Catholic Health Initiatives

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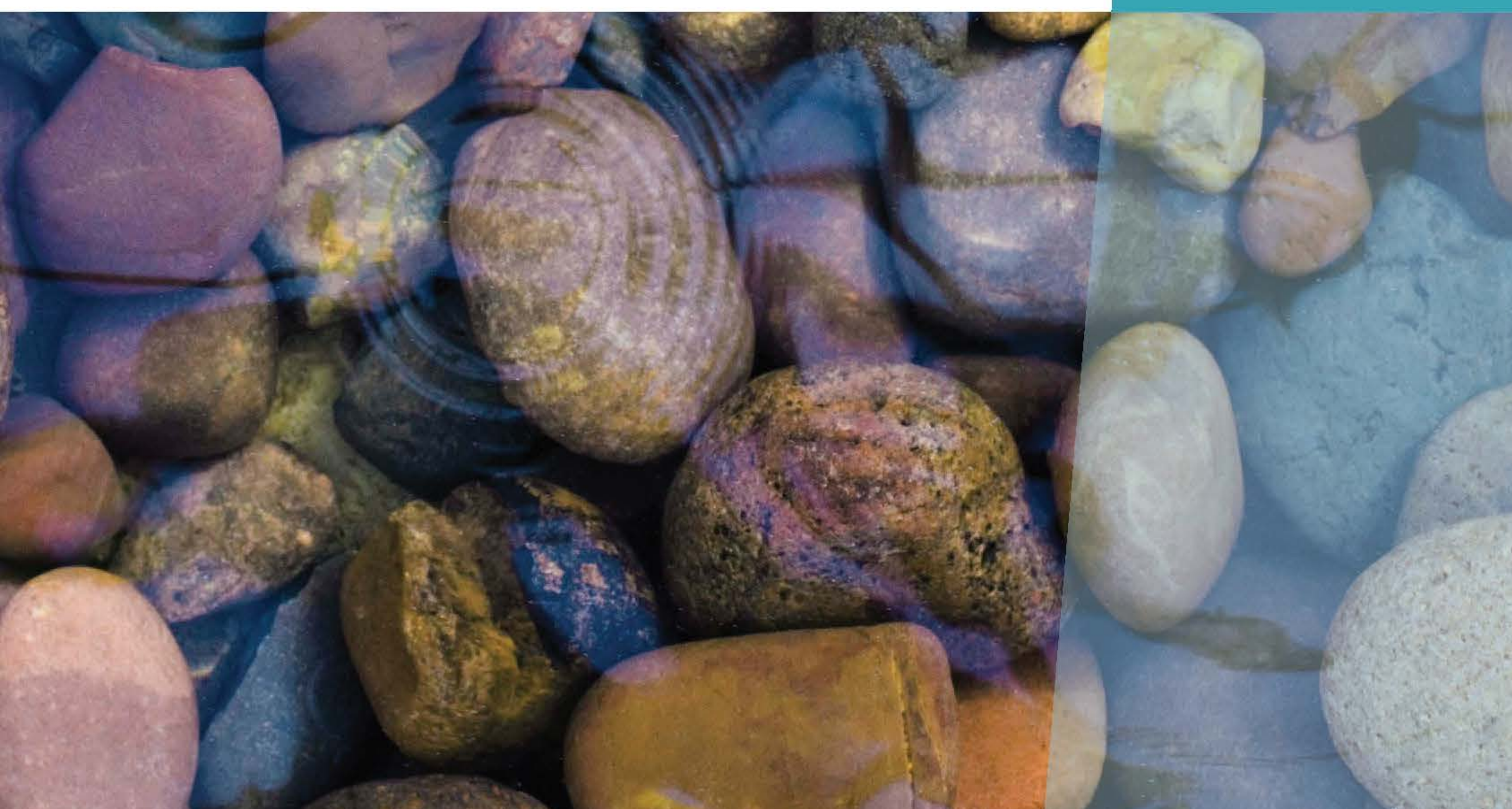
Quarterly Report

As of December 31, 2016 and for the three and six months ended December 31, 2016 and 2015



Information Concerning Catholic Health Initiatives and the CHI Reporting Group

Table of Contents

This Quarterly Report should be reviewed in conjunction with the information contained in the Annual Report dated November 23, 2016 (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 identifiable 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 III, lV 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.

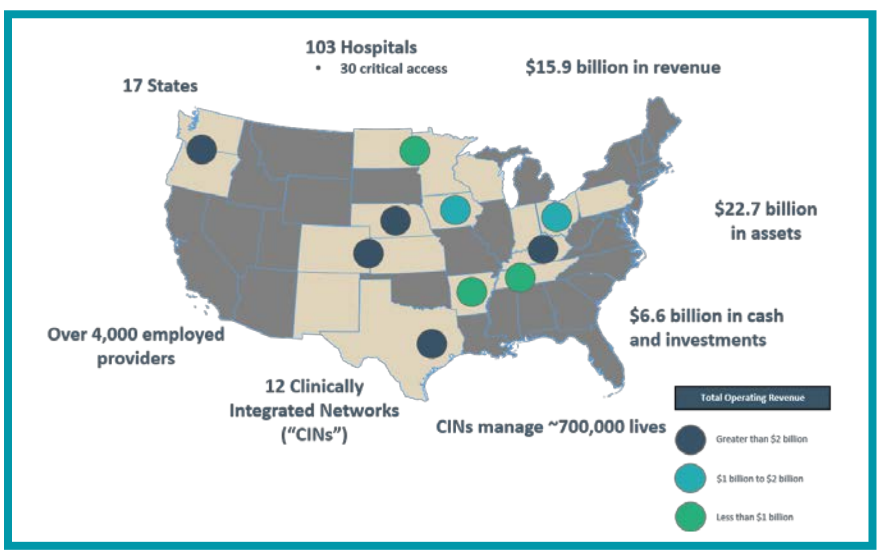
References to “CHI” in this Quarterly Report are to the Corporation and all of the affiliates and subsidiaries ("Participants") consolidated with it pursuant to generally accepted accounting principles (“GAAP”). References to the Corporation are references only to the parent corporation, and should not be read to include any of the Participants. References to the “CHI Reporting Group” include CHI and Bethesda Hospital, Inc., which at December 31, 2016, was a Designated Affiliate.

PART I: OVERVIEW

The Corporation is the parent corporation of a group of non-profit and for-profit corporations and other organizations that comprise one of the nation’s largest Catholic health care systems. Together with its Participants (collectively, “CHI”), the Corporation serves 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 insurance products.

CHI was formed in 1996 through the consolidation of four national Catholic health care systems. The goal of the consolidation was to develop and nurture a national health ministry sponsored and governed by a religious-lay partnership to transform health care delivery and to build healthy communities through the creation of new ministries across the nation. In doing so, the Founders created a new model of sponsorship by engaging the laity as partners in bringing their shared mission of nurturing the healing ministry of the church. Today, CHI has operations in 17 states, with a service area that covers approximately 54 million people, or 17% of the U.S. population.

CHI is currently comprised of ten regions that are operated as integrated health systems and include five joint operating agreements (“JOAs”), joint operating companies (“JOCs”) or joint ventures. Geographic diversity and financial metrics for the fiscal year ended June 30, 2016 are depicted in the accompanying map.



PART II: CHI LEADERSHIP CHANGES

Anthony K. Jones, FACHE, has been named interim Executive Vice President of Operations, effective December 5, 2016, replacing Michael T. Rowan, President, Health System Delivery and Chief Operating Officer who departed CHI effective December 31, 2016. Mr. Jones currently serves as president and CEO of Alliance Partners, Los Angeles, CA, a health care management and consulting company specializing in operations management, strategic planning and financial management for hospitals and health care organizations. He has served as interim CEO for both SUNY University Hospital of Brooklyn, NY, and for Tulare Healthcare District and Regional Medical Center in Tulare, CA, during financial turnarounds. In addition, Mr. Jones has been an executive consultant with KPMG/Beacon Partners, Boston, MA, and has served as interim President/CEO leading several hospitals through financial and operational turnarounds

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 targeted system growth in both existing and new markets, as evidenced by CHI's recent acquisition activity and strategic divestitures, and realignments, certain of which are described below.

Pending and Completed Affiliations/Acquisitions

Texas Physician Practice. In November 2016, a subsidiary of CHI acquired 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.

Dignity Health, (California, Arizona and Nevada) ("Dignity"). On October 24, 2016, CHI and Dignity 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 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 owns and operates health care facilities in California, Arizona and Nevada, including 39 hospitals. As of and for the fiscal year ended June 30, 2016, Dignity reported approximately $17.1 billion of total assets, $6.2 billion of net assets and $12.6 billion in total operating revenue. Any definitive agreement would need to be approved by Dignity'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. It is anticipated that discussions will continue through 2017. CHI can give no assurance that the transaction will occur.

Mercy Health Network, Inc. (Iowa). Effective March 1, 2016, the Corporation and Trinity Health Corporation, based in Livonia, Michigan ("THC"), amended and restated their existing Mercy Health Network Inc. ("MHN") joint operating agreement that governs certain of their respective legacy operations in Iowa (collectively, the "Iowa Operations") to (a) strengthen MHN's management responsibilities over the Iowa Operations; (b) jointly acquire health care systems in Iowa and contiguous markets; and (c) provide for greater financial, governance, and clinical integration among the parties. Each of the respective party's wholly-owned Iowa assets will continue to be consolidated in their respective financial statements, and commencing in July 2016, combined free cash flow from the Iowa Operations will be allocated equally between CHI and THC. MHN's financial results, however, are not and will not be consolidated with either CHI or THC. CHI's ownership interest in MHN is reflected as an investment in equity of unconsolidated organizations in its consolidated financial statements.

Effective May 1, 2016, MHN became the sole corporate member of Wheaton Franciscan Healthcare-Iowa, which Is a faith-based 511-bed non-profit, comprehensive medical/surgical health care provider offering acute levels of medical care at Covenant Medical Center, Waterloo; Sartori Memorial Hospital, Cedar Falls and Mercy Hospital, Oelwein.

Brazosport (Texas). Effective February 1, 2016, Brazosport Regional Health System ("BRHS"), Lake Jackson, Texas and CHI St. Luke's, Houston, Texas, signed an affiliation agreement for BRHS to become part of CHI. Pursuant to the affiliation agreement, CHI St. Luke's became the sole corporate member of BRHS. BRHS is a non-profit health care organization that includes a 158-bed hospital that operates the only Level III trauma center in Brazoria County.

As a result of the BRHS acquisition, CHI reported approximately $21.3 million in additional total unrestricted net assets in fiscal year 2016, as well as total long-term indebtedness outstanding of $38.5 million (the "BRHS Debt"). Neither the Corporation nor any of its affiliates (other than BRHS) is obligated on the BRHS Debt.

Excluding business combination gains, the BRHS acquisition contributed operating revenues of $39.4 million and operating EBIDA before restructuring, impairment and other losses of $(0.9) million for the six months ended December 31, 2016, to the Texas region.

Trinity Health System (Ohio). Effective February 1, 2016, the Corporation assumed control of Trinity Health System ("Trinity") based in Steubenville, Ohio. Prior to that date, Trinity was controlled by its two corporate members, Sylvania Franciscan Health ("SFH") and another entity unrelated to CHI and SFH. In February 2016, CHI replaced that unrelated entity and became a corporate member of Trinity. Trinity owns and operates Trinity Medical Center East, Trinity Medical Center West, Tony Teramana Cancer Center and numerous outpatient clinics located in eastern Ohio.

As a result of the Trinity acquisition, CHI reported approximately $145.1 million in additional total unrestricted net assets in fiscal year 2016, as well as total long-term indebtedness outstanding of $40.1 million (the "Trinity Debt"). Neither the Corporation, SFH nor any their respective affiliates (other than Trinity and/or its affiliates) is obligated on the Trinity Debt as a result of the transaction.

Excluding business combination gains, the Trinity acquisition contributed operating revenues of $116.7 million and operating EBIDA before restructuring, impairment and other losses of $6.9 million for the six months ended December 31, 2016 to the Ohio region.

Longmont United Hospital (Colorado). Effective August 1, 2015, Longmont United Hospital, a Colorado non-profit corporation ("LUH") became affiliated with CHI pursuant to a Joint Operating and Management Agreement, between the Corporation, LUH, Centura

Health and Catholic Health Initiatives Colorado. LUH owns and operates Longmont United Hospital, a general acute care hospital licensed for 186 acute care beds and 15 skilled nursing beds, and operates an integrated health care delivery system providing health care services to patients residing in Longmont, Colorado, as well as Boulder, Weld and Larimer Counties in Colorado.

As a result of the LUH acquisition, CHI reported approximately $111.6 million in additional total unrestricted net assets in fiscal year 2016, as well as total long-term indebtedness outstanding of $97.8 million (the "LUH Debt"). In May 2016, CHI issued $34.0 million of commercial paper notes, the proceeds of which were used to defease $37.1 million of the LUH Debt. Neither the Corporation nor any of its affiliates (other than LUH) is obligated on the remaining LUH Debt.

Excluding business combination gains, the LUH acquisition contributed operating revenues of $88.7 million and operating EBIDA before restructuring, impairment and other losses of $(3.7) million for the six months ended December 31, 2016, to the Colorado region.

Pending and Completed Divestitures

Bethesda Hospital, Inc. In 2001, Bethesda Hospital, Inc. ("Bethesda") became a member of the CHI Credit Group as a Designated Affiliate. Bethesda and The Good Samaritan Hospital of Cincinnati, Ohio, an affiliate of the Corporation, are jointly operated pursuant to a JOA between Bethesda, Inc. and the Corporation. The Corporation has previously loaned funds to Bethesda pursuant to its loan program, and the proceeds of a portion of the Corporation's existing debt was used to finance Bethesda's assets. In February 2017, Bethesda provided $139.7 million to the Corporation as repayment for its loans, and as of the date of this Report, Bethesda is no longer a Designated Affiliate. Certain financial information for the period ending December 31, 2016 included in this Report includes Bethesda, which at that time was a Designated Affiliate. For the six months ended December 31, 2016, Bethesda reported total operating revenues of $280.2 million and excess of revenues over expenses of $20.2 million. The CHI Reporting Group combined balance sheets also included Bethesda total assets of $768.6 million as of December 31, 2016.

The Corporation is in the process of redeeming, prepaying or defeasing, as applicable, approximately $130.1 million in principal amount of the outstanding debt that is allocable to Bethesda's assets. The Good Samaritan Hospital of Cincinnati, Ohio remains a Participant under the Capital Obligation Document, and the JOA remains in effect. The Corporation's interest in the JOA continues to be reflected as an investment in an unconsolidated organization.

University of Louisville Medical Center and KentuckyOne Health Joint Operating Agreement and Academic Affiliation Agreement. In November 2012, KentuckyOne Health ("KentuckyOne") entered into a Joint Operating Agreement ("KY JOA") and an Academic Affiliation Agreement ("AAA") (collectively "Agreements") with the University of Louisville Medical Center ("UMC"), the University of Louisville, and other parties (collectively "University"). Under the KY JOA, KentuckyOne agreed to manage the University of Louisville Hospital ("ULH") for a period of 20 years. Under the AAA, ULH, through KentuckyOne, entered into various support and services agreements with the University of Louisville Health Sciences Center ("HSC") for the same 20-year period. The Agreements went into effect on March 1, 2013. Over the past three years, KentuckyOne has operated under the Agreements, including the provision of significant financial support to and for ULH, UMC, and HSC. In October 2016, University alleged various breaches of the Agreements with an unspecified claim for damages against KentuckyOne. Subsequent to the allegations, University and KentuckyOne entered into a dispute resolution process as defined in the Agreements. After the dispute resolution, both University and KentuckyOne agreed to seek revision of the current agreements and to move toward a more beneficial relationship between the parties. In December 2016, KentuckyOne and UMC agreed to restructure their existing JOA. Under the terms of the agreement, the operations, management and control of UMC would be transferred back to the University effective July 1, 2017. Other provisions in the agreement call for a continued negotiation to restructure the AAA between HSC and KentuckyOne affiliates Jewish Medical Center and the Frazier Rehab Institute, the development of various transition services agreements, and fulfillment of ongoing capital commitments.

