information on which these securities' fair values are based is generally not readily available in the market. The fair value of the contingent consideration liability was determined

6. Fair Value of Assets and Liabilities (continued)

based on estimated future cash flows and probability-weighted performance assumptions, discounted to net present value. The contingent consideration liability balance was adjusted to reflect $2.6 million of payments made since June 30, 2017 and to reflect a $2.0 million increase for changes in payment assumptions.

7. Debt Obligations

The following is a summary of debt obligations (in thousands):

	September 30, 2017	June 30, 2017
Debt secured under the CHI COD		
Fixed-rate debt		
Fixed-rate serial and term exempt bonds payable in installments from 2017 through 2042; interest at 3.7% to 7.0%	**$ 2,831,272**	$ 2,853,602
Fixed-rate serial and term taxable bonds payable in installments from 2017 through 2042; interest at 1.6% to 4.35%	**2,040,000**	2,040,000
Long-term rate exempt bonds subject to mandatory tender from 2019 through 2021; interest at 1.88% to 5.5%	**141,870**	141,870
Total fixed-rate debt	**5,013,142**	5,035,472
Variable-rate debt		
Floating rate notes subject to mandatory tender from 2020 through 2025; interest set at prevailing market rates (1.74% to 2.34% at September 30, 2017)	**411,145**	411,145
Variable-rate demand bonds subject to optional 7 day tender terms and mandatory tender from 2032 through 2035; interest set at prevailing market rates (1.25% to 1.4% at September 30, 2017)	**96,700**	96,700
Variable-rate direct purchase exempt bonds subject to mandatory tender from 2017 through 2024; interest set at prevailing market rates (1.74% to 2.62% at September 30, 2017)	**601,982**	601,982
Variable-rate direct purchase taxable bonds subject to mandatory tender from 2017 through 2023; interest set at prevailing market rates (2.61% to 3.99% at September 30, 2017)	**400,000**	400,000
Bank line of credit maturing July 2018; interest set at prevailing market rates (2.03% at September 30, 2017)	**250,000**	250,000
Bank loan maturing December 2017; interest set at prevailing market rates (3.05% at September 30, 2017)	**333,741**	333,741
Commercial paper notes with maturities ranging 2 to 52 days from September 30, 2017; interest set at prevailing market rates (1.7% at September 30, 2017)	**815,519**	815,519
Total variable-rate debt	**2,909,087**	2,909,087
Total debt secured under the CHI COD	**7,922,229**	7,944,559

7. Debt Obligations (continued)

	September 30, 2017	June 30, 2017
St. Leonard Master Trust Indenture fixed-rate exempt bonds payable in installments through 2040; interest at 6.1% to 6.7%	**40,666**	40,732
Other debt:		
Capital lease obligations	**107,729**	106,400
Note payable issued to Episcopal Health Foundation payable in installments through 2020; interest at 4.0%	**133,560**	133,560
Other notes payable and debt obligations	**380,040**	418,697
Total debt obligations before unamortized debt issuance costs, debt premium and debt discount, net	**8,584,224**	8,643,948
Unamortized debt issuance costs, debt premium and debt discount, net	**(3,926)**	(3,780)
Total debt obligations	**8,580,298**	8,640,168
Less: amounts classified as current:		
Variable-rate debt with self-liquidity	**(96,700)**	(96,700)
Commercial paper and current portion of debt	**(2,289,768)**	(2,016,042)
Long-term debt	**$ 6,193,830**	$ 6,527,426

The fair value of debt obligations was approximately $8.7 billion at September 30, 2017. Management has determined the carrying values of the variable-rate bonds are representative of fair values as of September 30, 2017, as the interest rates are set by the market participants. The fair value of the fixed-rate tax-exempt bond obligations is determined by applying credit spreads for similar tax-exempt obligations in the marketplace, which are then used to calculate a price/yield for the outstanding obligations (Level 2 inputs).

CHI issues the majority of its debt under the COD and is the sole obligor. Bondholder security resides both in the unsecured promise by CHI to pay its obligations and in its control of its Direct and Designated Affiliates. Covenants include a minimum CHI debt service coverage ratio and certain limitations on secured debt. The Direct Affiliates of CHI, defined as Participants under the COD, have agreed to certain covenants related to corporate existence, maintenance of insurance and exempt use of bond-financed facilities.

Debt issued under the St. Leonard Master Trust Indenture is secured by the property of St. Leonard in Centerville, Ohio, and a pledge of gross revenues.

