

WELLSTAR HEALTH SYSTEM, INC. AND AFFILIATES

Combined and Combining Financial Statements

For the Three and Six Months Ended December 31, 2017 and 2016

(Unaudited Interim)

WELLSTAR HEALTH SYSTEM, INC. AND AFFILIATES

Combined Balance Sheets

December 31, 2017 and 2016 and June 30, 2017

(Unaudited)

| Assets | Dec-17 | Dec-16 | Jun-17 |
|--|----------------------------|-------------------------|-------------------------|
| | | (In thousands) | |
| Current assets: | | | |
| Cash and cash equivalents | \$ 82,522 | 84,872 | 89,643 |
| Patient accounts receivable, net | 529,496 | 488,955 | 480,741 |
| Assets limited as to use – required for current liabilities | 249 | 3,947 | 3,374 |
| Other current assets | 102,893 | 107,811 | 109,350 |
| Total current assets | <u>715,160</u> | <u>685,585</u> | <u>683,108</u> |
| Assets limited as to use | 1,222,234 | 917,513 | 1,055,525 |
| Property and equipment, net | 1,622,124 | 1,441,107 | 1,474,711 |
| Goodwill | 415,039 | 398,770 | 415,039 |
| Other assets | 54,904 | 52,158 | 56,991 |
| Total assets | <u><u>\$ 4,029,461</u></u> | <u><u>3,495,133</u></u> | <u><u>3,685,374</u></u> |
| Liabilities and Net Assets | | | |
| Current liabilities: | | | |
| Accounts payable | \$ 188,327 | 162,813 | 191,789 |
| Accrued salaries, wages, and benefits | 121,979 | 129,323 | 127,595 |
| Other accrued expenses | 45,078 | 32,875 | 28,663 |
| Current installments of long-term debt and capital lease obligations | 37,524 | 20,230 | 22,529 |
| Total current liabilities | <u>392,908</u> | <u>345,241</u> | <u>370,576</u> |
| Long-term debt and capital lease obligations, excluding current installments | 1,422,393 | 1,238,608 | 1,255,910 |
| Self-insurance reserves | 147,544 | 117,634 | 127,354 |
| Accrued pension liability | 419,246 | 470,563 | 419,776 |
| Other long-term liabilities | 56,973 | 51,319 | 55,651 |
| Total liabilities | <u>2,439,064</u> | <u>2,223,365</u> | <u>2,229,267</u> |
| Net assets: | | | |
| Unrestricted | 1,544,624 | 1,228,263 | 1,411,558 |
| Temporarily restricted | 30,686 | 27,163 | 28,366 |
| Permanently restricted | 15,087 | 16,342 | 16,183 |
| Total net assets | <u>1,590,397</u> | <u>1,271,768</u> | <u>1,456,107</u> |
| Total liabilities and net assets | <u><u>\$ 4,029,461</u></u> | <u><u>3,495,133</u></u> | <u><u>3,685,374</u></u> |

WELLSTAR HEALTH SYSTEM, INC. AND AFFILIATES

Combined Statements of Operations

For the Three months ending December 31, 2017 and 2016

(Unaudited)

| | Dec-17 | Dec-16 |
|--|----------------|---------------|
| | (In thousands) | |
| Unrestricted revenue, gains, and other support: | | |
| Patient service revenue, net of contractual allowances and discounts | \$ 915,790 | 845,821 |
| Provision for uncollectible accounts | (112,362) | (108,961) |
| Net patient service revenue | 803,428 | 736,860 |
| Other revenue | 21,368 | 28,073 |
| Total unrestricted revenue, gains, and other support | 824,796 | 764,933 |
| Expenses: | | |
| Salaries and employee benefits | 441,850 | 419,958 |
| Supplies and other expenses | 277,496 | 269,989 |
| Depreciation and amortization | 39,613 | 35,315 |
| Interest | 9,602 | 7,701 |
| Total expenses | 768,561 | 732,963 |
| Operating income | 56,235 | 31,970 |
| Nonoperating gains (losses): | | |
| Investment income, net | 29,800 | (1,419) |
| Change in fair value of interest rate swap | 410 | 8,452 |
| Gain on disposal of property and equipment | 110 | 58 |
| Loss on extinguishment of long-term debt | — | — |
| Unrestricted revenue, gains, and other support in excess of expenses and losses | 86,555 | 39,061 |
| Accrued pension liability adjustments | — | 10,160 |
| Assets released from restriction used for the purchase of property and equipment | 1,160 | 90 |
| Other | (925) | 348 |
| Change in unrestricted net assets | \$ 86,790 | 49,659 |