For the six months ended December 31, 2016, UMC reported total operating revenues of $256.3 million and excess of revenues over expenses of $7.1 million. The CHI consolidated balance sheets also included UMC total assets of $605.9 million as of December 31, 2016. Upon disposition, CHI expects to incur a loss of approximately $272 million.

QualChoice. As a part of the performance improvement efforts described in *Part IV B, Transformative Change Sharpens Focus* in the Annual Report, CHI approved, in May 2016, 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 (see *Part IV A* in the Annual Report for further information). QualChoice reported a deficiency of revenues over expenses of $(24.4) million for the six months ended December 31, 2016, which is reported in the accompanying CHI consolidated statements of changes in net assets.

Real Estate Asset Sale. In April 2016, CHI entered into an agreement to sell approximately 50 real estate assets across the system as part of a long-term effort to improve the mix of owned and leased real estate. In conjunction with the sales, CHI entered into 10-year operating lease agreements with the buyer.

The majority of the real estate portfolio totaling 46 properties closed in fiscal year 2016 for gross proceeds of $601.7 and a total net book value of $323.3 million. As a result of the real estate sale, CHI recognized a $59.4 million gain on sale (net of commission and closing costs) in the consolidated statements of operations for the year ended June 30, 2016, as well as $20.1 million in short-term deferred gains reported in accrued expenses and $180.6 million in long-term deferred gains reported in other long-term liabilities reflected on the consolidated balance sheet as of June 30, 2016. The deferred gains are being amortized as a reduction of lease expense over the life of the operating leases.

During the six months ended December 31, 2016, CHI sold certain real estate assets in the Texas and Pacific Northwest markets and entered into 10-year operating lease agreements with the buyers. The assets were sold for gross proceeds of $195.9 million and had a total net book value of $176.8 million. The sale resulted in the recognition of a $14.2 million gain on sale reported in the consolidated statements of operations and $6.2 million in long-term deferred gains and $0.7 million in short-term deferred gains reported in other long-term liabilities and accrued expenses, respectively, on the consolidated balance sheet as of December 31, 2016.

CHI is considering the sale of additional real estate assets in fiscal year 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 December 31, 2016 and for the three and six month periods ended December 31, 2016 and 2015, and (ii) Bethesda, Inc. and Subsidiaries unaudited interim financial statements as of December 31, 2016, and for the three and six month periods ended December 31, 2016 and 2015.

Certain financial and operating information is presented based on the "CHI Reporting Group," created under the Capital Obligation Document. The CHI Reporting Group includes all entities that are consolidated with the Corporation under GAAP (as "Participants") and any Designated Affiliate that the Corporation chooses to include in the CHI Reporting Group. Currently, Bethesda Hospital, Inc. ("Bethesda") is the sole Designated Affiliate. Where indicated, selected financial and operating data is also presented based on CHI consolidated financial operating data, which does not include Bethesda. Bethesda accounted for 3.7% of the CHI Reporting Group's total assets and 3.4% of the CHI Reporting Group's total operating revenues as of December 31, 2016. The CHI Reporting Group and 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. As described above, as of the date of this Quarterly Report, Bethesda has repaid its loans and is no longer a Designated Affiliate, but is included in this Quarterly Report because it was a Designated Affiliate as of December 31, 2016.

The results of operations for recently acquired entities that have been accounted for as acquisitions are included in the CHI Reporting Group and 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 December 31, 2016, 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 $358.6 million at December 31, 2016. 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 combined balance sheets for the CHI Reporting Group as of December 31, 2016 and June 30, 2016.

The CHI Reporting Group Condensed Combined Balance Sheets	December 31, 2016 (Unaudited)	June 30, 2016 (Unaudited)
	(in Thousands)	
Assets		
Current assets:		
Cash and equivalents	$ 771,603	$ 1,305,307
Net patient accounts receivable	2,304,523	2,226,704
Assets held for sale	192,869	223,285
Other current assets	921,593	833,079
Total current assets	4,190,588	4,588,375
Investments and assets limited as to use:		
Internally designated investments	5,684,557	5,594,578
Restricted investments	1,174,679	1,235,495
Total investments and assets limited as to use	6,859,236	6,830,073
Property and equipment, net	9,395,958	9,723,525
Other assets	2,253,823	2,197,617
Total assets	$ 22,699,605	$ 23,339,590
Liabilities and net assets		
Current liabilities:		
Accounts payable and accrued expenses	$ 2,331,871	$ 2,727,904
Liabilities held for sale	102,926	131,814
Short-term and current portion of debt	2,084,428	1,866,090
Total current liabilities	4,519,225	4,725,808
Other liabilities	3,442,726	3,503,715
Long-term debt	6,939,518	7,254,468
Total liabilities	14,901,469	15,483,991
Net assets:		
Unrestricted	7,461,045	7,522,084
Temporarily restricted	241,547	238,584
Permanently restricted	95,544	94,931
Total net assets	7,798,136	7,855,599
Total liabilities and net assets	$ 22,699,605	$ 23,339,590

B. The following table presents condensed combined statements of operations for the CHI Reporting Group for the three and six months ended December 31, 2016 and 2015.

CHI Reporting Group Condensed Combined Statements of Operations	Three Months Ended December 31,		Six Months Ended December 31,	
	2016 (Unaudited)	2015 (Unaudited)	2016 (Unaudited)	2015 (Unaudited)
Revenues	(in Thousands)			
Net patient services revenues	$ 4,007,460	$ 3,806,509	$ 7,876,799	$ 7,483,256
Business combination gains	-	-	-	141,668
Other	224,151	225,458	463,391	441,256
Total operating revenues	4,231,611	4,031,967	8,340,190	8,066,180
Expenses				
Salaries and employee benefits	2,079,411	1,962,858	4,115,329	3,867,167
Supplies, purchased services and other	1,925,504	1,865,762	3,866,075	3,671,117
Depreciation and amortization	225,538	222,856	449,453	443,741
Interest	76,750	74,222	154,402	147,118
Total operating expenses before restructuring, impairment and other losses	4,307,203	4,125,698	8,585,259	8,129,143
Loss from operations before restructuring, impairment and other losses	(75,592)	(93,731)	(245,069)	(62,963)
Restructuring, impairment and other losses	78,319	18,334	126,616	41,293
Loss from operations	(153,911)	(112,065)	(371,685)	(104,256)
Nonoperating gains (losses)	126,359	123,611	349,581	(228,689)
(Deficit) excess of revenues over expenses	$ (27,552)	$ 11,546	$ (22,104)	$ (332,945)

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 service 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 CHI unaudited interim financial statements included in Appendix A of this Quarterly Report.

PART V: MANAGEMENT'S DISCUSSION AND ANALYSIS

The following table provides key balance sheet metrics for the CHI Reporting Group as of December 31, 2016 and June 30, 2016.

CHI Reporting Group Key Balance Sheet Metrics	December 31, 2016 (Unaudited)	June 30, 2016 (Unaudited)
Combined Balance Sheet Summary		
Total assets	$ 22.7 billion	$ 23.3 billion
Total liabilities	$ 14.9 billion	$ 15.5 billion
Total net assets	$ 7.8 billion	$ 7.8 billion
Financial Position and Leverage Ratios		
Total cash and unrestricted investments	$ 6.5 billion	$ 6.9 billion
Days of cash on hand[1]	146	160
Total debt	$ 9.0 billion	$ 9.1 billion
Debt to capitalization[2]	54.7%	54.8%

[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 calculation one day of operating expenses represented $44.2 million and $43.0 million at December 31 and June 30, 2016, respectively.

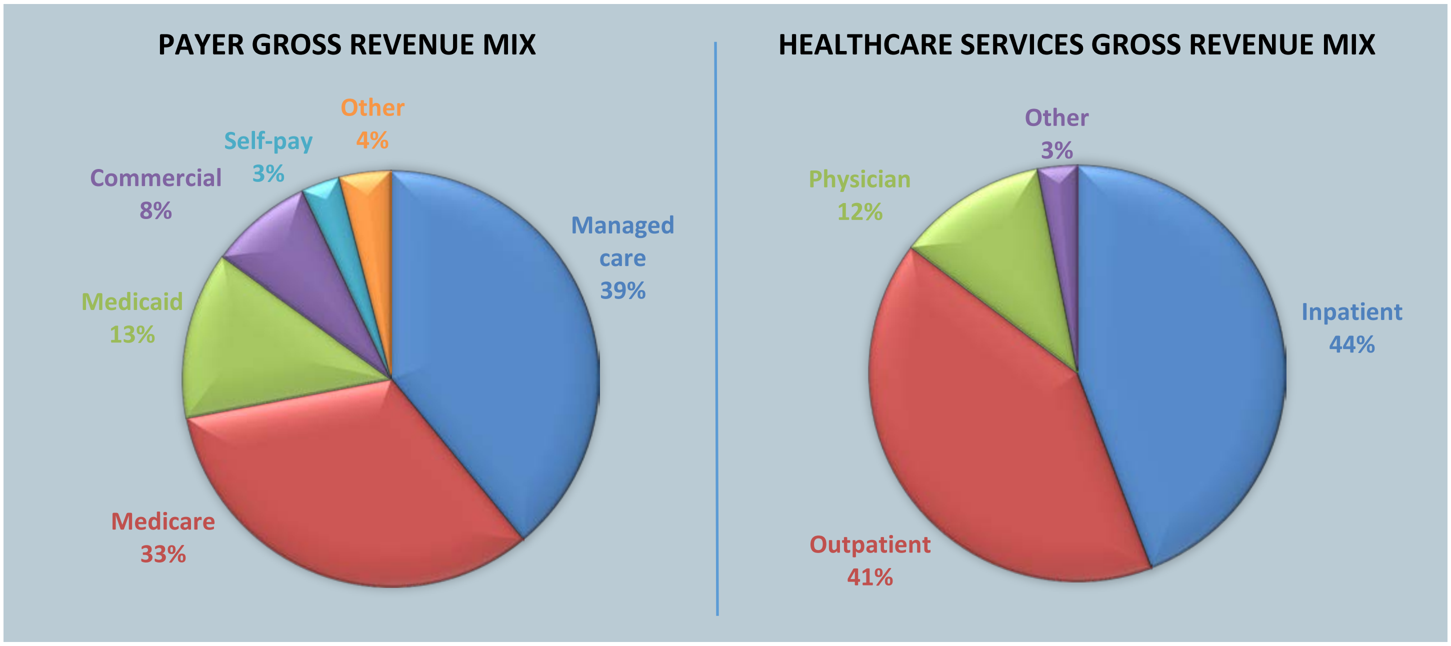
[2] (Short-term and current portion of debt + Long-term debt)/(Short-term and current portion of debt + Long-term debt + Unrestricted net assets).

The following table presents key operating metrics and utilization statistics for CHI and the CHI Reporting Group for the three and six months ended December 31, 2016 and 2015.

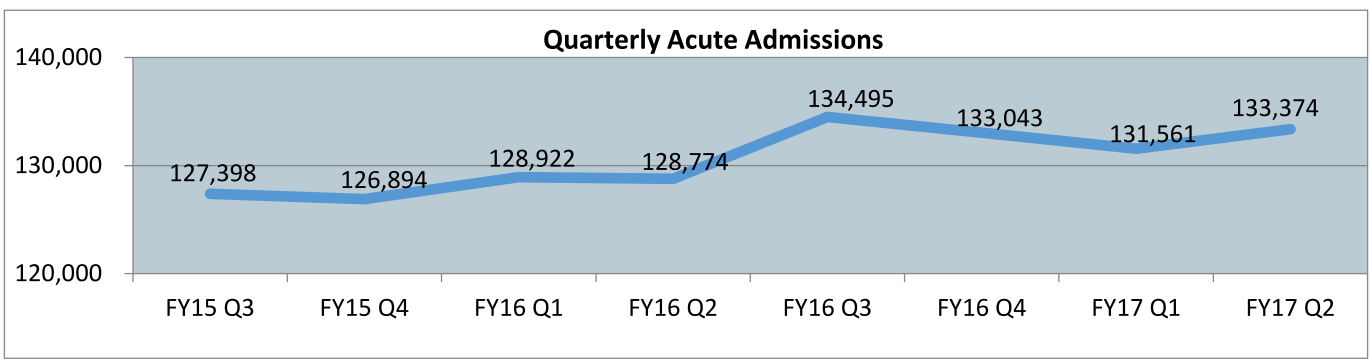
CHI and the CHI Reporting Group Key Operating Metrics and Utilization Statistics	Three Months Ended December 31,		Six Months Ended December 31,	
	2016 (Unaudited)	2015 (Unaudited)	2016 (Unaudited)	2015 (Unaudited)
The CHI Reporting Group – Combined Revenues, Expenses and Key Operating Metrics*				
Total net patient services revenues	$ 4.0 billion	$ 3.8 billion	$ 7.9 billion	$ 7.5 billion
Total operating revenues	$ 4.2 billion	$ 4.0 billion	$ 8.3 billion	$ 8.1 billion
Total operating expenses before restructuring, impairment and other losses	$ 4.3 billion	$ 4.1 billion	$ 8.6 billion	$ 8.1 billion
Operating EBIDA before restructuring, impairment and other losses[1]	$ 226.7 million	$ 203.3 million	$ 358.8 million	$ 527.9 million
Operating EBIDA margin before restructuring, impairment and other losses[2]	5.4%	5.0%	4.3%	6.5%
Operating loss before restructuring, impairment and other losses	$ (75.6) million	$ (93.7) million	$ (245.1) million	$ (63.0) million
Operating loss margin before restructuring, impairment and other losses[3]	(1.8)%	(2.3)%	(2.9)%	(0.8)%
Operating EBIDA[4]	$ 148.4 million	$ 185.0 million	$ 232.2 million	$ 486.6 million
Operating EBIDA margin[5]	3.5%	4.6%	2.8%	6.0%
Operating loss	$ (153.9) million	$ (112.1) million	$ (371.7) million	$ (104.3) million
Operating loss margin[6]	(3.6)%	(2.8)%	(4.5)%	(1.3)%
The CHI Reporting Group – Utilization Statistics				
Acute admissions	139,153	134,262	276,334	269,011
Acute inpatient days	654,366	641,568	1,297,590	1,280,410
Acute average length of stay in days	4.7	4.8	4.7	4.8
Long-term care days	123,024	123,963	246,650	250,299
CHI - Utilization Statistics				
Medicare case-mix index	1.8	1.8	1.8	1.8
Adjusted admissions[7]	293,528	275,106	584,284	552,129
Inpatient ER visits	73,376	67,937	144,249	137,666
Inpatient surgeries	41,830	41,523	82,944	82,080
Outpatient ER visits	521,281	501,487	1,063,574	1,033,984
Outpatient non-ER visits	1,527,122	1,423,479	3,076,043	2,857,942
Outpatient surgeries	71,689	67,067	139,277	128,861
Physician visits	2,768,843	2,538,415	5,442,813	4,971,203

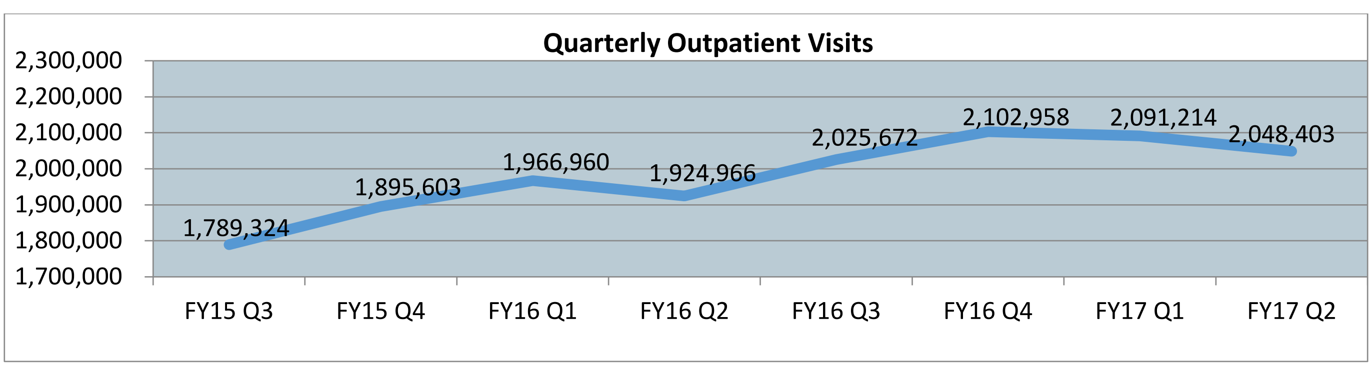
* Includes business combination gains.
[1] Income (loss) from operations before restructuring, impairment and other losses + depreciation and amortization + interest.
[2] Income (loss) from operations before restructuring, impairment and other losses + depreciation and amortization + interest/total operating 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] (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 December 31, 2016.



