August 10, 2017

Financial Highlights for the Six Months Ending June 30, 2017

Revenues and Expenses

For the six months ending June 30, 2017, total revenues grew $27.8 million, or 3%, to $1.1 billion. This increase was due to the growth of patient service revenue before bad debt expense of $20.4 million, or 2%, and a decline of bad debt expense of $6.8 million, or 17%, over the same period in 2016. When compared to the first six months of 2016, inpatient admissions increased 2,275, or 7%, while hospital and total outpatient volumes improved 3% and 4%, respectively, and physician office visits improved 10%.

Please note: In March 2017, the Financial Accounting Standards Board issued ASU 2017-07, *Compensation – Retirement Benefits (Topic 715)*: *Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost* (ASU 2017-07), which changes how employers that sponsor defined benefit pension plans present the net periodic pension cost in the statement of operations. ASU 2017-07 requires employers to present the service cost component of net periodic pension cost in the same statement of operations line item as other employee compensation costs from services rendered during the period. Employers are to present the other components of net periodic pension cost separately from the line item that includes the service cost and outside of operating income. We adopted the provisions of ASU 2017-07 in the first quarter of 2017. The defined benefit pension plan was frozen effective January 1, 2010. As a result no service cost was incurred for the first six months of 2017 and 2016, respectively. The other components of net periodic pension cost were $4.8 million and $3.5 million for the first six months of 2017 and 2016, respectively, and are presented in the line item "net periodic pension cost" included in non-operating gains (losses) section in the combined income statement. The 2016 amounts, which were previously reported in employee benefits, have been reclassified to conform to the 2017 presentation in the combined income statement.

The increase in patient service revenue for 2017 compared to 2016 was due to:

- Increased volumes at Norton Hospital (admissions increased 502, or 5%, outpatient visits increased 1,542, or 5%, and Emergency Department visits increased 255, or 1%) and Norton Brownsboro Hospital (NBH) (admissions increased 466, or 11%, outpatient visits increased 3,748, or 15%, Emergency Department visits increased 449, or 3%, and outpatient surgeries increased 294, or 12%),
- Increased volumes (4,252, or 6%) at Norton Cancer Institute (NCI),
- Norton Medical Group (NMG) hired additional specialists and primary care physicians and their practice office visits have increased 10%.

Bad debt expense for the first six months of 2017 declined by $6.8 million, or 17%, compared to the prior year due to a decline in self-pay accounts and a shift to Medicaid and other government payor accounts, which results in lower bad debt expense.

Direct expenses increased $52.0 million, or 6%, compared to the same period in 2016. Major components of this expense growth were:

1. Labor and benefits rose by $22.9 million, or 4%, broken down as follows:

(in millions)	2017	2016	% Change
Salary and Wages	$465.6	$441.2	6%
Contract Labor	5.0	4.9	2%
Benefits	101.8	103.4	(2%)
Total	$572.4	$549.5	4%

Salary and wages increased at NMG ($10.4 million), the System Office ($2.6 million), NBH ($2.1 million), Norton Audubon Hospital (Audubon) ($2.0 million), Norton Women's and Children's Hospital (NWCH) ($1.9 million), Norton ($1.8 million), and Norton Children's Hospital (NCH) ($1.4 million). NMG continued to hire additional specialists and primary care physicians compared to the prior year.

The NBH, Audubon, NWCH, Norton, and NCH increases were volume related. The System Office added positions in their Access Center, Nursing Institute Academic Program, Quality Management, Construction, and Managed Care departments. Additionally, system wide general pay increases were given in the second and third quarters of 2016.

Benefit costs declined due to lower health insurance expense ($6.4 million) partially offset by higher FICA expense ($2.7 million) and additional discretionary funding of the employer contributions to the 403(b)/401(k) benefit plans ($1.5 million).

2. The increase in professional fees of $4.2 million, or 14%, occurred at Norton ($2.0 million), NCH ($1.2 million), and NBH ($1.0 million). Norton and NBH incurred increased costs with their new anesthesia contracts. NCH accrued increased expense for academic support from the University of Louisville School of Medicine as part of the Affiliation Agreement reached in 2015 and incurred additional costs with their pediatric anesthesia contract.

3. Drug and supply costs increased $24.4 million, or 12%; $12.8 million in drug expense and $11.6 million in supply expense. The increase in drug expense occurred at NCI ($7.8 million), the Norton Healthcare Pharmacies (Norton Pharmacies) ($1.9 million), NMG ($851,000), NWCH ($776,000), and NBH ($697,000). The NCI, Norton Pharmacies, NWCH, and NBH variances were volume related. NMG incurred increased costs for immunizations. The increase in supply expense occurred at Norton ($3.3 million), NBH ($2.7 million), Audubon ($2.6 million), NWCH ($2.0 million), and NMG ($880,000). Norton's increase occurred in Surgery and the Cardiac Catheterization Labs were they incurred costs for chargeable supplies, other implants, spine implants, and reagents/chemicals; NBH's was in Surgery for orthopedic implants, neurologic implants, chargeable supplies, and non-chargeable supplies; Audubon's was in Surgery and the Cardiac Catheterization Labs for other implants, orthopedic implants, chargeable supplies, and cardiovascular implants; NWCH's was in Surgery for orthopedic implants, other implants, non-chargeable supplies, and blood products; and NMG's was for chargeable supplies. These increases were volume related.

4. The decrease in fees and special services of $6.3 million, or 11%, occurred at NCH ($9.0 million) partially offset by an increase at the System Office ($1.2 million). In 2016 NCH incurred additional legal fees for the lawsuit with Kosair Charities Committee (KCC). This lawsuit was settled in June 2016 and no legal fees for this lawsuit were incurred in the first six months of 2017. The System Office used outside consultants: for EPIC support and Help Desk staffing, for collection services, and to assist with the implementation of a new laboratory information system.

5. Repairs and maintenance increased $2.7 million, or 11%, primarily at the System Office ($2.4 million). The System Office incurred costs for software licensing, maintenance contracts, and various x-ray and CT scan tube replacements.

6. All other direct expenses increased by $4.2 million, or 9%. We experienced increases for travel, recruitment, special events, dues and subscriptions, rents and leases, insurance, utilities, and equipment rent.

As a result of greater total direct expense growth than total revenue growth, EBITDA declined from $111.5 million in 2016 to $87.3 million in 2017.

Fixed expenses, which include depreciation and interest expense, increased $4.6 million or 8%, $2.3 million in depreciation expense and interest expense, respectively. The increase in depreciation expense occurred primarily at the System Office ($1.5 million) and NBH ($607,000). The Lawson and the Cardiac PACS systems were upgraded at the System Office while NBH completed construction on the connector project between the hospital and medical office building. All of these projects were completed after the first quarter of 2016 so depreciation expense just started being recorded during the first six month of 2016 but was recorded during the entire six month period of 2017. The increase in interest expense was caused by higher interest on our bonds due to the

2016 bond issuances, reduced interest earned on the swap agreements, which lowers interest expense, and higher interest on capitalized leases partially offset by an increase in capitalized interest, which lowers interest expense.

Patient service margin declined from $51.2 million in 2016 to $22.4 million in 2017, or a decrease of $28.8 million. Increases in salary and wages, drugs, supplies, professional fees, repairs and maintenance, interest, and depreciation were partially offset by increased net patient service revenue before bad debt expense, lower bad expense and employee benefits.

Investment income was $22.4 million and $7.3 million for the six months of 2017 and 2016, respectively. This improvement was caused by unrealized gains on the alternative investment segment of our investment portfolio recorded in 2017 compared to unrealized losses recorded in 2016 and increased interest and dividend income partially offset by a decline in realized gains and increased investment manager fees.

Operating income was $44.8 million in 2017 compared to $58.5 million in 2016. This represents a decline of $13.7 million and was the result of lower patient service margin partially offset by improved investment results.

Other non-operating revenues and expenses show a gain of $35.8 million in 2017, which is an improvement of $33.2 million from the same period in 2016. Unrealized investment gains totaled $39.8 million and $7.0 million for the first six months of 2017 and 2016, respectively. Market conditions have been more favorable during 2017 compared to 2016. The change in mark to market on the swap agreements improved $1.1 million and $329,000, respectively, in the first six months of 2017 compared to the same period in 2016. As discussed in the change in accounting paragraph above, net periodic pension cost was $4.8 million and $3.5 million for the first six months of 2017 and 2016, respectively. Grants awarded by the Petersdorf Fund totaled $300,000 and $1.2 million, respectively, in the first six months of 2017 compared to the same period in 2016.

Other equity transactions show a gain of $13.3 million compared to a loss of $2.3 million for the first six months of 2017 and 2016, respectively. In 2017 we received a payment from the KCC for $10.0 million. This payment was a condition of the Settlement Agreement reached between Norton Healthcare and KCC in 2016. This money is to be used for the Imaging Center at NCH. In 2017 we recorded a favorable adjustment to match the pension assets to the funded status of the plan as of March 31, 2017 ($1.8 million). In 2016 we recorded the amortization of the loss contingency expense ($3.2 million) and an unfavorable adjustment to match the pension assets to the funded status of the plan as of March 31, 2016 ($1.3 million). The loss contingency expense was the result from an unfavorable class action lawsuit ruling made in December 2015 surrounding the calculation of lump sum benefit calculations from 2003 to 2008. This ruling is under appeal. In 2017, restricted contributions were used for office renovations at NMG and at NCH for the purchase of an ambulance and other equipment.

Net assets increased by $93.9 million and $58.8 for the first six months of 2017 and 2016, respectively, an improvement of $35.1 million.

Balance Sheet – June 30, 2017 compared to December 31, 2016

Working capital increased $28.9 million compared to the prior year end. Although our cash balances declined $66.3 million, not all of this activity impacted working capital as funds were transferred to marketable securities, used to pay the employer contribution to the 403(b)/401(k) savings plans, pay accrued payroll items, and pay accrued expenses and other. The liability for the savings plans is recorded in accrued payroll items. Taking into consideration these activities, our cash position actually improved during the first six months of 2017.

Significant items impacting cash were:

- Collections on hospital/physician practice patient receivables and other miscellaneous receipts,
- Reimbursement for capital projects funded by bond proceeds,
- Receipt of IOA payments from Passport and Kentucky Medicaid,

which were partially offset by:

- Payments made for trade payables, payroll and related taxes, and provider taxes,

- Purchase of capital assets,
- Transfer of funds to marketable securities,
- Employer contributions to the 403(b) and 401(k) savings plans,
- Funding the semi-annual interest payments on our debt,
- Transfer of funds to restricted assets to match the settlement payment received from KCC.