7. Debt Obligations (continued)

Debt Redemptions and Reissuances

In August 2016, CHI redeemed $62.0 million of Series 2012A fixed-rate bonds in connection with the sale in the prior fiscal year of the underlying real estate assets. The bond redemption was funded from the real estate sale proceeds and resulted in a loss on redemption of $8.5 million included in losses on early extinguishment of debt in the consolidated statement of operations.

In August 2017, CHI redeemed $34.5 million of bonds originally acquired in fiscal year 2016 as part of the acquisition of Trinity Health System. The bond redemption was funded from cash and restricted investments, resulting in a gain on redemption of $0.2 million reflected in the consolidated statements of operations.

Liquidity Facilities, Credit Facilities, and Lines of Credit

CHI has external liquidity facilities available totaling $365.0 million at both September 30, 2017 and June 30, 2017 which can be used to support CHI's obligations to fund tenders of variable rate demand bonds and to pay maturing principal of commercial paper.

At both September 30, 2017 and June 30, 2017, CHI classified as current $815.5 million of commercial paper due to maturities of less than one year and $96.7 million of VRDBs due to the holder's ability to put such VRDBs back to CHI on a daily basis, after providing a seven-day notice to tender.

At both September 30, 2017 and June 30, 2017, CHI had a credit facility with a third-party bank totaling $69.0 million, of which letters of credit totaling $63.8 million at both September 30, 2017 and June 30, 2017 have been designated for the benefit of third parties, principally in support of the self-insurance programs administered by FIIL. No amounts were outstanding under this credit facility at September 30, 2017 and June 30, 2017.

At both September 30, 2017, and June 30, 2017, CHI had a $250.0 million outstanding bank line of credit, which was fully drawn. The line of credit outstanding at June 30, 2017 matured in July 2017 and was funded by the issuance of a new $250.0 million line of credit with another third-party bank. The new line of credit matures in July 2018, and is classified as current portion of debt in the consolidated balance sheets.

7. Debt Obligations (continued)

Interest Rate Swap Agreements

CHI utilizes various interest rate swap contracts to manage the risk of increased interest rates payable of certain variable-rate bonds. The fixed-payor swap agreements convert CHI's variable-rate debt to fixed-rate debt. Generally, it is CHI's policy that all counterparties have an AA rating or better. The swap agreements generally require CHI to provide collateral if CHI's liability, determined on a mark-to-market basis, exceeds a specified threshold that varies based upon the rating on CHI's long-term indebtedness.

The fair value of the swaps is estimated based on the present value sum of anticipated future net cash settlements until the swaps' maturities. Cash collateral balances are netted against the fair value of the swaps, and the net amount is reflected in other liabilities in the accompanying consolidated balance sheets. At September 30, 2017, and June 30, 2017, the net swap liability reflected in other liabilities was $29.6 million and $28.9 million, respectively, net of swap collateral posted of $254.8 million and $259.1 million, respectively. The change in the fair value of swap agreements was a net gain of $3.5 million and $9.7 million for the three months ended September 30, 2017 and 2016, respectively, reflected in realized and unrealized losses on interest rate swaps in the accompanying consolidated statements of operations.

Based upon the swap agreements in place as of September 30, 2017, a reduction in CHI's credit rating to BBB would obligate CHI to post additional cash collateral of $29.0 million. If CHI's credit rating were to fall below BBB, the swap counterparties would have the option to require CHI to settle the swap liabilities at the recorded fair value, which was $29.6 million as of September 30, 2017.

Following is a summary of interest rate swap contracts (in thousands):

		Swap Contracts Outstanding		**Fair Value Liability (Asset)**		**Notional Amount**	
	Maturity Date	**September 30, 2017**	**June 30, 2017**	**September 30, 2017**	**June 30, 2017**	**September 30, 2017**	**June 30, 2017**
Basis swaps	3/2028	**1**	1	**$ (396)**	$ (374)	**$ 30,000**	**$ 30,000**
Fixed payer swaps	2028–2047	**15**	15	**283,301**	286,882	**1,409,714**	**1,411,223**
Total return swaps	2017–2020	**23**	25	**1,482**	1,482	**170,282**	**174,777**
		39	41	**284,387**	$ 287,990	**$1,609,996**	**$1,616,000**

8. Retirement Plans

CHI Pension Plan

CHI and its direct affiliates maintain a variety of noncontributory, defined benefit retirement plans (Retirement Plans) for their employees. Certain of these plans were frozen in previous fiscal years, and benefits earned by employees through that time period remain in the Retirement Plans, where employees continue to receive interest credits and vesting credits, if applicable. Benefits in the Retirement Plans are based on compensation, retirement age, and years of service. Substantially all of the Retirement Plans are qualified as church plans and are exempt from certain provisions of both the Employee Retirement Income Security Act of 1974 and Pension Benefit Guaranty Corporation premiums and coverage. Funding requirements are determined through consultation with independent actuaries.

