March 12, 2018

Financial Highlights for the Year Ending December 31, 2017

Please note, we are providing this unaudited fourth quarter disclosure consistent with the disclosures provided in the first three quarters of our fiscal year. Our audited bondholder package will be available in April upon conclusion of our audit.

Revenues and Expenses

For the year ending December 31, 2017, total revenues grew $97.3 million, or 5%, to $2.2 billion. This increase was due to the growth of patient service revenue before bad debt expense of $104.6 million, or 5%, and an increase in joint venture income of $2.2 million, or 153%, partially offset by an increase in bad debt expense of $8.8 million, or 13%, and a decline in other revenue of $2.7 million, or 6%. When comparing 2017 to 2016, inpatient admissions increased 3,937, or 6%, hospital and total outpatient volumes improved 3%, and physician office visits improved 9%.

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

- Increased volumes (8,796 or 6%) at Norton Cancer Institute (NCI),
- Increased volumes at Norton Women's and Children's Hospital (NWCH) (admissions increased 961, or 6%, outpatient visits increased 7,091, or 10%, inpatient surgeries increased 232, or 8%, and outpatient surgeries increased 366, or 4%) and Norton Brownsboro Hospital (NBH) (admissions increased 889, or 10%, outpatient visits increased 7,346, or 14%, Emergency Department visits increased 1,002, or 3%, outpatient surgeries increased 246, or 5%, and inpatient surgeries increased 217, or 6%),
- Norton Medical Group (NMG) hired additional specialists and primary care physicians and their practice office visits have increased 9%.

Bad debt expense for the year ending December 31, 2017 increased by $8.8 million, or 13%, compared to the prior year but as a percentage of patient service revenue before bad debt expense, has increased slightly.

Other revenue declined $2.7 million, or 6%, due to the receipt of settlement proceeds at Norton Children's Hospital (NCH) in 2016 that did not re-occur in 2017 and lower meaningful use monies at the physician practices, partially offset by increased milestone revenue in the Research Office and technical service revenue at CPA Lab. Joint venture income increased $2.2 million, or 153%, due to improved financial performance of The Regional Health Network of Kentucky and Southern Indiana, LLC partnership with LifePoint Hospitals, Inc.

Please note: In March 2017, the Financial Accounting Standards Board issued ASU 2017-07, *Compensation – Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost* (ASU 2017-07), which changes how employers that sponsor defined benefit pension plans present the net periodic pension cost in the statement of operations. ASU 2017-07 requires employers to present the service cost component of net periodic pension cost in the same statement of operations line item as other employee compensation costs from services rendered during the period. Employers are to present the other components of net periodic pension cost separately from the line item that includes the service cost and outside of operating income. We adopted the provisions of ASU 2017-07 in the first quarter of 2017. The defined benefit pension plan was frozen effective January 1, 2010. As a result no service cost was incurred for the years ending December 31, 2017 and 2016, respectively. The other components of net periodic pension cost were $11.9 million and $5.5 million for the years ending December 31, 2017 and 2016, respectively, and are presented in the line item "net periodic pension cost" included in non-operating gains (losses) section in the combined income statement. The 2016 amounts, which were previously reported in employee benefits, have been reclassified to conform to the 2017 presentation in the combined income statement.

Direct expenses increased $110.9 million, or 6%, compared to the same period in 2016. Major components of this expense growth were:

1. Labor and benefits rose by $42.9 million, or 4%, broken down as follows:

(in millions)	2017	2016	% Change
Salary and Wages	$ 954.2	$ 906.8	5%
Contract Labor	10.2	10.2	-
Benefits	191.9	196.4	(2%)
Total	$1,156.3	$1,113.4	4%

Salary and wages increased at NMG ($20.6 million), the System Office ($7.6 million), NCI ($3.7 million), NBH ($3.3 million), NCH ($3.2 million), Norton Audubon Hospital (Audubon) and NWCH ($2.8 million), and Norton Hospital ($2.3 million). NMG continued to hire additional specialists and primary care providers compared to the prior year. The System Office added positions in their Access Center, Nursing Institute Academic Program, Human Resources, Information Services, Quality Management, Managed Care, and Construction departments. The NCI, NBH, NCH, Audubon, NWCH, and Norton increases were volume related. Additionally, system wide general pay increases were given in the second and third quarters of 2017.