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 DECEMBER 31, 2016 AND 2015

OPERATING EBIDA/LOSS FROM OPERATIONS

CHI operating EBIDA before restructuring, impairment and other losses totaled $210.1 million and $195.0 million for the three months ended December 31, 2016 and 2015, respectively, equivalent to an operating EBIDA margin before restructuring, impairment and other losses percentage of 5.1% and 5.0%, respectively. Results included $(17.0) million of unfavorable net patient accounts receivable reserve adjustments for the three months ended December 31, 2016 within the Nebraska region due to revenue realization adjustments reflecting a more current collection history. CHI experienced increases in net patient services revenues as a result of strategic affiliation growth, as well as increases in patient volumes, which were offset somewhat by unfavorable shifts in payer mix. Overall revenue improvements were offset by increases in compensation, purchased services and supplies costs.

CHI's loss from operations before restructuring, impairment and other losses totaled $(84.9) million and $(96.3) million for the three months ended December 31, 2016 and 2015, respectively, or an operating loss margin before restructuring, impairment and other losses percentage of (2.1)% and (2.5)%, respectively. The strategic affiliations completed in fiscal years 2017 and 2016 contributed operating revenues of $150.0 million and $51.6 million, operating EBIDA before restructuring, impairment and other losses of $2.2 million and $(0.5) million, and loss from operations before restructuring, impairment and other losses of $(5.8) million and $(5.1) million, for the three months ended December 31, 2016 and 2015, respectively, all excluding business combination gains.

CHI's consolidated operations improved slightly period over period, with mixed results across the various regions. Operating results for the Nebraska, Texas, and Kentucky regions declined period over period, but were somewhat offset by improvements in the Pacific Northwest and Ohio regions. Overall operations were impacted by same store operating expense growth outpacing same store net patient services revenue growth, and unfavorable shifts in payer mix. As part of CHI's on-going comprehensive expense reduction strategy, focused clinical and operational initiatives across the system continue to be implemented to include targeted initiatives at the regional levels, as well as at CHI's Corporate office.

The table below presents total operating EBIDA before restructuring, impairment and other losses, total operating EBIDA margin before restructuring, impairment and other losses and total operating revenues of CHI by region for the three months ended December 31, 2016 and 2015. 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 December 31, 2016 and 2015

Region	QTD 12/31/2016 Operating EBIDA before restructuring, impairment and other losses (in Thousands)	QTD 12/31/2015 Operating EBIDA before restructuring, impairment and other losses (in Thousands)	QTD 12/31/2016 Operating EBIDA margin before restructuring, impairment and other losses	QTD 12/31/2015 Operating EBIDA margin before restructuring, impairment and other losses	QTD 12/31/2016 Operating revenues percentage of CHI consolidated	QTD 12/31/2015 Operating revenues percentage of CHI consolidated
Colorado	$ 60,144	$ 59,460	10.4%	10.9%	14.1%	13.9%
Pacific Northwest	74,884	57,849	11.0%	9.2%	16.6%	16.1%
Nebraska	20,596	47,840	4.1%	9.4%	12.4%	13.1%
Kentucky	17,072	30,495	2.8%	5.2%	14.7%	15.1%
Texas	16,077	30,910	3.0%	6.1%	13.0%	12.9%
Iowa	20,663	21,215	8.0%	8.6%	6.3%	6.3%
Ohio	23,773	17,468	7.7%	7.0%	7.5%	6.4%
Arkansas	7,157	12,321	3.7%	6.4%	4.8%	4.9%
Tennessee	15,800	13,993	9.7%	8.7%	4.0%	4.1%
North Dakota/Minnesota	18,258	19,584	9.3%	9.8%	4.8%	5.1%
National business lines[1]	5,125	3,737	7.4%	5.8%	1.7%	1.7%
Other[2]	(13,291)	(24,192)	N/A	N/A	(0.1)%	(0.2)%
Total Regional	266,258	290,680	6.5%	7.5%	99.8%	99.4%
Corporate services and other business lines[3]	(56,205)	(95,645)	N/A	N/A	0.2%	0.6%
Total CHI Consolidated	$ 210,053	$ 195,035	5.1%	5.0%	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

CHI total operating revenues increased 4.8%, or $186.9 million, for the three months ended December 31, 2016, compared to the corresponding period of the prior fiscal year. Excluding the impacts of current and prior year acquisitions (same store basis), CHI total operating revenues increased 2.3%, or $88.7 million, for the three months ended December 31, 2016, compared to the corresponding period of the prior fiscal year.

CHI total net patient services revenues increased 5.2%, or $190.2 million, for the three months ended December 31, 2016, compared to the corresponding period of the prior fiscal year, of which $93.4 million was due to recently completed acquisitions. CHI same store net patient services revenues increased 2.7%, or $96.8 million, for the three months ended December 31, 2016 compared to the corresponding period of the prior fiscal year and were impacted by $(17.0) million of unfavorable net patient accounts receivable reserve adjustments for the three months ended December 31, 2016 within the Nebraska region due to revenue realization adjustments to reflect a more current collection history including a reduction in recoveries, as well as increased patient volumes, and $(59.4) million in unfavorable shifts in payer mix across several of CHI's regions.

CHI same store patient volumes increases (decreases) were as follows for the three months ended December 31, 2016, as compared to the corresponding period of the prior fiscal year.

Patient Volumes	Percentage Change	Volume Change
Adjusted Admissions	2.8%	7,549
Acute Admissions	0.9%	1,081
Acute Inpatient Days	(0.6%)	(3,408)
Inpatient ER Visits	5.1%	3,351
Inpatient Surgeries	(1.3%)	(536)
Outpatient ER Visits	(0.5%)	(2,622)
Outpatient Non-ER Visits	2.4%	32,639
Outpatient Surgeries	5.3%	3,472
Physician Visits	6.8%	171

CHI total other operating revenues decreased (3.4)%, or $(3.4) million, for the three months ended December 31, 2016, compared to the corresponding period of the prior fiscal year. CHI same store total other operating revenues decreased (3.4)%, or $(8.1) million, for the three months ended December 31, 2016, compared to the corresponding period of the prior fiscal year.

OPERATING EXPENSES

CHI total operating expenses before restructuring, impairment and other losses increased 4.4%, or $175.5 million, for the three months ended December 31, 2016, as compared to the corresponding period of the prior fiscal year, of which $99 million was due to recently completed acquisitions. CHI same store total operating expenses before restructuring, impairment and other losses increased 1.9%, or $76.5 million, for the three months ended December 31, 2016, as compared to the corresponding period of the prior fiscal year, primarily due to increases in total labor costs and purchased services, combined with annual inflation increases in other operating expenses across CHI as described in more detail below.

CHI same store total labor costs increased 3.6%, or $67.8 million, for the three months ended December 31, 2016, as compared to the corresponding period of the prior fiscal year, due to annual inflation increases as well as growth initiatives. CHI same store total labor costs represented 48.5% and 47.7% of total operating expenses for the three months ended December 31, 2016 and 2015, respectively. CHI same store total labor costs as a percentage of net patient services revenues increased to 52.5% for the three months ended December 31, 2016, compared to 52.1% for the corresponding period of the prior fiscal year, representing an unfavorable expense variance of $(14.8) million, due to challenges with labor productivity, most notably in 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.

CHI same store purchased services expenses increased 6.0% or $26.1 million, for the three months ended December 31, 2016, as compared to the corresponding period of the prior fiscal year, as a result of new market implementations of revenue cycle services with Conifer during the latter part of the prior fiscal year, outsourcing and expansion of IT services, and physician alignment.

REGIONAL OPERATING TRENDS

CHI 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.

Operating results for the three months ended December 31, 2016 declined across several of CHI's regions compared to the corresponding period of the prior fiscal year, including the Nebraska, Texas, Kentucky, Arkansas, North Dakota/Minnesota, and Iowa regions, which were offset by improvements in the Pacific Northwest, Ohio, Tennessee and Colorado regions as well as improvements within CHI Corporate services. Several regions have experienced unfavorable shifts in payer mix which have resulted in decreased net patient revenue yields and increases in operating expenses outpacing overall net patient services revenue growth. Additional information for CHI's five largest operating regions are discussed below. The Colorado, Pacific Northwest, Nebraska, Kentucky and Texas regions' operating revenues for the three months ended December 31, 2016, represent 70.8% of CHI's consolidated operating revenues.

Colorado - the region's operating EBIDA before restructuring, impairment and other losses totaled $60.1 million for the three months ended December 31, 2016, and increased $0.7 million compared to the corresponding period of the prior fiscal year, due to increased patient volumes. Net patient services revenue increased $31.2 million compared to the same period of the prior fiscal year, with $(4.5) million of unfavorable shifts in payer mix being offset by $1.6 million of greater acuity and $3.7 million of improved service mix. Operations were also impacted by a decrease in provider fee revenue totaling $12 million. Provider fee expenses were $2 million lower than prior year, resulting in an unfavorable $10 million impact to the Colorado region's operating EBIDA before restructuring, impairment and other losses. The Colorado region is in the process of installing the Epic electronic health record system across its various hospitals, and for the three months ended December 31, 2016, Epic operating expenses and training costs were $2.7 million higher, compared to the same period of the prior fiscal year. Total net revenue per adjusted admission increased 0.4% compared to the same period of the prior fiscal year, while total operating expense per adjusted admission increased 0.5%. Total labor as a percent of net patient services revenue increased to 42.5% compared to 41.9% in the same period of the prior fiscal year, representing an unfavorable expense variance of $(3.3) million.

Pacific Northwest - the region's operating EBIDA before restructuring, impairment and other losses totaled $74.9 million for the three months ended December 31, 2016, an increase of $17 million compared to the corresponding period of the prior fiscal year, due to overall increased patient volumes combined with the implementation of expense management and productivity improvements. Net patient services revenue increased $53.7 million, including $45.3 million in patient volumes and $18.4 million in greater acuity, compared to the same period of the prior fiscal year. Operating expenses increased $30.0 million compared to the corresponding period of the prior fiscal year, primarily due to increased volumes. Total net revenue per adjusted admission increased 5.1% compared to the same period of the prior fiscal year, while total operating expense per adjusted admission increased 1.3%. Total labor as a percentage of net patient services revenue decreased to 50.6% compared to 53.7% in the same period of the prior fiscal year as a result of ongoing labor productivity improvements, representing a favorable expense variance of $20.5 million. Supply expense as a percentage of net patient services revenue declined to 14.2% compared to 14.9% in the prior fiscal year due to revenue growth and improved utilization.

Nebraska - the region's operating EBIDA before restructuring, impairment and other losses totaled $20.6 million for the three months ended December 31, 2016, and decreased $(27.2) million compared to the corresponding period of the prior fiscal year, due to the recognition of $(17.0) million of unfavorable net patient accounts receivable reserve adjustments during the three months ended December 31, 2016. Net patient services revenue also included volume growth of $11.8 million and favorable shifts in acuity of $10.0 million. The net patient accounts receivable reserve adjustments were due to revenue realization adjustments to reflect a more current collection history including a reduction in recoveries. Total net revenue per adjusted admission decreased (3.7)% compared to the same period of the prior fiscal year, while total operating expense per adjusted admission increased 1.6%. Total labor as a percent of net patient services revenue increased to 57.3% compared to 54.8% in the same period of the prior fiscal year, due to agency usage. Total operating expenses increased 4.5%, or $22.4 million in the Nebraska region for the three months ended December 31, 2016, primarily in the areas of total compensation, purchased services and supplies expenses, compared to the corresponding period of the prior fiscal year. Supply expense as a percentage of net patient service revenues increased to 19.6% compared to 17.8% in the prior fiscal year. Increases in utilization and cost are concentrated in pharmacy, cardiovascular and orthopedic/spine and is a continued focus and opportunity for reduction.

Kentucky - the region's operating EBIDA before restructuring, impairment and other losses totaled $17.1 million for the three months ended December 31, 2016, and decreased $(13.4) million compared to the corresponding period of the prior fiscal year. Net patient services revenues increased 0.8%, or $4.6 million, for the three months ended December 31, 2016, compared to the corresponding period of the prior fiscal year as a result of $(14.1) million in unfavorable shifts in payer mix offset by improved realization. Total labor as a percentage of net patient services revenue increased to 49.4% compared to 44.8% in the same period of the prior fiscal year, representing an unfavorable expense variance of $(26.2) million. The Kentucky region is continuing its efforts to address nursing and other staff shortages which have resulted in increases to overall labor costs, including contract labor costs, and overtime and premium pay. Operations for the three months ended December 31, 2016 were favorably impacted by an $8.2 million decrease in a contingent consideration liability as a result of changes in payment assumptions related to the University of Louisville affiliation with KentuckyOne Health.

Texas - the region's operating EBIDA before restructuring, impairment and other losses totaled $16.1 million for the three months ended December 31, 2016, and decreased $(14.8) million compared to the same period of the prior fiscal year, due to increased operating expenses outpacing net patient services revenue growth. Net patient services revenue increased $36.8 million, including $39.3 million from several recently completed affiliations which was somewhat offset by unfavorable shifts in payer mix of $(11.1) million. Total labor as a percentage of net patient services revenue increased to 49.6% compared to 49.0% in the same period of the prior fiscal year. Same store operating expenses increased 0.6%, or $2.9 million in the Texas region for the three months ended December 31, 2016. Management is implementing strategies to improve labor productivity and supply chain savings in the Texas region, and is continuing to expand its referral base for additional growth in the region through acquiring and expanding the Texas physician enterprise in the greater Houston area. Operations in Bryan, Texas, a component of the Texas region acquired in fiscal year 2015, continue to report a strong operating EBIDA before restructuring of $9.5 million and 9.7% for the three month period ended December 31, 2016.

CHI Corporate services and other business lines - operating EBIDA before restructuring, impairment and other losses totaled $(56.2) million, representing an improvement of $39.4 million for the three months ended December 31, 2016, compared to the corresponding period of the prior fiscal year. Changes in support services activities relates to a variety of factors, and include strategic transfers of certain activities from the markets and other National service lines to the Corporate office in order to build National support functions, and new implementations of system-wide services such as revenue cycle and food programs. Support services allocations to the regions consider the strategic needs and resource consumption of the regions and CHI overall. Increases for the three months ended December 31, 2016 include $19.4 million of revenue cycle implementations and services for new markets, and $6.1 million related to new market implementations for national food services. IT expenses declined $13.9 million compared to the corresponding period of the prior fiscal year due to decreased activity in system implementations, and market compensation declined $8.0 million due to personnel transfers of market executive leaders from the Corporate Office to the regions.