Cash and investments available for debt service increased $52.1 million, as follows:

(in millions)	6/30/2017	12/31/2016	Change
Operating Cash	$ 95.6	$ 162.0	$(66.4)
Marketable Securities	84.0	18.8	65.2
Board Designated Funds	1,065.4	1,012.3	53.1
Bond Trustee Funds	30.6	30.4	0.2
Total	$1,275.6	$1,223.5	$ 52.1

This increase was caused by an improved cash position and favorable investment results. As a result, consolidated days of cash on hand increased to 237 at June 30, 2017 from 234 at December 31, 2016.

Accounts receivable days outstanding increased from 42.6 as of December 31, 2016 to 42.8 as of June 30, 2017.

The increase in assets limited by Board of Trustees was due to favorable investment results. The decrease in assets limited by Bond Indenture Trust were the result of reimbursement of capital projects bond projects partially offset by favorable investment results. The decline in assets limited by Self Insurance Trust was caused by claims payments partially offset by favorable investment results. Restricted Funds increased due to the receipt of a settlement payment from KCC, discussed in the other equity transaction section above, which was matched by Norton Healthcare and favorable investment results.

Property and equipment increased $22.4 million to $819.8 million. This was the result of capital spending, primarily for: construction at Audubon, energy savings initiatives at Audubon, construction at NWCH, a new laboratory system, equipment purchases at the hospitals, other system upgrades, construction at NBH, design fees at NCH, and construction projects at several physician practices partially offset by depreciation.

The increase in other assets of $8.8 million was caused by the vendor incentive with Premier, an increase in long-term pledges receivable, net of discount, and an improvement in the mark to market position on the swap agreements.

Current liabilities declined $31.2 million due to the employer contributions to the 403(b)/401(k) savings plans, payments made to the physician bonus accruals, and payments made to the variable compensation plan. These payments were partially offset by current year accruals and increases in the health insurance accrual and accrued vacation.

Other non-current liabilities declined $9.3 million due to malpractice claim payments made, net of accruals, and payments made in the executive compensation plans partially offset by accruals made to the pension plan to record net periodic pension cost.

Total debt increased $619,000 due to amortization of bond discounts and bond issue costs less payments made on the debt.

Thank you for your ongoing interest in Norton Healthcare. We are continually evaluating alternatives to manage and optimize our outstanding debt portfolio. We may from time to time seek to retire or purchase outstanding bonds through cash purchases, through a public Tender Offer, privately negotiated transactions, or otherwise at our sole discretion. Such purchases or exchanges, if any, will depend on prevailing market conditions, our liquidity requirements, contractual restrictions, and other factors. The amount of bonds purchased or exchanged may be material. If you have any questions or concerns, please contact Helena Schulz at (502) 629-8263 or by e-mail at helena.schulz@nortonhealthcare.org.

Sincerely,

Adam D. Kempf
Senior Vice President, Finance

BOND HOLDER PACKET

NORTON HEALTHCARE, INC.

UNAUDITED

FINANCIAL STATEMENTS

June 30, 2017

Norton Healthcare, Inc.
Financial Statements

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Report Generation

NORTON HEALTHCARE, INC.
Combined Income Statement vs Prior Year - Quarterly - Dollars in Thousands
for ** Consolidated Level Range **
June 30, 2017

07/27/17
09:09
IS-C-QTRROUN

	Quarter Ending			Year to Date		
	06/30/17	06/30/16	Variance	06/30/17	06/30/16	Variance
Pt Serv Rev before Bad Deb	530,360	520,245	10,115	1,068,613	1,048,165	20,448
Provision for Bad Debt	(17,248)	(19,052)	1,804	(32,214)	(38,982)	6,768
Net Patient Service Revenu	513,112	501,193	11,919	1,036,399	1,009,183	27,216
Other Revenue	9,634	10,270	(636)	18,115	18,923	(808)
Donations & Contributions	2,802	2,454	348	5,373	4,487	886
Joint Venture Results	(82)	(609)	527	(109)	(615)	506
Total Net Revenue	525,466	513,308	12,158	1,059,778	1,031,978	27,800
Expenses						
Salary and Wages	231,772	220,334	(11,438)	465,557	441,243	(24,314)
Contract Labor	2,925	2,416	(509)	5,008	4,870	(138)
Employee Benefits	47,969	50,733	2,764	101,835	103,405	1,570
Professional Fees	17,401	15,667	(1,734)	35,312	31,093	(4,219)
Drugs	45,297	37,024	(8,273)	86,887	74,087	(12,800)
Supplies	68,939	66,271	(2,668)	142,306	130,718	(11,588)
Fees, Special Services	26,059	29,645	3,586	49,320	55,634	6,314
Repairs and Maintenance	12,786	12,135	(651)	26,918	24,256	(2,662)
Equipment Rent	1,847	1,395	(452)	3,572	3,103	(469)
Rents and Leases	7,117	6,561	(556)	14,123	13,065	(1,058)
Utilities	5,669	5,218	(451)	11,083	10,421	(662)
Insurance	5,870	5,388	(482)	11,744	10,839	(905)
Provider Tax	5,032	5,032	0	10,065	10,065	0
Other	4,630	4,115	(515)	8,794	7,723	(1,071)
Subtotal Direct Expenses	483,313	461,934	(21,379)	972,524	920,522	(52,002)
EBITDA	42,153	51,374	(9,221)	87,254	111,456	(24,202)
Fixed Expenses						
Depreciation & Amortizat	22,092	21,458	(634)	44,743	42,473	(2,270)
Interest Expense	10,169	9,265	(904)	20,109	17,775	(2,334)
Patient Service Margin	9,892	20,651	(10,759)	22,402	51,208	(28,806)

Report Generation

NORTON HEALTHCARE, INC. 07/27/17
Combined Income Statement vs Prior Year - Quarterly - Dollars in Thousands 09:09
for ** Consolidated Level Range ** IS-C-QTRROUN
June 30, 2017

	Quarter Ending			Year to Date		
	06/30/17	06/30/16	Variance	06/30/17	06/30/16	Variance
Investment Income (Loss)	9,142	5,831	3,311	22,354	7,304	15,050
Operating Income (Loss	19,034	26,482	(7,448)	44,756	58,512	(13,756)
Non-Operating Rev (Exp)						
Chg in Unreal G/(L) in I	13,734	7,485	6,249	39,798	7,046	32,752
Other Non-Operating Reve	(2)	(23)	21	(1)	(23)	22
Chg in Fair Value of Swa	4,341	875	3,466	1,096	329	767
Net Periodic Pension Cos	(2,389)	(3,117)	728	(4,779)	(3,533)	(1,246)
James R. Petersdorf Fund	(130)	(1,170)	1,040	(300)	(1,170)	870
Total Non-Operating Rev (	15,554	4,050	11,504	35,814	2,649	33,165
Excess Rev Over Exp	34,588	30,532	4,056	80,570	61,161	19,409
Other Equity Transactions	12,308	(1,188)	13,496	13,326	(2,321)	15,647
Inc(Decr) in Net Assets	46,896	29,344	17,552	93,896	58,840	35,056
STATISTICS:						
Admissions	17,714	16,342	1,372	35,867	33,592	2,275
Adjusted Admissions	38,991	35,667	3,324	78,019	72,660	5,359
Patient Days	90,263	87,104	3,159	184,381	179,186	5,195
Adjusted Patient Days	198,681	190,110	8,571	401,073	387,581	13,492
O/P Visits (Excl ER & OP S	133,816	127,160	6,656	266,380	250,639	15,741
E/R Visits	59,544	60,459	(915)	122,484	124,440	(1,956)
Outpatient Surgery	8,807	8,698	109	17,641	17,368	273
Inpatient Surgery	5,216	5,052	164	10,467	10,083	384
Deliveries	1,885	2,043	(158)	3,711	4,056	(345)
Clinic/Phys Visits	508,561	468,294	40,267	1,042,983	951,692	91,291
Acute LOS	5.10	5.33	(0.23)	5.14	5.33	(0.19)
FTE	12,148.9	11,552.8	(596.1)	12,055.5	11,539.7	(515.8)
FTE/AOB	5.56	5.53	(0.03)	5.44	5.39	(0.05)
wRVUs	998,655	1,991,568	(992,913)	2,061,580	1,991,568	70,012
Observation Cases	6,313	6,661	(348)	12,882	12,949	(67)

NORTON HEALTHCARE, INC.
Combined Balance Sheets
In Thousands

07/27/17
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	June 2017	December 2016	Increase (Decrease)	%
Assets				
Current Assets				
Cash and Cash Equivalents	95,623	161,959	(66,336)	(41)
Mkt Securities & Other Inv	83,955	18,844	65,111	346
Gross A/R (Net of CA's)	342,896	338,401	4,495	1
Allowances for Bad Debt	(100,188)	(90,716)	(9,472)	10
Net A/R	242,708	247,686	(4,978)	(2)
Miscellaneous Receivables	16,489	18,751	(2,262)	(12)
CP Assets Limited to Use	27,243	28,319	(1,076)	(4)
Inventories	53,246	49,756	3,490	7
Prepaid Expenses	33,383	29,589	3,794	13
Total Current Assets	552,648	554,904	(2,256)	
Assets Limited as to Use				
By Board of Directors	1,065,443	1,012,307	53,136	5
By Bond Indenture Trust	224,556	258,158	(33,602)	(13)
By Self Insurance Trust	96,655	109,188	(12,533)	(11)
Restricted Funds	81,130	59,428	21,702	37
Total Assets Limited as to Use	1,467,784	1,439,081	28,703	2
Net Property Plant & Equipmt	819,824	797,427	22,397	3
Other Assets:				
Investments in Joint Ventur	59,924	54,559	5,365	10
Beneficial Int. in Outsd Tr	20,313	20,313		
Goodwill & Net Intang Assets	20,680	20,735	(55)	
Other	58,628	55,127	3,501	6
Total Other Assets	159,545	150,734	8,811	6
Total Assets	2,999,801	2,942,145	57,656	2

NORTON HEALTHCARE, INC.
Combined Balance Sheets
In Thousands

07/27/17
09:09
BS-CMB-BRD

	June 2017	December 2016	Increase (Decrease)	%
Liabilities and Net Assets				
Current Liabilities:				
Accounts Payable	70,202	66,576	3,626	5
Grants Payable	1,586	1,641	(55)	(3)
Accrued Expense & Other	93,040	108,432	(15,392)	(14)
Accrued Payroll Items	120,489	136,426	(15,937)	(12)
Due to Third-Party Payors	29,838	33,470	(3,632)	(11)
Accrued Interest	8,619	8,587	32	
Current Portion LT Debt	36,440	36,288	152	
Total Current Liabilities	360,215	391,419	(31,204)	(8)
Other Noncurrent Liabilities:				
Pension	59,393	56,416	2,977	5
Insurance Liability	100,809	109,054	(8,245)	(8)
Other	61,614	65,653	(4,039)	(6)
Total Other Noncurrent liabil	221,816	231,123	(9,308)	(4)
Total Long-term Debt	1,132,719	1,132,251	467	
Net Assets:				
Unrestricted	1,166,923	1,073,028	93,895	9
Temporarily Restricted	79,869	76,160	3,709	5
Permanently Restricted	38,260	38,163	97	
Total Net Assets	1,285,051	1,187,351	97,700	8
Total Liablities & Net Assets	2,999,801	2,942,145	57,656	2