Benefit costs declined due to lower health insurance expense ($11.5 million) partially offset by higher FICA expense ($4.0 million), additional discretionary funding of the employer contributions to the 403(b)/401(k) benefit plans ($1.9 million), increased parental leave expense ($714,000), and increased Norton Scholars expense ($602,000).

2. The increase in professional fees of $5.6 million, or 9%, occurred at Norton ($3.2 million) and NBH ($1.4 million) as they incurred increased costs with their new anesthesia contracts.

3. Drug and supply costs increased $54.9 million, or 13%; $34.7 million in drug expense and $20.2 million in supply expense. The increase in drug expense occurred at NCI ($25.5 million), the Norton Healthcare Pharmacies (Norton Pharmacies) ($2.9 million), NCH ($2.7 million), NMG ($1.4 million) and NWCH ($1.3 million). The NCI, Norton Pharmacies, NCH, and NWCH variances were volume related. Also, in the third quarter NCH began treating patients with spinal muscular atrophy which were treated with a drug that costs $96,000 per dose. NMG incurred increased costs for immunizations. The increase in supply expense occurred primarily at Norton ($6.4 million), NWCH ($5.2 million), NBH ($3.7 million), and Audubon ($2.9 million). Norton's increase occurred in Surgery and Invasive Cardiology where they incurred costs for chargeable supplies, other implants, spine implants, and reagents/chemicals; NWCH's was in Surgery for orthopedic implants, non-chargeable supplies, chargeable supplies, reagents/chemicals, and blood products; NBH's was in Surgery for neurologic implants, orthopedic implants, non-chargeable supplies, and chargeable supplies; and Audubon's was in Surgery, Interventional Radiology, and Invasive Cardiology for chargeable supplies, other implants, and orthopedic implants. These increases were volume related.

4. The increase in fees and special services of $6.0 million, or 5%, occurred at the System Office ($9.7 million) and NMG ($5.5 million) partially offset by a decline at NCH ($13.1 million). The System Office and NMG incurred costs for a productivity and operational efficiency review engagement. Also, the System Office incurred additional costs related to support services for clinical applications, Help Desk, desktop and network support, collection services, cyber security, document imaging, and marketing. In 2016 NCH incurred additional legal fees for the lawsuit with Kosair Charities Committee (KCC). This lawsuit was settled in June 2016 and no legal fees for this lawsuit were incurred in 2017. In addition, beginning in the third quarter of 2016 NCH incurred transition costs relating to the name change of the hospital. These transition costs were not incurred in 2017.

5. Repairs and maintenance increased $3.9 million, or 8%, primarily at the System Office ($3.0 million) as Information Services incurred costs for software licensing and maintenance contracts.

6. Insurance expense declined $7.6 million, or 40%, primarily for self-insured malpractice insurance coverage. Malpractice insurance expense is determined by external actuaries, who calculate funding levels required to cover our malpractice claims. Based on their most recent report, lower funding levels

are necessary due to favorable claims experience, primarily with our large dollar claim settlements, and our removal from most of the lawsuits related in the Infuse spine implant litigation. The result is lower insurance expense.

7. The increase in other expenses of $2.2 million, or 13%, was primarily for program expenses, licenses and fees, property taxes, donated equipment, and sponsorships.

8. All other direct expenses increased by $2.9 million, or 5%. We experienced increases for rents and leases, equipment rent, and utilities.

As a result of greater total direct expense growth than total revenue growth, EBITDA declined from $219.5 million in 2016 to $205.9 million in 2017.

