# Beaumont Health and Consolidated Subsidiaries

Consolidated Financial Statements as of and
for the Years Ended December 31, 2017 and 2016,
and Independent Auditors' Report

## BEAUMONT HEALTH AND CONSOLIDATED SUBSIDIARIES

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## INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Beaumont Health
Southfield, Michigan

We have audited the accompanying consolidated financial statements of Beaumont Health and consolidated subsidiaries (the "System"), which consist of the consolidated balance sheets as of December 31, 2017 and 2016, and the related consolidated statements of operations and changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

### Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the System's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Opinion**

In our opinion, the consolidated financial statements referred to above presents fairly, in all material respects, the consolidated financial position of the System as of December 31, 2017 and 2016, and the results of its operations and changes in net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

**Report on Supplementary Consolidating Information**

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary consolidating information listed in the table of contents on pages 59–61 is presented for the purpose of additional analysis of the consolidated financial statements, rather than to present the financial position and results of operations of the individual companies, and is not a required part of the consolidated financial statements. This supplementary information is the responsibility of the System's management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. Such information has been subjected to the auditing procedures applied in our audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, such information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Deloitte + Touche LLP

March 1, 2018

## BEAUMONT HEALTH AND CONSOLIDATED SUBSIDIARIES

### CONSOLIDATED BALANCE SHEETS
### AS OF DECEMBER 31, 2017 AND 2016
### (In thousands)

| | 2017 | 2016 |
|---|---|---|
| **ASSETS** | | |
| CURRENT ASSETS: | | |
| Cash and cash equivalents | $ 390,465 | $ 429,928 |
| Short-term investments | | 500 |
| Accounts receivable: | | |
| Patients and third-party payors—net of provision for bad debts of $230,060 and $107,836, respectively | 552,931 | 511,120 |
| Other | 54,582 | 34,041 |
| Estimated third-party payor settlements | 30,211 | 21,708 |
| Inventories, prepaid expenses, and other current assets | 104,663 | 97,347 |
| Current portion—cash, investments, and pledges whose use is limited or restricted | 133,078 | 172,384 |
| Total current assets | 1,265,930 | 1,267,028 |
| PROPERTY, PLANT, AND EQUIPMENT—Net | 1,951,290 | 1,897,964 |
| INVESTMENTS | 1,609,367 | 1,408,106 |
| INVESTMENTS IN NONCONSOLIDATED ENTITIES | 28,616 | 26,226 |
| GOODWILL | 13,409 | 13,409 |
| INTANGIBLES AND OTHER ASSETS—Intangible assets total $16,449 for the years ended December 31, 2017 and 2016 | 66,274 | 63,069 |
| CASH, INVESTMENTS, AND PLEDGES WHOSE USE IS LIMITED OR RESTRICTED (NET OF CURRENT PORTION): | | |
| Board designated | 553 | 563 |
| Bond construction and reserve funds | 53,415 | 111,344 |
| Professional liability | 74,661 | 94,266 |
| Deferred compensation and other | 87,470 | 61,746 |
| Donor-restricted assets | 144,665 | 100,711 |
| Total cash, investments, and pledges whose use is limited or restricted (net of current portion) | 360,764 | 368,630 |
| TOTAL | $5,295,650 | $5,044,432 |

(Continued)

## BEAUMONT HEALTH AND CONSOLIDATED SUBSIDIARIES

### CONSOLIDATED BALANCE SHEETS
### AS OF DECEMBER 31, 2017 AND 2016
### (In thousands)

| | 2017 | 2016 |
|---|---|---|
| **LIABILITIES AND NET ASSETS** | | |
| CURRENT LIABILITIES: | | |
| Trade accounts payable | $ 187,835 | $ 245,662 |
| Accrued liabilities: | | |
| Employee benefits and payroll-related liabilities | 291,916 | 316,443 |
| Other | 71,262 | 49,480 |
| Total accrued liabilities | 363,178 | 365,923 |
| Current portion of professional and general liability | 38,978 | 44,142 |
| Current portion of long-term debt | 51,278 | 64,512 |
| Estimated third-party payor settlements | 70,610 | 102,374 |
| Total current liabilities | 711,879 | 822,613 |
| LONG-TERM LIABILITIES (NET OF CURRENT PORTION): | | |
| Long-term debt | 1,572,286 | 1,561,529 |
| Professional and general liability | 154,975 | 153,290 |
| Other long-term liabilities | 143,610 | 115,640 |
| Pension liability | 258,717 | 328,954 |
| Postretirement benefits other than pensions | 15,118 | 15,999 |
| Total long-term liabilities (net of current portion) | 2,144,706 | 2,175,412 |
| Total liabilities | 2,856,585 | 2,998,025 |
| NET ASSETS: | | |
| Unrestricted: | | |
| Beaumont Health | 2,288,267 | 1,910,673 |
| Noncontrolling interest | 5,251 | 3,621 |
| Total unrestricted | 2,293,518 | 1,914,294 |
| Temporarily restricted | 103,567 | 94,652 |
| Permanently restricted | 41,980 | 37,461 |
| Total net assets | 2,439,065 | 2,046,407 |
| TOTAL | $5,295,650 | $5,044,432 |

See notes to consolidated financial statements. (Concluded)

## BEAUMONT HEALTH AND CONSOLIDATED SUBSIDIARIES

**CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS**
**FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**
**(In thousands)**

| | **2017** | **2016** |
|---|---|---|
| REVENUES: | | |
| Net patient service revenue | $4,339,807 | $4,301,454 |
| Provision for bad debts | (165,938) | (156,169) |
| Net patient service revenue—less provision for bad debts | 4,173,869 | 4,145,285 |
| Other operating revenue | 246,441 | 208,140 |
| Income from nonconsolidated entities | 7,447 | 8,430 |
| Net assets released from restrictions—operations | 10,863 | 11,291 |
| Total revenues | 4,438,620 | 4,373,146 |
| EXPENSES: | | |
| Salaries, wages, and benefits | 2,506,797 | 2,368,792 |
| Supplies | 802,272 | 805,990 |
| Purchased services and other expenses | 628,894 | 666,055 |
| Professional liability and general insurance | 22,560 | 28,154 |
| Depreciation and amortization | 255,101 | 254,964 |
| Interest | 45,442 | 48,564 |
| Total expenses | 4,261,066 | 4,172,519 |
| OPERATING INCOME BEFORE OTHER ITEMS | 177,554 | 200,627 |
| OTHER ITEMS: | | |
| Asset impairment charges | | (5,067) |
| Pension expense settlement cost | (25,684) | |
| Total other items | (25,684) | (5,067) |
| OPERATING INCOME AFTER OTHER ITEMS | 151,870 | 195,560 |
| NONOPERATING: | | |
| Investment income | 183,514 | 95,711 |
| Loss on extinguishment of debt | | (903) |
| Other—net | (9,892) | (3,677) |
| Total nonoperating | 173,622 | 91,131 |
| EXCESS OF REVENUES OVER EXPENSES FROM CONSOLIDATED OPERATIONS | 325,492 | 286,691 |
| LOSS (INCOME) ATTRIBUTABLE TO NONCONTROLLING INTERESTS | (3,910) | 9 |
| EXCESS OF REVENUES OVER EXPENSES ATTRIBUTABLE TO THE SYSTEM | $ 321,582 | $ 286,700 |

(Continued)

## BEAUMONT HEALTH AND CONSOLIDATED SUBSIDIARIES

### CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS
### FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016
### (In thousands)

| | 2017 | 2016 |
|---|---|---|
| UNRESTRICTED NET ASSETS: | | |
| Excess of revenues over expenses from consolidated operations | $ 325,492 | $ 286,691 |
| Net assets released from restrictions—capital acquisitions | 11,681 | 12,587 |
| Changes in noncontrolling interests | (2,280) | (7,295) |
| Other changes in unrestricted net assets | 5,771 | (3,543) |
| Pension and other postretirement liability adjustments | 38,560 | (112,465) |
| Increase in unrestricted net assets | 379,224 | 175,975 |
| TEMPORARILY RESTRICTED NET ASSETS: | | |
| Contributions and pledges—net of allowance | 23,602 | 32,889 |
| Investment income | 10,189 | 5,286 |
| Change in value of split-interest agreements | 6 | (33) |
| Other changes in temporarily restricted net assets | (2,338) | |
| Net assets released from restrictions | (22,544) | (23,878) |
| Increase in temporarily restricted net assets | 8,915 | 14,264 |
| PERMANENTLY RESTRICTED NET ASSETS: | | |
| Contributions and pledges—net of allowance | 1,451 | 672 |
| Investment Income | 32 | |
| Other changes in permanently restricted net assets | 3,036 | |
| Increase in permanently restricted net assets | 4,519 | 672 |
| INCREASE IN NET ASSETS | 392,658 | 190,911 |
| NET ASSETS—Beginning of year | 2,046,407 | 1,855,496 |
| NET ASSETS—End of year | $2,439,065 | $2,046,407 |

See notes to consolidated financial statements. (Concluded)

## BEAUMONT HEALTH AND CONSOLIDATED SUBSIDIARIES

### CONSOLIDATED STATEMENTS OF CASH FLOWS
### FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016
### (In thousands)

| | 2017 | 2016 |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Increase in net assets | $ 392,658 | $ 190,911 |
| Adjustments to reconcile (decrease) increase in net assets to net cash provided by operating activities: | | |
| Restricted contributions and investment income | (35,274) | (38,847) |
| Depreciation and amortization | 244,150 | 243,782 |
| Provision for bad debts | 166,304 | 156,193 |
| Net gains and losses on investments | (176,187) | (88,323) |
| Loss on sale of property, plant, and equipment | 1,576 | 10,181 |
| System's portion of income from nonconsolidated entities | (7,447) | (8,430) |
| Asset impairment charges | | 5,067 |
| Loss on extinguishment of debt | | 903 |
| Pension and other postretirement liability adjustments | (38,560) | 112,465 |
| Changes in noncontrolling interest | | |
| (Increase) decrease in: | | |
| Accounts receivable—net | (228,656) | (175,023) |
| Estimated third-party payor settlement receivables | (8,503) | (7,946) |
| Inventories, prepaid expenses, and other | (7,316) | 949 |
| Intangibles & Other Assets | (3,205) | 2,187 |
| (Decrease) increase in: | | |
| Trade accounts payable, accrued liabilities, and other | (31,884) | 125,712 |
| Estimated third-party payor settlement payables | (31,764) | 24,520 |
| Professional and general liability | (3,479) | 6,521 |
| Other long-term liabilities | 27,970 | 3,781 |
| Pension and other postretirement benefits | (44,448) | (71,964) |
| Net cash provided by operating activities | 215,935 | 492,639 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Acquisition of property, plant, and equipment | (326,800) | (296,927) |
| Purchases of investments | (2,531,512) | (2,627,281) |
| Proceeds from sales of investments | 2,481,178 | 2,430,745 |
| Addition to (release of) bond reserve funds | 87,929 | (220,889) |
| Distributions from nonconsolidated entities | 6,458 | 8,961 |
| Other—net | (16,399) | (13,873) |
| Net cash used in investing activities | (299,146) | (719,264) |

(Continued)

# BEAUMONT HEALTH AND CONSOLIDATED SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS
## FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016
## (In thousands)

| | 2017 | 2016 |
|---|---|---|
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Restricted contributions and interest | $ 35,274 | $ 38,847 |
| Changes in noncontrolling interest | | |
| Proceeds from issuance of long-term debt | 73,105 | 389,774 |
| Principal payments of long-term debt | (63,917) | (107,847) |
| Debt issuance cost and premium amortization | | |
| Debt issuance and other | (714) | (2,563) |
| Net cash provided by financing activities | 43,748 | 318,211 |
| (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS | (39,463) | 91,586 |
| CASH AND CASH EQUIVALENTS—Beginning of year | 429,928 | 338,342 |
| CASH AND CASH EQUIVALENTS—End of year | $ 390,465 | $ 429,928 |
| SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION: | | |
| Cash paid for interest—net of amount capitalized in 2017 of $13,823 and in 2016 of $14,351 | $ 49,593 | $ 54,087 |
| Cash paid for income taxes | $ 689 | $ 2,089 |
| (Decrease) increase in accounts payable related to property acquisitions | $ (16,798) | $ 2,754 |
| Increase in restricted net assets related to donated beneficial interests in trusts | $ 1,350 | $ 383 |

See notes to consolidated financial statements. (Concluded)

## 1. DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Organization**—Beaumont Health (the "System") is the sole member of Oakwood Healthcare, Inc. (OHI), William Beaumont Hospital (WBH), and Zieger Healthcare Corporation, the sole member of Botsford General Hospital (BGH), a Michigan nonprofit corporation headquartered in Southfield, Michigan. The System is a tax-exempt organization under Internal Revenue Code (IRC) Section 501(c)(3).

The System provides a continuum of care as an integrated health care delivery system, primarily to southeastern Michigan residents. The System's services include inpatient and outpatient services, physician services, long-term care, senior and assisted living, rehabilitation services, home health care, and other health-related activities. The System owns and operates eight nonprofit acute care hospitals, nursing homes, including assisted and independent living centers, certified home health agencies, ambulatory care facilities, a for-profit company engaged in health-related businesses, and various other health care entities. All subsidiaries are governed and related through common control. Substantially, all expenses of the System are related to providing health care services.

Additionally, the System currently operates two captive insurance companies, one is offshore and one onshore. Both are wholly owned subsidiaries of the System and provide medical professional and general liability coverage to the System, its affiliates, and voluntary medical staff.

In 2017, the Beaumont Foundation Board of Directors, the Botsford Board of Directors and the Oakwood Healthcare Foundation Board of Trustees, agreed to reorganize the three founding legacy foundations of Beaumont Health and create a new Michigan nonprofit corporation, "Beaumont Health Foundation." As part of the reorganization, the foundation worked with donors on pledge and asset transfers, reviewing donor intent and related restrictions, where applicable. The Beaumont Health Foundation began operations in July 2017.

**Basis of Consolidated Financial Statements**—The consolidated financial statements include the accounts of all wholly owned, majority-owned, and controlled organizations. Investments where the System holds less than 20% ownership interest and does not exercise significant influence are accounted for on either the equity or cost method of accounting. All other investments, whereby the System holds up to 50% ownership interest and exercises significant influence, are accounted for using the equity method of accounting. All intercompany transactions and account balances have been eliminated in consolidation.

**Use of Estimates**—The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) requires management of the System to make assumptions, estimates, and judgments that affect the amounts reported in the consolidated financial statements, including the notes thereto, and related disclosures of commitments and contingencies, if any. The System considers critical accounting policies to be those that require more significant judgments and estimates in the preparation of its consolidated financial statements, including the following: recognition of net patient service revenues and patient accounts receivables, including contractual and charity care allowances and provisions for bad debts; valuation of investments, including alternative investments, assessment of goodwill, long-lived assets, and intangibles for impairment; liabilities for losses and expenses related to employee health care, professional, and general liabilities; and liabilities for pensions and other postretirement benefits. Management relies on historical experience and other assumptions believed to be reasonable under the circumstances in making its judgments and estimates. Actual results may differ from those estimates.

**Cash Equivalents**—Cash equivalents are liquid investments carried at cost with a maturity of three months or less from the date of purchase.

**Short-Term Investments**—Short-term investments are certificate of deposits and commercial paper with maturities of 91 days to 365 days.

**Accounts Receivable, Provision for Bad Debts, Estimated Third-Party Payor Settlements, and Net Patient Service Revenue**—Patient and third-party payor accounts receivable and net patient service revenue are reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered. Substantially, all the System's receivables are related to providing health care services to patients.

The System recognizes patient service revenue associated with services provided to 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, the System recognizes revenue on the basis of its standard rates for services provided, less an uninsured discount, which is applied to the patient account. Based on historical experience, a significant portion of the System's self-pay patients (which consists of patients without insurance coverage) will be unable or unwilling to pay for the services provided.

