



Continuing Disclosure
Quarterly Financial Report
Six Months Ended June 30, 2018
(Unaudited)

TEXAS HEALTH RESOURCES

SYSTEM REVENUE BONDS						
Series	Taxable or Tax-Exempt	Issuer	Bond Type	Final Maturity	Principal Amount	Interest Rate
2017A	Tax-Exempt	TCCEFFC ¹	VRDB ²	11/15/2051	\$ 66,735,000	Variable
2017B	Tax-Exempt	TCCEFFC ¹	VRDB ²	11/15/2051	\$ 66,735,000	Variable
2016A	Tax-Exempt	TCCEFFC ¹	Term	2/15/2047	\$ 631,105,000	Multiple Fixed Rate
2015	Taxable	THR	Term	11/15/2055	\$ 300,000,000	4.330%
2015A	Tax-Exempt	TCCEFFC ¹	Term	11/15/2052	\$ 40,000,000	4.250%
2015A	Tax-Exempt	TCCEFFC ¹	Term	11/15/2052	\$ 20,000,000	5.000%
2012A	Taxable	TCCEFFC ¹	Term	11/15/2047	\$ 100,000,000	4.366%
2012B	Tax-Exempt	TCCEFFC ¹	VRDB ²	11/15/2047	\$ 50,000,000	Variable
2010	Tax-Exempt	TCCEFFC ¹	Term	11/15/2040	\$ 157,550,000	5.000%
2008A	Tax-Exempt	TCCEFFC ¹	VRDB ²	11/15/2033	\$ 55,110,000	Variable
2008B	Tax-Exempt	TCCEFFC ¹	VRDB ²	11/15/2033	\$ 42,635,000	Variable
2008C	Tax-Exempt	TCCEFFC ¹	VRDB ²	11/15/2033	\$ 51,435,000	Variable

SYSTEM BANK LOANS					
Taxable or Tax-Exempt	Bank	Bond Type	Final Maturity	Principal Amount	Interest Rate
Tax-Exempt	UMB ³	Variable	9/1/2035	\$ 66,780,000	Variable
Tax-Exempt	Northern ⁴	Variable	12/1/2033	\$ 67,500,000	Variable

¹ Tarrant County Cultural Education Facilities Finance Corporation

² Variable Rate Demand Bond

³ Kansas City Financial Corporation, an affiliate of UMB Bank, N.A.

⁴ The Northern Trust Company

**TEXAS HEALTH RESOURCES
SYSTEM REVENUE BONDS**

WARNING

This document is marked with a dated date and speaks only as of that dated date. Readers are cautioned not to assume that any information has been updated beyond the dated date except as to any portion of the document that expressly states that it constitutes an update concerning specific recent events occurring after the dated date of the document. Any information contained in the portion of the document indicated to concern recent events speaks only as of its date. Texas Health Resources ("THR") expressly disclaims any duty to provide an update of any information contained in this document. The information contained in this document may include "forward looking statements" by using forward-looking words such as "may," "will," "should," "expects," "believes," "anticipates," "estimates," or others. You are cautioned that forward-looking statements are subject to a variety of uncertainties that could cause actual results to differ from the projected results. Those risks and uncertainties include general economic and business conditions, receipt of funding grants, and various other factors which are beyond our control. Because we cannot predict all factors that may affect future decisions, actions, events, or financial circumstances, what actually happens may be different from what THR includes in forward-looking statements.

THR is obligated to provide certain updated financial information and operating data quarterly as specified in the Master Indenture. This document is designed to fulfill that obligation. It does not represent a complete set of financial statements as stipulated by U.S. generally accepted accounting principles.