Fixed expenses, which include depreciation and interest expense, increased $6.3 million or 5%, $4.3 million in depreciation expense and $2.0 million in interest expense. The increase in depreciation expense occurred primarily at the System Office ($2.2 million), Audubon ($910,000), Properties ($787,000), NWCH ($684,000), and NMG ($641,000). At the System Office a new laboratory system was purchased and various software packages were upgraded. Audubon and NWCH completed construction projects and made various equipment purchases. These projects/equipment purchases were completed in mid to late 2016 or early 2017 so depreciation expense just started being recorded at various points in time during 2016 but were recorded during the entire year or most of 2017. Properties purchased a building next to the NWCH campus. NMG completed renovation projects on several practice locations and added new practice locations. The increase in interest expense was caused by higher interest on our bonds due to the 2016 bond issuances, partially offset by an increase in capitalized interest, which lowers interest expense.

Patient service margin declined from $94.8 million in 2016 to $75.0 million in 2017, or a decrease of $19.8 million. Increases in salary and wages, drugs, supplies, bad debts, fees/special services, professional fees, depreciation and amortization, repairs and maintenance, other expenses, and interest and a decline in other revenue were partially offset by increased net patient service revenue before bad debt expense and joint venture income and lower insurance and employee benefits.

Investment income was $76.9 million and $36.0 million for the years ending December 31, 2017 and 2016, respectively. This improvement was caused by an increase in unrealized gains on the alternative investment segment of our investment portfolio, increased realized gains, and an increase interest and dividend income partially offset by realized losses on the alternative investment segment of our investment portfolio and increased investment manager fees.

Operating income was $151.9 million in 2017 compared to $130.9 million in 2016. This represents an improvement of $21.0 million and was the result of improved investment results partially offset by lower patient service margin.

Other non-operating revenues and expenses show a gain of $48.2 million in 2017, which is an improvement of $36.3 million from the same period in 2016. Unrealized investment gains totaled $60.0 million and $23.4 million for the years ending December 31, 2017 and 2016, respectively. Market conditions improved significantly in 2017 compared to 2016. In August 2016, we issued three Series 2016 bond offerings. These bond offerings are a combination of variable and fixed rate debt. A portion of the proceeds were used to refund our Series 2006, Series 2011D, and Series 2013B debt. The gain on extinguishment of debt associated with the premium bond issues totaled $5.6 million. There were no bond offerings in 2017. The change in mark to market on the swap agreements improved $466,000 compared to a deterioration of $10.3 million in the years ending December 31, 2017 and 2016, respectively. As discussed in the change in accounting paragraph above, net periodic pension cost was $11.9 million and $5.5 million for the years ending December 31, 2017 and 2016, respectively. Grants awarded by the Petersdorf Fund totaled $300,000 and 804,000 for the years ending December 31, 2017 and 2016, respectively.

Other equity transactions show a gain of $14.1 million and $961,000 for years ending December 31, 2017 and 2016, respectively. In 2017 we received a payment from the KCC for $10.0 million. This payment was a condition of the Settlement Agreement reached between Norton Healthcare and KCC in 2016. This money is to be used for the Imaging Center at NCH. In 2017, restricted contributions ($2.3 million) were used for equipment purchases at NCH, NBH, Norton, and NWCH, for heliport modernization and safety upgrades at NCH, and for office renovations at NMG. In 2016, restricted contributions ($4.6 million) were recorded to close out projects at NWCH for construction in their Intensive Care and Pediatric Emergency Departments, for equipment purchases at NCH, and at NMG for the establishment of a pediatric urology clinic and pediatric orthopedic clinic expansion. In 2017 we recorded a favorable adjustments of $1.8 million to match the pension assets to the funded status of the plan as of December 31, 2017 compared to unfavorable adjustments of $3.6 million in 2016.

Net assets increased by $214.2 million and $143.7 for the years ending December 31, 2017 and 2016, respectively, an improvement of $70.5 million.