Patient accounts receivable is reduced by an allowance for amounts that could become uncollectible in the future. The System's estimate for its provision for bad debts is based on management's assessment of historical and expected net collection by payor. The System updates the historical collection rates quarterly for each of its major payor sources of revenue used to estimate the provision for bad debts and contractual allowances. Management performs an analysis on a quarterly basis to evaluate the sufficiency of the provision for bad debts. For receivables associated with services provided to patients who have third-party coverage, the System analyzes contractually due amounts and provides a provision for bad debts (which includes uncollectible deductibles and co-payments on accounts for which the third-party payor has not yet paid or for payors who are known to be having financial difficulties). For receivables associated with self-pay and insured patients, the System records a significant provision for bad debts during the year of service based on experience. At December 31, 2017, the System fully reserved all accounts aged at greater than 365 days.

The System's provision for bad debts for self-pay patients is 79% and 78% of self-pay accounts receivable at December 31, 2017 and 2016, respectively. In addition, the System's insured and uninsured self-pay write-offs are $33,497 and $100,474 for 2017 and 2016, respectively. In 2017, there was a change in the collection policies for the System's accounts receivable related to the hospital line of business. Prior to May 2017, acute care self-pay accounts receivable was written off to bad debt after 120 days from billing date. As of May 2017, these accounts remain on active accounts receivable for 365 days and are reserved for through the System's provision for bad debt. The System does not maintain a material provision for bad debts from third-party payors, nor did it have significant write-offs from third-party payors.

Under Blue Cross, Medicare, and Medicaid programs, estimated retroactive adjustments under reimbursement agreements are included in net patient service revenue and estimated third-party payor settlements. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods, as final settlements are determined.

The System's other accounts receivable is reduced by an allowance for amounts that could become uncollectible in the future. The System's estimate for its provision for bad debts is based on management's assessment of historical and expected net collection. Other accounts receivable is reviewed at least annually to determine collectability.

**Inventories**—Inventories consist of drugs, supplies, and retail goods, and are stated at the lower of cost or net realizable value.

**Property, Plant, and Equipment**—Property, plant, and equipment are recorded at cost, less accumulated depreciation. Expenditures for renewals and betterments are capitalized. Maintenance and repairs are charged to current operations. Depreciation for financial reporting purposes is computed on a straight-line basis over the estimated useful lives of the assets ranging from three to fifty years. Internal-use software is also included in equipment and is recorded at cost, less accumulated amortization with useful lives ranging from three to ten years.

**Investments and Investment Earnings**—Investments, inclusive of assets limited or restricted as to use, include marketable debt, equity securities and mutual funds. Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value and are classified as trading securities. Mutual funds are recorded at fair value based on observable quoted prices. Investments also include investments in commingled funds and hedge funds. Commingled funds that hold securities directly are stated at the fair value of the underlying securities, as determined by the administrator, based on readily determinable market values. Certain commingled funds, hedge funds, private capital, and real estate vehicles are stated at fair value based on their net asset value (NAV).

Investment earnings (including equity earnings, realized gains and losses on investments, holding gains and losses on trading securities, and interest and dividends) are included in nonoperating gains and losses, unless the income or loss is restricted by donor or law.

**Fair Value of Financial Instruments**—The System follows the provisions of Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 820, *Fair Value Measurements and Disclosures*. This guidance defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. The fair value hierarchy is as follows:

***Level 1***—Quoted (unadjusted) prices for identical assets in active markets

***Level 2***—Other observable inputs, either directly or indirectly, including:

- Quoted prices for similar assets in active markets
- Quoted prices for identical or similar assets in nonactive markets (few transactions, limited information, noncurrent prices, high variability over time, etc.)
- Inputs other than quoted prices that are observable for the asset (interest rates, yield curves, volatilities, default rates, etc.)
- Inputs that are derived principally from or corroborated by other observable market data

***Level 3***—Unobservable inputs that cannot be corroborated by observable market data

Fair values of trading securities are based on quoted market prices, where available. The System obtains pricing for each security from investment managers and the System's consultants or a third-party pricing service (the "pricing service"), which generally uses Level 1 or Level 2 inputs for the determination of fair value in accordance with the fair value hierarchy. Security prices are normally derived through recently reported trades for identical or similar securities, adjusting through the reporting date based upon available observable market information. For securities not actively traded, the pricing service may use quoted market prices of comparable instruments or discount cash flow analysis, incorporating inputs that are currently observable in the markets for similar securities. Inputs that are often used in the valuation methodologies include, but are not limited to, nonbinding broker quotes, benchmark yields, credit spread, default rates, and prepayment spreads.

As the System is responsible for the determination of fair value, it performs analyses on the prices received from the pricing service relative to the prices expected by the investment managers to determine whether the prices are reasonable estimates of fair value. Because of these reviews, the System has not adjusted the prices obtained from the pricing service.

An instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

**Investment Risks**—Investment securities are exposed to various risks, such as interest rate, market, and credit. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the value of investment securities, it is at least reasonably possible that changes in values in the near term could materially affect the amounts reported in the accompanying consolidated balance sheets and consolidated statements of operations and changes in net assets.

**Investments in Nonconsolidated Entities**—These investments where the System does not have operational control are accounted for on the equity method or cost method. Investments in entities where the System owns less than 50% but has significant operational influence over the operating and financial policies are recorded using the equity method.

**Goodwill**—In accordance with FASB ASC 350-20, *Intangibles—Goodwill and Other*, goodwill is evaluated annually for impairment. If the carrying amount of the goodwill exceeds the implied fair value of the goodwill, an impairment loss is recognized in the amount equal to that excess. Estimates of fair value are based on appraisals, established market prices for comparable assets, or internal estimates of future net cash flows and presumes stable, improving, or, in some cases, declining results, depending on the circumstances. In 2017 and 2016, no impairments to goodwill were required. Goodwill, net of amortization, is $13,409 as of December 31, 2017 and 2016.

**Intangibles and Other Assets**—Intangibles and other assets include bed licenses and naming rights. Bed licenses and the naming rights have an indefinite useful life and are evaluated annually for impairment in accordance with FASB ASC 350-20, *Intangibles—Goodwill and Other*. If the carrying amount of the intangible asset exceeds the implied fair value of the intangible asset, an impairment loss is recognized in the amount equal to that excess. Estimates of fair value are based on appraisals, established market prices for comparable assets, or internal estimates of future net cash flows and presumes stable, improving, or, in some cases, declining results, depending on the circumstances. Intangible assets in the consolidated balance sheets have an indefinite life with a carrying value of $16,449 as of the years ended December 31, 2017 and 2016. In 2017 and 2016, no impairments to intangibles were required.

**Cash and Investments Whose Use is Limited**—Cash and investments whose use is limited include assets held by trustees under indenture agreements, deferred compensation funds, and self-insurance arrangements. The current portion of cash and investments whose use is limited includes the assets that are required for current liabilities for bond-financed construction, debt service, and professional liability.

**Assets Whose Use is Restricted**—Assets whose use is restricted include invested contributions, the beneficial interests in trusts, and pledges receivable from donors or grantors whose use is either temporarily or permanently restricted. Pledges that are expected to be collected in the next year are included in current assets. Contributions received with donor-imposed temporary restrictions are reported as contributions and pledges of temporarily restricted net assets. When a donor restriction expires, which is typically the result of the purpose of a restriction being accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported as net assets released from restrictions in the consolidated statements of operations and changes in net assets. This includes contributions for which the restrictions are met in the same reporting period as when received.

Pledges receivable for restricted contributions is recorded in temporarily restricted net assets, net of amounts estimated to be uncollectible. Pledges receivable, due to be collected beyond one year, is discounted to their net present value. Expenses incurred in soliciting pledges and contributions were $10,945 and $11,148 for 2017 and 2016, respectively, and are included in the accompanying consolidated financial statements.

Donations of property are reported as temporarily restricted net assets at their estimated fair value, at the time received, and are then transferred to unrestricted net assets as capital acquisitions when the assets are placed in service. Contributions received, which are restricted for additions to property, plant, and equipment, are transferred to unrestricted net assets when expenditures are incurred.

**Other Long-Term Liabilities**—Other long-term liabilities include workers' compensation, deferred compensation, asset retirement obligations, and nursing home support agreements.

**Advertising Costs**—Advertising costs are expensed as incurred. Advertising expenses were $10,264 and $6,428 for the years ended December 31, 2017 and 2016, respectively, and were included in purchased services and other expenses in the consolidated statements of operations and changes in net assets.

**Operating and Nonoperating Activities**—The System meets the needs of individuals and the communities in its service area through a complement of general and specialized health care services, including inpatient acute care, outpatient services, long-term care, home health care, and other health care services. Activities directly associated with the fulfillment of the mission are considered to be operating activities. Other activities not central to the System's primary mission are nonoperating.

**Other Items**—During 2017 and 2016, the System recognized asset impairment charges of $0 and $5,067 related to the write-down of certain medical office buildings and real estate holdings, respectively.

Effective September 30, 2016, the System began the process to terminate its noncontributory single-employer defined benefit pension plan covering all eligible BGH employees. As of December 31, 2017, $25,684 of settlement costs have been recorded related to this termination. All benefit obligations are expected to be settled in the coming year and an estimated $44,000 of additional settlement costs are expected in 2018.

**Borrowing Costs**—Interest incurred on assets acquired with proceeds of tax-exempt borrowings is capitalized up to the date the asset is placed into service and is net of any interest earned on construction and debt service funds established with proceeds of the related tax-exempt borrowings. Interest costs are not capitalized on assets established with donor-restricted assets. Net interest capitalized was $13,823 and $14,351 during 2017 and 2016, respectively. Debt issue costs are deferred and amortized using the interest method over the life of the obligations to which they pertain, and netted against outstanding debt issuances.

**Discounts and Premiums on Bonds**—Discounts and premiums on bonds issued are amortized using the bonds outstanding method over the lives of the bonds.

**Functional Expenses**—FASB ASC 958-205-45, *Presentation of Financial Statements for Not-for-Profit Entities*, requires that the expenses reported in the consolidated statements of operations and changes in net assets also be shown by their functional classification. The functional classifications of such expenses for the years ended December 31, 2017 and 2016, are as follows:

| | **2017** | **2016** |
|---|---|---|
| Patient care | $ 3,528,095 | $ 3,393,320 |
| Support services | 732,971 | 779,199 |
| Other Items | 25,684 | 5,067 |
| Total | $ 4,286,750 | $ 4,177,586 |

**Excess Revenue over Expenses**—For purposes of presentation, transactions deemed by management to be ongoing, major, or central to the provision of health care services are reported as revenue and expenses. Transactions that are not directly related to the delivery of health care services are excluded from operating results. Changes in net assets, which are excluded from the excess of revenue over expenses, include permanent transfers of assets to and from affiliates for other than goods and services, contributions of property and equipment (including assets acquired using contributions that by donor restrictions were to be used for the purposes of acquiring such assets), net assets released from restrictions for capital, changes in ownership related to entities with a noncontrolling interest, and changes in the pension and postretirement obligations related to prior service cost and unrecognized gains and losses.

**Income Taxes**—The System has been recognized by the Internal Revenue Service as an organization exempt from income taxes under IRC Section 501(a) as an organization described in IRC Section 501(c)(3). Certain of the System's subsidiaries and other operations of the System are subject to federal income taxes. Provisions for such taxes are included in operating expenses. The System has net income tax liability totaling $2,268 and $610 at December 31, 2017 and 2016, respectively.

**Adopted Accounting Pronouncements**

In March 2016, the FASB issued ASU No. 2016-07, *Investments—Equity Method and Joint Ventures: Simplifying the Transition to the Equity Method of Accounting*. This guidance eliminates the requirement to retrospectively apply the equity method to an investment that subsequently qualifies for such accounting as result of an increase in the level of ownership interest or degree of influence. This guidance was effective for the System beginning January 1, 2017. The adoption of this guidance did not have a material impact on the System's consolidated financial statements.

In July 2015, the FASB issued ASU No. 2015-11, *Simplifying the Measurement of Inventory*. This guidance requires entities to measure most inventories at the lower of cost or net realizable value. This guidance was effective for the System beginning January 1, 2017. The adoption of this guidance did not have a material impact on the System's consolidated financial statements.

In May 2015, the FASB issued ASU No. 2015-09, *Disclosures About Short-Duration Contracts*. This guidance expands the disclosures an insurance entity must provide about its short-duration insurance contracts. This guidance was effective for the System beginning January 1, 2017. The adoption of this guidance did not have a material impact on the System's consolidated financial statement.

In February 2015, the FASB issued ASU No. 2015-02, *Amendments to the Consolidation Analysis*. This guidance significantly changes the consolidation analysis required under GAAP. This guidance was effective for the System beginning January 1, 2017. The adoption of this guidance did not have a material impact on the System's consolidated financial statements.

In January 2017, the FASB issued ASU No. 2017-02, *Not-for-Profit Entities-Consolidation (Subtopic 958-810).* This guidance amends the consolidation guidance in Subtopic 958-810 to clarify when a not-for-profit entity that is a general or limited partner should consolidate a for-profit limited partnership or similar legal entity. This ASU was effective for the System in the reporting period beginning January 1, 2017. The adoption of this guidance did not have a material impact on the System's consolidated financial statements.

## Forthcoming Accounting Pronouncements

In August 2016, the FASB issued ASU No. 2016-14, *Presentation of Financial Statements of Not-For-Profit Entities*. This guidance simplifies and improves how not-for-profit entities classify net assets, as well as the information presented in financial statements and notes about liquidity, financial performance, and cash flows. This guidance is effective for the System beginning January 1, 2018. The System does not expect this guidance to have a material impact on its results of operations, however presentation within the consolidated financial statements will be updated for proper presentation and required disclosures will be added.

In May 2014, FASB issued ASU No. 2014-09, *Revenue From Contracts With Customers (Topic 606)* which outlines a single, comprehensive model for accounting for revenue from contracts with customers. This ASU replaces most previously issued revenue recognition guidance and provides guidance for any entity entering into contracts with customers to transfer goods or services or entering into contracts for the transfer of nonfinancial assets unless the contracts are within the scope of other standards (e.g., insurance contracts). Under the ASU, an entity should recognize revenue to reflect the transfer of goods or services to customers in an amount depicting the consideration to which the entity expects to be entitled in exchange for the goods or services. After the deferral of the original effective date, this guidance is effective for the System beginning January 1, 2018. The System does not expect this guidance to have a material impact on its results of operations, however presentation within the consolidated financial statements will be updated to reflect net revenue including bad debt (price concessions) as one line and adding required disclosures.

In August 2016, the FASB issued ASU No. 2016-15, *Classification of Certain Cash Receipts and Cash Payments.* This guidance adds or clarifies guidance on the classification of certain cash receipts and payments in the consolidated statements of cash flows. This guidance is effective for the System beginning January 1, 2019. The System is still evaluating the impact this guidance may have on its consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, *Leases*. This guidance introduces a lessee model that brings substantially all leases on the consolidated balance sheets. This guidance is effective for the System beginning January 1, 2019. Retrospective application is required. The System is still evaluating the impact this guidance may have on its consolidated financial statements.

In January 2016, the FASB issued ASU No. 2016-01, *Recognition and Measurement of Financial Assets and Financial Liabilities*. This guidance revises accounting related to (1) the classification and measurement of investments in equity securities and (2) the presentation of certain fair value changes for financial liabilities measured at fair value. It also amends certain disclosure requirements associated with fair value of financial instruments. This guidance is effective for the System beginning January 1, 2019. The System is still evaluating the impact this guidance may have on its consolidated financial statements.

In January 2017, the FASB issued ASU No. 2017-01, *Business Combinations (Topic 805)-Clarifying the Definition of a Business,* which provides a framework to use in determining when a set of assets and activities is a business. This ASU is effective for the System in the reporting period beginning January 1, 2019. The System is still evaluating the impact this guidance may have on its consolidated financial statements.