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TEXAS HEALTH RESOURCES
QUARTERLY CONSOLIDATED CONDENSED FINANCIAL INFORMATION
(Dollars in Thousands)

	Mar 31	Jun 30	Sep 30	Dec 31	Total Year
<u>Fiscal Year 2018</u>					
(Unaudited)					
Net patient service revenue	\$ 1,077,513	\$ 1,127,193	\$ -	\$ -	\$ 2,204,706
Other operating revenue	48,987	51,279	-	-	100,266
Total operating revenue	1,126,500	1,178,472	-	-	2,304,972
Operating expenses	1,083,991	1,106,866	-	-	2,190,857
Operating income	42,509	71,606	-	-	114,115
Nonoperating (losses) gains, net	(4,546)	88,412	-	-	83,866
Revenue and gains in excess of expenses and losses before income taxes	37,963	160,018	-	-	197,981
Less: Income tax expense	1,156	1,182	-	-	2,338
Revenue and gains in excess of expenses and losses	36,807	158,836	-	-	195,643
Less: Revenue and gains in excess of expenses and losses attributable to non-controlling interest	17,246	22,132	-	-	39,378
Revenue and gains in excess of expenses and losses from continuing operations attributable to Texas Health Resources	<u>\$ 19,561</u>	<u>\$ 136,704</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 156,265</u>
<u>Fiscal Year 2017</u>					
(Unaudited)					
Net patient service revenue	\$ 1,068,424	\$ 1,084,769	\$ 1,112,644	\$ 1,165,401	\$ 4,431,238
Other operating revenue	43,329	62,161	58,039	93,789	257,318
Total operating revenue	1,111,753	1,146,930	1,170,683	1,259,190	4,688,556
Operating expenses	1,051,180	1,083,867	1,119,773	1,114,261	4,369,081
Operating income	60,573	63,063	50,910	144,929	319,475
Nonoperating gains, net	187,220	150,710	154,036	137,868	629,834
Revenue and gains in excess of expenses and losses before income taxes	247,793	213,773	204,946	282,797	949,309
Less: Income tax expense	1,495	1,219	701	1,465	4,880
Revenue and gains in excess of expenses and losses	246,298	212,554	204,245	281,332	944,429
Less: Revenue and gains in excess of expenses and losses attributable to non-controlling interest	16,140	21,063	20,560	25,880	83,643
Revenue and gains in excess of expenses and losses from continuing operations attributable to Texas Health Resources	<u>\$ 230,158</u>	<u>\$ 191,491</u>	<u>\$ 183,685</u>	<u>\$ 255,452</u>	<u>\$ 860,786</u>

TEXAS HEALTH RESOURCES
CONSOLIDATED BALANCE SHEETS
(Dollars in Thousands)

	June 30, 2018	December 31, 2017
	(Unaudited)	(Audited)
Assets		
Current Assets:		
Cash and cash equivalents	\$ 428,526	\$ 435,168
Short-term investments	7,275	8,275
Receivables -		
Patient (net of allowance for doubtful accounts of		
\$150,476 at December 31, 2017) ¹	524,947	532,595
Other, net	98,342	110,818
Assets limited as to use	448,806	504,341
Other current assets	146,517	144,267
Total current assets	1,654,413	1,735,464
Assets limited as to use	4,648,011	4,564,995
Property and equipment, net	2,017,745	1,989,474
Investments in unconsolidated affiliates	421,274	369,917
Goodwill and intangible assets, net	146,029	148,412
Other assets, net	90,666	86,966
Total assets	\$ 8,978,138	\$ 8,895,228
Liabilities and Net Assets		
Current Liabilities:		
Current portion of long-term debt	\$ 349,520	\$ 351,226
Accounts payable	206,312	238,004
Estimated third-party payor settlements	36,508	33,275
Accrued salaries, wages, and employee benefits	226,351	239,389
Other accrued liabilities	222,957	240,308
Total current liabilities	1,041,648	1,102,202
Long-term debt, net of current portion	1,591,056	1,600,980
Other noncurrent liabilities	46,381	47,255
Total liabilities	2,679,085	2,750,437
Net Assets:		
Net assets of Texas Health Resources:		
Unrestricted	6,006,166	5,853,468
Temporarily restricted	106,971	98,676
Permanently restricted	72,500	72,520
Total net assets of Texas Health Resources	6,185,637	6,024,664
Noncontrolling ownership interest in equity of consolidated affiliates - unrestricted	113,416	120,127
Total net assets	6,299,053	6,144,791
Total liabilities and net assets	\$ 8,978,138	\$ 8,895,228

¹ Change in presentation for 2018 due to adoption of Accounting Standards Update ("ASU") 2014-09, Revenue from Contracts with Customers (Topic 606). See Strategic Plans and Recent Developments for further discussion.