RESTRUCTURING, IMPAIRMENT AND OTHER LOSSES

CHI restructuring, impairment and other losses totaled $78.3 million and $18.3 million for the three months ended December 31, 2016 and 2015, respectively. For the three months ended December 31, 2016 and 2015, restructuring, impairment and other losses expenses included $37.9 million of goodwill and long-lived asset impairment charges for the three months ended December 31, 2016, $22.6 million and $10.8 million of changes in business operations, respectively, and $17.8 million and $7.5 million of severance costs, respectively. CHI changes in business operations include contract termination costs, as well as ongoing reorganization efforts which include consulting costs related to revenue cycle, supply chain, and labor productivity.

NON-OPERATING RESULTS

CHI non-operating gains totaled $121.6 million and $117.2 million for the three months ended December 31, 2016 and 2015, respectively. CHI investment gains were $18.7 million and $110.5 million for the three months ended December 31, 2016 and 2015, respectively, and realized and unrealized gains on interest rate swaps were $105.3 and $11.7 million for the three months ended December 31, 2016 and 2015, respectively.

2. SUMMARY OF OPERATING RESULTS FOR THE SIX MONTHS ENDED DECEMBER 31, 2016 AND 2015

OPERATING EBIDA/LOSS FROM OPERATIONS

CHI operating EBIDA before restructuring, impairment and other losses totaled $332.1 million and $514.4 million for the six months ended December 31, 2016 and 2015, respectively, equivalent to an operating EBIDA margin before restructuring, impairment and other losses percentage of 4.1% and 6.6%, respectively. Results included $16.8 million of gains on asset sales in the Texas region for the six months ended December 31, 2016 and $141.7 million of business combination gains for the six months ended December 31, 2015, offset by $(28.0) million of unfavorable net patient accounts receivable reserve adjustments for the six months ended December 31, 2016 in the Nebraska region, related to moving the accounts receivable reserve methodology for one facility to the CHI standard, revenue realization adjustments and to reflect more current collection experience including a reduction in recoveries. CHI experienced increases in net patient services revenues as a result of strategic affiliation growth, increased acuity and increases in patient volumes, offset somewhat by unfavorable shifts in payer mix. Overall revenue improvements were offset by increases in compensation, purchased services and supplies costs.

CHI loss from operations before restructuring, impairment and other losses totaled $(257.1) million and $(65.1) million for the six months ended December 31, 2016 and 2015, respectively, or an operating loss margin before restructuring, impairment and other losses percentage of (3.2)% and (0.8)%, respectively. The strategic affiliations completed in fiscal years 2017 and 2016 contributed operating revenues of $285.0 million and $88.2 million, operating EBIDA before restructuring, impairment and other losses of $6.4 million and $1.1 million, and loss from operations before restructuring, impairment and other losses of $(9.6) million and $(6.9) million, for the six months ended December 31, 2016 and 2015, respectively, all excluding business combination gains.

CHI's regional operations declined period over period, driven by operations in the Kentucky, Texas, Nebraska, and Colorado regions, whose combined operating EBIDA before restructuring, impairment and other losses declined $(162.9) million for the six months ended December 31, 2016, compared to the same period of the prior fiscal year. Overall operations were impacted by same store operating expense growth outpacing same store net patient services revenue growth, and unfavorable shifts in payer mix. Partially offsetting the declining regional results were improvements in the Pacific Northwest and Ohio regions whose combined operating EBIDA before restructuring, impairment and other losses improved $42.4 million, for the six months ended December 31, 2016, compared to the same period of the prior fiscal year. As part of CHI's on-going comprehensive expense reduction strategy, focused clinical and operational initiatives across the system continue to be implemented to include targeted initiatives at the regional levels, as well as at CHI's Corporate office. The table below presents the total operating EBIDA before restructuring, total operating EBIDA margin before restructuring and total operating revenues of CHI by region for the six months ended December 31, 2016 and 2015. Further information on CHI's regional operating results is discussed within the regional operating trends section below.

Catholic Health Initiatives Operations Summary – Six Months Ended December 31, 2016 and 2015

Region	YTD 12/31/2016 Operating EBIDA before restructuring, impairment and other losses (in Thousands)	YTD 12/31/2015 Operating EBIDA before restructuring, impairment and other losses (in Thousands)	YTD 12/31/2016 Operating EBIDA margin before restructuring, impairment and other losses	YTD 12/31/2015 Operating EBIDA margin before restructuring, impairment and other losses	YTD 12/31/2016 Operating revenues percentage of CHI consolidated	YTD 12/31/2015 Operating revenues percentage of CHI consolidated
Colorado	$ 107,093	$ 124,491	9.4%	11.5%	14.1%	13.9%
Pacific Northwest	137,445	112,546	10.4%	9.1%	16.4%	15.8%
Nebraska	39,695	86,927	3.9%	8.8%	12.5%	12.7%
Kentucky	11,637	64,950	1.0%	5.5%	14.7%	15.1%
Texas	22,829	67,751	2.1%	6.9%	13.2%	12.6%
Iowa	37,370	40,111	7.3%	8.0%	6.3%	6.4%
Ohio	45,674	28,215	7.5%	5.8%	7.6%	6.3%
Arkansas	12,274	21,756	3.2%	5.7%	4.8%	4.9%
Tennessee	28,889	25,785	8.9%	8.2%	4.0%	4.0%
North Dakota/Minnesota	25,915	34,703	6.8%	8.9%	4.7%	5.0%
National business lines[1]	9,363	6,824	6.8%	5.3%	1.7%	1.6%
Other[2]	(19,868)	(38,757)	N/A	N/A	(0.1)%	(0.3)%
Total Regional	458,316	575,302	5.7%	7.5%	99.9%	98.0%
Corporate services and other business lines[3]	(126,245)	(202,619)	N/A	N/A	0.1%	0.2%
Total CHI Consolidated before business combination (losses) gains	332,071	372,683	4.1%	4.9%	100.0%	98.2%
Business combination gains	-	141,668	N/A	N/A	-	1.8%
Total CHI Consolidated	$ 332,071	$ 514,351	4.1%	6.6%	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

CHI total operating revenues increased 3.2%, or $250.6 million, for the six months ended December 31, 2016, compared to the corresponding period of the prior fiscal year; excluding the $141.7 million of business combination gains reflected in the prior fiscal year, CHI total operating revenues increased 5.1%, or $392.3

million. Excluding the impacts of current and prior year acquisitions (same store basis), CHI total operating revenues increased 2.6%, or $195.7 million, for the six months ended December 31, 2016, compared to the corresponding period of the prior fiscal year.

CHI total net patient services revenues increased 5.2%, or $374.3 million, for the six months ended December 31, 2016, compared to the corresponding period of the prior fiscal year, of which $188.4 million was due to recently completed acquisitions. CHI same store net patient services revenues increased 2.6%, or $185.9 million, for the six months ended December 31, 2016 compared to the corresponding period of the prior fiscal year mostly due to overall increased patient volumes of $104.0 million, favorable shifts in acuity of $91.6 million, offset by unfavorable shifts in payer mix of $(67.4) million and a revenue realization adjustment in the Nebraska Region of ($28.0) million to reflect a more current collection experience.

CHI same store patient volume increases (decreases) were as follows for the six months ended December 31, 2016, as compared to the corresponding period of the prior fiscal year.

Patient Volumes	Percentage Change	Volume Change
Adjusted Admissions	2.1%	11,430
Acute Admissions	0.1%	244
Acute Inpatient Days	(1.0%)	(12,160)
Inpatient ER Visits	1.7%	2,269
Inpatient Surgeries	(0.8%)	(683)
Outpatient ER Visits	(1.2%)	(12,598)
Outpatient Non-ER Visits	1.9%	51,992
Outpatient Surgeries	6.4%	8,118
Physician Visits	7.4%	364,346

CHI total other operating revenues decreased (20.1)%, or $(123.7) million, for the six months ended December 31, 2016, compared to the corresponding period of the prior fiscal year, primarily due to the recognition of $141.7 million in business combination gains for the six months ended December 31, 2015. CHI also recognized $16.8 million in gains on asset sales in the Texas region for the six months ended December 31, 2016. CHI same store total other operating revenues increased 2.1%, or $9.7 million, for the six months ended December 31, 2016, compared to the corresponding period of the prior fiscal year, primarily due to the gains on asset sales.

OPERATING EXPENSES

CHI total other operating revenues decreased (20.1)%, or $(123.7) million, for the six months ended December 31, 2016, compared to the corresponding period of the prior fiscal year, primarily due to the recognition of $141.7 million in business combination gains for the six months ended December 31, 2015. CHI also recognized $16.8 million in gains on asset sales in the Texas region for the six months ended December 31, 2016.

CHI total operating expenses before restructuring, impairment and other losses increased 5.6%, or $442.6 million, for the six months ended December 31, 2016, as compared to the corresponding period of the prior fiscal year, of which $199.5 million was due to recently completed acquisitions. CHI same store total operating expenses before restructuring, impairment and other losses increased 3.1%, or $243.1 million, for the six months ended December 31, 2016, as compared to the corresponding period of the prior fiscal year, primarily due to increases in total labor costs and purchased services, combined with annual inflation increases in other operating expenses across CHI as described in more detail below.

CHI same store total labor costs increased 4.0%, or $149.4 million, for the six months ended December 31, 2016, as compared to the corresponding period of the prior fiscal year, due to annual inflation increases as well as growth initiatives. CHI same store total labor costs represented 48.1% and 47.7% of same store total operating expenses for the six months ended December 31, 2016 and 2015, respectively. CHI same store total labor costs as a percentage of same store net patient services revenues increased to 52.9% for the six months ended December 31, 2016, compared to 52.2% for the corresponding period of the prior fiscal year, representing an unfavorable expense variance of $(51.1) million, due to challenges with labor productivity, most notably in 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.

CHI same store purchased services expenses increased 11.7% or $97.4 million, for the six months ended December 31, 2016, as compared to the corresponding period of the prior fiscal year, as a result of new market implementations of revenue cycle services with Conifer during the latter part of the prior fiscal year, outsourcing and expansion of IT services, and physician alignment.

REGIONAL OPERATING TRENDS

CHI 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.

Operating results for the six months ended December 31, 2016 declined across several of CHI's regions compared to the corresponding period of the prior fiscal year, including the Kentucky, Nebraska, Texas, Colorado, Arkansas, North Dakota/Minnesota, and Iowa regions, which were offset by improvements in the Pacific Northwest, Ohio, and Tennessee regions as well as improvements within CHI Corporate services. Several regions have experienced decreases in patient volumes and unfavorable shifts in payer mix which have resulted in decreased net patient revenue yields and increases in operating expenses outpacing overall net patient services revenue growth. Additional information for CHI's five largest operating regions are discussed below. The Colorado, Pacific Northwest, Nebraska, Kentucky and Texas regions' operating revenues for the six months ended December 31, 2016, represent 70.9% of CHI's consolidated operating revenues.

Colorado - the region's operating EBIDA before restructuring, impairment and other losses totaled $107.1 million for the six months ended December 31, 2016, and decreased $(17.4) million compared to the corresponding period of the prior fiscal year, due to unfavorable shifts in payer mix and reductions in net provider fee revenue. Net patient services revenue increased $54.3 million, including $15.8 million as a result of the Longmont acquisition, compared to the same period of the prior fiscal year. The positive impacts were offset by $(10.1) million in unfavorable shifts in payer mix and a $(40.0) million decrease in provider fee revenue. Provider fee expenses were $23 million lower than prior year, resulting in a negative $(17) million impact to the Colorado region operating EBIDA before restructuring, impairment and other losses impact. The Colorado region is in the process of installing the Epic electronic health record system across its various hospitals, and for the six months ended December 31, 2016, Epic operating expenses and training costs were $6 million higher, compared to the same period of the prior fiscal year. Total net revenue per adjusted admission increased 1.0% compared to the same period of the prior fiscal year, while total operating expense per adjusted admission increased 2.1%. Total labor as a percentage of net patient services revenue increased to 43.4% compared to 40.8% in the same period of the prior fiscal year, representing an unfavorable expense variance of $(28.0) million.

Pacific Northwest - the region's operating EBIDA before restructuring, impairment and other losses totaled $137.4 million for the six months ended December 31, 2016, and increased $24.9 million compared to the corresponding period of the prior fiscal year, due to overall increased patient volumes combined with the implementation of expense management and productivity improvements. Net patient services revenue increased $95.7 million, including $71.5 million in patient volumes and $30.9 million in greater acuity, compared to the same period of the prior fiscal year. The net patient services revenue increase exceeded the $60.7 million in increased operating expenses, including total compensation, purchased services and supplies expenses, compared to the corresponding period of the prior fiscal year. Total net revenue per adjusted admission increased 5.4% compared to the same period of the prior fiscal year, while total operating expense per adjusted admission increased 2.5%. Total labor as a percentage of net patient services revenue decreased to 51.5% compared to 53.8% in the same period of the prior fiscal year as a result of ongoing labor productivity improvements, representing a favorable expense variance of $29.5 million. Supply expense as a percentage of net patient services revenue declined to 14.5% compared to 15.0% in the prior fiscal year due to revenue growth and improved utilization.

***Nebraska* –** the region's operating EBIDA before restructuring, impairment and other losses totaled $39.7 million for the six months ended December 31, 2016, and decreased $(47.2) million compared to the corresponding period of the prior fiscal year, due primarily to $(28) million of unfavorable net patient accounts receivable reserve adjustments for the six months ended December 31, 2016. Net patient services revenue also included volume growth of $26 million and favorable shifts in payer mix of $6.4 million. The net patient accounts receivable reserve adjustments were due to moving the accounts receivable reserve methodology for one facility to the CHI standard, revenue realization adjustments and to reflect more current collection experience including a reduction in recoveries. Total net revenue per adjusted admission decreased (1.8)% compared to the same period of the prior fiscal year, while total operating expense per adjusted admission increased 2.5%. Total labor as a percentage of net patient services revenue increased to 57.4% compared to 55.5% in the same period of the prior fiscal year, due to agency usage. Total operating expenses increased 5.7%, or $55.1 million in the Nebraska region for the six months ended December 31, 2016, primarily in the areas of total compensation, purchased services and supplies expenses, compared to the corresponding period of the prior fiscal year. Supply expense as a percentage of net patient service revenues increased to 19.3% compared to 17.5% in the prior fiscal year. Increases in utilization and cost are concentrated in pharmacy, cardiovascular and orthopedic/spine and is a continued focus and opportunity for reduction.

Kentucky - the region's operating EBIDA before restructuring, impairment and other losses totaled $11.6 million for the six months ended December 31, 2016, and decreased $(53.3) million compared to the corresponding period of the prior fiscal year. Net patient services revenues decreased (0.6)%, or $(6.4) million, for the six months ended December 31, 2016, compared to the corresponding period of the prior fiscal year as a result of unfavorable shifts in payer mix of $(21.7) million somewhat offset by improved realization. Total labor as a percentage of net patient services revenue increased to 49.9% compared to 44.4% in the same period of the prior fiscal year, representing an unfavorable expense variance of $(61.5) million. The Kentucky region is continuing ongoing efforts to address nursing and other staff shortages which have resulted in increases to overall labor costs including an $18.9 million increase to contract labor costs as well as overtime and premium pay. Operations for the six months ended December 31, 2016 were favorably impacted by a $12.4 million decrease in a contingent consideration liability as a result of changes in payment assumptions related to the University of Louisville affiliation with KentuckyOne Health.

Texas - the Texas region's operating EBIDA before restructuring, impairment and other losses totaled $22.8 million for the six months ended December 31, 2016, and decreased $(44.9) million for the six months ended December 31, 2016, compared to the same period of the prior fiscal year, due to increased operating expenses outpacing net patient services revenue growth. Results for the current year included $16.8 million in gains from asset sales in the Texas region. Net patient services revenue increased $67.4 million, including $60.8 million from recently completed affiliations, and was impacted by favorable acuity increases of $8.0 million and Medicaid 1115 wavier reimbursement increases of $23.3 million, which were somewhat offset by unfavorable shift in payer mix of $(18.8) million. Total labor as a percentage of net patient services revenue increased to 50.1% compared to 49.0% in the same period of the prior fiscal year. Same store operating expenses increased 6%, or $60 million in the Texas region for the six months ended December 31, 2016. Management is implementing strategies to improve labor productivity and supply chain savings in the Texas region, and is continuing to expand its referral base for additional growth in the region through acquiring and expanding the Texas physician enterprise in the greater Houston area. Operations in Bryan, Texas, a component of the Texas region acquired in fiscal year 2015, continues to report a strong operating EBIDA before restructuring of 9.7% for the six month period ended December 31, 2016.