Norton Healthcare, Inc. and Affiliates
Statement of Changes in Net Assets
In Thousands

07/27/17
09:09
BS-CMB-BRD

	June 2017	December 2016
Net Assets:		
UNRESTRICTED		
Fund Balance-Unrestricted	415,613	419,405
RETAINED EARNINGS	657,416	509,924
Retained Earnings-Undist	93,894	143,699
Total Unrestricted	1,166,923	1,073,028
TEMPORARILY RESTRICTED		
Fund Balance-Temporarily Restr	76,160	71,554
Contributions & Grants	5,513	12,479
Raffle Fundraising	22	18
Special Event Costs	(141)	(708)
Investment Income	862	1,504
Inc Dist fr Trust/Change in BI	360	865
Assets Released-Programs/Asst.	(2,665)	(4,710)
Assets Relsd-PP&E/Time Restr	(1,661)	(5,190)
Unrealized Gain/Loss--Temp Res	1,695	919
Fdtn OH Expense Alloc	(275)	(652)
Transfer to/from Affiliates	(1)	81
Total Temporarily Restricted	79,869	76,160
PERMANENTLY RESTRICTED		
Fund Balance--Permanently Rest	38,163	37,903
Contributions & Grants	15	31
Investment Income	22	36
Beneficial Interest Trust Chan		241
Unrealized Gain/Loss (Perm Res	59	32
Transfer to/from Affiliates		(81)
Total Permanently Restricted	38,260	38,163
TOTAL NET ASSETS	1,285,051	1,187,351

Norton Healthcare, Inc. and Affiliates
Combined Statements of Cash Flows

	Six Months Ended June 30, 2017	Year Ended December 31, 2016
Operating Activities		
Change in unrestricted net assets	93,894,247	143,699,477
Change in temporarily restricted net assets	3,708,869	4,605,604
Change in permanently restricted net assets	97,039	259,504
Change in net assets	97,700,155	148,564,585
Adjustments to reconcile change in net assets to net cash provided by operating activities and nonoperating gains and lossses - net:		
Depreciation and amortization	44,743,254	86,570,480
Discount accretion	1,659,786	6,411,777
Change in net unrealized gains and losses on investments	(41,552,994)	(24,324,859)
Change in interest rate swap value	(1,095,857)	10,288,898
Change in pension plan assets and obligation	(1,801,781)	3,624,998
Net gain on debt extinguishment	-	(5,644,176)
Restricted contributions and investment gain	(6,652,228)	(14,465,589)
Changes in operating assets and liabilities:		
Change in patient accounts receivable, net of provision for doubtful accounts	4,977,605	(5,457,510)
Change in assets limited as to use, net	13,925,771	(540,009,757)
Change in amounts due to third-party payors	(3,631,871)	7,821,087
Change in other current and noncurrent assets and liabilities	(107,236,716)	44,924,550
Cash flow from operating activities	1,035,124	(281,695,516)
Investing Activities		
Purchase of property and equipment, net	(67,140,731)	(119,890,847)
Change in joint ventures and other	(5,364,586)	(5,515,186)
Cash flow from investing activities	(72,505,317)	(125,406,033)
Financing Activities		
Increase in long-term debt	-	717,502,381
Principal payments on other long-term debt	(1,518,284)	(30,281,512)
Refund on 2006 Bonds	-	(310,618,908)
Refund on 2011D Bonds	-	(31,345,000)
Refund on 2013B Bonds	-	(68,730,000)
Cost of long-term debt issuances	-	(4,566,022)
Restricted contributions and investment gain	6,652,228	14,465,589
Cash flow from financing activities	5,133,944	286,426,528
Change in cash and cash equivalents	(66,336,249)	(120,675,021)
Cash and cash equivalents at beginning of year	161,959,282	282,634,303
Cash and cash equivalents at end of month	95,623,033	161,959,282

Report Generation

NORTON HEALTHCARE, INC. 07/27/17 09:09
Combining Income Statement By Legal Entity Dollars in Thousands ISCMBYTDROUN
June 30, 2017 YEAR TO DATE

	Norton System Office	Norton Hospitals Inc.	CMA	Norton Properties Inc.	Norton Enterprises Inc.	Children's Hospital Foundation	Norton Healthcare Foundation	Eliminations	Combined Total
Pt Serv Rev before Bad Debt		900,664	158,421		15,336			(5,808)	1,068,613
Provision for Bad Debt	(55)	(25,997)	(4,641)		(1,521)				(32,214)
Net Patient Service Revenue	(55)	874,667	153,780		13,815			(5,808)	1,036,399
Other Revenue	5,217	5,859	12,530	19,926	3,129	182	410	(29,138)	18,115
Donations & Contributions	313	2,166	689			4,994	2,174	(4,964)	5,372
Joint Venture Results	61	1,379			(1,548)				(108)
Total Net Revenue	5,536	884,071	166,999	19,926	15,396	5,176	2,584	(39,910)	1,059,778
Expenses									
Salary and Wages	59,682	253,012	144,649	334	7,067	707	178	(70)	465,559
Contract Labor	238	4,085	328	54	303				5,008
Employee Benefits	13,586	62,941	23,592	236	1,305	148	27		101,835
Professional Fees	333	36,505	694			32		(2,242)	35,312
Drugs	(47)	82,105	4,812		17				86,887
Supplies	(144)	133,370	5,946	40	2,793	154	146		142,305
Fees, Special Services	21,533	26,890	5,908	517	4,060	309	67	(9,966)	49,318
Repairs and Maintenance	20,177	6,003	214	498	26				26,918
Equipment Rent	248	2,843	443	5	26	5	2		3,572
Rents and Leases	3,636	8,325	10,355	13,981	301	46	15	(22,537)	14,122
Utilities	1,274	7,328	1,612	779	85	5	1		11,084
Insurance	176	6,553	4,630	53	131	165	35		11,743
Provider Tax		10,065							10,065
Other	2,810	2,706	1,895	264	288	3,909	2,018	(5,095)	8,795
Management Fee	(77,727)	76,451	770	195	312				1
Subtotal Direct Expenses	45,765	719,182	205,848	16,956	16,714	5,480	2,489	(39,910)	972,524
EBITDA	(40,229)	164,889	(38,849)	2,970	(1,318)	(304)	95		87,254
Fixed Expenses									
Depreciation & Amortization	10,265	29,001	2,183	3,133	154	5	1		44,742
Interest Expense	(2,040)	20,617		1,532					20,109
Patient Service Margin	(48,454)	115,271	(41,032)	(1,695)	(1,472)	(309)	94		22,403

Report Generation

NORTON HEALTHCARE, INC. 07/27/17 09:09
Combining Income Statement By Legal Entity Dollars in Thousands
June 30, 2017 YEAR TO DATE ISCMBYTDROUN

	Norton System Office	Norton Hospitals Inc.	CMA	Norton Properties Inc.	Norton Enterprises Inc.	Children's Hospital Foundation	Norton Healthcare Foundation	Eliminations	Combined Total
Investment Income (Loss)	21,503					790	61		22,354
Operating Income (Loss)	(26,951)	115,271	(41,032)	(1,695)	(1,472)	481	155		44,757
Non-Operating Rev (Exp)									
Change in Unreal G/(L) Inv	38,399					1,279	121		39,799
Other Non-Operating Revenue		(2)			1				(1)
Chg in Fair Value of Swap	1,096								1,096
Net Periodic Pension Cost	(4,779)								(4,779)
James R. Petersdorf Fund	(321)		21						(300)
Total Non-Operating Rev (Exp)	34,395	(2)	21		1	1,279	121		35,815
Excess Rev Over Exp	7,444	115,269	(41,011)	(1,695)	(1,471)	1,760	276		80,572
Other Equity Transactions	1,861	10,992	374			165	(67)		13,325
Inc(Decr) in Net Assets	9,305	126,261	(40,637)	(1,695)	(1,471)	1,925	209		93,897
STATISTICS:									
Admissions - Acute		35,867							35,867
Patient Days - Acute		184,381							184,381
O/P Visits (Excl ER & OP Surg)		266,380							266,380
E/R Visits		122,484							122,484
Outpatient Surgery		17,641							17,641
Inpatient Surgery		10,467							10,467
Deliveries		3,711							3,711
Clinic/Phys Visits		53,211	985,749		4,023				1,042,983
wRVUs			1,811,808		4,122				1,815,930
Observation Cases		12,882							12,882

Report Generation

NORTON HEALTHCARE, INC. 07/27/17 09:09
Combining Balance Sheet By Legal Entity Dollars in Thousands
To Date Ending June 30, 2017 B-COMBINGROU

	Norton System Office	Norton Hospitals Inc.	CMA	Norton Properties Inc.	Norton Enterprises Inc.	Chidren's Hospital Foundation	Norton Healthcare Foundation	Eliminations	Combined Total
Assets									
Current Assets									
Cash and Cash Equivalents	95,409	17	75		(60)	164	19		95,624
Mkt Securities & Other Inv	83,955								83,955
Gross A/R (Net of CA's)		297,905	35,016		9,975				342,896
Allowances for Bad Debt		(86,573)	(10,043)		(3,572)				(100,188)
Net A/R		211,332	24,974		6,402				242,708
Miscellaneous Receivables	10,788	501	(781)			2,240	3,740		16,488
CP Assets Limited to Use	27,243								27,243
Inventories	834	51,455			848	35	74		53,246
Prepaid Expenses	29,838	1,659		1,703	39	145			33,384
Total Current Assets	248,067	264,965	24,267	1,703	7,229	2,584	3,833		552,648
Assets Limited as to Use									
By Board of Directors	1,026,781					35,319	3,342		1,065,442
By Bond Indenture Trust	224,556								224,556
By Self Insurance Trust	96,655								96,655
Restricted Funds	31,505					26,531	23,095		81,131
Total Assets Limited as to Use	1,379,497					61,850	26,437		1,467,784
Net Property Plant & Equipmt	92,246	632,064	24,708	70,193	557	57			819,824
Other Assets:									
Other Receivables from Affi	(651,746)	1,165,844	(452,303)	(28,436)	(34,703)	871	471		(2)
Investments in Joint Ventur	615	43,159			28,992			(12,842)	59,924
Beneficial Int. in Outsd Tr						13,902	6,411		20,313
Goodwill & Net Intang Assets		7,446	3,557		9,677				20,680
Other	27,081			4		16,101	15,441		58,627
Total Other Assets	(624,050)	1,216,449	(448,746)	(28,431)	3,967	30,874	22,323	(12,842)	159,545
Total Assets	1,095,760	2,113,478	(399,770)	43,464	11,753	95,365	52,594	(12,842)	2,999,801