In March 2017, the FASB issued ASU No. 2017-07, *Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost,* which amends the requirements related to the presentation of the components of net periodic benefit cost in the statement of operations for an entity's sponsored defined benefit pension and other postretirement plans. This guidance is effective for the System in the reporting period beginning January 1, 2019. The System is still evaluating the impact this guidance may have on its consolidated financial statements.

In March 2017, the FASB issued ASU No. 2017-08, *Premium Amortization on Purchased Callable Debt Securities* which shortens the amortization period for certain callable debt securities held at a premium to be amortized to the earliest call date. Under current GAAP, the premium is generally amortized to the maturity date. This guidance is effective for the System in the reporting period beginning January 1, 2020. The System is still evaluating the impact this guidance may have on its consolidated financial statements.

In January 2017, the FASB issued ASU No. 2017-04, *Intangibles—Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment.* This guidance eliminates Step 2 from the goodwill impairment test. Instead, an entity will test goodwill by comparing the fair value of a reporting unit with its carrying amount. This ASU is effective for the System in the reporting period beginning January 1, 2022. The System is still evaluating the impact this guidance may have on its consolidated financial statements.

## 2. PROPERTY, PLANT, AND EQUIPMENT

Property, plant, and equipment at cost as of December 31, 2017 and 2016, consist of the following:

| | 2017 | 2016 |
|---|---|---|
| Land and land improvements | $ 283,614 | $ 275,634 |
| Buildings and building improvements | 3,499,148 | 3,281,513 |
| Furniture and equipment | 1,994,869 | 1,870,999 |
| Property leased to others under operating leases | 87,802 | 88,860 |
| Construction in progress | 141,305 | 213,021 |
| Total property, plant, and equipment | 6,006,738 | 5,730,027 |
| Less accumulated depreciation and amortization | (4,055,448) | (3,832,063) |
| Property, plant, and equipment—net | $ 1,951,290 | $ 1,897,964 |

At December 31, 2017 and 2016, equipment includes software costs that are approximated at $388,536 and $357,861 and accumulated amortization of $339,319 and $301,027, respectively. Commitments for costs related to the construction and remodeling of System facilities were approximately $147,246 and $111,597 at December 31, 2017 and 2016, respectively.

## 3. INVESTMENTS

**Marketable Securities**—The fair value amounts of marketable securities are based on quoted market prices, if available, or are estimated using quoted market prices for similar securities.

**Other Investments**—The System invests in various commingled funds, hedge funds, private capital, and real estate funds, which are included in investments and assets limited or restricted as to use in the consolidated balance sheets. These funds are recorded at fair value.

Hedge funds are designed to produce positive investment returns regardless of market activity. These investments utilize a "fund-of-one" approach resulting in diversified, multi-strategy, and multi-manager investments. Underlying investments include other hedge funds that may invest in equities, fixed-income, commodities, currencies, and derivatives. Audited information is only available annually based on the funds of one's year-end. Carrying values are based on the NAV. Management obtains and considers the audited consolidated financial statements of the fund of one when evaluating the overall reasonableness of the fair value.

The System has elected the fair value option for valuation of private capital investments. These investments are structured as limited partnerships and are designed to produce stable investment returns regardless of market activity. Audited information is only available annually based on the limited partnerships or funds' year-end.

For hedge funds and private capital investments, there is a review of external information and the use of an investment consultant in addition to management's internal procedures. These procedures include a review of returns against benchmarks and discussions with the fund manager on performance, changes in personnel, changes in process, and evaluations of current market conditions. The fund of one administrator and underlying managers meet with the System's management and the investment committee of the Board of Directors on a periodic basis.

Because of the inherent uncertainty of valuations of the hedge funds, private capital, real estate and beneficial interests in trusts, values may differ materially from the values that would have been used had a ready market existed. Investments as of December 31, 2017 and 2016, are as follows:

| | **2017** | **2016** |
|---|---|---|
| Cash and cash equivalents | $ 203,403 | $ 305,215 |
| Certificates of deposit | 17,000 | 17,000 |
| Equities and exchange traded funds | 491,742 | 416,247 |
| Mutual funds | 126,258 | 62,507 |
| Government securities and obligations | 181,040 | 261,255 |
| Asset-backed securities | 49,594 | 34,267 |
| Mortgage-backed securities | 65,524 | 82,824 |
| Corporate obligations | 155,386 | 88,726 |
| Derivatives—Swaps, Options, Futures | 684 | |
| Total marketable securities | 1,290,631 | 1,268,041 |
| Commingled funds | 359,007 | 311,342 |
| Beneficial interests in trusts | 10,838 | 9,105 |
| Hedge funds | 348,322 | 273,878 |
| Private capital | 23,073 | 7,437 |
| Real estate | 40,889 | 38,652 |
| Total investments | $ 2,072,760 | $ 1,908,455 |

Investments are reported in the consolidated balance sheets as of December 31, 2017 and 2016, in the following captions:

| | 2017 | 2016 |
|---|---|---|
| Current portion, cash and investments whose use is limited or restricted | $ 133,078 | $ 172,384 |
| Less pledges receivable | (11,961) | (12,442) |
| Short-term investments | | 500 |
| Investments | 1,609,367 | 1,408,106 |
| Cash and investments whose use is limited or restricted | 360,764 | 368,630 |
| Less pledges receivable | (18,488) | (28,723) |
| Total | $ 2,072,760 | $ 1,908,455 |

Investment activity for the years ended December 31, 2017 and 2016, is composed of the following:

| | 2017 | 2016 |
|---|---|---|
| Nonoperating: | | |
| Interest and dividend income | $ 17,548 | $ 12,674 |
| Net realized gains on investments sold | 68,576 | 7,474 |
| Net recognized gains on trading securities held at year-end | 97,390 | 75,563 |
| Investment income, realized gains, and recognized losses on trading securities held at year-end | 183,514 | 95,711 |
| Temporarily restricted investment income | 10,189 | 5,286 |
| Permanently restricted investment income | 32 | |
| Total | $193,735 | $100,997 |

**Investments in Nonconsolidated Entities**—These investments are accounted for using the equity method except for two investments totaling $375 accounted for using the cost method for the years ended December 31, 2017 and 2016.

The System has 50% limited partnership interests in six real estate partnerships and six joint venture arrangements to own and operate a 93-unit assisted living facility and five nursing and convalescent centers, with 1,052 beds (see Note 12). During 2017 and 2016, the System recorded revenues of approximately $227 and $270 from these related parties for medical management services, respectively.

The System has a 10.9% and 10.8% interest in a joint venture limited liability company for the years ended December 31, 2017 and 2016, respectively. It was established to own and operate mobile and fixed equipment used in the treatment of kidney stones using shockwave lithotripsy. Individual physicians and other hospitals hold the remaining interests. During 2017 and 2016, the System recorded lease expenses of approximately $878 and $963 to this related party, respectively.

The System has a 10.4% interest in a joint venture limited liability company established to own and operate a gamma knife used for advanced radiation treatments for brain tumors and neurological conditions. Individual physicians hold the remaining interests. During 2017 and 2016, the System incurred lease expenses of approximately $2,556 and $2,552 to this related party, respectively.

The System has a 20% interest in a real estate joint venture limited liability company established to own and operate a 40,000 square-foot medical office building in Warren, Michigan. Currently, a private development company holds the remaining 80%. During 2017 and 2016, the System incurred lease expenses of $0 to this related party for the years ended December 31, 2017 and 2016.

The System has a 19% interest in a real estate joint venture limited liability company established to own and operate a 171,000 square-foot medical office building in West Bloomfield, Michigan. The System's interest in this entity was acquired in October 2006, in conjunction with a sale of the medical office building, which was expanded in 2007 to add an additional 87,500 square feet. A private development company holds the remaining 81%.

The System has an 18.2% interest in a real estate joint venture limited liability company established to own and operate a 100,490 square-foot medical office building in Sterling Heights, Michigan. Individual physicians and physician groups own the remaining interest. The System's interest in the entity was acquired in April 2011. The System currently leases approximately 36,566 square feet of space to provide ambulatory infusion services. During 2017 and 2016, the System incurred lease expenses of approximately $1,720 and $1,436 to this related party, respectively.

The System has a 0% and 50% interest at December 31, 2017 and 2016, respectively in a diagnostic and imaging service joint venture. The System's 50% interest was sold in July 2017.

The System has a 1.5% limited partnership interest in a limited partnership established to realize long-term appreciation through venture capital investments in equity and equity-related securities in the medical device industry. Two high-worth individuals hold a majority and others hold the remaining interest. The System has made a $1,000 total investment commitment. During 2017 and 2016, the System contributed $100 and $186 of capital to the partnership, respectively.

The System has a 33% interest in a clinical integration network established during 2016 to meet the health care needs of the communities served by its members and participating physicians. An affiliated accountable care organization and an affiliated physician organization hold the remaining 67% interest. During 2017 and 2016, the System contributed $400 and $400 of capital to the partnership. The System is committed to another $400 capital contribution, payable during 2018.

The System has a 49.38% and 50% interest at December 31, 2017 and 2016, respectively, in a joint venture established to own an outpatient surgical center located in Dearborn, Michigan. A physicians group holds the remaining 50.62% and 50% interest at December 31, 2017 and 2016, respectively. During 2017 and 2016, the System incurred expenses of approximately $0 and $2,658 to this related party, respectively.

The System has a 49% membership interest at December 31, 2017 and 2016 in a long-term acute care entity to provide long-term acute care and rehabilitation services. A private health care corporation holds the remaining 51% interest for the years ended December 31, 2017 and 2016. During 2017 and 2016, the System incurred expenses of approximately $0 and $27 to this related party, respectively.

The System has a 25% membership interest in an entity that provides dialysis and other health care related services to Dearborn and other Wayne County communities. A public health care organization holds the remaining 75% interest.

The System has a 40% interest in a joint venture limited liability company established to provide mobile MRI, x-ray, and ultrasound services. Physician groups hold the remaining 60% interest. During 2017 and 2016, the System recorded lease expenses of approximately $1,908 and $3,215 to this related party, respectively.

The System has 25%–50% and 20%-50% interest in seven and eight joint venture ambulance companies as of December 31, 2017 and 2018, respectively. The companies were established to provide emergency and nonemergency medical transportation to the general public and health care providers in multiple states. Various hospital systems hold the remaining interests. During 2017 and 2016, the System recorded revenues of approximately $7,130 and $7,522 from these related parties for management, dispatch, vehicle repair, and other services, respectively. In addition, the System recorded expenses of approximately $45 and $25 during 2017 and 2016, respectively.

The System’s portion of investees’ income is reflected on a separate line in the consolidated statements of operations and changes in net assets for 2017 and 2016. The System received distributions from these investees of $6,458 and $8,961 in 2017 and 2016, respectively.

The unaudited summarized financial position and results of operations for the entities accounted for under the equity method as of and for the year ended December 31, 2017, are as follows:

| | **Office Buildings** | **and Diagnostic** | **Homes and Assisted Living** | **Other** | **Total** |
|---|---|---|---|---|---|
| Total assets | $ 55,755 | $ 46,878 | $ 85,800 | $ 20,448 | $ 208,881 |
| Total liabilities | 74,921 | 13,298 | 117,480 | 9,234 | 214,933 |
| (Deficit) equity | (19,166) | 33,580 | (31,680) | 11,214 | (6,052) |
| Revenue—net | 17,373 | 77,660 | 60,408 | 40,352 | 195,793 |
| Excess of revenue over expenses | 6,908 | 11,658 | 2,764 | 3,842 | 25,172 |

The unaudited summarized financial position and results of operations for the entities accounted for under the equity method as of and for the year ended December 31, 2016, are as follows:

| | Medical Office Buildings | Outpatient and Diagnostic | Nursing Homes and Assisted Living | Other | Total |
|---|---|---|---|---|---|
| Total assets | $ 57,227 | $ 42,620 | $ 83,887 | $ 21,404 | $ 205,138 |
| Total liabilities | 75,489 | 12,088 | 120,444 | 11,069 | 219,090 |
| (Deficit) equity | (18,262) | 30,532 | (36,557) | 10,335 | (13,952) |
| Revenue—net | 17,282 | 67,266 | 61,805 | 41,211 | 187,564 |
| Excess of revenue over expenses | 6,759 | 11,603 | 3,780 | 82 | 22,224 |

## 4. PLEDGES RECEIVABLE

The maturity schedule for pledges receivable, net of the provision for bad debts of $6,834 and $7,427, and a present value discount of $1,534 and $2,552 (determined using 0.35%–0.6% for less than one year, 1.06%–6% for two years, 1.31%–6% for three and four years, 1.76%–6% for five and six years, 2.09%–6% for seven thru nine years, and 2.27%–6% for greater than 10 years), as of December 31, 2017 and 2016, respectively, is as follows:

| | 2017 | 2016 |
|---|---|---|
| Less than one year | $ 11,961 | $ 12,442 |
| One to five years | 18,362 | 28,334 |
| Greater than five years | 126 | 389 |
| Total (included in current and noncurrent cash, investments, and pledges whose use is limited or restricted) | $ 30,449 | $ 41,165 |

## 5. LONG-TERM DEBT AND OTHER FINANCING AGREEMENTS

The composition of long-term debt and capital lease obligations at December 31, 2017 and 2016, is as follows:

| | 2017 | 2016 |
|---|---|---|
| Series 2007A; interest of 5.00%; partially refunded 2015; due through 2017—gross of bond issue premium and issuance costs of $0—2017 and $39—2016 | $ - | $ 5,069 |
| Series 2012A; interest of 3.00% to 5.00%; due through 2042—gross of bond issue premium and issuance costs of $6,380—2017 and $7,029—2016 | 133,530 | 138,824 |
| Series 2012Z; indexed floating interest rate bonds 1.65% and 1.13% at December 31, 2017 and 2016, respectively; mature in 2035—net of bond issuance costs of $84—2017 and $89—2016 | 49,916 | 49,911 |
| Series 2013A; interest of 5.00%; due through 2031—gross of bond issue premium and issuance costs of $3,708—2017 and $4,044—2016 | 51,853 | 52,189 |
| Series 2014D; interest of 2.00% to 5.00%; due through 2039—gross of bond issue premium and issuance costs of $16,793—2017 and $19,570—2016 | 416,723 | 429,500 |
| Series 2015A; interest of 4.00% to 5.00%; due through 2033—gross of bond issue premium and issuance costs of $48,036—2017 and $54,378—2016 | 443,917 | 452,813 |
| Series 2016A; interest of 4.00% to 5.00%; due through 2046—gross of bond issue premium and issuance costs of $19,469—2017 and $20,264—2016 | 319,469 | 320,264 |
| Series 2016B; interest of 1.82%; due through 2022—net of bond issuance costs of $164—2017 and $41—2016 | 60,502 | 64,959 |
| Series 2017A; interest of 3.56%; due through 2027—net of bond issuance costs of $558—2017 | 71,442 | |
| Mortgage payable; interest rate of 7.38%; collateralized by land and a medical building with a net book value of $20,585 | 24,344 | 25,534 |
| Mortgage payable; interest rate of 6.52%; collateralized by master tenant lease—net of bond issuance costs of $1,164—2017 and $1,254—2016 | 40,936 | 42,174 |
| Mortgage payable; variable interest rate (2.74% at October 31, 2017) and (2.16% at December 31, 2016); collateralized by property with a net book value of $14,389—gross of bond issuance costs of $221—2017 and net of bond issuance costs of $20—2016 | 221 | 11,550 |
| Mortgage payable; interest rate of 6.52%; collateralized by a medical building with a net book value of $8,225 | | 13,884 |
| Fixed-rate installment note; interest of 2.6%; due through 2018 | 6,215 | 12,115 |
| Other installment notes payable; interest ranging from 1.15% to 12.41%; collateralized by assets with a net book value of $3,737 in 2017 and $3,754 in 2016; including accreted interest of $0—2017 and $51—2016 | 4,496 | 7,255 |
| Total | 1,623,564 | 1,626,041 |
| Less current portion | (51,278) | (64,512) |
| Long-term debt—net | $ 1,572,286 | $ 1,561,529 |

**Obligated Group**—Under the Master Indenture, the System Obligated Group consists of the System; BGH; WBH; OHI; Oakwood United Hospitals, Inc.; and Oakwood Health Promotions. The System entities not included in the obligated group consist primarily of foundation, ambulance, and home care service companies along with for-profit business units.