CHI Corporate services and other business lines - operating EBIDA before restructuring, impairment and other losses totaled $(126.2) million, representing an improvement of $76.4 million for the six months ended December 31, 2016, compared to the corresponding period of the prior fiscal year. Changes in support services activities relates to a variety of factors, and include strategic transfers of certain activities from the markets and other National service lines to the Corporate office in order to build National support functions, and new implementations of system-wide services such as revenue cycle and food programs. Support services allocations to the regions consider the strategic needs and resource consumption of the regions and CHI overall. Increases for the six months ended December 31, 2016 include $42.2 million of revenue cycle implementations and services for new markets, and $10.3 million related to new market implementations for national food services. IT expenses declined $22.1 million compared to the corresponding period of the prior fiscal year due to decreased activity in system implementations, and market compensation declined $19 million due to personnel transfers of market executive leaders from the Corporate Office to the regions.

RESTRUCTURING, IMPAIRMENT AND OTHER LOSSES

CHI restructuring, impairment and other losses totaled $126.6 million and $41.3 million for the six months ended December 31, 2016 and 2015, respectively. For the six months ended December 31, 2016 and 2015, respectively, restructuring, impairment and other losses expenses included $65.1 million and $30.8 million of changes in business operations, respectively, $35.2 million of goodwill and long-lived asset impairment charges for the six months ended December 31, 2016, and $26.3 million and $10.5 million of severance costs, respectively. CHI changes in business operations include contract termination costs, as well as ongoing reorganization efforts which include consulting costs related to revenue cycle, supply chain, and labor productivity.

NON-OPERATING RESULTS

CHI non-operating gains (losses) totaled $341.4 million and $(226.3) million for the six months ended December 31, 2016 and 2015, respectively, primarily driven by CHI's investment portfolio gains (losses), and realized and unrealized gains (losses) on interest rate swaps. CHI investment gains (losses) were $244.7 million and $(172.0) million for the six months ended December 31, 2016 and 2015, respectively, and realized and unrealized (losses) on interest rate swaps were $105.3 million and $(46.7) million for the six months ended December 31, 2016 and 2015, respectively.

3. SUMMARY OF BALANCE SHEET AS OF DECEMBER 31, 2016 AND JUNE 30, 2016

The CHI Reporting Group total combined assets were $22.7 billion and $23.3 billion at December 31 and June 30, 2016, respectively, representing a decrease of (2.7)%, or $(640.0) million, during the six months ended December 31, 2016. The CHI Reporting Group decrease was primarily attributable to a $(443.7) million decrease in cash and unrestricted investments, as described further below, as well as a $(327.6) million reduction in net property and equipment balances as a result of real estate asset sales, and decreased capital spending across the regions.

The CHI Reporting Group total cash and equivalents and unrestricted investments were $6.5 billion and $6.9 billion at December 31 and June 30, 2016, respectively, representing a decrease of (6.4)%, or $(443.7) million during the six months ended December 31, 2016. For the six months ended December 31, 2016, CHI spent a net $(203.9) million in investing cash flow activities, including $(425.0) million of on-going capital investment activity, offset by the receipt of $197.9 million in proceeds from asset sales. CHI's capital investment activity includes continued implementation costs for CHI's OneCare program and IT infrastructure investments, as well as new hospital construction and facility renovations across the regions. CHI financing cash flow activities for the six months ended December 31, 2016, totaled $(8.6) million and include net debt, interest and swap collateral postings. CHI's cash flows from operations, including investments and assets limited to use, and working capital changes, were $(231.2) million for the six months ended December 31, 2016.

The CHI Reporting Group days of cash on hand decreased to 146 days at December 31, 2016, from 160 at June 30, 2016. This decrease is primarily attributable to reductions of cash flows from operations and working capital changes, as well as CHI cash spent on capital additions and debt payments.

The CHI Reporting Group net patient accounts receivable were $2.3 billion and $2.2 billion at December 31 and June 30, 2016, respectively, representing an increase of 3.5%, or $77.8 million, during the six months ended December 31, 2016, primarily as a result of the increase in CHI net patient services revenues discussed above.

The CHI Reporting Group total combined liabilities were $14.9 billion and $15.5 billion at December 31 and June 30, 2016, respectively, representing a decrease of (3.8)%, or $(582.5) million, during the six months ended December 31, 2016, primarily attributable to a $(306.8) million decrease in accounts payable and accrued expenses as a result of working capital changes, as well as decreases in overall other long-term liabilities and outstanding debt balances. CHI Reporting Group total debt was $9 billion and $9.1 billion at December 31 and June 30, 2016, respectively, representing a decrease of $(96.6) million, primarily due to $(299.1) million in CHI debt redemptions and $(56.2) million in scheduled debt service payments, offset by the $200 million CHI Series 2016 Taxable variable-rate bond issuance and $58.7 in increases in capital leases and other debt issued during the six months ended December 31, 2016.

The CHI Reporting Group debt-to-capitalization ratio decreased to 54.7% at December 31, 2016 from 54.8% at June 30, 2016, primarily as a result of the $(96.6) million decrease in CHI Reporting Group debt during the six months ended December 31, 2016 and a $(61.0) million decrease to unrestricted net assets. The CHI Reporting Group total unrestricted net assets decrease during the six months ended December 31, 2016, was driven by CHI's deficit of revenues over expenses of $(42.3) million and a $(24.3) million net loss from CHI's discontinued operations for the six months ended December 31, 2016.

4. CERTAIN CONTRACTUAL OBLIGATIONS

CAPITAL OBLIGATION DOCUMENT

The obligations 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 obligations to 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 and for general purpose revolving lines of credit. At December 31, 2016, the Corporation's outstanding indebtedness evidenced by Obligations issued under the COD totaled $8.1 billion. Payment obligations 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, Participants and Designated Affiliates. However, holders of Obligations have no recourse to Participants or Designated Affiliates or their property for payment thereof.

INDEBTEDNESS

(in Millions)	December 31, 2016
Capital Obligation Debt	
Fixed Rate Bonds[1]	$5,020
Variable Rate Bonds[2]	508
Long Term Rate Bonds[3]	142
Direct Purchase Bonds[4]	1,038
Commercial Paper Notes	816
Short term bank loans	584
Total Capital Obligation Debt	**$ 8,108**
Non-Capital Obligation Debt	
Other MBO Debt[5]	$ 509
Capital Leases	183
EHF Payable issued to Episcopal Health Foundation	167
Total Non-Capital Obligation Debt	**$ 859**
Total CHI Debt	**$ 8,967**

[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. On December 2, 2016, the Corporation issued a $200 million taxable bond (the "2016A Taxable Bond") that was purchased by Morgan Stanley & Co. LLC. The proceeds from the sale of the 2016A Taxable Bond retired in full the Morgan Stanley revolving line of credit.

[5] Other debt is comprised mostly of $238.1 million of CHI St. Luke's affiliate debt, $96.4 million of Centura affiliate debt and $58.7 million of SFH affiliate debt.

The required principal payments on the total CHI long-term debt during fiscal year 2017 is approximately $135.0 million.

At December 31, 2016, the Corporation had one revolving line of credit with Mizuho Bank, LTD., in the amount of $250 million that was fully drawn and matures on June 29, 2017, unless the parties mutually agree to renew or extend the loan. On December 2, 2016, the Corporation issued a $200 million 2016A Taxable Bond that was purchased by Morgan Stanley & Co. LLC. The proceeds from the sale of the 2016A Taxable Bond retired in full the Morgan Stanley revolving line of credit. The 2016A Taxable Bond matures December 1, 2021, but may be tendered to the Corporation for purchase on December 1, 2017. On February 10, 2016, the Corporation borrowed $333.7 million from JPMorgan Chase Bank, National Association to provide for the defeasance of certain fixed rate bonds (the "JPMorgan Loan"). This loan matures on December 20, 2017, unless the parties mutually agree to renew or extend.

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.

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 December 31, 2016	Mandatory Tender Date
Taxable 2016A	$200.0 million	December 1, 2017
Colorado 2011C[1]	118.0 million	November 10, 2018
Washington 2008A[1]	119.5 million	January 29, 2019
Colorado 2004B6[1]	54.2 million	September 15, 2020
Taxable 2013F	75.0 million	December 18, 2020
Colorado 2015-1	38.4 million	August 1, 2021
Colorado 2015-2	73.7 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	50.0 million	August 1, 2024
Washington 2015A	49.5 million	August 1, 2024
Total Direct Purchase Bonds[2]	**$1,022 million**	

[1] Includes a "term out" provision that varies among agreements, which permits repayment after the mandatory tender date absent any defaults or events of default.
[2] As discussed above, on December 2, 2016, the Corporation issued 2016A Taxable Bond that was purchased by Morgan Stanley & Co. LLC. The proceeds from the sale of the 2016A Taxable Bond retired in full the Morgan Stanley revolving line of credit. The 2016A Taxable Bond may be tendered to the Corporation for purchase on December 1, 2017.

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	Par Outstanding December 31, 2016	Mandatory Tender Date
Colorado 2009B-3	$40.0 million	November 6, 2019
Kentucky 2009B	60.0 million	November 10, 2021
Colorado 2008D-3	41.9 million	November 12, 2021
Total Long-Term Rate Bonds	**$141.9 million**	

C. Floating Rate Notes ("FRNs")

The Corporation's FRNs are subject to mandatory tender on the dates set forth below.	Par Outstanding December 31, 2016	Mandatory Tender Date
Kentucky 2011B-1	$ 52.7 million	January 31, 2020
Kentucky 2011B-2	52.7 million	January 31, 2020
Colorado 2008C-2	26.5 million	November 12, 2020
Colorado 2008C-4	26.5 million	November 12, 2020
Washington 2013B-1	100.0 million	December 31, 2020
Washington 2013B-2	100.0 million	December 31, 2024
Kentucky 2011B-3	52.7 million	January 31, 2025
Total FRNs	**$411.1 million**	

D. Variable Rate Bonds

The Corporation's variable rate demand bonds are subject to optional and mandatory tender. As of December 31, 2016, variable rate demand bonds outstanding in the amount of $96.7 million, are supported by the Corporation's self-liquidity, and are not supported by a dedicated liquidity or credit facility. See "Liquidity Arrangements" in *Part IV* below.

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 within a 270 day period. The Corporation has directed the dealers for its commercial paper to tranche the 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. 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 December 31, 2016, $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 "Liquidity Arrangements" in *Part IV* below.

F. Swap Agreements

The Corporation or its affiliates are currently party to 43 swap transactions that had an aggregate notional amount of approximately $1.7 billion at December 31, 2016. The 43 transactions have varying termination dates ranging from 2017 to 2047.The swap agreements require the Corporation (or with respect to certain swap agreements, CHI St. Luke's or SFH) 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 do not require collateral postings. Total cash collateral balances were $214.4 million at December 31, 2016. The swap agreements, excluding the Centura Health swap, are secured by Obligations issued under the COD.

Obligated Party	Type	Outstanding Notional December 31, 2016	Termination Date
CHI[1]	Total Return	$ 119.0 million	January 3, 2017-January 16,2020
CHI	Fixed Payer	150.9 million	May 1, 2025
CHI	Fixed Payer	246.8 million	March 1, 2032
CHI	Fixed Payer	98.8 million	September 1, 2036
CHI	Fixed Payer	128.5 million	September 1, 2036
CHI	Fixed Payer	19.8 million	September 1, 2036
CHI	Fixed Payer	100.0 million	December 1, 2036
CHI	Fixed Payer	149.1 million	December 1, 2036
CHI St. Luke's	Fixed Payer	129.5 million	February 18, 2031
CHI St. Luke's	Fixed Payer	109.4 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	15.6 million	May 20, 2024
Madonna Manor	Total Return	28.4 million	August 15, 2020
Memorial East Texas	Fixed Payer	26.4 million	February 15, 2035
Memorial East Texas	Fixed Payer	18.7 million	February 15, 2028
Providence	Fixed Payer	8.7 million	March 1, 2017
St. Joseph Regional Health[3]	Total Return	69.3 million	April 4, 2018 - August 15, 2020
St. Joseph Regional Health	Fixed Payer	46.4 million	January 1, 2028
St. Joseph Regional Health	Basis	30.0 million	March 1, 2028
Total Notional Amount		**$1,695.3 million**	

[1]Represents 20 Total Return Swaps.
[2] Not secured by CHI COD obligations.
[3] Represents 5 Total Return Swaps.

5. 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 December 31, 2016 and June 30, 2016, the CHI Reporting Group had cash and equivalents and internally designated investments (including net unrealized gains and losses) as described in the table below.

The CHI Reporting Group

(in Thousands)	December 31, 2016	June 30, 2016
Cash and equivalents	$ 771,603	$ 1,305,307
Internally designated investments	5,684,557	5,594,578
Total	**$ 6,456,160**	**$ 6,899,885**

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 December 31, 2016, the asset allocation was 40% equity securities, 40% fixed-income securities, 19% alternative investments (e.g., private equity, hedge funds and real estate interests) and 1% cash and equivalents. Alternative investments within the Program have limited liquidity. As of December 31, 2016, illiquid investments not available for redemption totaled $404.5 million, and investments available for redemption within 180 days at the request of the Program totaled $752.6 million. The Program's return was 4.2% for the six months ended December 31, 2016.

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. 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 – December 31, 2016

Bank	Committed Amount	Expiration
Bank of New York Mellon	$ 60.0 million	February 28, 2017[1]
PNC Bank	125.0 million	August 24, 2017
J.P. Morgan	50.0 million	December 31, 2017
Bank of New York Mellon	50.0 million	December 15, 2017
MUFG Union Bank	75.0 million	September 28, 2018
Northern Trust	65.0 million	June 28, 2019
Total Self-Liquidity Lines	**$ 425.0 million**	

[1] The Corporation and Bank of New York Mellon are negotiating renewal terms.

6. 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 of its third year.

In a separate matter, numerous civil lawsuits have been filed against the Corporation and SJHS claiming damages for alleged unnecessary cardiac stent placements and other cardiac procedures. Both CHI and SJHS are vigorously defending these 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 have been 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, including the *E/O Owens*, but excluding *Kevin Wells* which is 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 (1) 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 have filed their initial briefs with the Tenth Circuit Court of Appeals and oral argument on the appeal was scheduled for January 18, 2017. However, on December 13, 2016, following certain action taken by the United States Supreme Court in other non-CHI-related "church plan" litigation (described below), the Tenth Circuit vacated the hearing and stayed the appeal. The parties are to file a joint report with the Tenth Circuit on the status of the Supreme Court proceedings by March 15, 2017. While no assurance can be given as to the outcome of the appeal, management does not believe that this matter, if decided adversely to CHI, would have a material adverse effect on the financial position or results of operations of CHI. 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, on December 2, 2016, granted *certiorari* on the legal question of whether only a church can establish a "church plan" within the meaning of ERISA. It is not yet known what the outcome of the Supreme Court proceedings in the three cases will be or what impact they will ultimately have on the CHI litigation, but as noted, the appeal is stayed pending the Supreme Court proceedings.

APPENDIX A

CATHOLIC HEALTH INITIATIVES

CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Unaudited)

As of December 31, 2016 and for the Three and Six Months Ended December 31, 2016 and 2015

Consolidated Interim Financial Statements (Unaudited)

Catholic Health Initiatives
As of December 31, 2016 and for the Three and Six Months Ended
December 31, 2016 and 2015
With Review Report of Independent Auditors

Ernst & Young LLP

Catholic Health Initiatives

Consolidated Interim Financial Statements (Unaudited)

As of December 31, 2016 and for the Three and Six Months Ended
December 31, 2016 and 2015

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 December 31, 2016, and the related consolidated statements of operations for the three-month and six-month periods ended December 31, 2016, changes in net assets for the six-month period ended December 31, 2016 and cash flows for the six-month periods ended December 31, 2016 and 2015.