TEXAS HEALTH RESOURCES
CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS
(Dollars in Thousands)

	Six Months Ended June 30,	
	2018	2017
	(Unaudited)	(Unaudited)
Operating Revenue:		
Net patient service revenue before provision for bad debts ¹		\$ 2,335,674
Less: Provision for bad debts ¹		182,481
Net patient service revenue	\$ 2,204,706	2,153,193
Equity in earnings of unconsolidated affiliates	21,540	22,470
Other operating revenue	78,726	83,020
Total operating revenue	2,304,972	2,258,683
Operating Expenses:		
Salaries, wages, and employee benefits	1,223,337	1,175,130
Supplies	380,791	375,833
Depreciation and amortization	118,388	114,942
Interest expense	43,893	44,568
Other operating expenses	424,448	424,574
Total operating expenses	2,190,857	2,135,047
Operating Income	114,115	123,636
Nonoperating (Losses) Gains, Net:		
Net realized investment income and gains	213,095	106,326
Net unrealized (losses) gains on investments	(130,019)	219,788
Equity in (losses) earnings of unconsolidated affiliates, nonoperating	(304)	84
Other, net	1,094	11,732
Total nonoperating gains, net	83,866	337,930
Revenue and Gains in Excess of Expenses and Losses before Income Taxes	197,981	461,566
Less: Income Tax Expense	2,338	2,714
Revenue and Gains in Excess of Expenses and Losses	195,643	458,852
Less: Revenue and Gains in Excess of Expenses and Losses Attributable to Non-Controlling Interest	39,378	37,203
Revenue and Gains in Excess of Expenses and Losses from Continuing Operations Attributable to Texas Health Resources	156,265	421,649

¹ Change in presentation for 2018 due to adoption of ASU 2014-09, Revenue from Contracts with Customers (Topic 606). See Strategic Plans and Recent Developments for further discussion.

(Continued)

TEXAS HEALTH RESOURCES
CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS, Continued
(Dollars in Thousands)

	Six Months Ended June 30,	
	2018	2017
	(Unaudited)	(Unaudited)
Other Changes in Unrestricted Net Assets:		
Net unrealized losses on investments, other than trading securities	\$ (5,532)	\$ (1,500)
Net assets released from restrictions used for purchase of property and equipment	2,569	505
Change in fair value of interest rate swap agreements	2	(12)
Other changes, net	(606)	(1,489)
Increase in Unrestricted Net Assets	<u>152,698</u>	<u>419,153</u>
Changes in Temporarily Restricted Net Assets:		
Contributions received for purchase of property and equipment	10,155	424
Contributions received for operations	4,069	4,093
Net realized investment gain	3,856	2,146
Net unrealized (losses) gains on investments	(2,487)	4,670
Change in value of split-interest agreements	(141)	130
Net assets released from restrictions	(7,157)	(4,742)
Increase in Temporarily Restricted Net Assets	<u>8,295</u>	<u>6,721</u>
Changes in Permanently Restricted Net Assets:		
Contributions	83	281
Unrealized investment (losses) gains on beneficial interest in perpetual trust, net	(103)	421
(Decrease) Increase in Permanently Restricted Net Assets	<u>(20)</u>	<u>702</u>
Increase in Net Assets of Texas Health Resources	<u><u>\$ 160,973</u></u>	<u><u>\$ 426,576</u></u>

TEXAS HEALTH RESOURCES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Dollars in Thousands)