**Bonds**—Series 2007A, 2012A, and 2013A were issued through the Michigan Finance Authority or the Michigan State Hospital Finance Authority (MSHFA). The loans are secured by the accounts receivable and general intangibles of the Obligated Group members pursuant to the Master Indenture.

The Series 2007A bonds were issued to refund previously issued Revenue and Refunding Bonds and to fund certain capital projects. The 2007A bonds were partially refunded with proceeds from the 2015A bond issuance. The remaining Series 2007A bonds matured in 2017.

The Series 2012A bonds were issued to refund certain portions of previously issued Revenue and Refunding Bonds and to fund certain capital projects. The Series 2012A bonds mature in annual amounts ranging from $3,770 in 2018 to $5,370 in 2042.

The Series 2013A bonds were issued to refund certain portions of previously issued Revenue and Refunding Bonds. The Series 2013A bonds mature in annual amounts ranging from $11,170 in 2028 to $12,930 in 2031.

Series 2012Z and 2014D were issued through the City of Royal Oak Hospital Finance Authority.

Series 2012Z bonds bear interest at an indexed floating interest rate adjusted weekly. This rate is based upon a percentage of the current London InterBank Offered Rate (LIBOR), plus 0.70%, and interest is payable monthly. The Series 2012Z bonds mature in 2035.

The Series 2014D bonds mature in annual amounts ranging from $10,000 in 2018 to $17,925 in 2039.

In January 2015, the System issued fixed-rate bond Series 2015A in the amount of $398,435 to advance refund existing bonds. Premium on issuance of the Series 2015A bonds was $70,824. The System incurred a nonoperating noncash loss on this advance refunding of $46,143. The Series 2015A bonds mature in annual amounts ranging from $12,225 in 2018 to $30,330 in 2033.

In February 2016, the System issued fixed-rate bond Series 2016A in the amount of $300,000 for approved capital projects. Premium on issuance of the Series 2016A bonds was $23,514. The Series 2016A bonds mature in annual amounts ranging from $11,545 in 2039 to $49,605 in 2046.

In December 2016, the System issued fixed-rate bond Series 2016B in the amount of $65,000 at a fixed interest rate of 1.82%, payable monthly, to advance refund Bond 2012C. The System incurred a nonoperating noncash loss on this advance refunding of $903. The Series 2016B bonds mature in 2022.

In December 2017, the System issued fixed-rate bond Series 2017A in the amount of $72,000 for the Beaumont Service Center. The Series 2017A bonds mature in 2027.

The current portion of the long-term debt includes $11,183 of net original issue premium that will be amortized in 2018.

**Mortgages Payable**—The System has an ambulatory care center, with an original mortgage of $31,517 with a fixed interest rate of 7.38% that matures in 2027. The balance at December 31, 2017 and 2016, was $24,344 and $25,534, respectively.

The System has a mortgage note payable of $42,100 and $43,428 at December 31, 2017 and 2016, respectively, which is secured by a master tenant lease of a medical office building. The mortgage note is payable in annual principal amounts ranging from $1,523 in 2018 to $5,486 in 2030.

The System has two other mortgage notes payable of $0 and $25,454 at December 31, 2017 and 2016, respectively, which are secured by the assets of various medical office buildings, respectively. Early pay-off of both mortgage notes payable occurred during 2017.

The System has agreed to a mortgage lien on the Beaumont Hospital—Royal Oak hospital building site and improvements constructed thereon and a mortgage lien on the Beaumont Hospital-Troy hospital building site and improvements constructed thereon to the Bank of New York Mellon. The mortgages secure all outstanding obligations on a parity basis, and the supplemental indenture requires such mortgages to remain in place so long as the bonds (Series 2012Z, 2014D, 2015A, 2016A, and 2016B) are outstanding.

**Term and Installment Loan**—The System entered into a fixed-rate installment note of $34,350 in 2012, which bears interest at 2.6% annually. The proceeds from the note were used to refund certain portions of the prior bonds. The loan has a balance of $6,215 and $12,115 as of December 31, 2017 and 2016, respectively. This remaining balance is due in 2018.

**Other Installment Notes Payable**—In 2015, the Oakland University William Beaumont School of Medicine received full accreditation from the Liaison Council for Medical Education. As part of this partnership with Oakland University, students will take part in clinical training and applied research at the hospital. As a result, the System has recognized $0 and $1,929 of long-term obligation to Oakland University for naming rights installment payments at December 31, 2017 and 2016, respectively. Final naming rights installment payment occurred on July 31, 2017.

The remaining other installment notes relate to term loans with lenders and property lessors for purchases of equipment and leasehold improvements, with terms of repayment ranging from three to ten years. 2017 debt incurred includes $78 of cash received from a vendor for capital equipment and improvements to be repaid over 10 years based on the terms of the vendor agreement and $1,027 of capital lease obligations for other capital equipment and software paid over four years.

Annual principal payments on long-term debt as of December 31, 2017, are due as follows:

| **Years Ending December 31** | |
|---|---|
| 2018 | $ 40,961 |
| 2019 | 42,689 |
| 2020 | 44,760 |
| 2021 | 46,992 |
| 2022 | 89,081 |
| Thereafter | 1,266,444 |
| Subtotal | 1,530,927 |
| Plus net unamortized original issue premium | 103,884 |
| Less net unamortized issuance costs | (11,247) |
| Total | $ 1,623,564 |

**Lines of Credit**—The System has availed a $50,000 secured line of credit with US Bank. The secured line of credit expires on October 1, 2018. The unused fee for the line of credit is $50 per year. There were no outstanding balances on the lines of credit at December 31, 2017 and 2016.

## 6. OTHER LONG-TERM LIABILITIES

The composition of other long-term liabilities as of December 31, 2017 and 2016, is as follows:

| | **2017** | **2016** |
|---|---|---|
| Workers' compensation liability | $ 14,901 | $ 16,234 |
| Deferred compensation plan liability (Note 11) | 85,968 | 60,201 |
| Asset retirement obligation | 8,214 | 8,358 |
| Nursing home support agreements (Note 12) | 16,814 | 19,160 |
| Other | 17,713 | 11,687 |
| Total | $143,610 | $115,640 |

**Asset Retirement Obligation**—Asset retirement obligations represent legal or contractual obligations associated with the retirement of tangible long-lived assets that are incurred upon the acquisition, construction, development, or normal operation of that long-lived asset. The guidance requires the System to recognize asset retirement obligations in the period in which they are incurred, if a reasonable estimate of fair value can be made. The asset retirement obligations are accreted to their present value at the end of each reporting period. The associated estimated asset retirement costs are capitalized as part of the carrying amount of the long-lived asset and depreciated over its useful life.

The System annually evaluates its leased and owned properties for potential asset retirement obligations. Based on these reviews, the System has identified obligations primarily related to the removal of certain materials previously utilized in the construction process and storage tanks. The changes in the total liability for asset retirement obligations for the years ended December 31, 2017 and 2016, are as follows:

| | **2017** | **2016** |
|---|---|---|
| Liability—beginning of year | $8,528 | $7,968 |
| Accretion expense | 184 | 594 |
| Future remediation assumption changes | (348) | (34) |
| Liability—end of year | $8,364 | $8,528 |
| Current portion | $ 150 | $ 170 |
| Long-term portion | 8,214 | 8,358 |
| Total | $8,364 | $8,528 |

## 7. PENSIONS AND OTHER POSTRETIREMENT BENEFIT PLANS

**Hospital Employees' Retirement Plans**—The System has a defined benefit pension plan ("Employees' Retirement Plan") that covers substantially all of the WBH employees. Prior to 2008, benefits under the plan were based generally on an employee's highest five consecutive years of earnings out of the 10 years preceding retirement. Effective January 1, 2008, the System changed the benefit calculation of the Employees' Retirement Plan to be based on a cash balance formula for 2008 and future years of service. Pension benefits earned prior to January 1, 2008, were not reduced or eliminated, but will be increased to reflect credited years of service earned prior to 2008 and final average pay. Under the amended plan, eligible employees are credited with 5% of base pay earned for each year after 2007. Credited account balances are increased through an interest credit each December 31, based on the 30-year US Treasury rate as of August 1 of the prior plan year. Effective February 1, 2013, the System amended the plan to allow current employees who terminate employment after January 1, 2013, to take a lump-sum payout if the value of the benefit is less than $100. Effective December 31, 2013, the System amended the plan to freeze compensation used to determine the final average pay benefit for benefit service provided prior to January 1, 2008.

The System has two cash balance pension plans covering substantially all the OHI employees. The plans are noncontributory for employees, and OHI contributions are based on years of service and compensation. OHI's funding policy is to contribute amounts based on the terms of the respective plans and the recommendations of an actuary considering minimum funding requirements determined in accordance with the Pension Protection Act. Plan assets, principally cash and cash equivalents, equity, and fixed-income investments, are invested in a master trust. Contributions to the plans are based on actuarially determined amounts sufficient to meet the benefits to be paid to plan participants. The assets of the plans are available to pay the benefits of eligible participants. Effective July 1, 2013, the Plan was closed to new participants. OHI employees hired after January 1, 2010, not eligible to participate in the cash balance plan.

The System has a noncontributory single-employer pension plan (the "Plan"), covering all eligible BGH employees. The Plan is a defined benefit plan that is subject to the provisions of the Employee Retirement Income Security Act of 1974 (ERISA). Normal retirement benefits, coordinated with Social Security, are principally based on years of service and annual compensation. BGH makes annual contributions to the Plan equal to an amount necessary to meet or exceed the minimum funding requirements of ERISA. Contributions are intended to provide for benefits earned through the date the Plan was frozen. On November 26, 2002, BGH's board of trustees approved a resolution to freeze the defined benefit plan effective December 31, 2002. No additional benefits were earned after that date, and all eligible participants were vested. Effective September 30, 2016, the plan is in the process of being terminated and all benefit obligations are expected to be settled by 2018. As of December 31, 2017, $25,683 of settlement costs have been recorded related to this termination; an estimated $44,000 of additional settlement costs are expected in 2018.

**Supplemental Pension Plans**—The System has a nonqualified supplemental pension plan covering certain employees, as designated by the Organization and Compensation Committee of the Board of Directors. The plan provides for lump-sum benefit payments from the System's general assets so that total payments are the same or more than the payments that would have been payable from the System's principal defined benefit pension plan if it were not for limitations imposed by income tax regulations. The System has accrued liabilities based on actuarial valuations. These supplemental pension plans are unfunded. Effective December 31, 2016, the plan is in the process of being terminated and all benefit obligations were settled in February 2018.

**403(b) and 401(a) Plans**—The System has a matching 403(b) plan and a 401(a) plan for employees. Those employees who do not participate in a cash balance plan receive an employer contribution of 3% of compensation. Additionally, all employees may make elective deferrals to the plan up to the limits contained in IRC Section 402(g) and are eligible to receive a discretionary match. During 2017, the System announced its intent to make a matching contribution for active participants that would be funded in 2018. The expenses included in the 2017 and 2016 consolidated financial statements related to these transactions for the system amounted to $23,682 and $29,062, respectively.

**Deferred Compensation Plan**—The System has a deferred compensation plan that was established for eligible participants from 1982–1986. The plan was closed in 1986 to new participants due to the 1986 tax laws. Deferred compensations in the amount of $8,832 and $8,803 as of December 31, 2017 and 2016, respectively, are included in deferred compensation in long-term liabilities.

**457(b) Plans**—The System has a plan that allows certain employees to participate in the deferred compensation plan under code section 457(b). Such assets are held in a rabbi trust; however, these assets belong to the System and are subject to the claims of general creditors. Deferred compensations in the amount of $69,531 and $44,418 as of December 31, 2017 and 2016, respectively, are included in deferred compensation and other in cash, investments, and pledges, whose use is limited or restricted.

**457 (f) Plans**—The System has an additional plan that allows certain eligible employees of WBH to participate in a deferred compensation plan under code section 457(f). This is an unfunded "top hat" plan. Deferred compensation in the amount of $4,689 and $4,707 as of December 31, 2017 and 2016, respectively, is included in deferred compensation and other in cash, investments, and pledges whose use is limited or restricted. Effective December 31, 2016, the plan is in the process of being terminated and all benefit obligations were settled in January 2018.

The System has a plan that allows certain eligible employees to participate in a deferred compensation plan under code section 457(f). This is an unfunded "top hat" plan. Deferred compensations in the amount of $2,916 and $2,273 as of December 31, 2017 and 2016, respectively, are included in deferred compensation and other in cash, investments, and pledges whose use is limited or restricted.

**Postretirement Benefits**—The System has a plan that provides health and certain other postretirement benefits to eligible OHI employees who meet certain eligibility requirements. A segment of employees who retired prior to 1993 currently receives a subsidy equal to most of the cost of retiree medical benefits. All other retirees contribute toward the cost of their medical costs and receive a fixed subsidy from OHI. The postretirement health care plan requires retiree contributions, which are adjusted annually. OHI does not prefund these plans and has the right to modify or terminate any of these plans in the future. The OHI's board of trustees approved a change to the postretirement benefit plan, which resulted in elimination of the annual subsidy for employees who had not retired as of December 31, 2008.

The System has a postretirement health care plan that covers certain WBH employees and their covered dependents. WBH employees meeting certain eligibility criteria and retiring before January 1, 2007, are eligible for subsidized medical benefits capped at the 2006 hospital subsidy indexed no more than 5% per year. Effective January 1, 2012, subsidies for medical coverage past age 65 were eliminated for all current and future WBH retirees. WBH employees meeting certain eligibility criteria and retiring on or after January 1, 2007, are eligible for a retiree medical account providing a defined dollar subsidy based on years of service at retirement.

