

CENTEGRA HEALTH SYSTEM AND AFFILIATES
CONSOLIDATING STATEMENT OF REVENUE AND EXPENSES
FOR THE TWELVE MONTHS ENDED JUNE 30, 2017
Unaudited

	HOSPITAL GROUP	THE CENTEGRA FOUNDATION	NIMED	HEALTH BRIDGE COMBINED	CLINICAL LAB	CMS	CPC	CHWN COMBINED	CIS	ELIMINATIONS	CONSOLIDATED
OPERATING REVENUES											
Routine Services	\$177,983,321	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$177,983,321
Ancillary Services - Inpatient	413,978,983	0	0	0	0	0	0	0	0	0	413,978,983
Ancillary Services - Outpatient	972,079,520	0	0	0	9	0	202,450,473	0	0	(2,388,457)	1,172,141,545
TOTAL PATIENT SERVICES	1,564,041,823	0	0	0	9	0	202,450,473	0	0	(2,388,457)	1,764,103,849
Contractual Allowances	1,066,228,955	0	0	0	69,411	0	129,707,067	0	0	(1,673,170)	1,194,332,263
Provision for Bad Debts	28,697,275	0	0	0	(13,856)	0	11,310,805	0	0	0	39,994,224
Charity Care	19,730,023	0	0	0	0	0	1,989,118	0	0	0	21,719,141
TOTAL DEDUCTIONS FROM REVENUE	1,114,656,252	0	0	0	55,555	0	143,006,990	0	0	(1,673,170)	1,256,045,628
IDPA Funds Received	(23,452,238)	0	0	0	0	0	0	0	0	0	(23,452,238)
NET PATIENT REVENUE	472,837,809	0	0	0	(55,546)	0	59,443,483	0	0	(715,287)	531,510,459
Unrestricted Contributions	(303,705)	451,034	0	0	0	0	0	0	0	303,705	451,034
Other Revenues	9,705,495	0	5,761,271	12,417,887	7,377,340	39,521,718	1,614,657	8,780,603	5,080,739	(58,384,606)	31,875,103
Net Assets Released from Restriction	361,738	361,738	0	0	0	0	0	0	0	(361,738)	361,738
TOTAL OTHER REVENUE	9,763,528	812,772	5,761,271	12,417,887	7,377,340	39,521,718	1,614,657	8,780,603	5,080,739	(58,442,640)	32,687,876
TOTAL OPERATING REVENUES	482,601,337	812,772	5,761,271	12,417,887	7,321,793	39,521,718	61,058,140	8,780,603	5,080,739	(59,157,926)	564,198,335
OPERATING EXPENSES											
Salaries	182,247,318	715,498	0	4,115,773	5,718,962	20,702,641	61,916,415	225,100	0	0	275,641,707
Employee Benefits	42,977,090	178,875	0	675,289	1,509,335	6,259,846	6,360,894	50,641	0	0	58,011,969
Purchased Services	94,021,553	162,792	265,385	3,019,994	3,447	10,332,078	24,856,082	1,317,452	0	(54,019,157)	79,959,625
Supplies	59,102,671	12,641	14,826	369,408	(537)	547,308	23,828	620	0	0	60,070,766
Drugs and IV Solutions	34,384,728	0	0	0	0	392,787	0	0	0	0	34,777,515
Utilities	4,654,884	4,884	56,724	711,388	0	135,769	134,800	4,862	0	0	5,703,310
Professional Fees	8,721,613	0	0	0	0	0	1,277,019	75,975	0	0	10,074,607