Report Generation

NORTON HEALTHCARE, INC. 07/27/17
Combining Balance Sheet By Legal Entity Dollars in Thousands 09:09
To Date Ending June 30, 2017 B-COMBINGROU

	Norton System Office	Norton Hospitals Inc.	CMA	Norton Properties Inc.	Norton Enterprises Inc.	Chidren's Hospital Foundation	Norton Healthcare Foundation	Eliminations	Combined Total
Liabilities and Net Assets									
Current Liabilities:									
Accounts Payable	14,651	53,570	779	307	847	39	9		70,202
Grants Payable	1,586								1,586
Accrued Expense & Other	51,079	36,809	3,983	254	632	269	15		93,041
Accrued Payroll Items	104,886	2,650	12,784		269				120,489
Due to Third-Party Payors		29,838							29,838
Accrued Interest	8,619								8,619
Current Portion LT Debt	33,170			3,270					36,440
Total Current Liabilities	213,991	122,767	17,546	3,831	1,748	308	24		360,215
Other Noncurrent Liabilities:									
Pension	59,393								59,393
Insurance Liability	100,809								100,809
Other	45,010	7,391		5,019		2,000	2,194		61,614
Total Other Noncurrent liabil	205,212	7,391		5,019		2,000	2,194		221,816
Total Long-term Debt	1,093,677			39,042					1,132,719
Net Assets:									
Unrestricted	(417,346)	1,977,440	(417,662)	(4,427)	10,005	30,121	1,635	(12,842)	1,166,924
Temporarily Restricted	226	5,880	346			41,619	31,798		79,869
Permanently Restricted						21,317	16,943		38,260
Total Net Assets	(417,119)	1,983,320	(417,316)	(4,427)	10,005	93,057	50,375	(12,842)	1,285,051
Total Liablities & Net Assets	1,095,760	2,113,478	(399,770)	43,464	11,753	95,365	52,594	(12,842)	2,999,801

Report Generation

NORTON HEALTHCARE, INC.
Combining Balance Sheet By Legal Entity
Changes in Net Assets
To Date Ending June 30, 2017

07/27/17
09:09
B-COMBINGROU

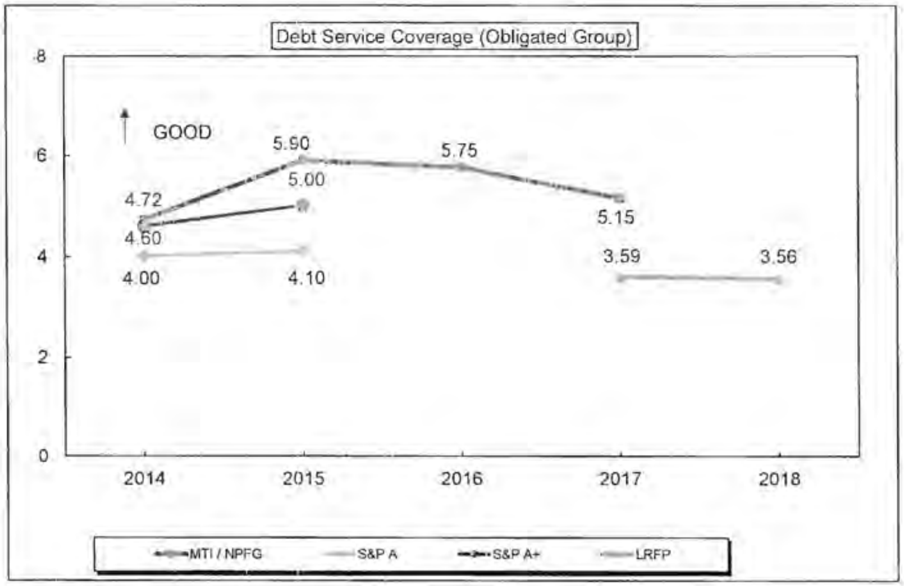
	Norton System Office	Norton Hospitals Inc.	CMA	Norton Properties Inc.	Norton Enterprises Inc.	Children's Hospital Foundation	Norton Healthcare Foundation	Eliminations	Combined Totals
Net Assets:									
UNRESTRICTED									
Fund Balance-Unrestricted	(110,893)	465,965	(6,207)	25,465	3,610	33,207	5,636	(1,171)	415,612
Capital Stock					1			(1)	
Contributed Capital					12,841			(12,841)	
RETAINED EARNINGS	(315,757)	1,385,215	(370,817)	(28,197)	(4,976)	(5,011)	(4,212)	1,171	657,416
Retained Earnings-Undist	9,305	126,259	(40,638)	(1,696)	(1,471)	1,925	210		93,894
Total Unrestricted	(417,346)	1,977,440	(417,662)	(4,427)	10,005	30,121	1,635	(12,842)	1,166,923
TEMPORARILY RESTRICTED									
Fund Balance-Temporarily Restr	162	5,116	1,157			39,153	30,571		76,159
Contributions & Grants	365	3,850	201			4,214	1,579	(4,696)	5,513
Raffle Fundraising						5	17		22
Special Event Costs						(117)	(24)		(141)
Investment Income						444	418		862
Inc Dist fr Trust/Change in BI						215	145		360
Assets Released-Programs/Asst.	(179)	(1,847)	(638)			(1,942)	(1,011)	2,953	(2,664)
Assets Relsd-PP&E/Time Restr	(89)	(1,081)	(374)			(1,141)	(719)	1,744	(1,660)
Unrealized Gain/Loss--Temp Res						863	832		1,695
Fdtn OH Expense Alloc						(204)	(71)		(275)
Transfer to/from Affiliates	(32)	(158)				128	61		(1)
Total Temporarily Restricted	226	5,880	346			41,619	31,798		79,869
PERMANENTLY RESTRICTED									
Fund Balance--Permanently Rest						21,221	16,942		38,163
Contributions & Grants						14	1		15
Investment Income						22			22
Unrealized Gain/Loss (Perm Res						59			59
Total Permanently Restricted						21,317	16,943		38,260
TOTAL NET ASSETS	(417,119)	1,983,320	(417,316)	(4,427)	10,005	93,057	50,375	(12,842)	1,285,051

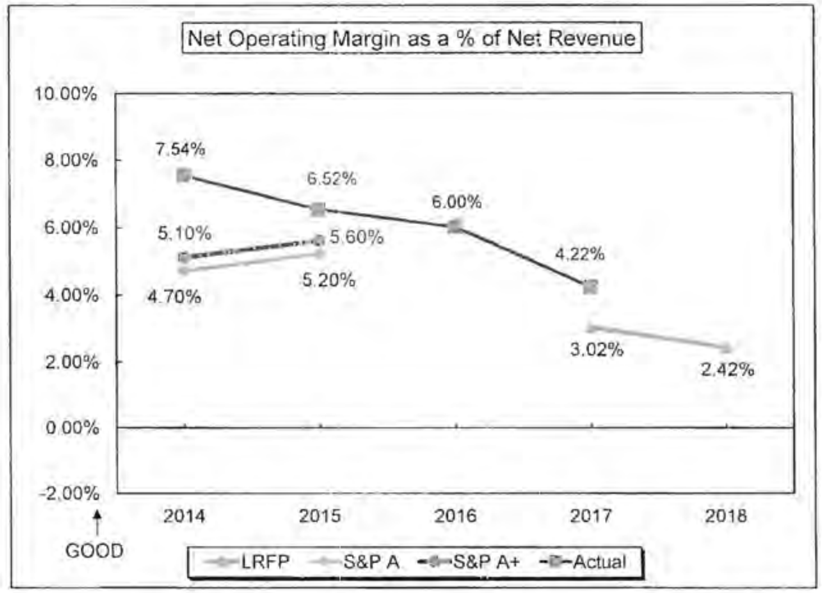
NORTON HEALTHCARE

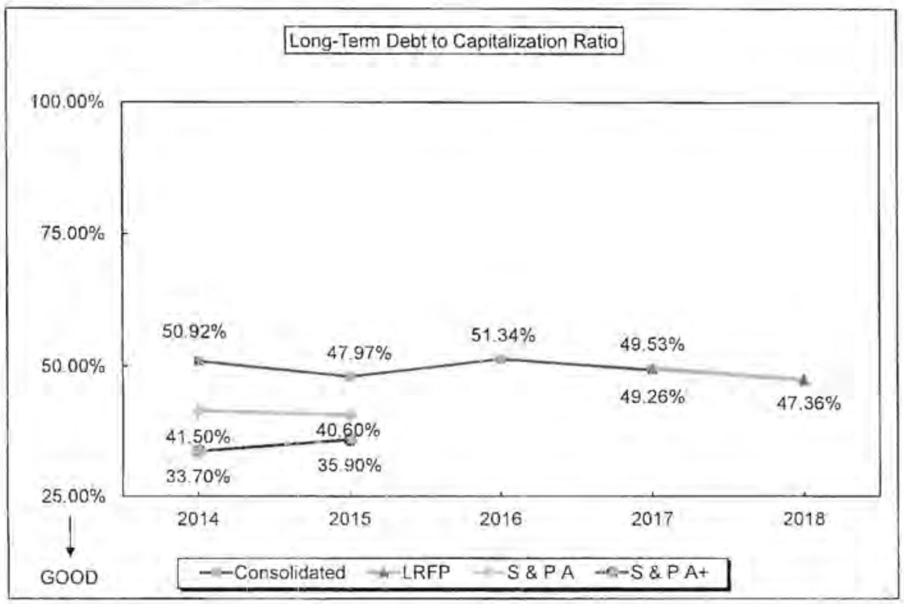
Key Long-Term Financial Indicators

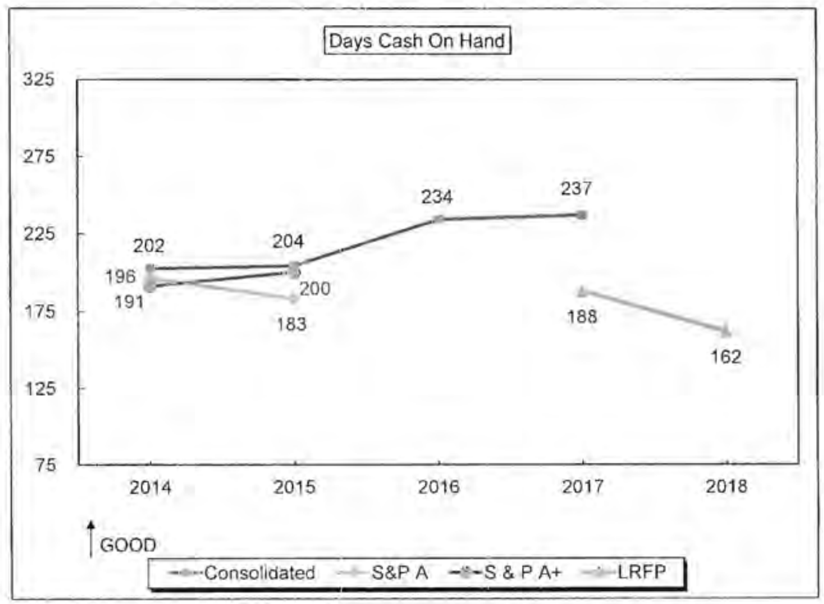
June 30, 2017

NOTE: All actual 2017 amounts are year-to-date, while LRFP projections, S&P A and S&P A+ amounts are for the entire year. LRFP per 2016 Board approval.