The following tables set forth the changes in projected benefit obligations, accumulated postretirement obligations, changes in plan assets, and liability of the plans for both the pension plans and the postretirement healthcare plan reconciled with the amounts included in the System's consolidated financial statements as of December 31, 2017 and 2016, as follows:

| **2017** | **Pension Plans** | **Postretirement Plan** |
|---|---|---|
| Change in benefit obligation: | | |
| Benefit obligation—beginning of year | $ 1,916,727 | $ 17,381 |
| Service cost | 47,340 | 376 |
| Interest cost | 79,566 | 721 |
| Amendments | | |
| Actuarial gain | 79,969 | (709) |
| Benefits paid | (152,629) | (1,435) |
| Annuities purchased | | |
| Benefit obligation—end of year | 1,970,973 | 16,334 |
| Change in plan assets: | | |
| Fair value of plan assets—beginning of year | 1,547,752 | |
| Actual return of plan assets | 181,341 | |
| Employer contributions | 107,493 | |
| Benefits paid | (152,627) | |
| Annuities purchased | | |
| Fair value of plan assets—end of year | 1,683,959 | - |
| Accrued liability | $ (287,014) | $ (16,334) |
| Included in current liabilities | $ (28,297) | $ (1,216) |
| Liability—long term | (258,717) | (15,118) |
| Accrued liability | $ (287,014) | $ (16,334) |
| Components of net periodic benefit cost: | | |
| Service cost | $ 47,340 | $ 376 |
| Interest cost | 79,566 | 721 |
| Expected return on plan assets | (116,405) | |
| Settlement cost | 26,181 | |
| Amortization of prior service credit | (3,601) | (2,232) |
| Amortization of unrecognized net loss | 32,374 | 160 |
| Net periodic benefit cost | $ 65,455 | $ (975) |

| 2016 | Pension Plans | Postretirement Plan |
|---|---|---|
| Change in benefit obligation: | | |
| Benefit obligation—beginning of year | $ 1,738,911 | $ 18,188 |
| Service cost | 45,016 | 401 |
| Interest cost | 80,082 | 823 |
| Amendments | (260) | |
| Actuarial gain | 134,698 | (262) |
| Benefits paid | (81,720) | (1,769) |
| Annuities purchased | | |
| Benefit obligation—end of year | 1,916,727 | 17,381 |
| Change in plan assets: | | |
| Fair value of plan assets—beginning of year | 1,411,245 | |
| Actual return of plan assets | 111,103 | |
| Purchase of JLL | | |
| Employer contributions | 107,126 | |
| Benefits paid | (81,722) | |
| Annuities purchased | | |
| Fair value of plan assets—end of year | 1,547,752 | - |
| Accrued liability | $ (368,975) | $(17,381) |
| Included in current liabilities | $ (40,021) | $ (1,382) |
| Liability—long term | (328,954) | (15,999) |
| Accrued liability | $ (368,975) | $(17,381) |
| Components of net periodic benefit cost: | | |
| Service cost | $ 45,016 | $ 401 |
| Interest cost | 80,082 | 823 |
| Expected return on plan assets | (108,501) | |
| Settlement cost | 1,242 | |
| Amortization of prior service credit | (2,692) | (2,232) |
| Amortization of unrecognized net loss | 22,503 | 290 |
| Net periodic benefit cost | $ 37,650 | $ (718) |

The amounts included in unrestricted net assets, including amounts arising during the year and amounts reclassified into net periodic benefit cost, as of December 31, 2017 and 2016, are as follows:

| **2017** | **Pension Plans Net Gain (Loss)** | **Prior Service Credit** | **Total** |
|---|---|---|---|
| Included in net assets—January 1, 2017 | $ 590,063 | $ (21,380) | $ 568,683 |
| Reclassified to net periodic benefit cost | (32,374) | 3,601 | (28,773) |
| Curtailment/Settlement | (26,181) | | (26,181) |
| Arising during the year | 15,031 | | 15,031 |
| Included in net assets—December 31, 2017 | $ 546,539 | $ (17,779) | $ 528,760 |

| | **Postretirement Plan Net Gain (Loss)** | **Prior Service Credit** | **Total** |
|---|---|---|---|
| Included in net assets—January 1, 2017 | $ (501) | $ (2,552) | $ (3,053) |
| Reclassified to net periodic benefit cost | (160) | 2,232 | 2,072 |
| Arising during the year | (709) | | (709) |
| Included in net assets—December 31, 2017 | $ (1,370) | $ (320) | $ (1,690) |

| **2016** | **Pension Plans Net Gain (Loss)** | **Prior Service Credit** | **Total** |
|---|---|---|---|
| Included in net assets—January 1, 2016 | $ 480,904 | $ (23,006) | $ 457,898 |
| Reclassified to net periodic benefit cost | (22,503) | 2,692 | (19,811) |
| Curtailment/Settlement | (436) | (806) | (1,242) |
| Arising during the year | 132,098 | (260) | 131,838 |
| Included in net assets—December 31, 2016 | $ 590,063 | $ (21,380) | $ 568,683 |

| | **Postretirement Plan Net Gain (Loss)** | **Prior Service Credit** | **Total** |
|---|---|---|---|
| Included in net assets—January 1, 2016 | $ 50 | $ (4,756) | $ (4,706) |
| Reclassified to net periodic benefit cost | (290) | 2,232 | 1,942 |
| Arising during the year | (262) | | (262) |
| Included in net assets—December 31, 2016 | $ (502) | $ (2,524) | $ (3,026) |

Amounts included in unrestricted net assets and not yet recognized in operations as of December 31, 2017 and 2016, consist of:

| **2017** | **Pension Plans** | **Postretirement Plan** |
|---|---|---|
| Unrecognized prior service credit | $ (17,779) | $ (293) |
| Actuarial losses | 546,539 | (1,370) |
| Total amount not yet recognized in operations | $528,760 | $(1,663) |

| **2016** | **Pension Plans** | **Postretirement Plan** |
|---|---|---|
| Unrecognized prior service credit | $ (21,380) | $(2,525) |
| Actuarial losses | 590,063 | (501) |
| Total amount not yet recognized in operations | $568,683 | $(3,026) |

The estimated amounts to be amortized from unrecognized net assets into net periodic benefit cost during 2018 are as follows:

| **2018** | **Pension Plans** | **Postretirement Plan** |
|---|---|---|
| Amortization of prior service credits | $ (3,341) | $ (293) |
| Amortization of net actuarial loss | 31,436 | |
| Net amount to be recognized in 2018 | $28,095 | $ (293) |

The System's plan assets and accumulated benefit obligations measured as of December 31, 2017 and 2016, are as follows (in thousands):

| | **2017** | **2016** |
|---|---|---|
| Fair value of plan assets | $ 1,683,959 | $ 1,547,754 |
| Accumulated benefit obligation | 1,940,785 | 1,889,160 |
| Unfunded status | $ (256,826) | $ (341,406) |

**Plan Assets**—Plan assets are recorded at their fair value and consist of various securities. The various types of securities are as follows:

Cash and cash equivalents, equities, and mutual funds are recorded at fair value based on observable quoted prices for identical assets in active markets. As a result, these financial assets have been classified as Level 1 investments

Government securities, asset-backed securities, mortgage-backed securities, and corporate obligations are recorded at fair value based on observable inputs derived from quoted prices for similar assets in active markets. As a result, these securities have been classified as Level 2 investments.

Derivatives are recorded at fair value based on observable inputs derived from quoted prices for similar assets in active markets. As a result, these securities have been classified as Level 2 investments.

Commingled funds are recorded at fair value based on the underlying investments in the funds, which consist primarily of securities with quoted prices in active markets. Commingled funds' fair values are based on the NAV per share calculated by the investment manager and administrator. As investments in commingled funds are measured at NAV, they are measured separately from the fair value hierarchy in the following tables.

Hedge funds and real estate do not have a readily determinable market value. Fair values are based on the NAV per share provided by the fund managers along with audited financial information. As investments in hedge funds are measured at NAV, they are measured separately from the fair value hierarchy in the following tables.

Private capital, which may include private equity, private credit and private real assets, does not have a readily determinable market. Fair values are based on information provided by the fund managers along with audited financial information using either a market approach or an income approach, each of which requires a significant degree of judgment. There is no active trading market for these investments, and they are for the most part illiquid. Due to the significant unobservable inputs, the fair value measurements used to estimate their fair value are a Level 3 input.

The System has elected the fair value option for valuation of private capital investments. These investments are structured as limited partnerships and are designed to produce stable investment returns regardless of market activity. Audited information is only available annually based on the limited partnerships or funds' year-end.

For hedge funds and private capital investments, there is a review of external information and the use of an investment consultant in addition to management's internal procedures. These procedures include a review of returns against benchmarks and discussions with the fund manager on performance, changes in personnel, changes in process, and evaluations of current market conditions. The fund of one administrator and underlying managers meet with the System's management and the investment committee of the Board of Directors on a periodic basis.

Other, which represents unsettled transactions relating primarily to purchases and sales of plan assets, accrued income, and derivatives. Due to the short maturity of these assets and liabilities, the fair value approximates the carrying amounts. The fair value of the derivatives is estimated utilizing the terms of the derivative instruments and publicly available market yield curves. Derivatives are used to manage the portfolio's duration and not for speculative purposes, which is prohibited in the Pension Plans' investment policies.

The System had no transfers between Level 1 and level 2 assets at December 31, 2017 and 2016. The total pension plans' asset portfolio by asset category as of December 31, is as follows:

| **2017** | **Quoted Prices in Active Markets (Level 1)** | **Other Observable Inputs (Level 2)** | **Unobservable Inputs (Level 3)** | **Total** |
|---|---|---|---|---|
| Asset category: | | | | |
| Cash and cash equivalents | $ 83,307 | $ - | $ - | $ 83,307 |
| Equities and exchange traded funds | 406,186 | | | 406,186 |
| Mutual funds | 40,795 | | | 40,795 |
| Government securities | | 171,379 | | 171,379 |
| Asset-backed securities | | 6,571 | | 6,571 |
| Mortgage-backed securities | | 12,631 | | 12,631 |
| Corporate obligations | | 281,561 | | 281,561 |
| Private capital | | | 165,365 | 165,365 |
| Derivatives—swaps, options, | | 4,143 | | 4,143 |
| and futures | | | | - |
| Other | (15,436) | | | (15,436) |
| Total marketable investments | $514,852 | $476,285 | $165,365 | 1,156,502 |
| Investments measured at NAV: | | | | |
| Commingled funds | | | | 285,326 |
| Hedge funds | | | | 242,131 |
| Total investments measured at NAV | | | | 527,457 |
| Total plan assets | | | | $1,683,959 |

| **2017** | **Level 3 Investments Private Equity Funds** |
|---|---|
| January 1, 2017—balance | $154,515 |
| Purchases | 15,864 |
| Redemptions/distributions | (24,530) |
| Net gain on assets held at December 31, 2017 | 9,514 |
| Net gain on assets sold in 2017 | 10,002 |
| December 31, 2017—balance | $165,365 |

Total unfunded private capital commitments were $64,652 and $47,625 as of December 31, 2017 and 2016, respectively.

| 2016 | Quoted Prices in Active Markets (Level 1) | Other Observable Inputs (Level 2) | Unobservable Inputs (Level 3) | Total |
|---|---|---|---|---|
| Asset category: | | | | |
| Cash and cash equivalents | $139,770 | $ - | $ - | $ 139,770 |
| Equities | 375,237 | | | 375,237 |
| Government securities | | 176,879 | | 176,879 |
| Asset-backed securities | | 4,640 | | 4,640 |
| Mortgage-backed securities | | 30,994 | | 30,994 |
| Corporate obligations | | 207,642 | | 207,642 |
| Private capital | | | 154,515 | 154,515 |
| Derivatives—swaps, options, and futures | | 2,608 | | 2,608 |
| Other | (32,486) | | | (32,486) |
| Total marketable investments | $482,521 | $422,763 | $154,515 | 1,059,799 |
| Investments measured at NAV: | | | | |
| Commingled funds | | | | 286,316 |
| Hedge funds | | | | 201,639 |
| Total investments measured at NAV | | | | 487,955 |
| Total plan assets | | | | $1,547,754 |

| 2016 | Level 3 Investments Private Equity Funds |
|---|---|
| January 1, 2016—balance | $145,760 |
| Purchases | 15,652 |
| Redemptions/distributions | (17,040) |
| Net gain on assets held at December 31, 2016 | (38) |
| Net gain on assets sold in 2016 | 10,181 |
| December 31, 2016—balance | $154,515 |

The tables below disclose the nature and risks of investments on which fair value is measured by NAV per share as of December 31, 2017 and 2016, are as follows:

| | Fair Value 2017 | Redemption Frequency | Redemption Notice Period | Unfunded Commitments |
|---|---|---|---|---|
| Multistrategy hedge funds[a] | $ - | Annually, May 31 | 185 days | N/A |
| Multistrategy hedge funds[b] | | Quarterly | 100 days | N/A |
| Emerging Market Equity[c] | 23,894 | Quarterly | 92 days | N/A |
| Real Estate[d] | | Quarterly | 90 days | 38000 |
| Multistrategy hedge funds[e] | 240,651 | Quarterly | 60 Days | 13,673 |
| Opportunistic credit fund[f] | 54,201 | Quarterly | 60 days | N/A |
| Multistrategy hedge funds[g] | 1,480 | Quarterly | 60 days | 13500 |
| Unconstrained Global Fixed Income[h] | 50,552 | Monthly | 10 days | N/A |
| Emerging Market Equity[i] | 32,224 | Monthly | 10 days | N/A |
| Emerging Market Equity[j] | 77,906 | Monthly | 5 days | N/A |
| Master Limited Partnership[k] | 41,197 | Weekly | 5 days | N/A |
| US fixed income[l] | 2,141 | Daily | N/A | N/A |
| US fixed income[m] | 3,211 | Daily | N/A | N/A |
| Replication[n] | | Daily | N/A | N/A |
| | $527,457 | | | |

[a] This category invested in hedge funds that pursued multiple strategies to diversify risks and reduce volatility. This fund was liquidated as the firm, The Carlyle Group, closed the strategy.

[b] This category invested in hedge funds that pursue multiple strategies to diversify risks and reduce volatility. This strategy was liquidated in the first half of 2017.

[c] This commingled fund invests in equities of emerging market countries. The strategy is composed of marketable equity securities that are listed on global stock exchanges. The fair values of the investments in this category have been estimated using the NAV per share of the investments, which are determined by the investment manager and fund administrator.

[d] This category's investment strategy is to create a high-quality and low-risk portfolio of stabilized and income-producing real estate assets diversified by property type and economic exposure. Property sector exposure includes apartments, office, retail, self-storage, and industrial. The fair values of the investments in this category have been estimated using the NAV per share of the investments, which are determined by the investment manager and fund administrator.

[e] This category invests in a hedge fund of one strategy that includes investments in underlying hedge funds. The total mandate is split between two distinct strategies of diversified strategies and long/short equity. Quantitative inputs for the underlying portfolio funds are based on valuations supplied by the investment managers or fund administrators of the underlying funds and not by the system. The fair values of the investments in this category have been estimated using the NAV per share of the investments, which are determined by the fund administrator.

[f] This commingled fund invests in many different sub strategies within corporate credit. The composite portfolio's strategies include investments in approximately high yield, bank debt, and distressed credit. Quantitative inputs for these securities are developed by the investment manager and fund administrator. The fair values of the investments in this category have been estimated using the NAV per share of the investments, which are determined by the investment manager and fund administrator.

(g) This commingled invests in the public or structured equity, fixed income, and alternative investment markets across the globe. The fair values of the investments in this category have been estimated using the NAV per share of the investments, which are determined by the fund administrator.

(h) This commingled fund features an unconstrained fixed-income approach that allows it to invest across the spectrum of bonds and currencies. Quantitative inputs for these securities are developed by the investment manager and fund administrator. The fair values of the investments in this category have been estimated using the NAV per share of the investments, which are determined by the investment manager and fund administrator.

(i) This commingled fund invests in equities of emerging market countries. The strategy is composed of marketable equity securities that are listed on global stock exchanges. The fair values of the investments in this category have been estimated using the NAV per share of the investments, which are determined by the investment manager and fund administrator.

(j) This commingled fund invests in equities of emerging market countries. The strategy is composed of marketable equity securities that are listed on global stock exchanges. The fair values of the investments in this category have been estimated using the NAV per share of the investments, which are determined by the investment manager and fund administrator.

(k) This commingled fund invests in investment grade securities of any maturity. The fair values of the investments in this category have been estimated using the NAV per share of the investments, which are determined by the investment manager and fund administrator.

(l) This commingled fund invests in investment grade securities of any maturity. The fair values of the investments in this category have been estimated using the NAV per share of the investments, which are determined by the investment manager and fund administrator.

(m) This commingled fund invests in US government and investment-grade fixed-income securities of a long duration nature. The fair values of the investments in this category have been estimated using the NAV per share of the investments, which are determined by the investment manager and fund administrator.