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.

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

February 15, 2017

Catholic Health Initiatives

Consolidated Balance Sheets

(In Thousands)

	December 31, 2016	June 30, 2016
Assets	*(Unaudited)*	
Current assets:		
Cash and equivalents	**$ 771,433**	$ 1,305,242
Net patient accounts receivable, less allowances for bad debts of $986,237 and $968,147 at December and June, respectively	**2,228,769**	2,161,237
Other accounts receivable	**261,557**	274,432
Current portion of investments and assets limited as to use	**121,176**	63,146
Inventories	**306,461**	296,647
Assets held for sale	**192,869**	223,285
Prepaid and other	**183,387**	152,230
Total current assets	**4,065,652**	4,476,219
Investments and assets limited as to use:		
Internally designated for capital and other funds	**5,026,824**	4,952,065
Mission and Ministry Fund	**132,957**	125,166
Capital Resource Pool	**272,331**	261,572
Held by trustees	**76,993**	113,235
Held for insurance purposes	**813,725**	841,048
Restricted by donors	**267,470**	264,949
Total investments and assets limited as to use	**6,590,300**	6,558,035
Property and equipment, net	**9,131,508**	9,452,010
Investments in unconsolidated organizations	**1,311,590**	1,263,506
Intangible assets and goodwill, net	**472,973**	462,838
Notes receivable and other	**434,292**	446,522
Total assets	**$ 22,006,315**	$ 22,659,130

	December 31, 2016	June 30, 2016
Liabilities and net assets	*(Unaudited)*	
Current liabilities:		
Compensation and benefits	**$ 710,771**	$ 717,638
Third-party liabilities, net	**71,533**	110,284
Accounts payable and accrued expenses	**1,398,945**	1,750,402
Liabilities held for sale	**102,926**	131,814
Variable-rate debt with self-liquidity	**96,700**	96,700
Commercial paper and current portion of debt	**1,987,728**	1,769,390
Total current liabilities	**4,368,603**	4,576,228
Pension liability	**1,511,024**	1,535,840
Self-insured reserves and claims	**637,894**	646,714
Other liabilities	**1,237,070**	1,262,068
Long-term debt	**6,877,869**	7,191,184
Total liabilities	**14,632,460**	15,212,034
Net assets:		
Net assets attributable to CHI	**6,647,798**	6,704,217
Net assets attributable to noncontrolling interests	**403,596**	423,424
Unrestricted	**7,051,394**	7,127,641
Temporarily restricted	**226,917**	224,524
Permanently restricted	**95,544**	94,931
Total net assets	**7,373,855**	7,447,096
Total liabilities and net assets	**$ 22,006,315**	$ 22,659,130

See accompanying notes.

Catholic Health Initiatives

Consolidated Statements of Operations
(In Thousands)
(Unaudited)

	Three Months Ended December 31,		Six Months Ended December 31,	
	2016	**2015**	**2016**	**2015**
Revenues				
Net patient services revenues before provision for doubtful accounts	**$ 4,092,920**	$ 3,891,551	**$ 8,020,715**	$ 7,672,147
Provision for doubtful accounts	**(240,392)**	(229,263)	**(449,785)**	(475,526)
Net patient services revenues	**3,852,528**	3,662,288	**7,570,930**	7,196,621
Other operating revenues:				
Donations	**10,360**	7,348	**18,570**	15,245
Changes in equity of unconsolidated organizations	**8,874**	15,228	**17,115**	30,922
Gains on business combinations	**–**	–	**–**	141,668
Hospital ancillary revenues	**85,845**	88,612	**175,265**	176,110
Other	**132,492**	129,766	**281,383**	252,083
Total other operating revenues	**237,571**	240,954	**492,333**	616,028
Total operating revenues	**4,090,099**	3,903,242	**8,063,263**	7,812,649
Expenses				
Salaries and wages	**1,700,532**	1,616,971	**3,373,677**	3,172,705
Employee benefits	**325,013**	291,622	**633,864**	585,637
Purchased services, medical professional fees, medical claims and consulting	**627,160**	574,563	**1,260,255**	1,114,489
Supplies	**726,216**	708,464	**1,443,209**	1,378,422
Utilities	**54,331**	55,387	**116,162**	115,742
Rentals, leases, maintenance and insurance	**218,122**	227,085	**456,267**	463,532
Depreciation and amortization	**218,869**	217,398	**436,046**	432,784
Interest	**76,128**	73,911	**153,117**	146,666
Other	**228,672**	234,115	**447,758**	467,771
Total operating expenses before restructuring, impairment and other losses	**4,175,043**	3,999,516	**8,320,355**	7,877,748
Loss from operations before restructuring, impairment and other losses	**(84,944)**	(96,274)	**(257,092)**	(65,099)
Restructuring, impairment and other losses	**78,319**	18,334	**126,616**	41,293
Loss from operations	**(163,263)**	(114,608)	**(383,708)**	(106,392)
Nonoperating gains				
Investment income (losses), net	**18,715**	110,544	**244,737**	(172,015)
(Loss) gain on defeasance of bonds	**–**	–	**(8,506)**	908
Realized and unrealized gains (losses) on interest rate swaps	**105,283**	11,741	**105,322**	(46,720)
Other nonoperating losses	**(2,349)**	(5,080)	**(143)**	(8,494)
Total nonoperating gains (losses)	**121,649**	117,205	**341,410**	(226,321)
(Deficit) excess of revenues over expenses	**(41,614)**	2,597	**(42,298)**	(332,713)
(Deficit) excess of revenues over expenses attributable to noncontrolling interest	**(249)**	3,386	**(1,081)**	7,471
Deficit of revenues over expenses attributable to CHI	**$ (41,365)**	$ (789)	**$ (41,217)**	$ (340,184)

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, 2015	$ 8,150,235	$ 445,687	$ 8,595,922	$ 268,317	$ 97,776	$ 8,962,015
(Deficit) excess of revenues over expenses	(703,207)	3,779	(699,428)	–	–	(699,428)
Net loss from discontinued operations	(30,667)	–	(30,667)	–	–	(30,667)
Change in pension funded status	(768,468)	(4,877)	(773,345)	–	–	(773,345)
Temporarily and permanently restricted contributions	–	–	–	39,276	3,487	42,763
Net assets released from restriction for capital	66,487	–	66,487	(66,487)	–	–
Net assets released from restriction for operations	–	–	–	(17,912)	–	(17,912)
Investment income (losses)	423	–	423	27	(378)	72
Temporarily and permanently restricted assets from acquisitons	–	–	–	11,672	2,531	14,203
Temporarily and permanently restricted assets from dispositions	–	–	–	(5,700)	(11,373)	(17,073)
Distributions to noncontrolling owners	–	(19,669)	(19,669)	–	–	(19,669)
Noncontrolling ownership acquisitions	–	9,275	9,275	–	–	9,275
Other changes in net assets	(10,586)	(10,771)	(21,357)	(4,669)	2,888	(23,138)
Net decrease in net assets	(1,446,018)	(22,263)	(1,468,281)	(43,793)	(2,845)	(1,514,919)
Balances, June 30, 2016	6,704,217	423,424	7,127,641	224,524	94,931	7,447,096
Deficit of revenues over expenses	**(41,217)**	**(1,081)**	**(42,298)**	**–**	**–**	**(42,298)**
Net loss from discontinued operations	**(24,257)**	**–**	**(24,257)**	**–**	**–**	**(24,257)**
Change in pension funded status	**(4,422)**	**–**	**(4,422)**	**–**	**–**	**(4,422)**
Temporarily and permanently restricted contributions	**–**	**–**	**–**	**22,750**	**1,513**	**24,263**
Net assets released from restriction for capital	**14,626**	**–**	**14,626**	**(14,626)**	**–**	**–**
Net assets released from restriction for operations	**–**	**–**	**–**	**(6,889)**	**–**	**(6,889)**
Investment (losses) income	**–**	**–**	**–**	**2,995**	**59**	**3,054**
Distributions to noncontrolling owners	**–**	**(9,220)**	**(9,220)**	**–**	**–**	**(9,220)**
Other changes in net assets	**(1,149)**	**(9,527)**	**(10,676)**	**(1,837)**	**(959)**	**(13,472)**
Net (decrease) increase in net assets	**(56,419)**	**(19,828)**	**(76,247)**	**2,393**	**613**	**(73,241)**
Balances, December 31, 2016 (unaudited)	**$ 6,647,798**	**$ 403,596**	**$ 7,051,394**	**$ 226,917**	**$ 95,544**	**$ 7,373,855**

See accompanying notes.

Catholic Health Initiatives

Consolidated Statements of Cash Flows

(In Thousands)

(Unaudited)

	Six Months Ended December 31, 2016	2015
Operating activities		
Decrease in net assets	**$ (73,241)**	$ (391,720)
Adjustments to reconcile decrease in net assets to net cash (used in) provided by operating activities:		
Depreciation and amortization	**436,046**	432,784
Provision for bad debts	**449,785**	475,526
Changes in equity of unconsolidated organizations	**(17,115)**	(30,922)
Net gains on business combinations	**–**	(141,668)
Net gains on sales of facilities and investments in unconsolidated organizations	**(21,106)**	(319)
Noncash operating expenses related to restructuring, impairment and other losses	**35,197**	34
Losses (gains) on defeasance of bonds	**8,506**	(908)
(Increase) decrease in fair value of interest rate swaps	**(123,756)**	25,864
Decrease in unfunded pension liability	**(24,816)**	(15,433)
Net changes in current assets and liabilities:		
Net patient and other accounts receivable	**(461,969)**	(686,254)
Other current assets	**(37,485)**	(11,615)
Current liabilities	**(344,232)**	(187,097)
Other changes	**(42,002)**	25,369
Net cash used in operating activities, before net change in investments and assets limited as to use	**(216,188)**	(506,359)
Net (increase) decrease in investments and assets limited as to use	**(105,111)**	784,200
Net cash (used in) provided by operating activities	**(321,299)**	277,841
Investing activities		
Purchases of property, equipment, and other capital assets	**(332,900)**	(416,994)
Investments in unconsolidated organizations	**(29,736)**	(20,949)
Business acquisitions, net of cash acquired	**(62,328)**	5,521
Proceeds from asset sales	**197,873**	82,819
Distributions from investments in unconsolidated organizations	**19,766**	28,193
Net repayments of notes receivable	**5,237**	7,676
Other changes	**(1,814)**	81
Net cash used in investing activities	**(203,902)**	(313,653)
Financing activities		
Proceeds from issuance of debt and bank loans	**240,622**	583,246
Repayment of debt	**(375,972)**	(524,830)
Swap cash collateral received (posted)	**126,742**	(43,343)
Net cash (used in) provided by financing activities	**(8,608)**	15,073
Decrease in cash and equivalents	**(533,809)**	(20,739)
Cash and equivalents at beginning of period	**1,305,242**	948,369
Cash and equivalents at end of period	**$ 771,433**	$ 927,630

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 (MBOs) and other facilities operating in 17 states and includes 104 hospitals, including 4 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 December 31, 2016, and for the three and six months ended December 31, 2016 and 2015, 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, 2016.

The preparation of financial statements in conformity with 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 and six months ended December 31, 2016 and 2015, 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)

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.

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

1. Summary of Significant Accounting Policies (continued)

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 on 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 the regard to the ability to pay.

For the year ended June 30, 2016, CHI added approximately $93.3 million in net patient and other accounts receivable due to the acquisition of various new subsidiaries – see Note 3, *Acquisitions, Affiliations and Divestitures*.

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

	Reserve for Contractual Allowance	Allowance for Bad Debt	Reserve for Charity	Total Accounts Receivable Allowances
Balance at July 1, 2015	$ (3,712,688)	$ (903,127)	$ (304,135)	$ (4,919,950)
Additions	(36,732,943)	(879,841)	(903,790)	(38,516,574)
Reductions	36,469,175	814,821	1,029,754	38,313,750
Balance at June 30, 2016	(3,976,456)	(968,147)	(178,171)	(5,122,774)
Additions	**(19,189,425)**	**(449,785)**	**(551,968)**	**(20,191,178)**
Reductions	**19,222,311**	**431,695**	**505,866**	**20,159,872**
Balance at December 31, 2016	**$ (3,943,570)**	**$ (986,237)**	**$ (224,273)**	**$ (5,154,080)**

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 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 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 Held for Sale

A long-lived asset or disposal group of assets and liabilities that is expected to be sold within one year is classified as held for sale. 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.

During the first quarter of fiscal year 2017, and as part of CHI's long-term effort to improve the mix of owned and leased assets, CHI sold various real estate assets and entered into operating lease agreements with the buyers. The assets had a total net book value of $176.8 million, including $5.1 million of net intangible assets, and were sold for gross proceeds of $195.9 million, resulting in the recognition of a $14.2 million gain on sale reflected in the consolidated statements of operations for the six months ended December 31, 2016, as well as $6.2 million in long-term deferred gains and $0.7 million in short-term deferred gains reflected in other-long term liabilities and accrued expenses, respectively, on the consolidated balance sheet, which will be amortized over the lease term.

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 $3.1 million and $5.4 million was recorded in the three months ended December 31, 2016 and 2015, respectively, and $6.2 million and $10.5 million was recorded in the six months ended December 31, 2016 and 2015, 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 and degree of influence over that organization. The income or loss on 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 $2.5 million and $3.1 million was recorded in the three months ended December 31, 2016 and 2015, respectively, and $6.6 million and $6.3 million was recorded in the six months ended December 31, 2016 and 2015, 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 December 31, 2016, with the exception of the Houston MBO discussed below. 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 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.

Effective in November 2016, the Houston MBO acquired various physician and diagnostic operations in Texas which resulted in the recognition of $34.4 million of goodwill, calculated as the difference between the consideration paid and the fair value of assets acquired and liabilities assumed. Based upon the Houston MBO's quantitative goodwill analysis performed as of June 30, 2016 which determined that all of the Houston MBO's goodwill balances were impaired, and based on the Houston MBO's continued underperformance in the current fiscal year-to-date, CHI performed a goodwill impairment review of the Houston MBO as of December 31, 2016. The goodwill impairment review indicated that the fair value of the Houston MBO's net assets remained below its carrying value and could not support a goodwill balance. As a result, CHI

1. Summary of Significant Accounting Policies (continued)

determined that the $34.4 million of goodwill recorded in November 2016 was impaired, and an impairment charge was recorded in the consolidated statement of operations for the three months ended December 31, 2016.

As of June 30, 2016, CHI determined that $111.2 million of goodwill attributable to the Houston MBO operations was impaired and an impairment charge was recorded in the consolidated statement of operations for the fourth quarter of fiscal year 2016.

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

	December 31, 2016	June 30, 2016
Intangible assets, beginning of period	**$ 251,776**	$ 238,491
Current year acquisitions	**2,279**	13,285
Other adjustments	**(11,325)**	–
Intangible assets, end of period	**242,730**	251,776
Accumulated amortization, beginning of period	**(50,680)**	(38,140)
Intangible amortization expense	**(6,636)**	(12,783)
Other adjustments	**8,198**	243
Accumulated amortization, end of period	**(49,118)**	(50,680)
Intangible assets, net	**193,612**	201,096
Goodwill, beginning of period	**261,742**	350,149
Current year acquisitions	**52,256**	22,766
Impairments	**(34,419)**	(111,173)
Other adjustments	**(218)**	–
Goodwill, end of period	**279,361**	261,742
Total intangible assets and goodwill, net	**$ 472,973**	$ 462,838

1. Summary of Significant Accounting Policies (continued)

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. Notes receivable from related entities at December 31, 2016, and June 30, 2016, include balances from Bethesda Hospital, Inc. (Bethesda), the non-CHI joint operating agreement (JOA) partner in the Cincinnati, Ohio JOA.