	Six Months Ended June 30,	
	2018	2017
	(Unaudited)	(Unaudited)
Cash Flows From Operating Activities:		
Increase in net assets of Texas Health Resources	\$ 160,973	\$ 426,576
Adjustments to reconcile increase in net assets to net cash provided by operating activities -		
Net unrealized losses (gains) on investments	138,141	(223,379)
Net realized gains on investments	(175,576)	(73,417)
Change in value of split-interest agreements	141	(130)
Provision for bad debts ¹	1,482	186,656
Restricted contributions received for purchase of property and equipment	(10,155)	(424)
Depreciation and amortization	118,388	114,942
Amortization of bond premiums/discounts and debt issuance costs	(1,297)	(1,282)
Net gain on impairment and disposal of property and equipment	(368)	(9,553)
Equity in earnings of unconsolidated affiliates	(21,540)	(22,470)
Distributions from unconsolidated affiliates	23,219	23,104
Equity in losses (earnings) of unconsolidated affiliates, nonoperating	304	(84)
Change in fair value of interest rate swap agreements	(2)	12
Revenue and gains in excess of expenses and losses attributable to non-controlling interest	39,378	37,203
(Increase) decrease in:		
Patient receivables ¹	7,648	(153,139)
Other receivables, net	10,994	(1,499)
Other assets, net	(5,558)	(5,010)
Increase (decrease) in:		
Accounts payable	(31,692)	(67,833)
Estimated third-party payor settlements	3,233	5,388
Accrued salaries, wages, and employee benefits	(13,038)	(17,021)
Other accrued liabilities	(17,351)	29,606
Other noncurrent liabilities	(874)	5,027
Net cash provided by operating activities	<u>226,450</u>	<u>253,273</u>
Cash Flows From Investing Activities:		
Purchases of property and equipment, net	(144,123)	(126,805)
Proceeds from disposal of property and equipment	1,510	38,092
Cash used to acquire physician practices and other consolidated affiliates	(1,197)	(467)
Investments in unconsolidated affiliates, net	(53,340)	(130,903)
Sales (purchases) of short-term investments and assets limited as to use, net	<u>10,813</u>	<u>(80,204)</u>
Net cash used in investing activities	<u>(186,337)</u>	<u>(300,287)</u>

¹ Change in presentation for 2018 due to adoption of ASU 2014-09, Revenue from Contracts with Customers (Topic 606). See Strategic Plans and Recent Developments for further discussion.

(Continued)

TEXAS HEALTH RESOURCES
CONSOLIDATED STATEMENTS OF CASH FLOWS, Continued
(Dollars in Thousands)

	Six Months Ended June 30,	
	2018	2017
	(Unaudited)	(Unaudited)
Cash Flows From Financing Activities:		
Proceeds from issuance of long-term debt	\$ 341	\$ 2,535
Principal payments on capital lease obligations	(223)	(78)
Principal payments on long-term debt	(10,719)	(32,560)
Contributions from non-controlling interest holders	1,857	1,075
Distributions to non-controlling interest holders	(48,166)	(40,781)
Proceeds from restricted contributions received for purchase of property and equipment	10,155	424
	<u>(46,755)</u>	<u>(69,385)</u>
Net cash used in financing activities		
	(46,755)	(69,385)
Net Decrease in Cash and cash equivalents	(6,642)	(116,399)
Cash and cash equivalents, beginning of period	435,168	501,826
Cash and cash equivalents, end of period	<u>\$ 428,526</u>	<u>\$ 385,427</u>
Supplemental Disclosure of Cash Flow Information:		
Cash paid for interest	\$ 40,561	\$ 34,142
Cash paid for income taxes	\$ 3,997	\$ 3,995
Supplemental Schedule of Noncash Financing Activities:		
Property and equipment acquired through capital lease obligations	\$ 268	\$ -