(n) This commingled fund was a fund of one portfolio that invested in a target asset allocation strategy to replicate the overall asset allocation of the total portfolio. This strategy was closed in early 2017 and was transferred to a separate account strategy.

| | Fair Value 2016 | Redemption Frequency | Redemption Notice Period | Unfunded Commitments |
|---|---|---|---|---|
| Multistrategy hedge funds[(a)] | $ 2,733 | Annually, May 31 | 185 days | N/A |
| Multistrategy hedge funds[(b)] | 40,715 | Quarterly | 100 days | N/A |
| Emerging Market Equity[(c)] | 17,939 | Quarterly | 92 days | N/A |
| Multistrategy hedge funds[(d)] | 158,191 | Quarterly | 60 Days | 55,000 |
| Opportunistic credit fund[(e)] | 60,994 | Quarterly | 60 days | N/A |
| Emerging Market Equity[(f)] | 25,745 | Monthly | 10 days | N/A |
| Emerging Market Equity[(g)] | 54,511 | Monthly | 5 days | N/A |
| Replication[(h)] | 36,198 | Daily | N/A | N/A |
| US fixed income[(i)] | 90,929 | Daily | N/A | N/A |
| | $487,955 | | | |

(a) This category invested in hedge funds that pursued multiple strategies to diversify risks and reduce volatility. This fund is currently in liquidation mode as the firm, The Carlyle Group, is closing down the strategy. The proceeds will be used to fund the hedge fund of one strategy in description (d) below.

(b) This category invests in hedge funds that pursue multiple strategies to diversify risks and reduce volatility. The composite portfolio's strategies include investments in approximately 30% long/short equities, 27% distressed debt, 17% asset-backed securities, 13% special situations, and 13% global macro. Quantitative inputs for these securities are developed by the funds of hedge funds manager and not by the System. The fair values of the investments in this category have been estimated using the NAV per share of the investments, which are determined by the investment manager and fund administrator. A full redemption request of this strategy has been submitted and the proceeds will be used to fund the hedge fund of one strategy in description (d) below.

(c) This commingled fund invests in equities of emerging market countries. The strategy is composed of marketable equity securities that are listed on global stock exchanges. The fair values of the investments in this category have been estimated using the NAV per share of the investments, which are determined by the investment manager and fund administrator.

(d) This category invests in a hedge fund of one strategy that includes investments in underlying hedge funds. The total mandate is split between two distinct strategies of approximately 87% diversified strategies and 13% long/short equity. Quantitative inputs for the underlying portfolio funds are based on valuations supplied by the investment managers or fund administrators of the underlying funds and not by the system. The fair values of the investments in this category have been estimated using the NAV per share of the investments, which are determined by the fund administrator.

(e) This commingled fund invests in many different sub strategies within corporate credit. The composite portfolio's strategies include investments in approximately 59% high yield, 29% bank debt, 7% cash/other, and 3% distressed credit. The allocations stated above represent the levered exposure and will not add to 100%. Quantitative inputs for these securities are developed by the investment manager and fund administrator, and not by the System. The fair values of the investments in this category have been estimated using the NAV per share of the investments, which are determined by the investment manager and fund administrator.

[f] This commingled fund invests in equities of emerging market countries. The strategy is composed of marketable equity securities that are listed on global stock exchanges. The fair values of the investments in this category have been estimated using the NAV per share of the investments, which are determined by the investment manager and fund administrator.

[g] This commingled fund invests in equities of emerging market countries. The strategy is composed of marketable equity securities that are listed on global stock exchanges. The fair values of the investments in this category have been estimated using the NAV per share of the investments, which are determined by the investment manager and fund administrator.

[h] This commingled fund is a fund of one portfolio that invests in a target asset allocation strategy to replicate the overall asset allocation of the total portfolio. The composite portfolio gains access to the required target exposure via derivative instruments. The fair values of the investments in this category have been calculated using the NAV per share of the investments, which are determined by the investment manager and fund administrator.

[i] This commingled fund invests in US government and investment-grade fixed-income securities of a long duration nature. The fair values of the investments in this category have been estimated using the NAV per share of the investments, which are determined by the investment manager and fund administrator.

**Disclosures about Investment Policies and Strategies**—The System makes investment allocation decisions in order to achieve returns in excess of the plan's actuarial return assumption, while remaining consistent with the plan's risk posture and long-term investment horizon. The System establishes objectives, policies, and guidelines; allocates assets in an appropriate and prudent fashion in accordance with fiduciary requirements of ERISA; and ensures that plan assets are sufficient to meet the obligations of the plans as they come due.

Investment management of the plans is delegated to professional investment management firms that must adhere to policy guidelines and objectives. An independent investment consultant is used to measure and report on investment performance; to perform asset/liability modeling studies and recommend changes to objectives, guidelines, manager, or asset class structure; and to keep the System informed of current investment trends and issues.

Based on consideration of the plans' projected benefit obligation and long-term investment horizon, the plan's ability to tolerate risk is in the moderate-to-aggressive range. Asset allocation is consistent with this level of risk, with assets diversified among multiple asset classes. Minimum and maximum ranges are established for each asset class to control risk and maximize the effectiveness of the plan's asset allocation strategy. Asset allocation is reviewed and rebalanced quarterly. Derivative instruments may only be utilized when consistent with the manager's stated style and objectives, and may not be used for speculative purposes. Margin purchases are prohibited. Investment is also prohibited in antiques, stamps, gold, silver, commodities, and companies that manufacture tobacco products. Specific investment guidelines, restrictions, and investment return objectives exist for each asset class and corresponding investment manager. Certain investment strategies (swaps, puts, and calls) are deployed to extend duration of the plan's assets to achieve a closer match with the duration of the plan's liabilities or to reduce exposure during swings in interest rates. These techniques are designed to reduce the volatility in the plan asset/liability ratios.

The target and actual allocations for the pension plans' assets as of December 31, 2017 and 2016, are as follows:

| | 2017 | | 2016 | |
|---|---|---|---|---|
| | Target % | Actual % | Target % | Actual % |
| Small cap equities | 7.0 % | 7.0 % | 7.0 % | 7.9 % |
| Large cap equities | 5.0 | 4.9 | 5.0 | 3.2 |
| Global equities | 11.0 | 11.2 | 11.0 | 11.4 |
| Developed non-US equities | 5.0 | 5.4 | 5.0 | 5.2 |
| Emerging market equities | 7.0 | 8.4 | 7.0 | 6.9 |
| Hedged equity | 5.0 | 4.9 | 5.0 | 4.3 |
| Private capital | 10.0 | 10.3 | 10.0 | 10.9 |
| Intermediate/core fixed income | 3.0 | 2.6 | 3.0 | 2.8 |
| Liability-driven investing | 25.0 | 22.6 | 25.0 | 22.6 |
| Return focused fixed income | 7.0 | 7.1 | 7.0 | 4.3 |
| Real assets | 5.0 | 2.6 | 5.0 | |
| Diversifying strategies | 10.0 | 9.7 | 10.0 | 9.9 |
| Replication | | 2.2 | | 8.4 |
| Cash | | 1.1 | | 2.2 |
| | 100 % | 100 % | 100.0 % | 100.0 % |

The expected long-term rate of return on plan assets assumption is based on modeling studies completed with the assistance of the System's actuaries and investment consultants. The models take into account asset class allocation, asset class returns, inflation, and bond yields for both domestic and foreign markets. They are also calibrated to take into consideration historical experience, including a random variable to reflect real-life uncertainty of the future and to project many future economic scenarios. The consequences of adopting various investment policies on the future financial health of the plans under each of the scenarios are then evaluated. These studies, along with the historical 0.6% above-market returns that the plans have generated, indicated that expected future returns, weighted by asset allocation, support an expected long-term asset return assumption of 7.5% for the years ended December 31, 2017 and 2016.

The weighted-average assumptions used to determine benefit obligations for the pension plans as of December 31, 2017 and 2016, are as follows:

| | 2017 | 2016 |
|---|---|---|
| Discount rate—Employees' Retirement Plans | 2.6%–3.9% | 3.4%–4.4% |
| Discount rate—Supplemental Pension Plans | | 1.9 |
| Discount rate—Postretirement Benefit Plan | 3.9 | 4.2–4.4 |
| Rate of compensation increase—Employees' Retirement Plan and Supplemental Executive Retirement Plan (SERP) | 3.0 | 3.0 |
| Expected return on plan assets | 5.5–7.5 | 5.3–7.5 |

The weighted-average discount rate for the pension plans is 3.81% and 4.26% as of December 31, 2017 and 2016, and 4.26% and 4.74% as of January 1, 2017 and 2016, respectively. The weighted-average discount rate for the retiree medical plans is 3.90% and 4.32% as of December 31, 2017 and 2016, and 4.32% and 4.71% as of January 1, 2017 and 2016, respectively.

The average assumptions used to determine benefit expense for the pension plans for the years ended December 31, 2017 and 2016, are as follows:

| | **2017** | **2016** |
|---|---|---|
| Discount rate—Employees' Retirement Plans | 3.4%–4.4% | 4.6%–4.8% |
| Discount rate—Supplemental Pension Plans | 1.9 | 3.2 |
| Discount rate—Postretirement Benefit Plan | 4.2-4.4 | 4.6–4.8 |
| Rate of compensation increase—Employees' Retirement Plan and Supplemental Executive Retirement Plan (SERP) | 3.0 | 2.6–3.0 |
| Expected return on plan assets | 5.5–7.5 | 5.3–7.5 |

The System's funding policy is to contribute annually, not less than the minimum required by applicable laws and regulations. The System contributed $104,200 and $107,126 to the Employees' Retirement Plan in 2017 and 2016, respectively. Pension contributions are expected to be $91,500 in 2018.

For the years ended December 31, 2017 and 2016, the health care trend rate on covered benefits is assumed to be 6.67%, decreasing gradually to 5.00% by 2022 and all years thereafter.

The System expects to pay the following for pension benefits and expected postretirement benefits:

| | **Pension Plans** | **Postretirement Plans** |
|---|---|---|
| 2018 | $213,132 | $1,239 |
| 2019 | 92,710 | 1,228 |
| 2020 | 97,477 | 1,215 |
| 2021 | 100,420 | 1,159 |
| 2022 | 105,901 | 1,143 |
| 2023–2027 | 567,215 | 5,541 |

## 8. RESTRICTED NET ASSETS

Restricted net assets as of December 31, 2017 and 2016, are available for the following activities:

| | 2017 | 2016 |
|---|---|---|
| Patient care | $ 64,216 | $ 47,648 |
| Education, training, and research | 9,799 | 14,945 |
| Property, plant, and equipment | 29,552 | 32,059 |
| Total temporarily restricted net assets | 103,567 | 94,652 |
| Permanently restricted net assets | 41,980 | 37,461 |
| Total restricted net assets | $145,547 | $132,113 |

The System's restricted net assets (funds) consisted of approximately 726 funds in 2017, and 815 in 2016, whose use was restricted by explicit donor-imposed stipulations. There were 128 funds in 2017, and 130 in 2016, that were permanently restricted; as well as 562 funds in 2017, and 646 in 2016, that were temporarily restricted, none of which were term endowments. There were 9 unrestricted funds in 2017, and 17 in 2016, that were designated by the Board of Directors to function as a restricted fund. There were 27 unrestricted funds without a board designation in 2017, and 22 of this type in 2016. As required by GAAP, net assets associated with restricted funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Uniform Prudent Management of Institutional Funds Act (UPMIFA), along with other relevant state laws, guides the System's investment policies for restricted funds.

UPMIFA requires the System to exercise ordinary and prudent care in good faith in its discretion to invest and appropriate some or all the net appreciation or depreciation of investments. In absence of a relevant law or donor stipulations, fiduciary responsibility to exercise ordinary care and prudence does not extend donor stipulations to the earnings and losses on investments.

The System utilizes investment and spending policies for restricted net assets with the intent to preserve assets and provide a reliable stream of funding to support donor intentions. These policies are in place to ensure prudent investment, a moderate level of investment risk, and to achieve returns in excess of the rate of inflation and commensurate with the funds' time horizon. An independent investment consultant is used to measure and report on investment performance. A reconciliation of net assets is included in the consolidated statements of operations and changes in net assets.

Recognized gains and losses on securities held are reflected in the nonoperating unrestricted activity. Investment income and realized gains and losses from the investment of permanently restricted funds not directed by donor stipulations to be retained in the endowment principal are immediately appropriated to an accompanying temporarily restricted fund that meets the donor-imposed stipulations. Permanently restricted net assets are not reduced by losses, which are charged to the accompanying temporarily restricted fund to the extent an unexpended balance is remaining in the temporarily restricted fund. In the event a temporarily restricted fund has been depleted, losses are charged to unrestricted net assets. No restricted funds are maintained in a deficit status.

The System has remainder interests in certain trusts held by third-party trustees. At the time of initial recognition, interests in charitable remainder trusts are recorded as contributions. Subsequent revaluations are reported as changes in value of interests in trusts.

## 9. NET PATIENT SERVICE REVENUE AND PATIENT RECEIVABLES AND SETTLEMENTS

Net patient service revenues paid by third parties are based upon contractual agreements, which generally include a fixed rate adjusted for acuity for each inpatient admission according to its diagnosis. Outpatient services are generally paid based on a fee-for-service schedule or a percentage of charges. Based upon these agreements, the System has reduced gross charges and the resulting net patient service revenue has been reflected in the accompanying consolidated financial statements using the most current information available. The percentages of revenue for Medicare and Blue Cross were 41% and 25%, respectively, for 2017. The percentages of revenue for Medicare and Blue Cross were 41% and 23%, respectively, for 2016.

Patient service revenue, net of contractual allowances and discounts (but before the provision for bad debts), recognized for the years ended December 31, 2017 and 2016, from these major payor sources is as follows:

| | **2017** | **2016** |
|---|---|---|
| Medicare | $ 1,782,740 | $ 1,758,084 |
| Blue Cross | 1,078,450 | 999,292 |
| Managed care | 460,528 | 544,224 |
| Medicaid | 565,218 | 555,210 |
| Commercial | 326,268 | 277,498 |
| Self-pay | 68,934 | 71,288 |
| Other | 57,669 | 95,858 |
| Total | $ 4,339,807 | $ 4,301,454 |

Net patient receivables and settlements from major third-party payors as of December 31, 2017 and 2016, are as follows:

| | **2017** | **2016** |
|---|---|---|
| Medicare | $181,095 | $162,185 |
| Blue Cross | 23,061 | 37,840 |
| Medicaid | 34,810 | 26,822 |
| Total | $238,966 | $226,847 |

Third-party payor settlements are generally subject to audit of reimbursable costs and medical necessity. At December 31, 2017, Medicare 2014 through 2017, Medicaid 2015 through 2017, and Blue Cross 2016 and 2017 cost reports were not final settled. The estimated third-party payor settlements receivable or payable are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods, as settlements and other information become available.

In 2016, the System settled a prior-year coding issue with Blue Cross and received Medicaid hospital tax program distributions, increasing net patient revenue by $42,529.

## 10. UNCOMPENSATED CARE

The following uncompensated care and community benefit information is reported consistent with the American Hospital Association Guidance on Reporting of Community Benefits.

The System follows the policy of providing health care service to all patients regardless of their ability to pay. Consequently, the System provides health care services free of charge or at amounts less than its full costs of providing care to certain categories of patients. The unreimbursed cost of this uncompensated care as of December 31, 2017 and 2016, was as follows:

| | 2017 | 2016 |
|---|---|---|
| Medicare | $ 95,391 | $ 66,599 |
| Medicaid | 100,572 | 110,317 |
| Other charity care | 11,624 | 14,593 |
| Total | 207,587 | 191,509 |
| Bad debts at cost | 47,061 | 42,969 |
| Total cost of uncompensated care | $254,648 | $234,478 |

The method used to estimate the cost of providing uncompensated care was determined by calculating the System's overall direct and indirect cost using the System's cost accounting system and multiplying that ratio to the cost of uncompensated charges.

## 11. DEFERRED COMPENSATION

The deferred compensation plans cover eligible employees electing to defer payments for part of their compensation. Amounts due under the plans are fully vested. Investments are reported at fair value, with an equal outstanding deferred compensation liability.

## 12. COMMITMENTS AND CONTINGENCIES

**Professional and General Liability**—The System self-insures primary medical professional and general liability claims. Coverage is purchased on a claims-made basis from its wholly-owned captive insurance company for claims more than $1 million per claim inclusive of defense costs. The captive limits its liability through the purchase of reinsurance from unrelated reinsurance companies.