A summary of notes receivable and other assets is as follows (in thousands):

	December 31, 2016	June 30, 2016
Notes receivable:		
From related entities	**$ 140,930**	$ 148,289
Other	**29,506**	36,384
Long-term pledge receivables	**39,184**	36,324
Reinsurance recoverable on unpaid losses and loss adjustment expense	**32,226**	32,226
Deferred compensation assets	**80,989**	81,722
Other long-term assets	**111,457**	111,577
Total notes receivable and other	**$ 434,292**	$ 446,522

Bethesda is a Designated Affiliate in the CHI credit group under the Capital Obligation Document (COD). As conditions of joining the CHI credit group, Bethesda has agreed to certain covenants related to corporate existence, insurance coverage, exempt use of bond-financed facilities, maintenance of certain financial ratios and compliance with limitations on the incurrence of additional debt. Based upon management's review of the creditworthiness of Bethesda and its compliance with the covenants and limitations, no allowances for uncollectible notes receivable were recorded at December 31, 2016, and June 30, 2016. Subsequent to December 31, 2016, Bethesda repaid their note receivable; after December 31, 2016, Bethesda was no longer a Designated Affiliate in the CHI credit group under the COD.

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 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 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 generally accepted accounting principles.

1. Summary of Significant Accounting Policies (continued)

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 or losses from bond defeasance, net interest cost and changes in fair value of interest rate swaps, and the nonoperating component of 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.

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 $58.0 million and $53.7 million in the three months ended December 31, 2016 and 2015, respectively, and $114.8 million and $107.1 million in the six months ended December 31, 2016 and 2015, respectively.

Other Operating Revenues

Other operating revenues include services sold to external health care providers, gains on the 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 the sales of assets, 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.

1. Summary of Significant Accounting Policies (continued)

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.

Functional Expenses

CHI provides health care 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 percent of total operating expenses were approximately 5.4% and 5.6% for the three months ended December 31, 2016 and 2015, respectively, and 5.6% for the six months ended December 31, 2016 and 2015.

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 and long-lived asset 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.

1. Summary of Significant Accounting Policies (continued)

Following is detail of restructuring, impairment and other losses (dollars in thousands):

	Three Months Ended December 31,		Six Months Ended December 31,	
	2016	**2015**	**2016**	**2015**
Impairment charges	**$ 37,933**	$ –	**$ 35,203**	$ 34
Changes in business operations	**22,614**	10,834	**65,123**	30,803
Severance costs	**17,772**	7,500	**26,290**	10,456
Total from continuing operations	**78,319**	18,334	**126,616**	41,293
Discontinued operations	**418**	–	**1,107**	(5)
Total restructuring, impairment and other losses	**$ 78,737**	$ 18,334	**$ 127,723**	$ 41,288

Discontinued operations are reported in the consolidated statements of changes in net assets.

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 quarterly 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. generally accepted accounting principles (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.

1. Summary of Significant Accounting Policies (continued)

New Accounting Pronouncements

Presentation of Financial Statements of Not-for-Profit Entities – In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-14, *Not-for Profit Entities (Topic 958)*, to change the way a not-for-profit entity (NFP) classifies and presents net assets on the face of the financial statements, and presents information in the financial statements and notes about the NFP's liquidity, financial performance and cash flows. The amendment changes the way an NFP reports classes of net assets, from the currently required three classes to two, by eliminating the distinction between resources with permanent restrictions and those with temporary restrictions. The amendment also requires the NFP to provide enhanced disclosure about the nature, amounts and effects of the various types of donor-imposed restrictions, the NFP's management of its liquidity to meet short-term demands for cash, and the types of resources used and how they are allocated to carrying out the NFP's activities. ASU 2016-14 is effective for fiscal years beginning after December 15, 2017, and for interim periods within fiscal years beginning after December 15, 2018. Early application is permitted.

Classification of Certain Cash Receipts and Cash Payments – In August 2016, the FASB issued ASU No. 2016-15, *Statement of Cash Flows (Topic 230)*, to provide guidance on the presentation and classification of eight specific cash flow issues, which includes debt prepayment or debt extinguishment costs, contingent consideration payments made after a business combination, proceeds from the settlement of insurance claims, distributions received from equity method investees, and separately identifiable cash flows and application of the predominance principle. The objective of the amendment is to reduce the existing diversity in practice. ASU 2016-15 is effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted.

Restricted Cash – In November 2016, the FASB issued ASU No. 2016-18, *Statement of Cash Flows (Topic 230)*, to provide guidance on the presentation of restricted cash or restricted cash equivalents in the statement of cash flows. The amendments require that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. ASU 2016-18 is effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted.

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 December 31, 2016, and June 30, 2016, 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 $358.6 million and $351.9 million at December 31, 2016, and June 30, 2016, 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.

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 December 31, 2016, and June 30, 2016, CHI holds a 23.8% equity method investment in Conifer totaling $593.9 million and $570.7 million, respectively. The investment in Conifer was acquired as part of a multiyear 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 multiyear agreement with Conifer, CHI also has a deferred income balance related to the Conifer agreement of $445.0 million and $458.9 million as of December 31, 2016, and June 30, 2016, respectively, reported in other liabilities on the 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 on the consolidated statements of operations.

2. Joint Operating Agreements and Investments in Unconsolidated Organizations (continued)

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 $256.5 million and $261.8 million greater than CHI's equity interest in the underlying net assets of Conifer as of December 31, 2016, and June 30, 2016, respectively, due to basis differences in the carrying amounts of the tangible and intangible assets of $189.8 million and $195.1 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 December 31, 2016, and June 30, 2016.

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

The following table is a summary of the business combinations and affiliations that occurred in fiscal year 2017 (in thousands):

Fiscal year 2017	
Purchase consideration:	
Cash	$ 53,328
Current liabilities	723
Debt	27,755
	$ 81,806
Purchase price allocation:	
Inventory	$ 3,041
Property and equipment	38,023
Intangible assets	11,180
Goodwill	34,419
Current liabilities	(752)
Debt	(4,105)
	$ 81,806

3. Acquisitions, Affiliations and Divestitures (continued)

During fiscal year-to-date December 31, 2016, 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.

The following table is a summary of the business combinations and affiliations that occurred in fiscal year 2016 (in thousands):

	Trinity	Brazosport	LUH	Other	Total
Fiscal year 2016					
Purchase consideration:					
Cash	$ –	$ –	$ –	$ 17,225	$ 17,225
Noncontrolling interest	–	–	–	9,275	9,275
Business combination gains	72,717	21,293	111,551	17,475	223,036
	72,717	21,293	111,551	43,975	249,536
Equity interest in Trinity	72,392	–	–	–	72,392
	$ 145,109	$ 21,293	$ 111,551	$ 43,975	$ 321,928

	Trinity	Brazosport	LUH	Other	Total
Fiscal year 2016					
Purchase price allocation:					
Cash and investments	$ 133,349	$ 18,650	$ 70,416	$ 5,420	$ 227,835
Patient and other A/R	40,363	22,191	25,346	5,443	93,343
Other current assets	6,373	3,200	9,775	786	20,134
Property and equipment	57,598	36,292	111,609	16,970	222,469
Intangible assets	210	–	–	19,848	20,058
Other assets	8,962	144	13,276	–	22,382
Current liabilities	(26,246)	(18,777)	(17,455)	(2,994)	(65,472)
Pension liability	(16,408)	–	–	–	(16,408)
Other liabilities	(9,818)	(671)	–	–	(10,489)
Debt	(40,069)	(38,450)	(97,765)	(1,437)	(177,721)
Restricted assets	(9,205)	(1,286)	(3,651)	(61)	(14,203)
	$ 145,109	$ 21,293	$ 111,551	$ 43,975	$ 321,928

3. Acquisitions, Affiliations and Divestitures (continued)

Trinity Health System – Effective February 1, 2016, CHI became the sole owner of Trinity Health System (Trinity) based in Steubenville, Ohio, when it acquired the remaining 50% ownership in Trinity. The other 50% ownership in Trinity was held by Sylvania Franciscan Health (Sylvania), which CHI acquired in November 2014; the remeasurement of Sylvania's investment in Trinity resulted in an immaterial gain on Sylvania's 50% equity ownership. Trinity owns and operates Trinity Medical Center East, Trinity Medical Center West, Tony Teramana Cancer Center, and numerous outpatient clinics located in eastern Ohio. The transaction resulted in the recognition of a $72.7 million gain in the third quarter of fiscal year 2016, calculated as the fair value of identifiable assets acquired and liabilities assumed, determined based upon Level 3 inputs, including estimated future cash flows and probability-weighted performance assumptions.

For the three months ended December 31, 2016, Trinity reported $56.2 million in operating revenues and $(0.6) million of deficit of revenues over expenses in the CHI consolidated results of operations. For the six months ended December 31, 2016, Trinity reported $116.7 million in operating revenues and $9.9 million of excess of revenues over expenses in the CHI consolidated results of operations.

Brazosport Regional Health System – Effective February 1, 2016, a consolidated subsidiary of CHI signed an affiliation agreement with Brazosport Regional Health System (Brazosport) in Lake Jackson, Texas, to become part of CHI. Brazosport is a nonprofit health care organization that includes a 158-bed hospital that operates the only Level III trauma center in Brazoria County. The transaction resulted in the recognition of a $21.3 million gain in the third quarter of fiscal year 2016, calculated as the fair value of identifiable assets acquired and liabilities assumed, determined based upon Level 3 inputs, including estimated future cash flows and probability-weighted performance assumptions. For the three months ended December 31, 2016, Brazosport reported $20.4 million in operating revenues and $(2.5) million of deficit of revenues over expenses in the CHI consolidated results of operations. For the six months ended December 31, 2016, Brazosport reported $39.4 million in operating revenues and $(3.9) million of deficit of revenues over expenses in the CHI consolidated results of operations.

3. Acquisitions, Affiliations and Divestitures (continued)

Longmont United Hospital – Effective August 1, 2015, a direct affiliate of CHI entered into a Joint Operating and Management Agreement with Longmont United Hospital (LUH) to become the sole and exclusive agent to manage and operate the LUH business for a period of 99 years. The transaction resulted in the recognition of an estimated gain of $124.4 million for the six months ended December 31, 2015, and a total gain of $111.6 million gain for fiscal year 2016, calculated as the fair value of identifiable assets acquired and liabilities assumed, determined based upon Level 3 inputs including estimated future cash flows and probability-weighted performance assumptions. For the three months ended December 31, 2016 and 2015, LUH reported $44.2 million and $43.5 million in operating revenues, respectively, and $(5.4) million and $(4.3) million of deficit of revenues over expenses, respectively, in the CHI consolidated results of operations. For the six months ended December 31, 2016, and for the period from August 1, 2015 through December 31, 2015, LUH reported $88.7 million and $72.5 million in operating revenues, respectively, and $(9.5) million and $(5.5) million of deficit of revenues over expenses, respectively, in the CHI consolidated results of operations.

Had CHI owned Trinity, Brazosport and LUH as of the beginning of the 2016 fiscal year, CHI's unaudited pro forma results for the three and six months ended December 31, 2016 and 2015, would have been as presented below (in thousands):

	Three Months Ended December 31,		**Six Months Ended December 31,**	
	2016	**2015**	**2016**	**2015**
	Pro Forma Total CHI	**Pro Forma Total CHI**	**Pro Forma Total CHI**	**Pro Forma Total CHI**
Operating revenues	**$ 4,099,086**	$ 4,016,109	**$ 8,098,922**	$ 7,916,480
Operating loss before restructuring	**(84,287)**	(99,834)	**(254,486)**	(206,422)
(Deficit) excess of revenues over expenses	**(40,958)**	994	**(39,692)**	(479,298)

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.

3. Acquisitions, Affiliations and Divestitures (continued)

KentuckyOne/UMC JOA dissolution – In December 2016, KentuckyOne Health, a subsidiary of CHI, and University Medical Center (UMC) agreed to restructure their existing JOA, originally entered into in March 2013, which had given KentuckyOne Health control over substantially all of UMC's operations, including University of Louisville Hospital and the James Graham Brown Cancer Center. Among the various capital investment and funding aspects of the new agreement, the new agreement also calls for UMC to take over the management of UMC operations effective on July 1, 2017, at which time CHI would cease consolidating the operations of UMC.

For the three months ended December 31, 2016 and 2015, UMC reported total operating revenues of $130.9 million and $124.5 million, respectively, and excess of revenues over expenses of $6.9 million and $4.3 million, respectively. For the six months ended December 31, 2016 and 2015, UMC reported total operating revenues of $256.3 million and $253.8 million, respectively, and excess of revenues over expenses of $7.1 million and $9.1 million, respectively. The CHI consolidated balance sheets also included UMC total assets of $605.9 million and $516.9 million as of December 31, 2016, and June 30, 2016, respectively. Upon deconsolidation of UMC, CHI expects to incur a loss of approximately $271.6 million.

Dignity Health – In October 2016, CHI signed a non-binding letter of intent with Dignity Health to explore aligning the organizations. It is anticipated that discussions will continue through early 2017.

Discontinued Operations

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. The sale of the operations is being actively marketed and is anticipated to close in fiscal year 2017. The QualChoice Health operations are reflected as discontinued operations and held for sale as of December 31, 2016, and June 30, 2016, in accordance with ASU No. 2014-08, *Reporting Discontinued Operations and Disclosure of Disposals of Components of an Entity*, as the operations held for sale are deemed to represent a strategic shift in CHI's operations which will have a major effect on its financial results.

3. Acquisitions, Affiliations and Divestitures (continued)

Effective in fiscal year 2016, CHI sold the operations of the Reading, Pennsylvania, MBO and the Denville, New Jersey, MBO for gross proceeds of $206.0 million. The Denville MBO sale included $20.9 million of working capital settlements; as of December 31, 2015, CHI had received $62.0 million for the sale of the hospital operations of the Denville MBO plus $16.0 million in estimated working capital settlements net of closing costs. A final settlement of the Reading MBO working capital settlements is expected in fiscal year 2017. The Reading and Denville MBOs are reflected as discontinued operations in accordance with Accounting Standards Codification (ASC) 205-20, *Discontinued Operations.* The results of operations of QualChoice Health, the Reading MBO and the Denville MBO are reported in the consolidated statements of changes in net assets as discontinued operations.

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

	December 31, 2016	June 30, 2016
Net patient accounts receivable	**$ 85**	$ 810
Other accounts receivable	**34,021**	75,769
Investments held for insurance purposes	**131,766**	116,950
Property and equipment, net	**11,697**	12,598
Other assets	**8,003**	10,171
Total major classes of assets of the discontinued operations	**185,572**	216,298
Other assets classified as held for sale	**7,297**	6,987
Total assets classified as held for sale	**$ 192,869**	$ 223,285
Accounts payable and accrued expenses	**$ 21,346**	$ 37,995
Self-insured reserves	**62,776**	74,629
Other liabilities	**18,804**	19,190
Total major classes of liabilities of the discontinued operations classified as held for sale	**$ 102,926**	$ 131,814

3. Acquisitions, Affiliations and Divestitures (continued)

The $7.3 million and $7.0 million of other assets classified as held for sale as of December 31, 2016, and June 30, 2016, respectively, represent real estate assets which are scheduled to be sold in fiscal year 2017, 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 for the three and six months ended December 31 (in thousands):

	Three Months Ended December 31,		Six Months Ended December 31,	
	2016	**2015**	**2016**	**2015**
Net patient service revenues	**$ 119**	$ 5,928	**$ 291**	$ 76,036
Insurance premium revenues	**159,336**	119,142	**312,685**	234,583
Other revenues	**870**	30,220	**3,648**	66,193
Total operating revenues	**160,325**	155,290	**316,624**	376,812
Salaries, wages and employee benefits	**9,881**	46,677	**20,771**	125,717
Medical claims	**149,670**	107,818	**286,858**	207,057
Depreciation and amortization	**738**	1,041	**1,285**	2,682
Other expenses	**13,281**	29,713	**29,962**	79,507
Total operating expenses	**173,570**	185,249	**338,876**	414,963
Restructuring and other (losses) income	**(418)**	–	**(1,107)**	5
Nonoperating (losses) income	**(1,155)**	745	**(898)**	736
Deficit of revenues over expenses	**$ (14,818)**	$ (29,214)	**$ (24,257)**	$ (37,410)

The discontinued operations reported $0.8 million and $(0.5) million in capital expenditures for the three months ended December 31, 2016 and 2015, respectively, and $0.8 million and $0.5 million for the six months ended December 31, 2016 and 2015, 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:

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.