**TEXAS HEALTH RESOURCES
OPERATING AND FINANCIAL DATA**

UTILIZATION OF SYSTEM FACILITIES

Statistic	Six Months Ended June 30,	
	2018	2017
Licensed Beds (at month-end)	4,056	3,991
Operated Beds in Service (at month-end)	3,394	3,369
Patient Days (inpatient)	382,542	385,009
Discharges (inpatient)	82,213	82,794
Average Length of Stay (days)	4.7	4.7
Average Daily Census ¹	2,113	2,127
Percent Occupancy	62.3%	63.1%
Outpatient Visits ²	789,255	775,447
Total Surgeries	50,535	50,853
Emergency Room Visits	362,144	361,571
Outpatient Gross Patient Service Revenue to Total Gross Patient Service Revenue ³	44.4%	43.6%

¹ Average Daily Census is calculated using 181 days for the six months ended June 30, 2018 and 2017.

² Includes hospital based outpatient clinic visits and other outpatient facilities' visits. Excludes physician office visits.

³ Excludes physician activities, which represent 9.8% and 9.5% of THR's consolidated net patient service revenue for the six months ended June 30, 2018 and 2017, respectively.

**SOURCES OF COMBINED GROSS PATIENT SERVICE REVENUES
(excludes physician activities)**

Payer Type	Six Months Ended June 30, 2018	Fiscal Years Ended December 31,	
		2017	2016
Managed care and other commercial	37.0%	38.7%	39.5%
Medicare	26.9%	27.0%	27.0%
Medicare managed	19.8%	17.9%	17.1%
Medicaid	1.6%	1.9%	2.0%
Medicaid managed	6.5%	6.5%	6.5%
Uninsured	8.2%	8.0%	7.9%
	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

**TEXAS HEALTH RESOURCES
OPERATING AND FINANCIAL DATA
HISTORICAL LIQUIDITY – DAYS CASH ON HAND**

	June 30, 2018	December 31, 2017	2016
	(Dollars in Thousands)		
Cash and cash equivalents	\$ 428,526	\$ 435,168	\$ 501,826
Short-term investments	7,275	8,275	6,250
Assets limited as to use - internally designated	4,755,975	4,680,424	3,975,536
Total Available Cash¹	\$ 5,191,776	\$ 5,123,867	\$ 4,483,612
Total operating expenses	\$ 2,190,857	\$ 4,369,081	\$ 4,182,939
Plus - Income tax expense	2,338	4,880	3,606
Less - Depreciation and amortization	(118,388)	(232,797)	(224,263)
Adjusted Total Operating Expenses	\$ 2,074,807	\$ 4,141,164	\$ 3,962,282
Average Daily Operating Expense²	\$ 11,463	\$ 11,346	\$ 10,826
Days Cash Ratio (days)³	452.9	451.6	414.2

¹ THR maintains a combination of unrestricted cash, cash equivalents, and high grade fixed income securities that may be sold for same day settlement in an amount (value at market) sufficient to purchase the entire principal amount of the Series 2017 A&B Bonds, Series 2012B Bonds, and Series 2008A, B & C Bonds, if all tendered for purchase and not remarketed.

² Average Daily Operating Expense is calculated using 181 days for the six months ended June 30, 2018, 365 days for the fiscal year ended December 31, 2017, and 366 days for the fiscal year ended December 31, 2016.

³ Total Available Cash divided by Average Daily Operating Expense.