Depreciation	23,176,966	0	1,984,963	755,586	0	1,252,825	1,286,651	41,976	0	0	28,498,966
Interest	13,357,576	0	1,981,782	76,388	0	0	0	0	0	0	15,415,746
Insurance	5,400,716	0	11,882	118,748	88,415	103,580	2,530,910	22,571	4,061,492	(5,080,736)	7,257,578
Repairs and Maintenance	8,946,488	0	185,027	487,143	0	35,838	0	0	0	0	9,654,495
Other	6,062,418	560,724	(152,378)	2,026,353	3,269	513,631	9,445,312	8,118,536	151,955	(361,738)	26,368,082
TOTAL OPERATING EXPENSES-BEFORE IPDA	483,054,022	1,635,414	4,348,212	12,356,069	7,322,890	40,276,302	107,831,910	9,857,732	4,213,447	(59,461,631)	611,434,368
IDPA Provider Tax	15,113,301	0	0	0	0	0	0	0	0	0	15,113,301
TOTAL OPERATING EXPENSES	498,167,323	1,635,414	4,348,212	12,356,069	7,322,890	40,276,302	107,831,910	9,857,732	4,213,447	(59,461,631)	626,547,669
OPERATING INCOME (LOSS)	(15,565,985)	(822,642)	1,413,059	61,818	(1,097)	(754,584)	(46,773,770)	(1,077,130)	867,292	303,705	(62,349,334)
NON-OPERATING GAINS (LOSSES)											
Change In Fair Value Of Derivative Instrument	0	0	0	0	0	0	0	0	0	0	0
Extraordinary Gain (Loss)	0	0	0	0	0	0	0	0	0	0	0
Gain/(Loss) on Fixed Assets	102,920	0	0	0	0	0	0	(190,050)	0	0	(87,130)
Investment Income	6,147,270	189,576	28,494	0	0	0	0	0	5,061	0	6,370,402
TOTAL NON-OPERATING INCOME	6,250,190	189,576	28,494	0	0	0	0	(190,050)	5,061	0	6,283,272
EXCESS REVENUES OVER EXPENSES	(\$9,315,795)	(\$633,067)	\$1,441,554	\$61,818	(\$1,097)	(\$754,584)	(\$46,773,770)	(\$1,267,179)	\$872,353	\$303,705	(\$56,066,063)
NET UNREALIZED GAINS/(LOSSES) ON INVESTMENTS	\$9,103,680	\$329,367	\$49,027	\$0	\$0	\$0	\$0	\$0	922,141	\$0	\$10,404,215
CHANGE IN FAIR VALUE OF INTEREST RATE S	\$0	\$0	0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
	(\$212,115)	(\$303,700)	\$1,490,580	\$61,818	(\$1,097)	(\$754,584)	(\$46,773,770)	(\$1,267,179)	\$1,794,494	\$303,705	(\$45,661,848)
TRANSFERS (TO) FROM AFFILIATES	(\$30,192,980)	\$0	\$0	\$0	\$0	\$1,000,000	28,000,000	\$1,192,980	\$0	\$0	\$0
FIN 47 - ASSET RETIREMENT OBLIGATIONS	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
CAPITAL GRANTS	\$1,193,837	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$1,193,837
INCREASE (DECREASE) IN UNREST. NET ASSE	(\$29,211,258)	(\$303,700)	\$1,490,580	\$61,818	(\$1,097)	\$245,416	(\$18,773,770)	(\$74,199)	\$1,794,494	\$303,705	(\$44,468,011)