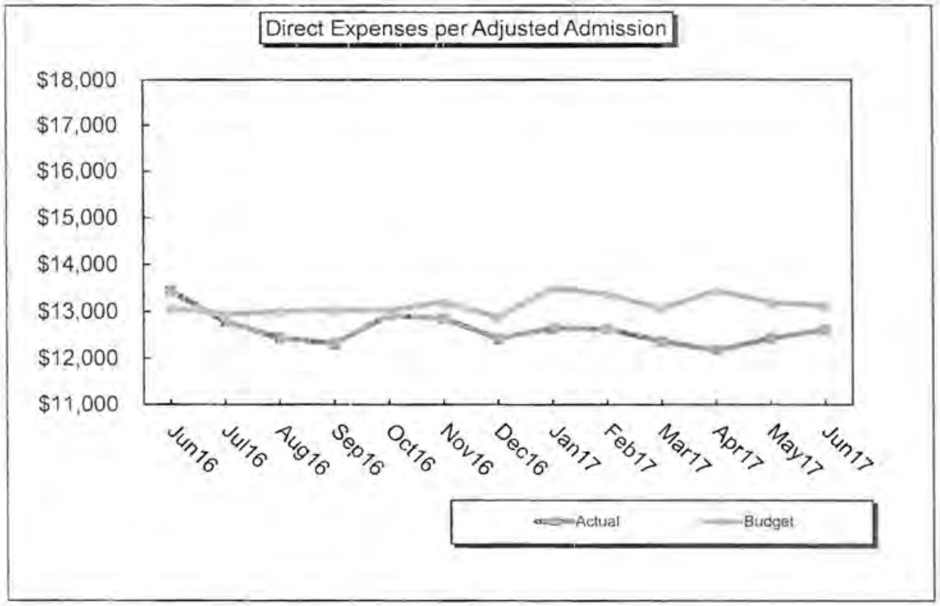


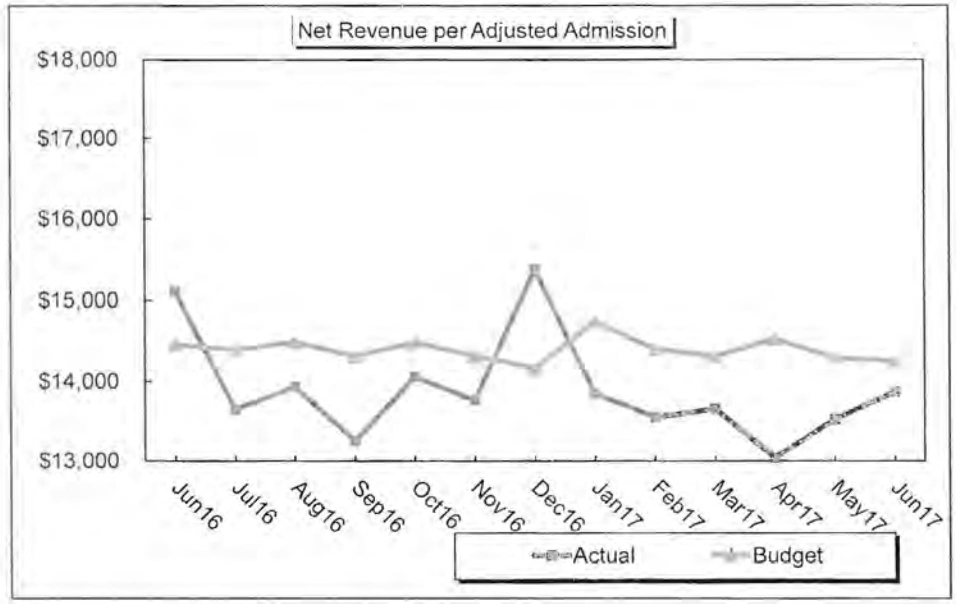


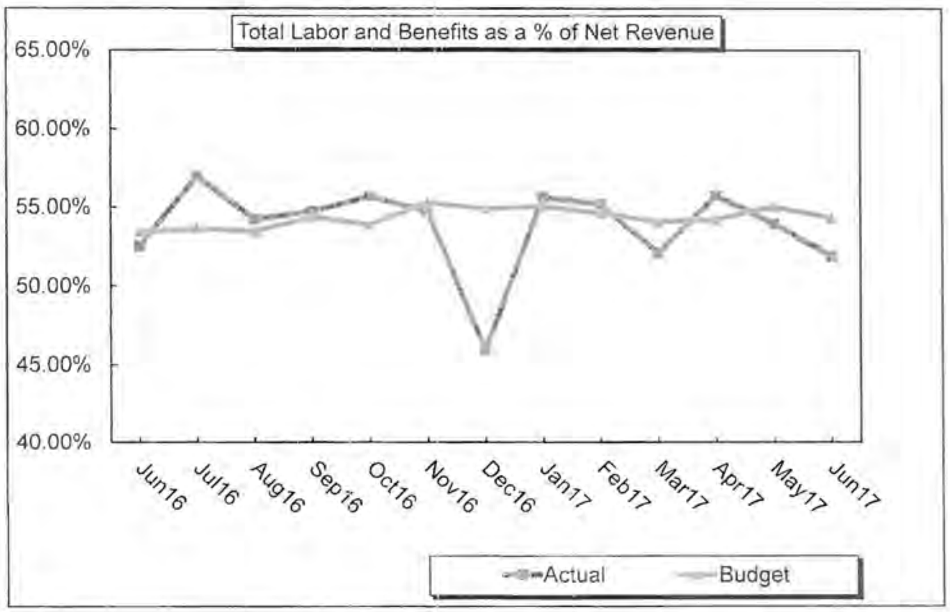


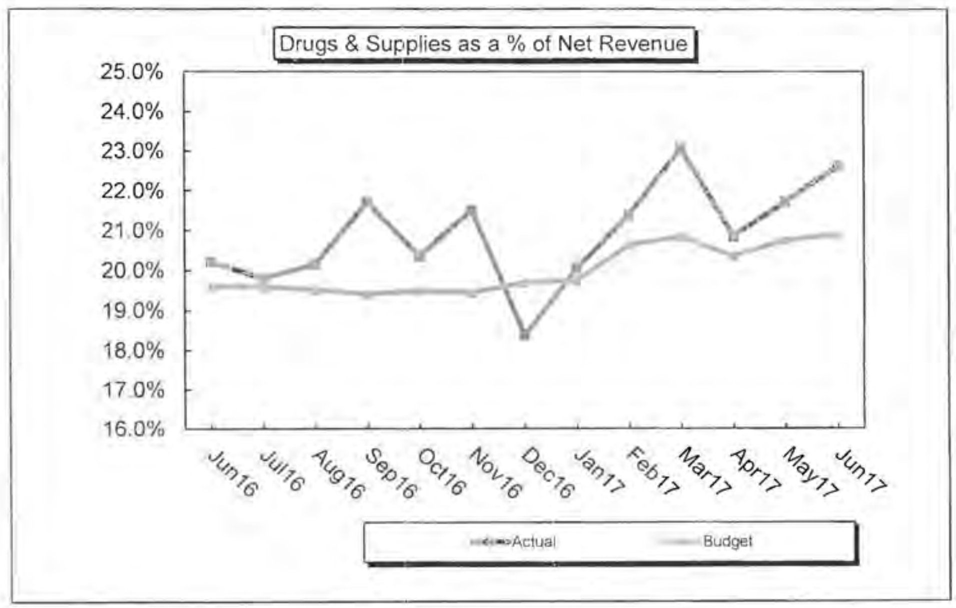
NORTON HEALTHCARE

Key Statistical Financial Indicators
June 30, 2017







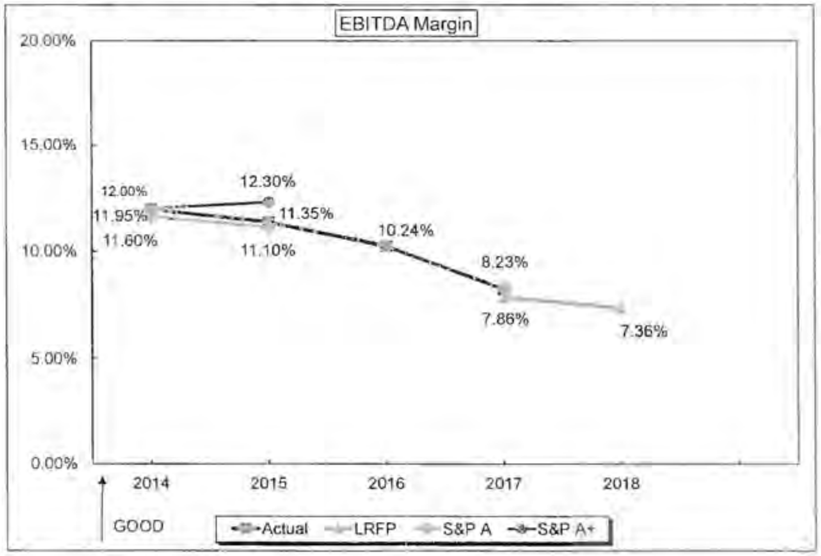


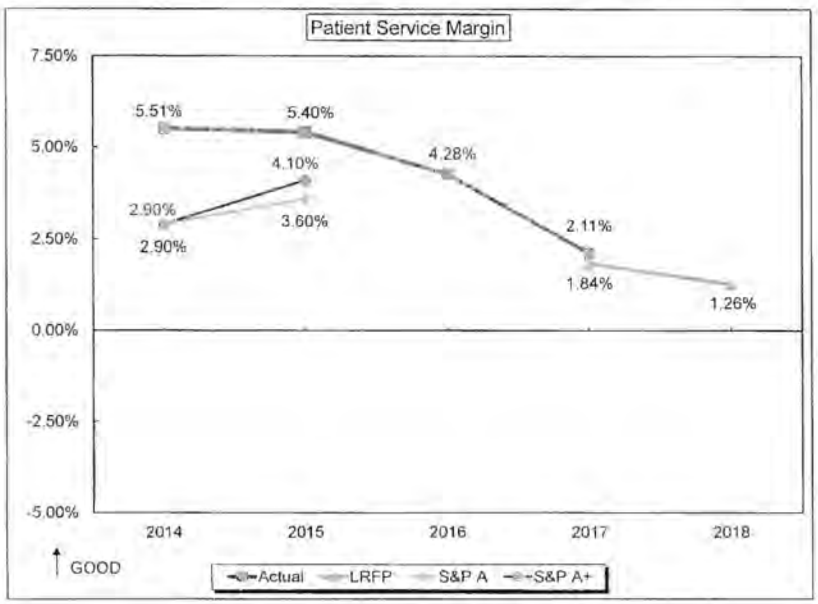
NORTON HEALTHCARE

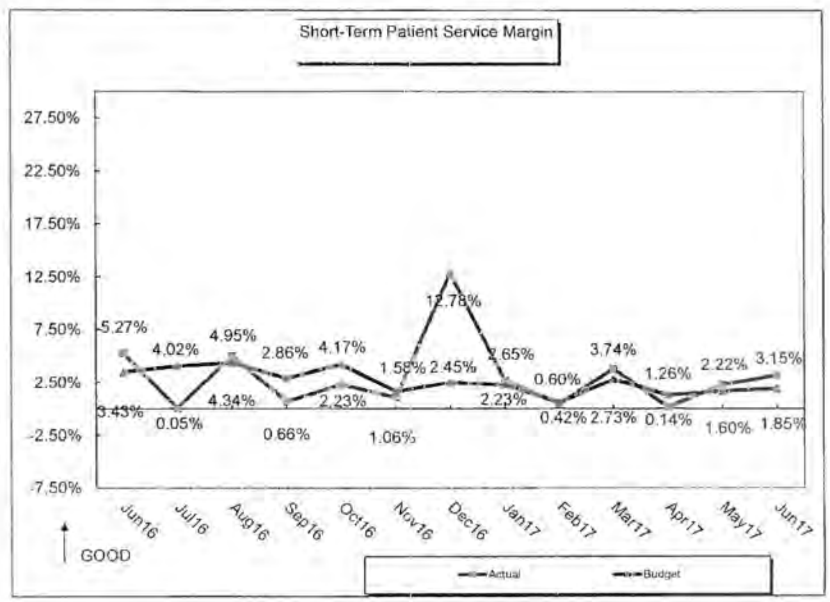
Key Operating Margin Financial Indicators

June 30, 2017

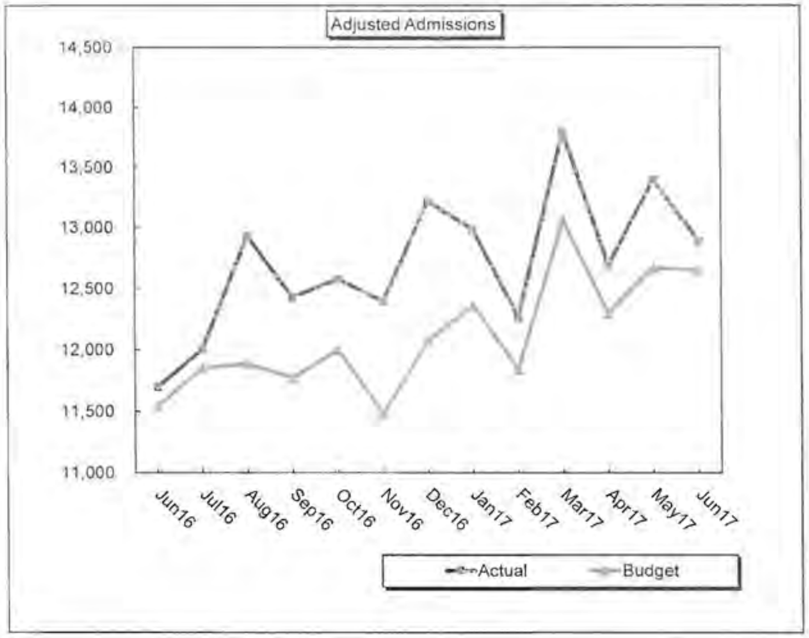
NOTE: All actual 2017 amounts are year-to-date, while LRFP projections, S&P A and S&P A+ amounts are for the entire year. LRFP per 2016 Board approval.

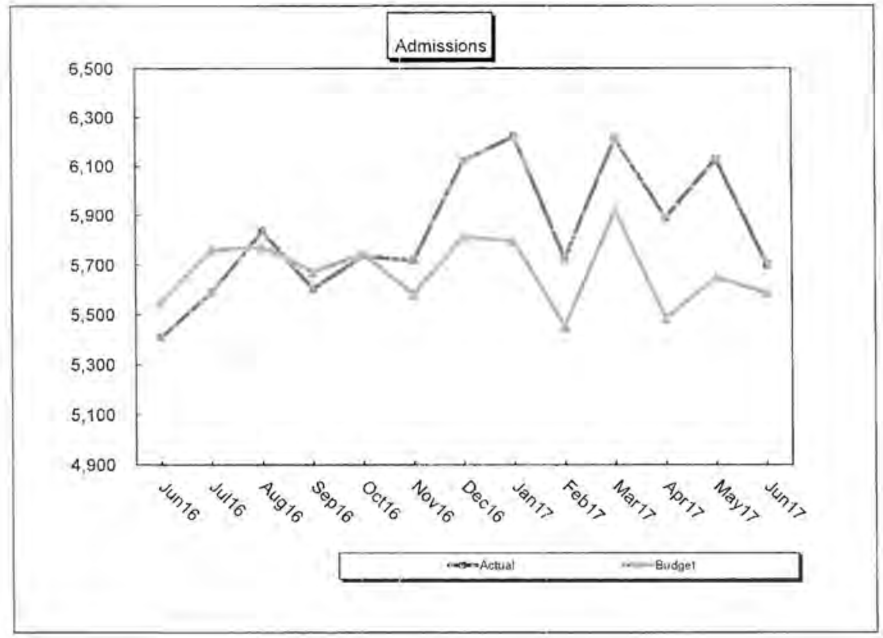


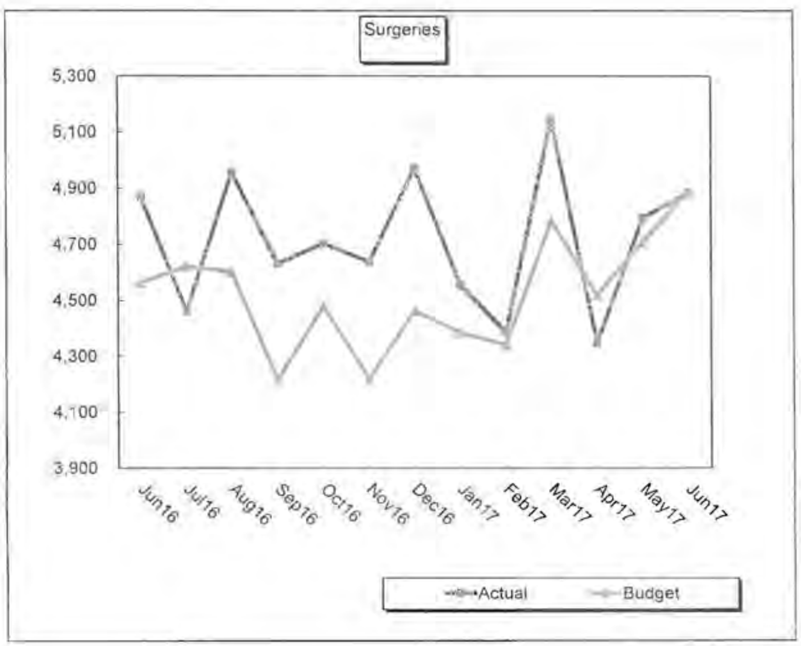


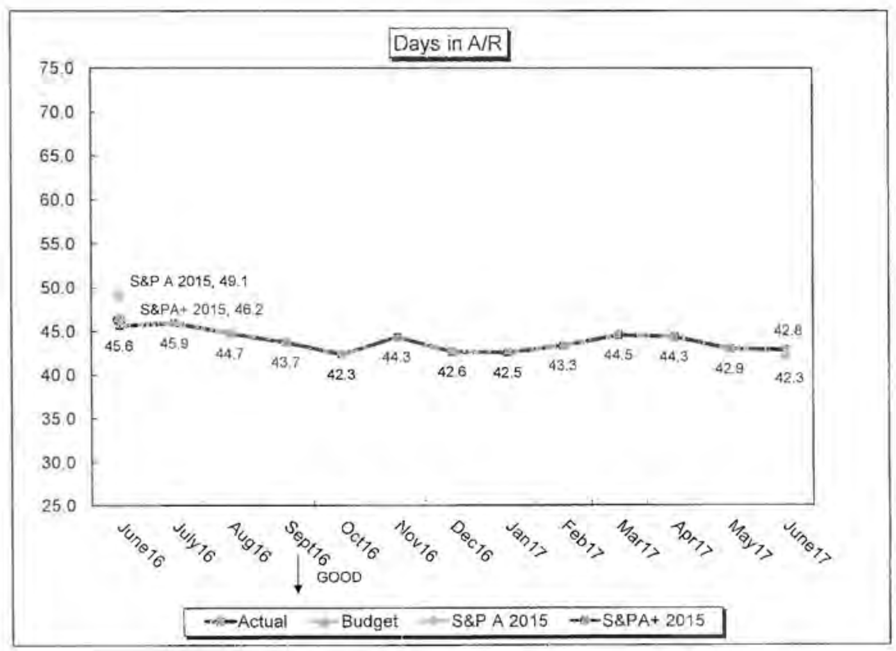


Key Volume Financial Indicators
June 30, 2017









1. Description of Organization and Reclassifications

Organization

The accompanying combined financial statements of Norton Healthcare, Inc. include the transactions and accounts of Norton Healthcare, Inc. (the controlling company) and Affiliates including the following: Norton Hospitals, Inc., Norton Enterprises, Inc., Norton Properties, Inc., The Children's Hospital Foundation, Inc., Norton Healthcare Foundation, Inc., and Community Medical Associates, Inc. Norton Healthcare, Inc. and Affiliates are collectively hereafter referred to as the Corporation.

Reclassifications

Certain reclassifications were made to the 2016 combined financial statement presentation to conform to the 2017 combined financial statement presentation, which had no impact on previously reported excess of revenue over expenses or net assets.

2. Commitments and Contingency

The Corporation is in the process of improving and expanding its facilities. Commitments related to renovation of existing facilities or construction of new facilities total $62.0 million at June 30, 2017. This will be funded through bond proceeds and cash flows generated from operations.