The System recorded expenses of $15,885 and $22,308 in 2017 and 2016, respectively, for the estimated costs of medical professional claims, their associated defense, and excess insurance costs. These amounts are included in the Professional liability and general insurance financial statement line.

The liability for self-insurance represents the undiscounted ultimate net losses and loss adjustment expenses for incurred claims. Loss reserves are determined based on assumptions that are reviewed and adjusted as necessary.

**Workers' Compensation Liability**—The System is a qualified self-insurer within the State of Michigan. Excess coverage is purchased on a statutory limits basis for an unrelated commercial insurer.

The liability for this self-insurance represents the ultimate net losses and loss adjustment expenses for incurred claims, and is discounted at 2% for both years 2017 and 2016. Loss reserves are determined based on assumptions that are reviewed and adjusted as necessary.

**Nursing Homes**—In 2008, the nursing home joint venture incurred indebtedness of $15,413 in conjunction with the purchase of a 50% interest in a nursing home and assisted-living facility, reducing the System's ownership to 50%.

Under certain conditions, the System has agreed to make loans or capital contributions to its nursing home joint venture arrangements for them to maintain certain Debt Service Coverage Ratios relating to aggregate bank financing of $89,698 in outstanding mortgage balances and $10,903 in line of credit draws for as long as these debts remain outstanding. Current analysis of the nursing homes and the assisted-living facility indicates that the Debt Service Coverage Ratios are adequate, and as such, all covenants are currently met. The maximum potential future amount of payments that could be required under the guarantees associated with this debt is $100,600.

The System has reported its share of the obligation as of December 31, 2017, of $16,814 as a long-term liability, which represents approximately 50% of the negative equity in such nursing homes (see Note 6). These agreements are secured by all assets of the nursing home joint ventures. Any recoveries stemming from liquation proceedings would be allocated on par with the ownership percentages stipulated in the joint venture agreement.

**Legal**—The System is party to lawsuits (including alleged medical professional liability claims) incidental to the operation of the hospitals. Management believes that the ultimate disposition of such litigation will not result in liabilities that are materially in excess of amounts currently accrued in the consolidated balance sheets of the System.

In 2015, a Wayne County Michigan jury returned a verdict against the System in the amount of $20 million in Nayyar v Oakwood. The Michigan Court of Appeals reversed the verdict and ordered that a judgment be entered for defendant. Plaintiff has filed an application for leave to appeal to the Michigan Supreme Court, which was denied on February 7, 2018. The System's reserve for this claim is still recorded at management's reasonable estimate of anticipated losses in the event that plaintiff counsel pursues other possible state or federal remedies.

There is currently a case pending in Wayne County Michigan Circuit Court in which former patients of Dr. Awaad, claim they were misdiagnosed. This case and companion cases have been pending for over ten years and have been subject to numerous appeals and discovery stays. Discovery is currently ongoing. The System's reserve for this claim is recorded at management's estimate of the low end of the range of anticipated losses. The System believes that further discovery will need to be completed to properly assess its potential exposure. The plaintiffs have filed approximately 360 notices of intent to sue and have alleged that the former patients who were misdiagnosed constitute a class for class action purposes. The court's ruling on this issue could potentially have an impact on the System's exposure and anticipated losses.

In April 2011, the System's subsidiary, WBH, received a Civil Investigative Demand from the United States Attorney's office requiring production of a large number of documents. Management has been informed that the thrust of the investigation concerns allegations of relationships between WBH and its physicians to determine whether there exists a violation of the Stark or Federal Anti-Fraud laws as a civil false claim. Management understands that, at this time, the investigation is a civil investigation only. Management continues to communicate with the Government's attorneys and is actively working to resolve the matter. WBH intends to defend any demand if or when proffered.

## 13. LEASES

The System leases certain buildings and equipment under noncancelable operating lease agreements. Total rental expense for operating leases was approximately $56,251 and $77,873 in 2017 and 2016, respectively. Future minimum lease payments under these leases are as follows: 2018—$41,685; 2019—$35,896; 2020—$31,211; 2021—$26,405; 2022—$18,518; and thereafter—$49,467.

The System also leases available space in its medical office buildings and certain other facilities to third parties with lease terms ranging from one to 50 years. Rental income for 2017 and 2016 was approximately $22,379 and $36,606. Minimum future rental income under these agreements is as follows: 2018—$12,432; 2019—$10,331; 2020—$8,079; 2021—$6,296; 2022—$5,568; and thereafter—$39,304.

## 14. FAIR VALUES OF FINANCIAL INSTRUMENTS

Investments are recorded at their fair value and consist of various securities. The various types of securities are as follows:

Cash and cash equivalents, equities and exchange traded funds, and mutual funds are recorded at fair value based on observable quoted prices for identical assets in active markets. As a result, these financial assets have been classified as Level 1 investments.

Government securities, asset-backed securities, mortgage-backed securities, and corporate obligations are recorded at fair value based on observable inputs derived from quoted prices for similar assets in active markets. As a result, these securities have been classified as Level 2 investments.

Derivatives are recorded at fair value based observable inputs derived from quoted prices for similar assets in active markets. As a result, these securities have been classified as Level 2 investments.

Commingled funds are recorded at fair value based on the underlying investments in the funds, which consist primarily of securities with quoted prices in active markets. Commingled funds fair values are based on the NAV per share calculated by the investment manager and administrator. As investments in commingled funds are measured at NAV, they are measured separately from the fair value hierarchy in the following tables.

Beneficial interest in trust funds are recorded at fair value based on the underlying investments in the funds, which consist primarily of securities with quoted prices in active markets. As a result, these funds have been classified as Level 3 investments.

Hedge funds and real estate do not have a readily determinable market value. Fair values are based on the NAV per share provided by the fund managers along with audited financial information. As investments in hedge funds are measured at NAV, they are measured separately from the fair value hierarchy in the following tables.

Private capital (i.e. equity, credit and real assets) does not have a readily determinable market value. Fair values are based on information provided by the fund managers along with audited financial information using either a market approach or an income approach, each of which requires a significant degree of judgment. There is no active trading market for these investments, and they are for the most part illiquid. Due to the significant unobservable inputs, the fair value measurements used to estimate their fair value are a Level 3 input.

In instances in which the inputs used to measure fair value fall into different levels of the fair value hierarchy, the fair value measurement has been determined based on the lowest-level input that is significant to the fair value measurement in its entirety. The System's assessment of the significance of a particular item to the fair value measurement in its entirety requires judgment, including consideration of inputs specific to the asset. The System's policy is to record transfers at the end of the year. The System had no transfers between Level 1 and Level 2 assets at December 31, 2017 and 2016.

The following is a summary of assets and liabilities recorded at fair value on a recurring basis (no assets or liabilities were assessed on a nonrecurring basis) at December 31, 2017.

| | **Quoted Prices in Active Markets (Level 1)** | **Other Observable Inputs (Level 2)** | **Unobservable Inputs (Level 3)** | **2017 Total** |
|---|---|---|---|---|
| Cash and cash equivalents | $203,403 | $ - | $ - | $ 203,403 |
| Certificates of deposit | 17,000 | | | 17,000 |
| Equities and exchange traded funds | 491,742 | | | 491,742 |
| Mutual funds | 126,258 | | | 126,258 |
| Government securities | | 181,040 | | 181,040 |
| Asset-backed securities | | 49,594 | | 49,594 |
| Mortgage-backed securities | | 65,524 | | 65,524 |
| Corporate obligations | | 155,386 | | 155,386 |
| Derivatives—Swaps, Options, Futures | | 684 | | 684 |
| Beneficial interest in trusts | | | 10,838 | 10,838 |
| Private capital | | | 23,073 | 23,073 |
| Total marketable investments | $838,403 | $452,228 | $33,911 | 1,324,542 |
| Investments measured at NAV: | | | | |
| Commingled funds | | | | 359,007 |
| Hedge funds | | | | 348,322 |
| Real estate | | | | 40,889 |
| Total investments measured at NAV | | | | 748,218 |
| Total assets at fair value | | | | $2,072,760 |

The following is a summary of assets and liabilities recorded at fair value on a recurring basis (no assets or liabilities were assessed on a nonrecurring basis) at December 31, 2016.

| | **Quoted Prices in Active Markets (Level 1)** | **Other Observable Inputs (Level 2)** | **Unobservable Inputs (Level 3)** | **2016 Total** |
|---|---|---|---|---|
| Cash and cash equivalents | $240,035 | $ 65,180 | $ - | $ 305,215 |
| Certificates of deposit | 17,000 | | | 17,000 |
| Equities and exchange traded funds | 416,247 | | | 416,247 |
| Mutual funds | 62,507 | | | 62,507 |
| Government securities | | 261,255 | | 261,255 |
| Asset-backed securities | | 34,267 | | 34,267 |
| Mortgage-backed securities | | 82,824 | | 82,824 |
| Corporate obligations | | 88,726 | | 88,726 |
| Beneficial interest in trusts | | | 9,105 | 9,105 |
| Private capital | | | 7,437 | 7,437 |
| Total marketable investments | $735,789 | $532,252 | $16,542 | 1,284,583 |
| Investments measured at NAV: | | | | |
| Commingled funds | | | | 311,342 |
| Hedge funds | | | | 273,878 |
| Real estate | | | | 38,652 |
| Total investments measured at NAV | | | | 623,872 |
| Total assets at fair value | | | | $1,908,455 |

Information about the System's financial assets and liabilities recorded at fair value and measured on a recurring basis as of December 31, 2017 and 2016, according to the valuation techniques the System used to determine their fair values (there were no assets or liabilities measured on a nonrecurring basis as of December 31, 2017 and 2016), is as follows:

| | **Level 3 Investments** | | |
|---|---|---|---|
| | **Private Equity** | **Trust Interest** | **Total** |
| Balance—January 1, 2016 | $ - | $ 9,105 | $ 9,105 |
| Purchases | 6,959 | | 6,959 |
| Redemptions | | | - |
| Net gain on assets sold in 2016 | | | - |
| Net gain (loss) on assets held at December 31, 2016 | 478 | | 478 |
| Balance—December 31, 2016 | 7,437 | 9,105 | 16,542 |
| Purchases | 14,551 | | 14,551 |
| Redemptions | (1,242) | | (1,242) |
| Net gain on assets sold in 2017 | 72 | | 72 |
| Net gain (loss) on assets held at December 31, 2017 | 2,255 | 1,733 | 3,988 |
| Balance—December 31, 2017 | $ 23,073 | $ 10,838 | $ 33,911 |

Total unfunded private capital commitments are $73,485 and $34,391 as of December 31, 2017 and 2016, respectively.

The table below discloses the nature and risks of investments on which fair value is measured by NAV per share as of December 31, 2017:

| | Fair Value 2017 | Redemption Frequency | Redemption Notice Period | Unfunded Commitments |
|---|---|---|---|---|
| Multistrategy hedge funds[(a)] | $ - | Annually, May 31 | 185 days | N/A |
| Multistrategy hedge funds[(b)] | | Quarterly | 100 days | N/A |
| Emerging Market Equity[(c)] | 33,685 | Quarterly | 92 days | N/A |
| Real estate[(d)] | 40,889 | Quarterly | 90 days | N/A |
| Multistrategy hedge funds[(e)] | 346,645 | Quarterly | 60 days | 16,711 |
| Opportunistic credit fund[(f)] | 64,169 | Quarterly | 60 Days | N/A |
| Multistrategy hedge funds[(g)] | 1,677 | Quarterly | 60 Days | 15,300 |
| Unconstrained global fixed income[(h)] | 62,850 | Monthly | 15 days | N/A |
| Emerging Market Equity[(i)] | 40,522 | Monthly | 10 days | N/A |
| Emerging Market Equity[(j)] | 84,862 | Monthly | 5 days | N/A |
| Master Limited Partnership[(k)] | 45,422 | Weekly | 5 days | N/A |
| Global equity[(l)] | 26,183 | Daily | N/A | N/A |
| US fixed income[(m)] | 1,298 | Daily | N/A | N/A |
| Balanced Fund[(n)] | 16 | Daily | N/A | N/A |
| Replication Portfolio[(o)] | | Daily | N/A | N/A |
| | $748,218 | | | |

(a) This category invested in hedge funds that pursued multiple strategies to diversify risks and reduce volatility. This fund was liquidated as the firm, The Carlyle Group, closed the strategy.

(b) This category invested in hedge funds that pursue multiple strategies to diversify risks and reduce volatility. This strategy was liquidated in the first half of 2017.

(c) This commingled fund invests in US-listed equity securities. The fair values of the investments in this category have been estimated using the NAV per share of the investments, which are determined by the investment manager and fund administrator.

(d) This category's investment strategy is to create a high-quality and low-risk portfolio of stabilized and income-producing real estate assets diversified by property type and economic exposure. Property sector exposure includes apartments, office, retail, self-storage, and industrial. The fair values of the investments in this category have been estimated using the NAV per share of the investments, which are determined by the investment manager and fund administrator.

(e) This category invests in a hedge fund of one strategy that includes investments in underlying hedge funds. The total mandate is split between two distinct strategies of diversified strategies and long/short equity. Quantitative inputs for the underlying portfolio funds are based on valuations supplied by the investment managers or fund administrators of the underlying funds and not by the system. The fair values of the investments in this category have been estimated using the NAV per share of the investments, which are determined by the fund administrator.

(f) This commingled fund invests in many different sub strategies within corporate credit. The composite portfolio's strategies include investments in approximately high yield, bank debt, and distressed credit. Quantitative inputs for these securities are developed by the investment manager and fund administrator. The fair values of the investments in this category have been estimated using the NAV per share of the investments, which are determined by the investment manager and fund administrator.

(g) This commingled invests in the public or structured equity, fixed income, and alternative investment markets across the globe. The fair values of the investments in this category have been estimated using the NAV per share of the investments, which are determined by the fund administrator.

(h) This commingled fund features an unconstrained fixed-income approach that allows it to invest across the spectrum of bonds and currencies. Quantitative inputs for these securities are developed by the investment manager and fund administrator. The fair values of the investments in this category have been estimated using the NAV per share of the investments, which are determined by the investment manager and fund administrator.

(i) This commingled fund invests in US-listed equity securities. The fair values of the investments in this category have been estimated using the NAV per share of the investments, which are determined by the investment manager and fund administrator.

(j) This commingled fund invests in US-listed equity securities. The fair values of the investments in this category have been estimated using the NAV per share of the investments, which are determined by the investment manager and fund administrator.

(k) This commingled fund invests in a diversified portfolio of Master Limited Partnerships and other high yield energy equity securities. The fair values of the investments in this category have been estimated using the NAV per share of the investments, which are determined by the investment manager and fund administrator.

(l) This commingled fund invests in equities that mimic the MSCI World index. The MSCI World Index captures large and mid-cap representation across 23 developed markets countries. The fair values of the investments in this category have been estimated using the NAV per share of the investments, which are determined by the investment manager and fund administrator.

(m) This commingled fund invests in investment grade securities of any maturity. The fair values of the investments in this category have been estimated using the NAV per share of the investments, which are determined by the investment manager and fund administrator.

(n) This commingled fund invests in US-listed equity securities. The fair values of the investments in this category have been estimated using the NAV per share of the investments, which are determined by the investment manager and fund administrator.

(o) This commingled fund was a fund of one portfolio that invested in a target asset allocation strategy to replicate the overall asset allocation of the total portfolio. This strategy was closed in early 2017 and was transferred to a separate account strategy.