CENTEGRA HEALTH SYSTEM AND AFFILIATES
CONSOLIDATED BALANCE SHEET
AS OF JUNE 30, 2017
Unaudited

ASSETS	HOSPITAL GROUP	THE CENTEGRA FOUNDATIONS	NIMED	HEALTH BRIDGE COMBINED	CLINICAL LAB	CMS	CPC	CHWN COMBINED	CIS	ELIMINATIONS	CURRENT MONTH JUNE 2017
CURRENT ASSETS:											
Cash and Cash Equivalents	\$8,737,054	\$37,201	\$0	\$9,685	(\$569)	\$5,301	\$12,494	\$1,251,726	\$3,786,390	\$0	13,839,282
Short-Term Investments	46,452,248	72,736	-	-	-	-	-	-	-	-	46,524,984
Assets Limited as to use	-	-	-	-	-	-	-	-	-	-	-
Patient Receivable, Net	73,251,105	-	-	-	(44,103)	-	8,265,034	-	-	-	81,472,037
Other Receivables	3,238,306	-	526,903	886,542	-	(57,894)	384,082	1,495,244	-	-	6,473,183
Due from affiliates, Net	32,864,157	3,158	36,281,386	18,417,083	-	-	-	-	-	(87,565,784)	-
Inventories, at cost	11,203,965	-	-	24,976	-	64,536	-	-	-	-	11,293,476
Prepaid Expenses	8,642,166	-	7,897	23,007	-	218,774	92,224	10,372	6,785	0	9,001,224
Total Current Assets	\$184,389,001	\$113,095	\$36,816,186	\$19,361,293	(\$44,672)	\$230,716	\$8,753,834	\$2,757,342	\$3,793,175	(\$87,565,784)	168,604,186
ASSETS LIMITED AS TO USE:											
Held by Trustee	\$650	\$0	\$164	\$0	\$0	\$0	\$0	\$0	\$0	\$0	815
Interest in Investment-Charitable Remainder Trusts	-	2,361,544	-	-	-	-	-	-	-	-	2,361,544
Internally-designated for Capital Requirements	33,910,155	-	-	-	-	-	-	-	-	-	33,910,155
Pledges Receivable, Net	-	1,950,145	-	-	-	-	-	-	-	-	1,950,145
Less-Amount Required to Meet Current Obligations	\$33,910,805	\$4,311,688	\$164	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$38,222,658
Total Assets Limited as to use	\$33,910,805	\$4,311,688	\$164	\$0	\$0	\$0	\$0	\$0	\$0	\$0	38,222,658
PROPERTY AND EQUIPMENT:											
Land and Land Improvements	\$19,017,434	\$0	\$32,283,825	\$3,402,265	\$0	\$0	\$0	\$0	\$0	\$0	54,703,525
Buildings and Improvements	327,303,626	-	61,184,226	14,904,572	-	-	-	-	-	-	403,392,424
Equipment and Capital Leases	214,908,297	-	2,005,811	1,641,321	-	13,047,404	-	-	-	-	231,602,833
Construction in Progress	37,875,081	-	52,957	111,663	-	1,250,249	-	-	-	-	39,289,951
Less-Accumulated Depreciation	\$599,104,439	\$0	\$95,526,819	\$20,059,821	\$0	\$14,297,654	\$0	\$0	\$0	\$0	728,988,732
	(\$288,419,944)	\$0	(\$21,056,405)	(\$11,431,212)	\$0	(\$9,769,779)	\$0	\$0	\$0	\$0	(330,677,339)
Total Property and Equipment, net	\$310,684,495	\$0	\$74,470,414	\$8,628,610	\$0	\$4,527,875	\$0	\$0	\$0	\$0	398,311,393
OTHER ASSETS:											
Long-Term Intercompany Note Receivable	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	-
Deferred Financing Costs	2,007,421	-	-	40,483	-	-	-	-	-	-	2,047,904
Investment in Affiliates	2,502,162	-	-	-	-	-	-	-	-	(120,000)	2,382,162
Goodwill	-	-	-	-	-	-	21,337,083	-	-	-	21,337,083
Intangible Assets	(36,979)	-	-	-	-	-	4,265,092	-	-	-	4,228,113
Other Long Term Investments	87,675,367	4,846,988	736,457	-	-	-	-	-	19,605,718	-	112,864,529
Estimated Insurance Recoveries	-	-	-	-	-	-	-	-	3,527,000	-	3,527,000
Beneficial Interest in Foundation	9,288,955	-	-	-	-	-	-	-	-	(9,288,955)	-
Other	-	34,891	-	-	-	-	-	-	-	-	34,891
Total Other Assets	\$101,436,926	\$4,881,879	\$736,457	\$40,483	\$0	\$0	\$25,602,175	\$0	\$23,132,718	(\$9,408,955)	146,421,682
	\$630,421,227	\$9,306,662	\$112,023,221	\$28,030,386	(\$44,672)	\$4,758,591	\$34,356,009	\$2,757,342	\$26,925,893	(\$96,974,740)	751,559,919