**TEXAS HEALTH RESOURCES
OPERATING AND FINANCIAL DATA
HISTORICAL CAPITALIZATION – DEBT TO CAPITALIZATION RATIO**

	Fixed or Variable	June 30, 2018	December 31, 2017	December 31, 2016
(Dollars in Thousands)				
Debt:				
Series 2017A & B Bonds ¹	Variable	\$ 133,470	\$ 133,470	\$ -
Series 2016A Bonds ²	Fixed	698,777	700,225	703,051
Series 2015 Taxable Bonds ²	Fixed	296,839	296,821	296,786
Series 2015A Bonds ²	Fixed	59,983	59,983	59,983
Series 2012A (Taxable) Bonds ²	Fixed	98,903	98,892	98,871
Series 2012B Bonds ¹	Variable	50,000	50,000	50,000
Series 2010 Bonds ²	Fixed	151,386	151,304	151,147
Bank Loans ^{2,3}	Variable	133,853	133,838	134,053
Series 2008A, B & C Bonds ¹	Variable	149,180	149,180	176,055
Series 2007A Bonds ^{2,4}	Fixed	-	-	22,254
Series 2007B Bonds ^{2,5}	Fixed	-	-	101,568
FMHP Term and Revolving Loans ^{2,6}	Combination	74,715	77,792	83,946
RRH Term and Revolving Loans ^{2,7}	Combination	30,831	32,729	36,432
HIP Term and Revolving Loans ^{2,8}	Combination	5,742	7,820	11,973
ACL Term and Revolving Loans ^{2,9}	Combination	16,884	17,308	18,159
Other Non-Obligated Group Debt ¹⁰	Combination	40,013	42,844	43,921
Total Debt		<u>\$ 1,940,576</u>	<u>\$ 1,952,206</u>	<u>\$ 1,988,199</u>
Unrestricted Net Assets of Texas Health Resources		<u>\$ 6,006,166</u>	<u>\$ 5,853,468</u>	<u>\$ 4,993,413</u>
Debt to Capitalization Ratio ¹¹		<u>24.4%</u>	<u>25.0%</u>	<u>28.5%</u>

¹ Series 2017 A & B, Series 2012B Bonds and Series 2008A, B & C Bonds are demand securities supported by self-liquidity provisions. On October 17, 2017, \$9,890,000, \$7,650,000, and \$9,355,000 of the Series 2008 A, B, & C Bonds, respectively, were redeemed by THR with available cash.

² Net of premium/discounts and (or) cost of issuance.

³ The Bank Loans have either a mandatory or optional tender exercisable by the respective banks that may trigger the unpaid principal balance of the Bank Loans due at the end of each respective ten and fifteen-year term. The Bank Loans bear interest at variable rates calculated as a percentage of LIBOR plus a spread.

⁴ Series 2007A Bonds were redeemed on February 15, 2017 with a portion of the proceeds from the Series 2016A Bonds.

⁵ Series 2007B Bonds were redeemed on November 15, 2017 with the issuance of the Series 2017A & B Bonds.

⁶ FMHP is Flower Mound Hospital Partners, LLC (d/b/a Texas Health Presbyterian Hospital Flower Mound).

⁷ RRH is Rockwall Regional Hospital, LLC (d/b/a Texas Health Presbyterian Hospital Rockwall).

⁸ HIP is Health Imaging Partners, LLC.

⁹ ACL is AMH Cath Labs, LLC (d/b/a Texas Health Heart & Vascular Hospital Arlington).

¹⁰ Represents loans, notes payable, and capitalized leases of other consolidated joint ventures.

¹¹ Total Debt divided by Total Debt plus Unrestricted Net Assets of THR.

THR entered into credit agreements for general corporate purposes in December, 2012, with Wells Fargo Bank N.A. and U.S. Bank N.A. for lines of credit of \$75,000,000 each (the "Credit Agreements"). Under the Credit Agreements, outstanding balances under the lines of credit generally bear interest at variable rates calculated as a percentage of LIBOR plus a spread. At June 30, 2018, there were no outstanding balances under these Credit Agreements. The Wells Fargo and U.S. Bank Credit Agreements will expire on December 31, 2019 and December 31, 2020, respectively.