CHI recognizes the funded status (that is, the difference between the fair value of plan assets and the projected benefit obligations) of its Plans in the consolidated balance sheets, with a corresponding adjustment to net assets. Actuarial gains and losses that arise and are not recognized as net periodic pension cost in the same periods are recognized as a component of changes in net assets.

Estimated amounts for the components of net periodic pension (income) expense are summarized in the table below. Amounts will be adjusted at year-end to reflect actual results, based on the final annual actuarial reports (in thousands):

	Three Months Ended September 30,	
	2017	**2016**
Components of net periodic pension (income) expense:		
Service cost	**$ 3,446**	$ 2,335
Interest cost	**41,030**	38,017
Expected return on the Plans' assets	**(70,748)**	(67,886)
Actuarial losses	**11,641**	15,046
	$ (14,631)	$ (12,488)

The service cost, interest cost, expected return on the Plans' assets, actuarial losses, and amortization of prior service benefit components of net periodic pension (income) expense are recognized in the consolidated statements of operations within employee benefits expense.

8. Retirement Plans (continued)

CHI 401(k) Retirement Savings Plan

CHI sponsors the CHI 401(k) Retirement Savings Plan (401(k) Savings Plan) for its employees whereby CHI matches 100.0% of the first 1.0% of eligible pay an employee contributes to the plan, and 50.0% of the next 5.0% of eligible pay contributed to the plan, for a maximum employer matching rate of 3.5% of eligible pay. On an annual basis and regardless of whether or not an employee participates in the 401(k) Savings Plan, CHI will also contribute 2.5% of eligible pay to an employee's 401(k) Savings Plan account. This contribution is made if an employee reaches 1,000 hours in the first year of employment or every calendar year thereafter, and is employed on the last day of the calendar year. An employee is fully vested in the plan for employer contributions after three years of service. CHI recorded 401(k) Savings Plan expense of $55.2 million and $55.6 million for the three months ended September 30, 2017 and 2016, respectively, which is reflected in employee benefits expenses in the accompanying consolidated statements of operations.

9. Concentrations of Credit Risk

CHI grants credit without collateral to its patients, most of whom are insured under third-party payor agreements. CHI's exposure to credit risk on patient accounts receivable is limited by the geographical diversity of its MBOs.

The mix of net patient accounts receivable approximated the following:

	September 30, 2017	**June 30, 2017**
Medicare	**27%**	26%
Medicaid	**13**	14
Managed care	**33**	33
Self-pay	**10**	10
Commercial and other	**17**	17
	100%	100%

CHI maintains long-term investments with various financial institutions and investment management firms through its investment program, and its policy is designed to limit exposure to any one institution or investment. Management does not believe there are significant concentrations of credit risk at September 30, 2017 and June 30, 2017.

10. Commitments and Contingencies

Litigation

During the normal course of business, CHI may become involved in litigation. Management assesses the probable outcome of unresolved litigation and records estimated settlements. After consultation with legal counsel, management believes that any such matters will be resolved without material adverse impact to the consolidated financial position or results of operations of CHI.

Health Care Regulatory Environment

The health care industry is subject to numerous laws and regulations of federal, state and local governments. These laws and regulations include, but are not limited to, matters such as licensure, accreditation, government health care program participation requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Management believes CHI is in compliance with all applicable laws and regulations of the Medicare and Medicaid programs. Compliance with such laws and regulations is complex and can be subject to future governmental interpretation as well as significant regulatory action, including fines, penalties and exclusion from the Medicare and Medicaid programs. Certain CHI entities have been contacted by governmental agencies regarding alleged violations of Medicare practices for certain services. In the opinion of management after consultation with legal counsel, the ultimate outcome of these matters will not have a material adverse effect on CHI's consolidated financial statements.

11. Subsequent Events

CHI's management has evaluated events subsequent to September 30, 2017 through November 7, 2017, which is the date these consolidated financial statements were issued. There have been no material events noted during this period that would either impact the results reflected herein or CHI's results going forward, except as disclosed below.

In October 2017, CHI issued $250.0 million of Series 2017A variable-rate direct purchase exempt bonds subject to mandatory tender in October 2018. Proceeds were used to pay outstanding principal due on Series 2012 fixed-rate taxable bonds.