CENTEGRA HEALTH SYSTEM AND AFFILIATES
CONSOLIDATED BALANCE SHEET
AS OF JUNE 30, 2017
Unaudited

LIABILITIES AND NET ASSETS	HOSPITAL GROUP	THE CENTEGRA FOUNDATIONS	NIMED	HEALTH BRIDGE COMBINED	CLINICAL LAB	CMS	CPC	CHWN COMBINED	CIS	ELIMINATIONS	CURRENT MONTH JUNE 2017
CURRENT LIABILITIES:											
Current Portion of Long-Term Debt	\$0	\$0	\$0	\$835,164	\$0	\$0	\$0	\$0	\$0	\$0	835,164
Accounts Payable	9,907,582	57	896,095	1,321,923	6,123	82,710	53,739	-	-	-	12,268,229
Accrued Expenses	46,049,683	17,647	1,889,859	1,222,071	1,026,218	4,448,046	14,518,997	1,483,826	-	0	70,656,346
Estimated Third-party Payor Settlements Due to Affiliates	26,377,170	-	-	-	-	-	-	-	-	-	26,377,170
Intercompany Maturities Long-term Debt	-	-	-	16,098,032	(88,652)	299,065	68,462,640	2,288,564	506,135	(87,565,784)	0
	-	-	-	-	-	-	-	-	-	-	-
Total Current Liabilities	\$82,334,435	\$17,704	\$2,785,954	\$19,477,190	\$943,689	\$4,829,822	\$83,035,376	\$3,772,390	\$506,135	(\$87,565,784)	110,136,908
LONG-TERM DEBT, Net of Current Portion:											
Revenue Bonds & Capital Leases	\$348,319,970	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	348,319,970
Promissory Notes	-	-	49,367,156	2,414,474	-	-	-	-	-	-	51,781,630
Total Long-term Debt	\$348,319,970	\$0	\$49,367,156	\$2,414,474	\$0	\$0	\$0	\$0	\$0	\$0	400,101,600
OTHER NONCURRENT LIABILITIES											
Estimated Self-Insured Prof Gen Liab Claims	\$1,838,662	\$0	\$0	\$0	\$0	\$0	\$1,649,494	\$0	\$16,340,814	\$0	19,828,971
Other Noncurrent Liabilities	956,809	-	14,921,408	-	-	-	-	-	-	-	15,878,217
TOTAL LIABILITIES	\$433,449,875	\$17,704	\$67,074,518	\$21,891,663	\$943,689	\$4,829,822	\$84,684,870	\$3,772,390	\$16,846,949	(\$87,565,784)	545,945,695
NET ASSETS:											
Unrestricted	\$190,546,084	\$3,083,311	\$44,948,703	\$6,138,723	(\$988,361)	(\$71,230)	(\$50,328,862)	(\$1,015,048)	\$10,078,944	(\$3,203,307)	199,188,957
Temporarily Restricted	\$6,425,268	\$6,205,647	\$0	\$0	\$0	\$0	\$0	\$0	\$0	(\$6,205,648)	6,425,267
Total Net Assets	\$196,971,352	\$9,288,958	\$44,948,703	\$6,138,723	(\$988,361)	(\$71,230)	(\$50,328,862)	(\$1,015,048)	\$10,078,944	(\$9,408,955)	205,614,224
	\$630,421,227	\$9,306,662	\$112,023,221	\$28,030,386	(\$44,672)	\$4,758,591	\$34,356,009	\$2,757,342	\$26,925,893	(\$96,974,740)	\$751,559,919

Centegra Health System and Affiliates
Consolidated Statement of Cash Flows
For the Twelve Months Ended June 30, 2017
Unaudited

	FY 2017
Cash Flows From Operating Activities:	
Decrease in unrestricted net assets	(\$44,468,011)
Decrease in restricted net assets	(\$907,291)
Adjustments to reconcile increase in net assets to net cash provided by operating activities-	
Change in unrealized gains and losses on investments	(\$10,404,215)
Change in long-term claims payable and related provision for excess	2,176,116
Provision for Uncollectible Patient Accounts Receivable	39,994,224
Depreciation and amortization	28,498,966
Changes in other operating elements-	
Increase in Patient accounts receivable	(42,313,801)
Increase in Other current assets	(4,331,079)
Increase in accounts payable and accrued expenses	17,994,255
Increase in Estimated third-party payor settlements	3,636,631
Net cash used for operating activities	<u>(\$10,124,206)</u>
Cash Flows From Investing Activities:	
Decrease in investments	\$13,664,350
Decrease in assets limited as to use	520,635
Property and equipment additions	(47,879,511)
Decrease in pledges receivable	1,179,556
Other long-term assets	-
Other long-term liabilities	(1,137,399)
Net cash used for investing activities	<u>(\$33,652,369)</u>
Cash Flow From Financing Activities:	
Repayment of long-term debt	\$0
Proceeds from issuance of long-term debt, net of issuance costs	<u>\$26,696,639</u>
Net cash provided by financing activities	<u>\$26,696,639</u>
Net Increase (Decrease) In Cash And Cash Equivalents	(\$17,079,936)
Cash And Cash Equivalents, beginning of year	<u>\$30,919,218</u>
Cash And Cash Equivalents, end of year	<u><u>\$13,839,282</u></u>

CENTEGRA HEALTH SYSTEM AND AFFILIATES
Consolidated Statements of Changes in Net Assets
For the Twelve Months Ended June 30, 2017
Unaudited

	<u>FY 2017</u>
Unrestricted net assets:	
Revenue and gains in excess (deficit) of expenses and losses	\$ (56,066,063)
Net assets released from restrictions for purchase of land, buildings, and equipment	1,193,837
Change in net unrealized gains and losses on other-than-trading securities	10,404,215
	<u>\$ (44,468,011)</u>
Temporarily restricted net assets:	
Contributions	212,771
Changes in the fair value of charitable remainder trusts	288,293
Provision for uncollectible pledges	147,219
Net assets released from restrictions for purchased of land, buildings, and equipment	(1,193,837)
Net assets released from restrictions for operations	(361,738)
	<u>(907,291)</u>
Changes in net assets	(45,375,302)
Net assets at beginning of year	250,989,526
Net assets at end of year	<u><u>\$ 205,614,224</u></u>