**TEXAS HEALTH RESOURCES
OPERATING AND FINANCIAL DATA
COMPOSITION OF INVESTMENTS AND ASSETS LIMITED AS TO USE**

	June 30, 2018	December 31, 2017	December 31, 2016
Cash and cash equivalents	\$ 247,614	\$ 240,972	\$ 212,654
Restricted cash - government supplemental program funds	31,154	64,468	-
Domestic equity securities	2,427,584	2,246,324	2,021,866
International equity securities	644,879	867,090	668,628
Fixed income securities:			
U.S. Government, including agency mortgage-backed securities	1,338,448	1,274,298	1,062,733
Corporate bonds and other	367,430	347,686	312,693
Mutual funds (blended securities)	6,009	6,053	8,874
Hedge fund	152	152	-
Texas Methodist Foundation	1,208	1,200	1,188
Real estate	894	894	736
Mineral interests	3,544	3,545	2,050
Contributions receivable from split-interest agreements	1,559	1,656	1,510
Other alternative investments	16,855	15,047	-
Total investments and assets limited as to use	<u>\$ 5,087,330</u>	<u>\$ 5,069,385</u>	<u>\$ 4,292,932</u>

Note 1: Included in assets limited as to use in the accompanying consolidated balance sheets is approximately \$16,762,000, \$8,226,000 and \$12,377,000 of unconditional promises to give from donors at June 30, 2018, December 31, 2017, and December 31, 2016, respectively.

Note 2: To more closely align the Composition of Investments and Assets Limited as to Use disclosure with the Financial Accounting Standards Board movement towards simplified investment disclosures, the table is presented in a condensed view.

TEXAS HEALTH RESOURCES SUPPLEMENTAL INFORMATION

STRATEGIC PLANS AND RECENT DEVELOPMENTS

On May 10, 2016, THR and Adeptus Health Inc. (“Adeptus Health”) formed a joint venture to increase access to high quality, convenient emergency medical care in the Dallas-Fort Worth area. Under the joint venture, Adeptus Health's freestanding First Choice Emergency Rooms in North Texas, and its First Texas Hospital in Carrollton, aligned with THR to grow THR's network of hospitals and outpatient centers. On April 19, 2017, Adeptus Health filed for reorganization under Chapter 11 of the U.S. Bankruptcy Code. On September 29, 2017, the United States Bankruptcy Court for the North District of Texas entered an Order confirming Adeptus' reorganization plan with an effective date of October 2, 2017. The joint venture between THR and Adeptus Health was not part of the court supervised process, and all freestanding emergency rooms under the joint venture continued to operate as normal through the bankruptcy process. On August 24, 2017, THR and Adeptus entered into a non-binding Letter of Intent providing a framework for the transition of the ownership of the freestanding emergency rooms to THR prior to the end of 2018. Until final agreements are executed and the transition is completed, the joint venture will continue to operate First Texas Hospital in Carrollton and the related freestanding emergency rooms.

THR has announced the development of Texas Health Hospital Mansfield, a joint venture with Adventist Health System, located on 38 acres at the southeast corner of U.S. Highway 287 and Lone Star Road in the Johnson County area of Mansfield. The campus will include an 83-bed acute care hospital and an 80,000 square-foot medical office building that will house primary care and specialty practices, and is anticipated to open in late 2020.

On February 28, 2018, Southwestern Health Resources Physician Network (“SWHRPN”), North Texas Specialty Physicians (“NTSP”) and NTSP Holding Company, LLC. (“NTSP Holdings” and collectively, the “Parties”) entered into an agreement under which NTSP agreed to sell to SWHRPN 100% of the equity ownership in NTSP Holdings and additional related entities held by NTSP. NTSP is an independent physician association based in Fort Worth, Texas. NTSP maintains a network supporting more than 900 primary care and specialty physicians delivering care to more than 15,000 patients each day. The transaction closed on May 18, 2018.