The Corporation is subject to claims and suits arising in the ordinary course of business.

3. Employee Benefit Plans

Substantially, all employees of the Corporation are covered by a noncontributory defined benefit pension plan (the Norton Healthcare, Inc. Retirement Plan). Benefits are generally based upon years of service and an employee's annual compensation during their years of service. The Corporation annually funds an amount not less than the minimum required by ERISA.

In March 2017, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2017-07, *Compensation – Retirements Benefits (Topic 715): Improving Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost (ASU 2017-07)*, which changes how employers that sponsor defined benefit pension plans present the net periodic pension cost in the

3. Employee Benefit Plans (continued)

statement of operations. ASU 2017-07 requires employers to present the service cost component of net periodic pension cost in the same statement of operations line item as other employee compensation costs from services rendered during the period. Employers are to present the other components of net periodic pension cost separately from the line item that includes service cost and outside of operating income. The Corporation adopted the provisions of ASU 2017-07 in the first quarter of 2017. The defined benefit pension plan was frozen effective January 1, 2010. As a result, in future years, no service cost will be incurred. The other components of net periodic pension cost were $4.8 million and $3.5 million for the first six months of 2017 and 2016, respectively, and are presented in the line item "Net periodic pension cost" included in Non-operating gains (losses) section in the combined income statement. The 2016 amounts, which were previously reported in employee benefits, have been reclassified to conform to the 2017 presentation in the combined income statement.

A summary of the components of net periodic benefit cost for the defined benefit pension plan for the six months ended June 30, 2017 and 2016 is as follows:

	Six Months Ended June 30,	
($ in thousands)	2017	2016
Interest cost	**$4,416**	$4,611
Expected return on plan assets	**(2,208)**	(2,605)
Amortization net loss	**2,186**	2,397
Settlement cost	**385**	2,700
Accelerated loss contingency expense	-	(3,570)
Net periodic benefit cost	**$4,779**	$3,533

4. Fair Value Measurements

The Corporation follows the provisions of FASB Accounting Standards Codification (ASC) 820, *Fair Value Measurements and Disclosures* (ASC 820), which defines fair value as 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, and establishes a framework for measuring fair value. ASC 820 defines a three-level hierarchy for fair value measurements based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date.

4. Fair Value Measurements (continued)

ASC 820 emphasizes that fair value is a market-based measurement, not an entity-specific measurement. Therefore, a fair value measurement should be determined based on the assumptions that market participants would use in pricing an asset or liability. As a basis for considering market participant assumption in fair value measurements, and as noted above, ASC 820 defines a three-level fair value hierarchy that distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity and the reporting entity's own assumptions about market participants. The fair value hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows:

- Level 1 – inputs utilize quoted market prices in active markets for identical assets or liabilities.

- Level 2 – inputs may include quoted prices for similar assets and liabilities in active markets, as well as inputs that are observable for the asset and liability (other than quoted prices), such as interest rates, foreign exchange rates, and yield curves that are observable at commonly quoted intervals.

- Level 3 – inputs are unobservable inputs for the asset or liability, which is typically based on an entity's own assumptions, as there is little, if any, related market activity.

In instances where the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls is based on the lowest level input that is significant to the fair value measurement in its entirety. The Corporation's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the asset or liability.

In order to meet the requirements of ASC 820, the Corporation utilizes three basic valuation approaches to determine the fair value of its assets and liabilities required to be recorded at fair value. The first approach is the cost approach. The cost approach is generally the value a market participant would expect to replace the respective asset or liability. The second approach is the market approach. The market approach looks at what a market participant would consider an exact or similar asset or liability to that of the Corporation, including those traded on exchanges, to determine value. The third approach is the income approach. The income approach uses estimation techniques to determine the estimated future cash flows of the Corporation's respective asset or liability expected by a market participant and discount those cash flows back to present value (more typically referred to as a discounted cash flow approach).

4. Fair Value Measurements (continued)

Valuation - Marketable debt securities and other investments and assets limited as to use

As previously stated, level 1 securities are stated at unadjusted quoted market prices. The Corporation's various investment portfolios are held by a variety of business partners and these partners use external pricing services in providing the valuation for all levels of securities. For level 2 securities, this includes valuations based upon direct and indirect observable market inputs that may utilize the market, income, or cost approaches in determination of their fair value. The pricing services use a variety of pricing models and inputs based upon the type of security being valued. These inputs may include, but are not limited to: reported trades, similar security trade data, bid/ask spreads, institutional bids, benchmark yields, broker/dealer quotes, issuer spreads, yield to maturity, and corporate, industry, and economic events.

Valuation - Beneficial interests in outside trusts

The Corporation is an income beneficiary of irrevocable trust funds held by others. The Corporation has recorded the fair value of the ownership interest of the trusts based on its pro-rata share of the underlying assets or income. Based on the observable inputs, typically marketable debt or equity securities held in the irrevocable trusts, the Corporation has determined its beneficial interests in outside trusts fall in level 2 of the fair value hierarchy. This technique is consistent with the market approach.

Valuation - Interest rate swap asset(liability)

The fair value is calculated based on a discounted cash flow model taking into consideration the terms of each interest rate swap and the credit rating of the Corporation or counterparty, as applicable. Based on the observable inputs, typically published interest rates and credit spreads, the Corporation has determined its interest rate swaps fall in level 2 of the fair value hierarchy. This technique is consistent with the income or discounted cash flow approach.

The following tables present the financial instruments carried at fair value as of June 30, 2017 and December 31, 2016 using the valuation hierarchy defined above:

4. Fair Value Measurements (continued)

($ in thousands)	June 30, 2017	December 31, 2016	Level
Marketable securities and other investments at fair value			
Total Marketable debt securities (A)	$83,955	$18,844	2
Assets limited as to use at fair value			
By Board of Trustees and Donors:			
Cash		4,072	1
Mutual funds:			
Templeton Global Equity Fund (B)	84,146	75,537	1
PIMCO Real Return Fund (C)	45,129	52,152	1
Capital World Growth and Income Fund (D)	82,434	72,874	
Dodge & Cox Global Stock Fund (E)	86,378	78,446	1
Dreyfus Global Equity Fund (F)	80,654	71,634	1
Wells Capital Management Core Fixed Income (G)	62,257	60,865	1
Other publicly traded mutual funds (H)	31,721	34,751	1
Total Mutual Funds	472,719	446,259	1
Common and collective trust funds (I)	44,929	46,726	N/A
Separate accounts:			
PNC (Marketable Debt Securities) (J)	54,358	54,442	2
Sterling Capital (K)	63,314	61,681	2
EPOCH All Cap US Equity (L)	46,052	41,744	1
Baron (Domestic Equity Growth)(M)	5	5	1
Disciplined Growth Investors (N)	41,327	38,722	1
Other (O)	1,074	1,289	1
Total Separate Accounts	206,130	197,883	
Total by Board of Trustees and donors at fair value	744,363	694,940	

4. Fair Value Measurements (continued)

($ in thousands)	June 30, 2017	December 31,	Level
By Stock Yards Bank escrow agreement:			
Cash	**12,241**	14,056	
Total assets limited as to use by Stock Yards Bank escrow agreement, at fair value	**12,241**	14,056	
By Self Insurance Trust Agreements:			
Sterling Behavioral Small Cap Value (P)	**6,202**	6,232	1
Total Mutual Funds	**6,202**	6,232	
Separate Accounts			
Cash	**4,442**	6,564	1
Marketable debt securities (Q)	**87,664**	100,861	2
Sterling Special Opportunities Equity (R)	**24,814**	22,000	1
Total Separate Accounts	**116,920**	129,425	
Total assets limited as to use by self-insurance trust agreements	**123,122**	135,657	
By Bond Indenture Trust Agreements:			
Cash	**63**	59	
Marketable debt securities (S)	**224,518**	258,120	2
Total assets limited as to use by Bond Indenture	**224,581**	258,179	
Total Assets Limited as to Use at Fair Value	**1,104,307**	1,102,832	

4. Fair Value Measurements (continued)

($ in thousands)	June 30, 2017	December 31, 2016	Level
Assets limited as to use at net asset value:			
Hedge funds (T)	**286,885**	275,290	N/A
Real estate funds (U)	**93,700**	81,540	N/A
Private Equity (V)	**10,135**	7,738	N/A
Total assets limited as to use at net asset value	**390,720**	364,568	
Less current portion of self-insurance trust and bond indenture and assets limited as to use in escrow	**(27,243)**	(28,319)	
Total assets limited as to use	**$ 1,467,784**	$ 1,439,081	
Other assets at fair value:			
Beneficial interest in outside trusts	**$ 20,313**	$ 20,313	2
Interest rate swap (Note 5)	**1,341**	245	2

(A) Investment-grade readily marketable corporate debt securities (95%), municipal fixed-income securities (3%) and money market funds invested in high-quality fixed-income securities (2%).

(B) Mutual fund invests in domestic and international equities to achieve long-term capital growth. Fund strives to exceed the MSCI World Index.

(C) Mutual fund seeks to maximize real returns by investing the majority of its assets in Treasury Inflation Protected Securities (TIPS) issued by the U.S. government. The fund may also investment in U.S. Treasury securities, corporate bonds, mortgage-backed securities and emerging market bonds to add value when opportunities arise.

(D) Mutual fund invests in domestic and international equities with a focus on companies paying regular dividends and strives to exceed the MSCI World Index.

(E) Mutual fund invests in equity securities issued by medium-to-large sized well-established global companies, including those domiciled in emerging markets, and strives to exceed the MSCI World Index.

(F) Mutual fund invests in domestic and international equities and strives to exceed the MSCI World index.

4. Fair Value Measurements (continued)

(G) Mutual fund seeks to deliver excess return relative to the taxable fixed-income universe as measured by the Barclays U.S. Aggregate Bond Index.

(H) Various other publicly traded mutual funds invested in a variety of money market, fixed-income, domestic equity, and international equity mutual funds. The equity mutual funds are diverse in investment strategies, including both value and growth and a variety of market capitalizations.

(I) Common and collective trust fund whose objective is to maximize real return by investing in a variety of securities that offer strong relative performance in a rising inflation environment. Fund seeks to exceed the Dow Jones AIG Commodity Total Return Index.

(J) Manager invests in marketable corporate debt securities (44%), U.S. government fixed-income securities (53%) and other fixed-income investments (3%) that strives to provide a return better than traditional cash or money market portfolios.

(K) Manager invests primarily in marketable corporate debt securities (64%), U.S. government fixed-income securities (29%), and other fixed-income investments (7%) with the objective of maximizing total return while preserving capital. Manager strives to exceed the Barclays Capital Aggregate index.

(L) Manager invests in domestic equities across various industries with a value orientation and high rates of free cash flow. Manager strives to exceed the Russell 3000 Value Index.