The table below discloses the nature and risks of investments on which fair value is measured by NAV per share as of December 31, 2016:

| | Fair Value 2016 | Redemption Frequency | Redemption Notice Period | Unfunded Commitments |
|---|---|---|---|---|
| Multistrategy hedge funds[a] | $ 3,579 | Annually, May 31 | 185 days | N/A |
| Multistrategy hedge funds[b] | 53,635 | Quarterly | 100 days | N/A |
| Emerging Market Equity[c] | 18,599 | Quarterly | 92 days | N/A |
| Private real estate[d] | 38,652 | Quarterly | 90 days | N/A |
| Opportunistic credit fund[e] | 79,413 | Quarterly | 60 days | N/A |
| Multistrategy hedge funds[f] | 216,664 | Quarterly | 60 Days | 77,000 |
| Unconstrained global fixed income[g] | 92,650 | Monthly | 15 days | N/A |
| Emerging Market Equity[h] | 25,744 | Monthly | 10 days | N/A |
| Emerging Market Equity[i] | 55,671 | Monthly | 5 days | N/A |
| Replication Portfolio[j] | 30,328 | Daily | N/A | N/A |
| Global equity[k] | 8,923 | Daily | N/A | N/A |
| Balanced Fund[l] | 14 | Daily | N/A | N/A |
| | $623,872 | | | |

(a) This category invested in hedge funds that pursued multiple strategies to diversify risks and reduce volatility. This fund is currently in liquidation mode as the firm, The Carlyle Group, is closing down the strategy. The proceeds will be used to fund the hedge fund of one strategy in description (f) below.

(b) This category invests in hedge funds that pursue multiple strategies to diversify risks and reduce volatility. The composite portfolio's strategies include investments in approximately 30% long/short equities, 27% distressed debt, 17% asset-backed securities, 13% special situations, and 13% global macro. Quantitative inputs for these securities are developed by the funds of hedge funds manager and not by the System. The fair values of the investments in this category have been estimated using the NAV per share of the investments, which are determined by the fund administrator. A full redemption request of this strategy has been submitted and the proceeds will be used to fund the hedge fund of one strategy in description (f) below.

(c) This commingled fund invests in US-listed equity securities. The fair values of the investments in this category have been estimated using the NAV per share of the investments, which are determined by the investment manager and fund administrator.

(d) This category's investment strategy is to create a high-quality and low-risk portfolio of stabilized and income-producing real estate assets diversified by property type and economic exposure. Property sector exposure includes apartments, office, retail, self-storage, and industrial. The fair values of the investments in this category have been estimated using the NAV per share of the investments, which are determined by the investment manager and fund administrator.

(e) This commingled fund invests in many different sub strategies within corporate credit. The composite portfolio's strategies include investments in approximately 59% high yield, 29% bank debt, 7% cash/other, and 3% distressed credit. The allocations stated above represent the levered exposure and will not add to 100%. Quantitative inputs for these securities are developed by the investment manager and fund administrator, and not by the System. The fair values of the investments in this category have been estimated using the NAV per share of the investments, which are determined by the investment manager and fund administrator.

[f] This category invests in a hedge fund of one strategy that includes investments in underlying hedge funds. The total mandate is split between two distinct strategies of approximately 87% diversified strategies and 13% long/short equity. Quantitative inputs for the underlying portfolio funds are based on valuations supplied by the investment managers or fund administrators of the underlying funds and not by the system. The fair values of the investments in this category have been estimated using the NAV per share of the investments, which are determined by the fund administrator.

[g] This commingled fund features an unconstrained fixed-income approach that allows it to invest across the spectrum of bonds and currencies. The following allocation percentages are the allocation for each individual asset class and do not represent a net exposure for the overall portfolio. The composite portfolio’s exposure to bonds includes approximately 78% to international government/agency bonds, 12% in sovereign bonds, and 6% in cash. Currency exposure includes 84% to the US dollar, 45% to Asia (non-Japan), 37% non-US America, and 9% periphery Europe; short currency positions include (47%) to the euro and (31%) to the Japanese yen. Quantitative inputs for these securities are developed by the investment manager and fund administrator and not by the System. The fair values of the investments in this category have been estimated using the NAV per share of the investments, which are determined by the investment manager and fund administrator.

[h] This commingled fund invests in US-listed equity securities. The fair values of the investments in this category have been estimated using the NAV per share of the investments, which are determined by the investment manager and fund administrator.

[i] This commingled fund invests in US-listed equity securities. The fair values of the investments in this category have been estimated using the NAV per share of the investments, which are determined by the investment manager and fund administrator.

[j] This commingled fund is a fund of one portfolio that invests in a target asset allocation strategy to replicate the overall asset allocation of the total portfolio. The composite portfolio gains access to the required target exposure via derivative instruments. The fair values of the investments in this category have been calculated using the NAV per share of the investments, which are determined by the investment manager and fund administrator.

[k] This commingled fund invests in equities that mimic the MSCI World index. The MSCI World Index captures large and mid-cap representation across 23 developed markets countries. The fair values of the investments in this category have been estimated using the NAV per share of the investments, which are determined by the investment manager and fund administrator.

[l] This commingled fund invests in US-listed equity securities. The fair values of the investments in this category have been estimated using the NAV per share of the investments, which are determined by the investment manager and fund administrator.

The estimated fair value amounts have been determined by the System using available market information and appropriate valuation methodologies. These estimates are subjective in nature and involve uncertainties and matters of considerable judgment. Accordingly, the estimates presented herein are not necessarily indicative of the amounts the System could realize in a current market exchange. The use of different assumptions, judgments, and/or estimation methodologies may have a material effect on the estimated fair value amounts.

**Patient Accounts Receivable, Estimated Third-Party Payor Settlements, and Current Liabilities**—The carrying amounts reported in the consolidated balance sheets approximate the fair value.

**Long-Term Debt**—The fair values of the System's variable-rate debt approximate their carrying values. The fair value of the System's fixed-rate long-term debt is estimated using discounted cash flow analysis based on the System's current incremental borrowing rates for similar types of borrowing arrangements. A significant portion of the inputs used to calculate the fair values of the System's long-term debt is unobservable and cannot be corroborated by observable market data. As a result, all long-term debt would be classified as Level 3.

The carrying and fair values of the System's debt as of December 31, 2017 and 2016, are as follows:

| | 2017 | 2016 |
|---|---|---|
| Carrying value (excluding bond issue costs) | $ 1,634,811 | $ 1,637,771 |
| Fair value | 1,677,361 | 1,622,173 |

## 15. NET ASSETS

**Unrestricted Net Assets**—Changes in consolidated unrestricted net assets attributable to the System and the noncontrolling interest in consolidated subsidiary for the years ended December 31, 2017 and 2016, are as follows:

| | Beaumont Health | Noncontrolling Interests in Consolidated Subsidiary | Total |
|---|---|---|---|
| Unrestricted net assets—January 1, 2016 | $1,727,394 | $10,925 | $1,738,319 |
| Excess of revenues over expenses | 286,700 | (9) | 286,691 |
| Other changes in unrestricted net assets: | | | |
| Pension and other postretirement adjustments | (112,465) | | (112,465) |
| Changes in noncontrolling interests | | (7,295) | (7,295) |
| Net assets released from restrictions—capital acquisitions | 12,587 | | 12,587 |
| Other changes in unrestricted net assets | (3,543) | | (3,543) |
| Increase in unrestricted net assets | 183,279 | (7,304) | 175,975 |
| Unrestricted net assets—December 31, 2016 | 1,910,673 | 3,621 | 1,914,294 |
| Excess of revenues over expenses | 321,582 | 3,910 | 325,492 |
| Other changes in unrestricted net assets: | | | |
| Pension and other postretirement adjustments | 38,560 | | 38,560 |
| Changes in noncontrolling interests | | (2,280) | (2,280) |
| Net assets released from restrictions—capital acquisitions | 11,681 | | 11,681 |
| Other changes in unrestricted net assets | 5,771 | | 5,771 |
| Increase in unrestricted net assets | 377,594 | 1,630 | 379,224 |
| Unrestricted net assets—December 31, 2017 | $2,288,267 | $ 5,251 | $2,293,518 |

## 16. SUBSEQUENT EVENTS

Management has evaluated subsequent events through March 1, 2018, the date the consolidated financial statements were issued. The following subsequent events were noted that require disclosure under FASB ASC 855, *Subsequent Events*.

* * * * * *

# BEAUMONT HEALTH ADDITIONAL INFORMATION

## BEAUMONT HEALTH AND CONSOLIDATED SUBSIDIARIES

### CONSOLIDATING SCHEDULE—BALANCE SHEET INFORMATION
### AS OF DECEMBER 31, 2017
### (In thousands)

| | Obligated | Non Obligated | Eliminations | Consolidated |
|---|---|---|---|---|
| **ASSETS** | | | | |
| CURRENT ASSETS: | | | | |
| Cash and cash equivalents | $ 340,122 | $ 50,343 | $ - | $ 390,465 |
| Short-term investments | | | | - |
| Accounts receivable: | | | | |
| Patients and third-party payors—net of provision for bad debts of $2,997 | 544,175 | 8,756 | | 552,931 |
| Other | 243,960 | (153,507) | (35,871) | 54,582 |
| Estimated third-party payor settlements | 30,344 | (133) | | 30,211 |
| Inventories, prepaid expenses, and other current assets | 101,213 | 3,450 | | 104,663 |
| Current portion—cash, investments, and pledges whose use is limited or restricted | 96,314 | 36,764 | | 133,078 |
| Total current assets | 1,356,128 | (54,327) | (35,871) | 1,265,930 |
| PROPERTY, PLANT, AND EQUIPMENT—Net | 1,931,150 | 59,913 | (39,773) | 1,951,290 |
| INVESTMENTS | 1,568,885 | 40,482 | | 1,609,367 |
| INVESTMENTS IN NONCONSOLIDATED ENTITIES | (7,925) | 24,371 | 12,170 | 28,616 |
| GOODWILL | 12,395 | 1,014 | | 13,409 |
| INTANGIBLES AND OTHER ASSETS—(Intangible assets total $16,449) | 58,898 | 16,901 | (9,525) | 66,274 |
| CASH, INVESTMENTS, AND PLEDGES WHOSE USE IS LIMITED OR RESTRICTED (NET OF CURRENT PORTION): | | | | |
| Board designated | 553 | | | 553 |
| Bond reserve funds | 52,960 | 455 | | 53,415 |
| Professional liability | (2,500) | 77,161 | | 74,661 |
| Deferred compensation and other | 85,969 | 1,501 | | 87,470 |
| Donor-restricted assets | 2,018 | 142,647 | | 144,665 |
| Total cash, investments, and pledges whose use is limited or restricted (net of current portion) | 139,000 | 221,764 | - | 360,764 |
| TOTAL | $5,058,531 | $310,118 | $ (72,999) | $5,295,650 |

(Continued)

Note: Entities included in the Obligated Group reflect their equity interest in Non-Obligated entities on their balance sheet, except for beneficial interest in foundations.

**AS OF DECEMBER 31, 2017**
**(In thousands)**

| | Obligated | Non Obligated | Eliminations | Consolidated |
|---|---|---|---|---|
| **LIABILITIES AND NET ASSETS** | | | | |
| CURRENT LIABILITIES: | | | | |
| Trade accounts payable | $ 179,752 | $ 18,126 | $ (10,043) | $ 187,835 |
| Accrued liabilities: | | | | |
| Employee benefits and payroll-related liabilities | 286,772 | 5,144 | | 291,916 |
| Other | 65,727 | 33,728 | (28,193) | 71,262 |
| Total accrued liabilities | 352,499 | 38,872 | (28,193) | 363,178 |
| Current portion of professional and general liability | 14,154 | 25,586 | (762) | 38,978 |
| Current portion of long-term debt | 51,312 | 2,274 | (2,308) | 51,278 |
| Estimated third-party payor settlements | 70,691 | (81) | | 70,610 |
| Total current liabilities | 668,408 | 84,777 | (41,306) | 711,879 |
| LONG-TERM LIABILITIES (NET OF CURRENT PORTION): | | | | |
| Long-term debt | 1,560,828 | 49,220 | (37,762) | 1,572,286 |
| Professional and general liability | 90,734 | 65,370 | (1,129) | 154,975 |
| Other long-term liabilities | 129,187 | 19,395 | (4,972) | 143,610 |
| Pension liability | 258,717 | | | 258,717 |
| Postretirement benefits other than pensions | 15,118 | | | 15,118 |
| Total long-term liabilities (net of current portion) | 2,054,584 | 133,985 | (43,863) | 2,144,706 |
| Total liabilities | 2,722,992 | 218,762 | (85,169) | 2,856,585 |
| NET ASSETS: | | | | |
| Unrestricted: | | | | |
| Beaumont Health | 2,326,259 | (45,228) | 7,236 | 2,288,267 |
| Noncontrolling interest | 317 | | 4,934 | 5,251 |
| Total unrestricted | 2,326,576 | (45,228) | 12,170 | 2,293,518 |
| Temporarily restricted | 8,963 | 94,604 | | 103,567 |
| Permanently restricted | | 41,980 | | 41,980 |
| Total net assets | 2,335,539 | 91,356 | 12,170 | 2,439,065 |
| TOTAL | $5,058,531 | $310,118 | $ (72,999) | $5,295,650 |

(Concluded)

Note: Entities included in the Obligated Group reflect their equity interest in Non-Obligated entities on their balance sheet, except for beneficial interest in foundations.

## BEAUMONT HEALTH AND CONSOLIDATED SUBSIDIARIES

### CONSOLIDATING SCHEDULE—STATEMENT OF OPERATIONS INFORMATION
### FOR THE YEAR ENDED DECEMBER 31, 2017
### (In thousands)

| | Obligated | Non Obligated | Eliminations | Consolidated |
|---|---|---|---|---|
| REVENUES: | | | | |
| Net patient service revenue | $ 4,280,226 | $ 59,908 | $ (327) | $ 4,339,807 |
| Provision for bad debts | (162,941) | (2,997) | | (165,938) |
| Net patient service revenue less provision for bad debts | 4,117,285 | 56,911 | (327) | 4,173,869 |
| Other operating revenue | 236,909 | 40,091 | (30,559) | 246,441 |
| Income from unconsolidated entities | 1,119 | 6,328 | | 7,447 |
| Net assets released from restrictions—operations | 1,445 | 9,418 | | 10,863 |
| Total revenues | 4,356,758 | 112,748 | (30,886) | 4,438,620 |
| EXPENSES: | | | | |
| Salaries, wages, and benefits | 2,459,855 | 48,481 | (1,539) | 2,506,797 |
| Supplies | 795,058 | 8,362 | (1,148) | 802,272 |
| Purchased services and other expenses | 604,502 | 49,747 | (25,355) | 628,894 |
| Professional liability and general insurance | 21,715 | 3,323 | (2,478) | 22,560 |
| Depreciation and amortization | 247,216 | 7,885 | | 255,101 |
| Interest | 41,649 | 3,824 | (31) | 45,442 |
| Total expenses | 4,169,995 | 121,622 | (30,551) | 4,261,066 |
| OPERATING INCOME (LOSS) BEFORE OTHER ITEMS | 186,763 | (8,874) | (335) | 177,554 |
| OTHER ITEMS: | | | | |
| Asset impairment charges | | | | |
| Pension Exp-Settlement Cost | (23,743) | (1,941) | | (25,684) |
| Total other items | (23,743) | (1,941) | | (25,684) |
| OPERATING INCOME (LOSS) AFTER OTHER ITEMS | 163,020 | (10,815) | (335) | 151,870 |
| NONOPERATING: | | | | |
| Investment income | 161,866 | 21,648 | | 183,514 |
| Pension other Components | | | | |
| Loss on extinguishment of debt | | | | |
| Other—net | (1,106) | (7,834) | (952) | (9,892) |
| Total nonoperating | 160,760 | 13,814 | (952) | 173,622 |
| EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES FROM CONSOLIDATED OPERATIONS | 323,780 | 2,999 | (1,287) | 325,492 |
| INCOME ATTRIBUTABLE TO NONCONTROLLING INTERESTS | | (3,910) | | (3,910) |
| EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES ATTRIBUTABLE TO THE SYSTEM | $ 323,780 | $ (911) | $ (1,287) | $ 321,582 |