In May 2014, the Financial Accounting Standards Board issued Accounting Standards Update (“ASU”) 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which affects any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of non-financial assets unless those contracts are within the scope of other standards. The core principle of the guidance in this ASU is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Management evaluated all of the provisions of the ASU, which were effective for THR beginning January 1, 2018, as amended by ASU 2015-14. Adoption of ASU 2014-09 resulted in changes to our presentation for and disclosure of revenue related to uninsured or underinsured patients. Prior to the adoption of ASU 2014-09, a significant portion of our provision for bad debts related to self-pay patients, as well as co-pays and deductibles owed to us by patients with insurance. Under ASU 2014-09, the estimated uncollectible amounts due from these patients are generally considered a direct reduction to net patient service revenues and, correspondingly, result in a material reduction in the amounts presented separately as provision for bad debts. Management used a portfolio approach to apply the new model to classes of payers with similar characteristics and analyzed cash collection trends over an appropriate collection look-back period depending on the payer. Management also completed an initial assessment of the impact of the new standard on various reimbursement programs that represent variable consideration and concluded that accounting for these programs under the new standard is substantially consistent with THR's historical accounting practices. For periods prior to the adoption of ASU 2014-09, the provision for bad debts has been presented consistent with the previous revenue recognition standards that required it to be presented separately as a component of net patient service revenue. Additionally, upon adoption of ASU 2014-09, the allowance for doubtful accounts of approximately \$150,476,000 as of January 1, 2018 was reclassified as a direct reduction of patient accounts receivable.

TEXAS HEALTH RESOURCES SUPPLEMENTAL INFORMATION

LITIGATION AND REGULATORY MATTERS

In May 2013, THR learned sheets of microfiche containing records for patients treated at Texas Health Harris Methodist Hospital Fort Worth from 1980-1990 were not securely handled by the outside vendor with which THR contracted for all of its document destruction. THR has made all legally required notifications of the incident, including letters to the patients involved, a notice posted on THR's public website, and a press release. The Office of Civil Rights has closed this matter; however, to date, the State of Texas has not responded. THR does not anticipate a material financial impact due to this incident.

In March 2015, the System made a disclosure to the Office of Inspector General ("OIG") regarding Texas Health Physician Group ("THPG") billing of certain Positron Emission Tomography ("PET") scan tests and nuclear stress tests that did not meet Medicare medical necessity requirements. Management believes it is too early to predict with certainty the outcome of this matter; however, management does not anticipate a material financial impact.

In December 2011, the federal government approved the Texas Healthcare Transformation and Quality Improvement Program: 1115 Waiver ("Section 1115 Waiver Program"), which was implemented by the Texas Health and Human Services Commission ("HHSC"). The Section 1115 Waiver Program has been extended through September 30, 2022. The Uncompensated Care ("UC") pool under the Section 1115 Waiver Program helps hospitals and certain other providers offset the uncompensated costs they incur by providing services to Medicaid patients. In a letter dated September 1, 2016, to HHSC, Centers for Medicare and Medicaid Services ("CMS") disallowed federal matching funds applicable to the Dallas County and Tarrant County affiliations for the quarter ended December 31, 2015. CMS alleges that the private hospitals participating in these affiliations fail to comply with the federal provider-related donation requirements. On October 28, 2016, HHSC requested a reconsideration by the Secretary of Health & Human Services. CMS responded on December 21, 2016 stating they believe HHSC's arguments do not merit a withdrawal or revision to the disallowance. HHSC appealed the disallowance to the Departmental Appeals Board ("DAB") in June 2017. On August 9, 2018, the DAB ruled in favor of CMS. It is too early to predict the full outcome of the ruling; however, management does not anticipate a material financial impact.

On January 17, 2018, law enforcement notified THR that information appearing to be from THR email accounts was potentially compromised in October 2017. THR has made all legally required notifications of the incident, including letters to the patients involved, a notice published on the public website of THPG, a wholly-controlled affiliate of THR, and a press release. It is too early to predict the outcome of this matter; however, management does not anticipate a material financial impact.

THR's Corporate Compliance Department investigates all compliance matters reported through its compliance program. As of the date of this disclosure, there was no additional pending or, to the knowledge of System management, threatened litigation, including professional liability claims, or reported compliance issues which in the opinion of System management involves any substantial risk of material liability for the System, and where applicable, in excess of available reserves and insurance coverages.