(M) Manager invests in domestic equities across various industries with a variety of market capitalizations with a growth orientation and strives to exceed the Russell 3000 Growth Index.

(N) Manager seeks to invest in mid-cap companies with market caps between $1 billion and $10 billion that are expected to yield high returns. The portfolio will generally hold between 40-50 securities with an average turnover ratio ranging from 15% to 30%.

(O) Conglomeration of smaller accounts whose components are not deemed material for individual breakout. Largest holding is a money market fund (67%).

(P) Mutual fund that seeks to capitalize on behaviorally driven market anomalies by employing a disciplined investment process that ranks small capitalization companies in the fund's universe based on a number of factors including valuation, price momentum and earnings revisions.

(Q) Externally managed portfolio holding investment grade U.S. agency and U.S. Treasury fixed-income securities whose maximum maturity does not exceed five years.

4. Fair Value Measurements (continued)

(R) Equity portfolio that primarily invest in companies with the best perceived combination of underlying growth potential and attractive valuation in a high conviction portfolio of 25-40 holdings.

(S) Externally managed portfolio holding U.S. agency securities, U.S. Treasury securities, highly rated municipal and commercial paper fixed-income securities structured to generate returns while protecting principal and providing liquidity to fund draws on the project fund.

(T) The hedge funds are composed of both fund of funds and direct hedge funds that seek to provide equity-like returns over a full market cycle with reduced volatility and low correlation. The managers employ various strategies, including, but not limited to, long/short equity, long/short credit, distressed credit, merger/credit arbitrage, and macrotrading strategies.

(U) The real estate funds include an actively managed private real estate investment trust (REIT) composed of participating mortgages and wholly owned real estate investments. A smaller portion of the holdings include a commingled real estate fund, which includes the purchase of REITs, real estate properties, private equity funds, public debt securities, and high-yield private debt.

(V) The private equity fund investments are comprised of limited partnerships that invest in the equity and debt of privately held companies. The objective of these strategies is to provide a return that exceeds that of public equity markets over a long-term time period. These investments will typically have a life of five-ten years depending on the strategy.

5. Swap Agreements

The Corporation uses interest rate swaps to manage its cost of capital and generate cash flow meant to reduce interest expense. The Corporation pays a rate based upon the Securities Industry and Financial Markets Association Municipal Swap Index (SIFMA), an index of seven-day, high-grade tax exempt variable-rate demand obligations. In return, the Corporation receives a fixed rate based upon the London Interbank Offered Rate (LIBOR), the average interest rate charged when banks in the London interbank market borrow unsecured funds from each other.

5. Swap Agreements (continued)

At June 30, 2017 the Corporation holds the following interest rate swaps:

Effective Date	Notional Amount	Maturity Date	Receive	Pay
February 21, 2001	$100,000,000	October 1, 2028	1.4925 of one month LIBOR	2 times SIFMA
October 1, 2004	$100,000,000	October 1, 2028	62.6% of one month LIBOR plus .57%	SIFMA
November 3, 2006	$140,000,000	November 3, 2031	61.7% of one month LIBOR plus .577%	SIFMA
November 3, 2008	$200,000,000	November 3, 2026	61.7% of ten year LIBOR minus .016%	SIFMA

All of the Corporation's interest rate swaps are with Citigroup and were issued pursuant to a single International Swaps and Derivatives Association, Inc. agreement with that counterparty. All of the Corporation's swaps are viewed under a master netting arrangement to determine the aggregate amount of collateral to be posted or received by the Corporation, and, consistent with industry practice require posting of collateral should either party's cumulative mark to market liability exceed certain thresholds based upon the credit rating of the counterparty. At June 30, 2017 and December 31, 2016, based upon the agreements with Citigroup, the Corporation had a contract value which was a asset of $1.0 million and a liability of $2.5 million respectively. Based upon the Corporation's lowest credit rating (A-), collateral must be posted for liabilities in excess of $25 million.

At the end of the most current period the Corporation had no collateral posted and was not required to post any collateral. Should the Corporation's credit rating fall below BBB, Citigroup would have the option of terminating some or all of the swaps at the contract value. Should the Corporation hold all swap agreements to maturity, as it intends, no cash settlement will be necessary and any posted swap collateral will be returned.

For the Corporation's combined financial statements, these interest rate swaps are recorded at fair value in accordance with ASC 815 – *Derivatives and Hedging*. The Corporation uses an external party to calculate fair value in accordance with ASC 820, which is described in detail in Note 4. The external party uses the discounted cash flow method by taking observable inputs from the inter-dealer interest rate swap market. The Corporation's credit risk is estimated using not-for-profit healthcare credit spreads. Citigroup's credit risk is estimated using corporate bond spreads; these credit spreads are then added to the LIBOR discount curve, as applicable, and any collateral posted at the valuation date is taken into account. None of these interest rate swap agreements has been designated as a hedge for accounting purposes; therefore, the change in fair market value for these interest rate swap agreements appears in the income statement under Non-operating gains (losses) in the line "Change in fair value of swap". The cash flow impact of the swap agreements appears in the combined statement of operations income statement and increases or decreases the "Interest expense" line. The fair value

5. Swap Agreements (continued)

at June 30, 2017 and December 31, 2016 was an asset and is included in the combined balance sheet under Other assets in the line "Other." The cash flow for these swaps is settled semi-annually on April 1st and October 1st. In the interim periods a receivable or payable is recorded, currently the cash flows are in a receivable position and this receivable is included in the line "Miscellaneous receivables" under Current assets in the combined balance sheet.

	Balance Sheet Impact		
($ in thousands)	Miscellaneous Receivables	Fair Value of Swap	Balance Sheet Impact Total
December 31, 2016	$ 314	$ 245	$ 559
Decrease to Interest Expense	1,064	-	1,064
SWAP Cash Settlements Received	(925)	-	(925)
Change in Fair Value of Swap	-	1,096	1,096
June 30, 2017	$ 453	$ 1,341	$ 1,794

6. Net Patient Service Revenue

Revenue is recorded during the period the health care services are provided, based on estimated amounts due from the patients and third-party payors. Third-party payors include federal and state agencies (under the Medicare, Medicaid, and other programs), managed care health plans, commercial insurance companies and employers. Patient service revenue is reported at estimated net realizable amounts for services rendered. The Corporation recognizes patient service revenue associated with patients who have third-party payor coverage on the basis of contractual rates for the services rendered. For uninsured patients that do not qualify for charity care, revenue is recognized on the basis of discounted rates in accordance with the Corporation's policy.

6. Net Patient Service Revenue (continued)

Net patient service revenue (net of contractual allowances and discounts), before provision for doubtful accounts recognized from these major payor sources, is as follows:

($ in thousands)	2017	% of Total	2016	% of Total
	Six Months Ended June 30,			
Medicare	**$322,706**	**30%**	$279,978	27%
Medicaid	**216,972**	**20%**	219,251	21%
Commercial/Self-Pay/Other	**528,934**	**50%**	548,936	52%
Revenue before provision of doubtful accounts	**1,068,612**	**100%**	1,048,165	100%
Provision for doubtful accounts	**32,214**		38,982	
	$1,036,398		$1,009,183	

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. The Corporation believes that it is in compliance with all applicable laws and regulations, and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing. The Corporation has established a corporate compliance program to assist in maintaining compliance with such laws and regulations. Compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory action, including fines and penalties and exclusion from the Medicare and Medicaid Programs. As a result, there is at least a reasonable possibility that current recorded estimates will change by material amounts in the near term.

Policy for Assessing the Timing and Amount of Uncollectible Net Patient Service Revenue and Patient Accounts Receivable

Patient service revenue is reduced by the provision for doubtful accounts and patient accounts receivable are reduced by an allowance for doubtful accounts. These amounts are based on management's assessment of historical and expected net collections for each major payor, considering business and economic conditions, trends in healthcare coverage, and other collection indicators. Management regularly reviews data about these major payor sources of net patient service revenue in evaluating the sufficiency of the allowance for doubtful accounts. On the basis of historical experience, a significant portion of the Corporation's uninsured patients will be unable to pay for the services provided. Thus, the Corporation records a significant provision for doubtful accounts in the period services are provided related to self-pay patients, including both uninsured patients and patients with deductible and copayment balances due for

6. Net Patient Service Revenue (continued)

which third-party coverage exists for a portion of their balance. For patient account receivables associated with patients who have third-party coverage, the Corporation analyzes contractually due amounts and provides an allowance for doubtful accounts and a provision for doubtful accounts, if necessary. Patient accounts receivable are written off after collection efforts have been followed in accordance with the Corporation's policies.

The allowance for doubtful accounts was approximately $100.2 million and $90.7 million at June 30, 2017 and December 31, 2016, respectively. These balances as a percent of patient accounts receivable net of contractual adjustments were approximately 29.2% and 26.8% as of June 30, 2017 and December 31, 2016, respectively. The majority of the Corporation's allowance for doubtful accounts and the related provision for doubtful accounts relate to self-pay patient accounts receivable. The following is a summary of the Corporation's allowance for doubtful accounts activity:

($ in thousands)	**Six Months Ended June 30, 2017**	Year Ended December 31, 2016
Balance at Beginning of Period	**$90,716**	$86,316
Additions Charged to Cost and Expenses	**32,214**	67,088
Accounts Written off, Net of Recoveries and other	**(22,742)**	(62,688)
Balance at End of Period	**$100,188**	$90,716

7. Subsequent Events

Management has evaluated all events and transactions that occurred after March 31, 2017 through August 10, 2017 and determined there are no subsequent events to report.

CERTIFICATION

Bondholder - Quarterly

The undersigned certifies that the information presented in the accompanying Quarterly Report is the Quarterly Report required by the Disclosure Agreement for the following bond issues:

1. $448,015,517.20, Kentucky Economic Development Finance Authority, Health System Revenue Bonds, Series 2000 (Norton Healthcare, Inc.)
   CUSIP 49126VCK1

2. $75,000,000, Louisville/Jefferson County Metro Government, Health System Variable Rate Revenue Bonds, Series 2011 (Norton Healthcare, Inc.)
   CUSIP 54659 LAL8

3. $154,580,000, Louisville/Jefferson County Metro Government, Health System Revenue Bonds, Series 2013A (Norton Healthcare, Inc.)
   CUSIP 54659L AW4

4. $50,000,000, Louisville/Jefferson County Metro Government, Health System Variable Rate Revenue Bonds, Series 2013C (Norton Healthcare, Inc.)
   CUSIP 54659L AW4

5. $521,050,000, Louisville/Jefferson County Metro Government, Health System Revenue Bonds, Series 2016A (Norton Healthcare, Inc.)
   CUSIP 54659LBV5

Dated this 10th day of August, 2017.

Michael W. Gough
EVP Operations/CFO