4. Net Patient Services Revenues (continued)

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 December 31,		Six Months Ended December 31,	
	2016	**2015**	**2016**	**2015**
Medicare	**31%**	32%	**33%**	32%
Medicaid	**13**	13	**13**	12
Managed care	**43**	39	**39**	38
Self-pay	**2**	4	**3**	5
Commercial and other	**11**	12	**12**	13
	100%	100%	**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 $71.9 million and $108.4 million at December 31, 2016, and June 30, 2016, respectively, are included in third-party liabilities. Net patient services revenues from continuing operations increased by $45.3 million and $38.5 million for the three months ended December 31, 2016 and 2015, respectively, and $53.3 million and $46.6 million for the six months ended December 31, 2016 and 2015, 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):

	December 31, 2016	June 30, 2016
Cash and equivalents	**$ 223,418**	$ 185,325
CHI Investment Program	**5,480,912**	5,266,787
Marketable equity securities	**334,020**	342,327
Marketable fixed-income securities	**646,477**	802,382
Hedge funds and other investments	**26,649**	24,360
	6,711,476	6,621,181
Less current portion	**(121,176)**	(63,146)
	$ 6,590,300	$ 6,558,035

Net unrealized gains in investments and assets limited as to use at December 31, 2016 and June 30, 2016, were $154.9 million and $120.1 million, respectively.

CHI attempts to reduce its market risk by diversifying its investment portfolio using cash equivalents, marketable equity securities, fixed-income 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 by CHI and 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 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 December 31, 2016, and June 30, 2016, respectively.

The Program asset allocation is as follows:

	December 31, 2016	**June 30, 2016**
Equity securities	**40%**	44%
Fixed-income securities	**40**	32
Alternative investments	**19**	23
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.

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

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 December 31, 2016, the Program had committed to invest $805.0 million in 39 funds, of which $676.7 million had been invested. The remaining $128.3 million will be invested when, and if, requested by the funds. Alternative investments within the Program have limited liquidity. As of December 31, 2016, illiquid investments not available for redemption totaled $404.5 million, and investments available for redemption within 180 days at the request of the Program totaled $752.6 million.

Investment income (losses) is comprised of the following (in thousands):

	Three Months Ended December 31,		Six Months Ended December 31,	
	2016	2015	**2016**	2015
Dividend and interest income	**$ 40,870**	$ 39,335	**$ 69,584**	$ 74,022
Net realized gains	**82,358**	28,675	**141,369**	41,818
Net unrealized (losses) gains	**(104,513)**	42,534	**33,784**	(287,855)
Total investment income (loss) from continuing operations	**18,715**	110,544	**244,737**	(172,015)
Total investment (loss) income from discontinued operations	**(1,155)**	745	**(898)**	736
Total investment income (loss)	**$ 17,560**	$ 111,289	**$ 243,839**	$ (171,279)

Direct expenses of the Program are less than 0.4% of total assets during 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.
>
> 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 CHI Investment 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 December 31, 2016, and June 30, 2016 (in thousands).

6. Fair Value of Assets and Liabilities (continued)

	December 31, 2016			
	Fair Value Measurements at Reporting Date Using			
		(Level 1)	(Level 2)	(Level 3)
	Fair Value as of December 31	Quoted Prices in Active Markets	Other Observable Inputs	Unobservable Inputs
Assets				
Assets limited as to use:				
Cash and short-term investments	$ 223,418	$ 202,706	$ 20,712	$ –
Equity securities	334,020	334,020	–	–
Fixed-income securities	646,477	129,089	517,388	–
Other investments	602	–	–	602
Deferred compensation assets:				
Cash and short-term investments	7,207	7,207	–	–
	$ 1,211,724	$ 673,022	$ 538,100	$ 602
Liabilities				
Interest rate swaps	$ 292,039	$ –	$ 292,039	$ –
Contingent consideration	175,277	–	–	175,277
Deferred compensation liability	7,207	7,207	–	–
	$ 474,523	$ 7,207	$ 292,039	$ 175,277

6. Fair Value of Assets and Liabilities (continued)

	June 30, 2016			
	Fair Value Measurements at Reporting Date Using			
		(Level 1)	(Level 2)	(Level 3)
	Fair Value	Quoted Prices in Active Markets	Other Observable Inputs	Unobservable Inputs
Assets				
Assets limited as to use:				
Cash and short-term investments	$ 185,325	$ 183,641	$ 1,684	$ –
Marketable equity securities	342,327	342,327	–	–
Marketable fixed-income securities	802,382	143,263	659,119	–
Other investments	428	–	–	428
Deferred compensation assets:				
Cash and short-term investments	8,248	8,248	–	–
	$ 1,338,710	$ 677,479	$ 660,803	$ 428
Liabilities				
Interest rate swaps	$ 416,277	$ –	$ 416,277	$ –
Contingent consideration	207,204	–	–	207,204
Deferred compensation liability	8,248	8,248	–	–
	$ 631,729	$ 8,248	$ 416,277	$ 207,204

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 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 $29.1 million of payments made since June 30, 2016, and to reflect a $2.8 million decrease for changes in payment assumptions.

7. Debt Obligations

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

	Maturity Date	Interest Rates at December 31, 2016	December 31, 2016	June 30, 2016
Debt secured under the CHI COD				
Variable-rate bonds:				
CHI Series 2004B	2044	1.66%	**$ 54,200**	$ 54,200
CHI Series 2004C	2039	0.93–1.0	**96,700**	96,700
CHI Series 2008A	2037	1.16	**119,450**	120,175
CHI Series 2008C	2040	1.67	**52,990**	52,990
CHI Series 2011B	2046	1.32–2.12	**158,155**	158,155
CHI Series 2011C	2046	1.51	**118,000**	118,000
CHI Series 2013B	2035	1.72–2.12	**200,000**	200,000
CHI Series 2013C	2046	2.18	**100,000**	100,000
CHI Series 2013E Taxable	2046	2.12	**125,000**	125,000
CHI Series 2013F Taxable	2046	1.99	**75,000**	75,000
CHI Series 2015-1	2032	1.32	**38,400**	38,400
CHI Series 2015-2	2027	1.32	**73,700**	73,700
CHI Series 2015A	2032	1.42–1.48	**68,100**	69,500
CHI Series 2015B	2042	1.42	**50,000**	50,000
CHI Series 2016 Taxable	2021	2.12	**200,000**	–
Commons of Providence Series 2009B	2034	2.42	**5,860**	–
Providence Care Center Series 2009C	2034	2.42	**4,160**	–
Providence Residential Community Series 2009A	2034	2.42	**6,770**	–
Fixed-rate bonds:				
CHI Series 2002A	2017	5.5	**920**	920
CHI Series 2004A	2034	4.75–5.0	**140,985**	140,985
CHI Series 2006A	2042	4.0–5.0	**268,015**	270,635
CHI Series 2008D	2039	5.0–6.38	**445,220**	452,065
CHI Series 2009A	2040	4.0–5.5	**653,280**	672,050
CHI Series 2009B	2040	1.88–5.25	**217,720**	217,720
CHI Series 2011A	2041	3.25–5.25	**451,270**	451,270
CHI Series 2012A	2036	3.5–5.0	**199,670**	264,170
CHI Series 2012 Taxable	2043	1.6–4.35	**1,500,000**	1,500,000
CHI Series 2013A	2045	5.0–5.75	**600,600**	600,600
CHI Series 2013D Taxable	2024	2.6–4.2	**540,000**	540,000
Madonna Manor Series 2010	2040	7.0	**27,510**	27,990
St. Clare Commons Series 2012A	2042	3.17	**31,335**	31,720
St. Joseph Manor Series 1997B	2028	5.38	**13,895**	13,895
St. Joseph Regional Health Center Series 1993B	2019	6.0	**8,760**	8,760
St. Joseph Regional Health Center Series 1997A	2028	5.38	**37,427**	45,017
St. Joseph Regional Health Center Series 2014	2032	2.84	**25,255**	25,255

7. Debt Obligations (continued)

	Maturity Date	Interest Rates at December 31, 2016	December 31, 2016	June 30, 2016
Debt secured under the CHI COD (continued)				
Bank line of credit	6/2017	1.62%	**$ 250,000**	$ 250,000
Bank line of credit	–	–	**–**	200,000
Bank loan	12/2017	2.43	**333,741**	333,741
Commercial paper	2017	1.05	**815,519**	815,519
Unamortized debt premium and discount, net			**25,726**	31,580
Unamortized debt issuance costs			**(30,013)**	(31,295)
Total debt secured under the CHI COD			**8,103,320**	8,194,417
Other debt				
St. Leonard Master Trust Indenture	2040	6.0–6.63	**41,585**	41,892
Note payable issued to Episcopal Health Foundation	2020	4.0	**167,053**	167,053
Capital leases			**183,439**	177,771
Other debt			**466,900**	476,141
Total debt obligations			**8,962,297**	9,057,274
Less amounts classified as current:				
Variable-rate debt with self-liquidity			**(96,700)**	(96,700)
Commercial paper and current portion of debt			**(1,987,728)**	(1,769,390)
Long-term debt			**$ 6,877,869**	$ 7,191,184

The fair value of debt obligations was approximately $9.0 billion at December 31, 2016. Management has determined the carrying values of the variable-rate bonds are representative of fair values as of December 31, 2016, 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. Effective in September 2016, CHI issued obligations under the COD to support the repayment of three series of previously outstanding Providence, Ohio, bonds (the Ohio bonds); the Ohio bonds were classified as other debt as of June 30, 2016, in the table above. There were no modifications to the payment terms or holders of the Ohio bonds.

7. Debt Obligations (continued)

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.

Debt Redemptions and Reissuances

In September 2016, CHI redeemed $37.1 million of bonds that were originally acquired as part of the LUH business combination in fiscal year 2016. The bond redemption was funded by the issuance of $34.1 million of commercial paper and restricted investments.

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 for the three months ended September 30, 2016.

In December 2016, CHI issued $200.0 million of Series 2016 Taxable variable-rate bonds. Proceeds were used to repay the $200.0 million bank line of credit which matured in November 2016.

Liquidity Facilities, Credit Facilities and Other Lines of Credit

CHI has two types of external liquidity facilities: those that are dedicated to specific series of variable-rate demand bonds (VRDBs) and those that are not dedicated to a particular series of VRDBs but may be used to support CHI's obligations to fund tenders of VRDBs and pay the maturing principal of commercial paper. Liquidity facilities that are dedicated to specific series of bonds were $1.0 billion and $824.0 million at December 31, 2016, and June 30, 2016, respectively, of which $6.3 million and $5.8 million are classified as current at December 31, 2016, and June 30, 2016, respectively. The remaining $1.4 billion and $1.2 billion is reported as long-term debt at December 31, 2016, and June 30, 2016, respectively, due to the repayment terms on any associated drawings extending beyond one year under the terms of the specific agreements.

Liquidity facilities not dedicated for specific series of VRDBs but used to support CHI's obligations to fund tenders and to pay maturing principal of commercial paper were $425.0 million at December 31, 2016, and June 30, 2016. Commercial paper balances of $815.5 million at December 31, 2016, and June 30, 2016, were classified as current due to maturities of less than one year.

7. Debt Obligations (continued)

At both December 31, 2016, and June 30, 2016, $96.7 million of VRDBs were classified as current due to the holder's ability to put such VRDBs back to CHI on a daily basis, after providing seven-day notice to tender, without liquidity facilities dedicated to these bonds.

CHI had a credit facility with Bank of New York Mellon totaling $69.0 million at both December 31, 2016, and June 30, 2016, of which letters of credit totaling $63.8 million and $63.9 million have been designated for the benefit of third parties at December 31, 2016, and June 30, 2016, respectively, principally in support of the self-insurance programs administered by FIIL. No amounts were outstanding under this credit facility at December 31, 2016, and June 30, 2016.

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-payer swap agreements convert CHI's variable-rate debt to fixed-rate debt. Generally, it is CHI 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.

Based upon the swap agreements in place as of December 31, 2016, a reduction in CHI's credit rating to BBB+ or BBB would obligate CHI to post additional cash collateral of $38.0 million or $67.0 million, respectively. 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 $77.7 million as of December 31, 2016.

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 December 31, 2016, and June 30, 2016, the net swap liability reflected in other liabilities was $77.7 million and $75.1 million, respectively, net of swap collateral posted of $214.4 million and $341.1 million, respectively. The change in the fair value of swap agreements was a net gain of $114.1 million and $22.1 million, for the three months ended December 31, 2016 and 2015, respectively, and a net gain of $123.8 million and a net loss of $(25.9) million for the six months ended December 31, 2016 and 2015, respectively, reflected in realized and unrealized gains (losses) on interest rate swaps in the accompanying consolidated statements of operations.

7. Debt Obligations (continued)

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

	Maturity Date	Swap Contracts Outstanding December 31, 2016	Swap Contracts Outstanding June 30, 2016	Fair Value Liability (Asset) December 31, 2016	Fair Value Liability (Asset) June 30, 2016	Notional Amount December 31, 2016	Notional Amount June 30, 2016
Basis swaps	3/2028	**1**	1	**$ (211)**	$ (736)	**$ 30,000**	$ 30,000
Fixed payer swaps	2017–2047	**16**	16	**290,545**	415,308	**1,448,556**	1,452,710
Total return swaps	2017–2020	**26**	29	**1,705**	1,705	**216,752**	223,787
		43	46	**$ 292,039**	$ 416,277	**$ 1,695,308**	$ 1,706,497

8. Retirement Plans

CHI Pension Plan

CHI and its direct affiliates maintain a variety of noncontributory, defined benefit retirement plans (Retirement Plans) for its 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. Vesting occurs over a five-year period. 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.

CHI has increased its expected fiscal year 2017 contribution to the Plans to $66.5 million from $8.2 million previously disclosed in the audited financial statements as of and for the year ended June 30, 2016.

8. Retirement Plans (continued)

Estimated amounts for the components of net periodic pension expense (income) 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 December 31,		Six Months Ended December 31,	
	2016	**2015**	**2016**	**2015**
Components of net periodic pension (credit) expense:				
Service cost	**$ 2,335**	$ 3,880	**$ 4,670**	$ 7,759
Interest cost	**37,915**	50,298	**75,831**	100,596
Expected return on the plans' assets	**(67,925)**	(68,680)	**(135,851)**	(137,359)
Actuarial losses	**16,187**	9,534	**32,374**	19,067
	$ (11,488)	$ (4,968)	**$ (22,976)**	$ (9,937)

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 $58.5 million and $47.4 million for the three months ended December 31, 2016 and 2015, respectively, and $118.7 million and $99.1 million for the six months ended December 31, 2016 and 2015, respectively.

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 receivables from patients and third-party payors approximated the following:

	December 31, 2016	June 30, 2016
Medicare	**26%**	27%
Medicaid	**12**	11
Managed care	**38**	33
Self-pay	**7**	11
Commercial and other	**17**	18
	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 December 31, 2016, and June 30, 2016.

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.

10. Commitments and Contingencies (continued)

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 position.

11. Subsequent Events

CHI's management has evaluated events subsequent to December 31, 2016 through February 15, 2017, which is the date these consolidated financial statements were available to be 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 February 2017, a subsidiary of CHI sold certain outpatient ambulatory business lines which will result in an estimated gain on sale of approximately $100 million.

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