WELLSTAR HEALTH SYSTEM, INC. AND AFFILIATES

Combined Statements of Operations

For the Six months ending December 31, 2017 and 2016

(Unaudited)

| | Dec-17 | Dec-16 |
|--|----------------|---------------|
| | (In thousands) | |
| Unrestricted revenue, gains, and other support: | | |
| Patient service revenue, net of contractual allowances and discounts | \$ 1,791,973 | 1,630,655 |
| Provision for uncollectible accounts | (234,439) | (168,446) |
| Net patient service revenue | 1,557,534 | 1,462,209 |
| Other revenue | 41,030 | 49,072 |
| Total unrestricted revenue, gains, and other support | 1,598,564 | 1,511,280 |
| Expenses: | | |
| Salaries and employee benefits | 870,986 | 830,606 |
| Supplies and other expenses | 545,033 | 530,984 |
| Depreciation and amortization | 78,598 | 78,447 |
| Interest | 18,639 | 15,056 |
| Total expenses | 1,513,256 | 1,455,093 |
| Operating income | 85,308 | 56,187 |
| Nonoperating gains (losses): | | |
| Investment income, net | 53,023 | 15,505 |
| Change in fair value of interest rate swap | 564 | 8,372 |
| Gain on disposal of property and equipment | 220 | 169 |
| Loss on extinguishment of long-term debt | (5,569) | — |
| Unrestricted revenue, gains, and other support in excess of expenses and losses | 133,546 | 80,233 |
| Accrued pension liability adjustments | — | 10,160 |
| Assets released from restriction used for the purchase of property and equipment | 1,154 | 1,503 |
| Other | (1,634) | 652 |
| Change in unrestricted net assets | \$ 133,066 | 92,548 |

WELLSTAR HEALTH SYSTEM, INC. AND AFFILIATES

Combined Statements of Changes in Net Assets

For the Six months ending December 31, 2017 and 2016

(Unaudited)

| | Dec-17 | Dec-16 |
|--|----------------|---------------|
| | (In thousands) | |
| Permanently restricted net assets: | | |
| Contributions | \$ 11 | 15 |
| Inflation adjustment to corpus as required by donor | — | — |
| Net assets released from restrictions | (1,107) | — |
| (Decrease) increase in permanently restricted net assets | (1,096) | 15 |
| Temporarily restricted net assets: | | |
| Contributions | 1,351 | 1,276 |
| Net assets released from restrictions | (537) | (1,840) |
| Net investment income | 1,506 | 727 |
| Increase in temporarily restricted net assets | 2,320 | 163 |
| Increase (decrease) in unrestricted net assets | 133,066 | 92,548 |
| Increase (decrease) in net assets | 134,290 | 92,726 |
| Net assets, beginning of year | 1,456,107 | 1,179,042 |
| Net assets, end of year | \$ 1,590,397 | 1,271,768 |

WELLSTAR HEALTH SYSTEM, INC. AND AFFILIATES

Combined Statement of Cash Flows

For the Six months ending December 31, 2017 and 2016

(Unaudited)

| | <u>Dec-17</u> | <u>Dec-16</u> |
|--|------------------|-----------------|
| | (In thousands) | |
| Cash flows from operating activities: | | |
| Change in net assets | \$ 134,290 | 92,727 |
| Adjustments to reconcile change in net assets to cash provided by operating activities | | |
| Depreciation and amortization | 78,598 | 78,447 |
| Amortization of bond discount, premium, and issue costs | (374) | (586) |
| Gain on sale of property and equipment | (220) | (169) |
| Realized and unrealized loss (gains) on trading investments, net | (36,525) | (6,066) |
| Change in fair value of interest rate swap | (564) | (8,372) |
| Loss on extinguishment of debt | 5,569 | — |
| Restricted contributions and related investment income | (11) | (15) |
| Equity in (earnings) losses of joint ventures | (4,004) | 103 |
| Changes in operating assets and liabilities | | |
| Patient accounts receivable | (48,755) | (25,630) |
| Other current assets | 6,458 | (13,019) |
| Other assets | 7 | (419) |
| Accounts payable, accrued salaries, wages and benefits, and other accrued expenses | 20,817 | 9,636 |
| Self-insurance reserves | 20,190 | 17,122 |
| Accrued pension liability | (530) | (16,424) |
| Other long-term liabilities | 1,886 | 14 |
| Net cash provided by operating activities | <u>176,832</u> | <u>127,349</u> |
| Cash flows from investing activities: | | |
| Purchases of property and equipment | (209,544) | (57,496) |
| Proceeds from the sale of property and equipment | 220 | 169 |
| Change in assets limited as to use, net | (127,058) | (28,970) |
| Contributions/distributions to joint ventures | 6,003 | 17 |
| Healthcare business acquisitions, net of cash received | 0 | (1,016) |
| Net cash used in investing activities | <u>(330,379)</u> | <u>(87,296)</u> |
| Cash flow from financing activities: | | |
| Proceeds from borrowings | 932,529 | — |
| Principal repayments of long-term debt and capital lease obligations | (780,916) | (4,442) |
| Issue costs | (5,198) | — |
| Restricted contributions and related investment income | 11 | 15 |
| Net cash provided by (used in) financing activities | <u>146,426</u> | <u>(4,427)</u> |
| Net change in cash and cash equivalents | (7,121) | 35,626 |
| Cash and equivalents, beginning of the year | 89,643 | 49,246 |
| Cash and equivalents, end of the year | <u>\$ 82,522</u> | <u>84,872</u> |