Historical Utilization Trends

		Fiscal Years ended June 30		
		<u>2015</u>	<u>2016</u>	<u>2017</u>
Total Discharges:	(1)	15,012	14,938	16,851
Acute		13,451	13,124	15,086
Rehab		499	511	455
Behavioral Health		986	1,303	1,310
Skilled Nursing	(2)	76	-	-
Patient Days:	(1)	65,417	64,760	74,575
Acute		51,371	49,752	59,732
Rehab		6,692	6,640	6,363
Behavioral Health		6,523	8,368	8,480
Skilled Nursing		831	-	-
Average Length of Stay		4.4	4.3	4.4
Births		1,651	1,586	1,710
Available Beds (staffed)	(3)	256	264	392
Percentage Occupancy (%)		70.01	67.21	54.01
Medicare Case Mix		1.6267	1.630	1.619
Overall Case Mix		1.4542	1.4662	1.5029
ER Visits		58,554	59,724	69,851
Outpatient Visits		191,245	225,851	250,878

(1) Excludes observation days but includes rehabilitation, behavioral health and skilled nursing.

(2) In September, 2014, the Skilled Nursing Unit discontinued operations.

(3) Centegra Hospital Huntley opened Aug. 9, 2016 with 128 authorized beds. During the ramp-up of this new hospital, Centegra is reflecting 128 authorized beds instead of staffed beds.

Historical and Proforma Debt Service Coverage - Obligated Group

		Fiscal Years ended June 30		
		(in thousands)		
(\$000)		<u>2015</u>	<u>2016</u>	<u>2017</u>
Revenue and gains in excess of expenses		43,016	22,787	(7,977)
Depreciation and amortization		18,406	18,153	25,162
Write off of assets		-	-	-
Interest		<u>8,412</u>	<u>8,688</u>	<u>15,339</u>
Income available for debt service		69,834	49,628	32,524
Maximum annual debt service	(1)	24,795	24,798	25,070
Historical debt service coverage ratio		2.82	2.00	1.30

(1) Excludes debt service obligations of those Affiliates which are not members of the Obligated Group.

Historical and Proforma Capitalization - Obligated Group

		Fiscal Years ended June 30		
		(in thousands)		
(\$000)		<u>2015</u>	<u>2016</u>	<u>2017</u>
Total long-term debt	(1) \$	342,309	\$ 370,314	\$ 397,687
Unrestricted net assets	(2)	<u>248,775</u>	<u>263,215</u>	<u>235,495</u>
Total capitalization	\$	591,085	\$ 633,530	\$ 633,182
Debt to total capitalization		57.91%	58.45%	62.81%

(1) Net of current portion and unamortized bond discount

(2) Does not include Temporarily or Permanently Restricted Net Assets

Trends in Liquidity - Obligated Group

		Fiscal Years ended June 30		
		(in thousands)		
(\$000)		<u>2015</u>	<u>2016</u>	<u>2017</u>
Cash and cash equivalents	(1) \$	27,836	\$ 27,575	\$ 8,737
Investments	(2)	<u>157,597</u>	<u>174,502</u>	<u>168,774</u>
Total cash and cash equivalents and investments	\$	185,433	\$ 202,077	\$ 177,511
Average daily operating expenses	(3)	935.7	1063.9	1300.0
Days cash on hand		198.2	189.9	136.6

(1) Includes investments categorized as current assets

(2) Includes funds designated by the Board for capital requirements plus other long-term investments

(3) Total operating expenses (excluding depreciation, amortization and impairment of fixed assets) divided by actual number of calendar days in each fiscal year.

Sources of Net Patient Revenue

		Fiscal Years ended June 30		
Sources of Revenue		<u>2015</u>	<u>2016</u>	<u>2017</u>
Blue Cross		34.8%	33.1%	33.8%
Other Managed Care		21.4%	22.2%	20.8%
Medicare		28.6%	30.5%	30.2%
Other	(1)	3.6%	3.1%	4.0%
Self-pay		7.5%	5.8%	5.8%
Medicaid		4.1%	5.4%	5.5%
		<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

(1) Commercial, workers' compensation and other.