WELLSTAR HEALTH SYSTEM, INC. AND AFFILIATES

Combining Balance Sheets

December 31, 2017

(Unaudited)

| | | 2017 | | | |
|----------------------------|--|-----------------|--------------------|--------------|-----------|
| | | (In thousands) | | | |
| | Assets | Obligated Group | Designated Members | Eliminations | Total |
| Current assets: | | | | | |
| | Cash and cash equivalents | \$ 79,394 | 3,128 | — | 82,522 |
| | Patient accounts receivable, net | 524,824 | 4,672 | — | 529,496 |
| | Assets limited as to use – required for current liabilities | 249 | — | — | 249 |
| | Other current assets | 104,602 | 24,446 | (26,155) | 102,893 |
| | Total current assets | 709,069 | 32,246 | (26,155) | 715,160 |
| | Assets limited as to use | 1,076,547 | 145,687 | — | 1,222,234 |
| | Property and equipment, net | 1,606,902 | 15,222 | — | 1,622,124 |
| | Goodwill | 415,039 | — | — | 415,039 |
| | Other assets | 54,904 | — | — | 54,904 |
| | Total assets | \$ 3,862,461 | 193,155 | (26,155) | 4,029,461 |
| Liabilities and Net Assets | | | | | |
| Current liabilities: | | | | | |
| | Accounts payable | \$ 185,241 | 29,277 | (26,189) | 188,327 |
| | Accrued salaries, wages, and benefits | 121,197 | 782 | — | 121,979 |
| | Other accrued expenses | 44,661 | 383 | 34 | 45,078 |
| | Current installments of long-term debt and capital lease obligations | 37,524 | — | — | 37,524 |
| | Total current liabilities | 388,623 | 30,442 | (26,155) | 392,908 |
| | Long-term debt and capital lease obligations, excluding current installments | 1,422,393 | — | — | 1,422,393 |
| | Self-insurance reserves | 44,404 | 103,140 | — | 147,544 |
| | Accrued pension liability | 419,246 | — | — | 419,246 |
| | Other long-term liabilities | 56,720 | 253 | — | 56,973 |
| | Total liabilities | 2,331,386 | 133,835 | (26,155) | 2,439,064 |
| Net assets: | | | | | |
| | Unrestricted | 1,525,430 | 19,193 | — | 1,544,624 |
| | Temporarily restricted | — | 30,686 | — | 30,686 |
| | Permanently restricted | 5,646 | 9,441 | — | 15,087 |
| | Total net assets | 1,531,076 | 59,320 | — | 1,590,397 |
| | Total liabilities and net assets | \$ 3,862,462 | 193,155 | (26,155) | 4,029,461 |

WELLSTAR HEALTH SYSTEM, INC. AND AFFILIATES

Combining Statements of Operations

For the Six months ending December 31, 2017

(Unaudited)

| 2017 | | | | |
|--|----------------------------|-------------------------------|---------------------|--------------|
| (In thousands) | | | | |
| | <u>Obligated Group</u> | <u>Designated Members</u> | <u>Eliminations</u> | <u>Total</u> |
| Unrestricted revenue, gains, and other support: | | | | |
| Patient service revenue, net of contractual allowances and discounts | \$ 1,779,402 | 12,571 | — | 1,791,973 |
| Provision for uncollectible accounts | (234,732) | 293 | — | (234,439) |
| Net patient service revenue | 1,544,670 | 12,864 | — | 1,557,534 |
| Other revenue | 37,752 | 28,549 | (25,271) | 41,030 |
| Total unrestricted revenue, gains, and other support | 1,582,422 | 41,413 | (25,271) | 1,598,564 |
| Expenses: | | | | |
| Salaries and employee benefits | 861,783 | 12,152 | (2,949) | 870,986 |
| Supplies and other expenses | 533,787 | 33,321 | (22,075) | 545,033 |
| Depreciation and amortization | 78,168 | 430 | — | 78,598 |
| Interest | 18,639 | — | — | 18,639 |
| Total expenses | 1,492,377 | 45,903 | (25,024) | 1,513,256 |
| Operating income | 90,045 | (4,490) | (247) | 85,308 |
| Nonoperating gains (losses): | | | | |
| Investment income (loss), net | 52,780 | (4) | 247 | 53,023 |
| Change in fair value of interest rate swap | 564 | — | — | 564 |
| Gain on disposal of property and equipment | 220 | — | — | 220 |
| Loss on extinguishment of long-term debt | (5,569) | — | — | (5,569) |
| Unrestricted revenue, gains, and other support in excess of expenses and losses | 138,040 | (4,494) | — | 133,546 |
| Accrued pension liability adjustments | — | — | — | — |
| Assets released from restriction used for the purchase of property and equipment | 1,154 | — | — | 1,154 |
| Other | (1,634) | — | — | (1,634) |
| Change in unrestricted net assets | \$ 137,560 | (4,494) | — | 133,066 |