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

Working capital increased $88.5 million compared to the prior year end due to increases in marketable securities and other investments, patient accounts receivable, and prepaid expenses and a decline in accrued expenses and other partially offset by a decrease in cash and cash equivalents and current portion of assets limited as to use and an increase in accounts payable. Although our cash balance declined $39.2 million, not all of this activity impacted working capital as funds ($105.0 million) were transferred to marketable securities and other investments. Taking this into account, our total cash position improved during 2017.

Significant items impacting cash were:

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

which were partially offset by:

- Payments made for trade payables, payroll and related taxes, and provider taxes,
- Purchase of capital assets,
- Transfer of funds to marketable securities,
- Employer contributions to the 403(b) and 401(k) savings plans,
- Bond principle deposits,
- Funding the semi-annual interest payments on our debt,
- Transfer of funds to restricted assets to match the settlement payment received from KCC.

The increase in patient receivables was due to higher net patient service revenue before bad debt expense the last quarter of 2017 compared to the same period in 2016. Prepaid expenses increased as we made an additional payment to increase our pharmacy deposit. Accrued expenses and other declined due to reductions in: physician reimbursement accruals, current portion of malpractice insurance liability, and health insurance accrual. The decrease in current portion of assets limited as to use was due a reduction in the malpractice insurance trust assets. The increase in accounts payable was due to timing.

Cash and investments available for debt service increased $186.4 million, as follows:

(in millions)	12/31/2017	12/31/2016	Change
Operating Cash	$ 122.7	$ 162.0	$(39.3)
Marketable Securities	124.8	18.8	106.0
Board Designated Funds	1,140.8	1,012.3	128.5
Bond Trustee Funds	21.6	30.4	(8.8)
Total	$1,409.9	$1,223.5	$186.4

This increase was caused by positive cash flows generated from operations, reimbursement of capital projects from bond proceeds, and favorable investment results partially offset by spending on capital projects. As a result, consolidated days of cash on hand increased to 254 at December 31, 2017 from 234 at December 31, 2016.

Accounts receivable days outstanding increased from 42.6 as of December 31, 2016 to 42.7 as of December 31, 2017 due to higher net patient service revenue before bad debt expense the last quarter of 2017 compared to the same period in 2016.

The increase in assets limited by Board of Trustees was due to favorable investment results. The decrease in assets limited by Bond Indenture Trust were the result of reimbursement of capital projects from bond proceeds and funding a portion of the October 1st bond principle payment, partially offset by favorable investment results. The decline in assets limited by Self Insurance Trust was caused by claims payments, partially offset by favorable investment results and a contribution to the trust. Restricted Funds increased due the receipt of a settlement payment from KCC, discussed in the other equity transaction section above, which was matched by Norton Healthcare and favorable investment results.

Property and equipment increased $80.8 million to $878.3 million. This was the result of capital spending, primarily for: construction at Audubon, energy savings initiatives at Audubon, design fees at NCH, construction at NWCH, EPIC system upgrade, a new laboratory system, equipment purchases at NCI and the hospitals, and construction projects at several physician practices partially offset by depreciation.

The increase in other assets of $4.7million was caused by the vendor incentive with Premier partially offset by a decline in long-term pledges receivable, net of discount.

Other non-current liabilities increased $1.9 million due to accruals made to the pension plan to record net periodic pension cost partially offset by adjustments to match the pension asset to the funded status of the plan, accruals recorded to the deferred compensation plan, and accounting for construction costs on a new medical office building partially offset by malpractice claims payments, net of accruals.

Total debt decreased $32.1 million due to payments made on the debt partially offset by amortization of bond discounts and bond issue costs.

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

Sincerely,

Adam D. Kempf

Adam D. Kempf
Senior Vice President and Chief Financial Officer

BOND HOLDER PACKET

NORTON HEALTHCARE, INC.

UNAUDITED

FINANCIAL STATEMENTS

December 31, 2017

Norton Healthcare, Inc.
Financial Statements

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Report Generation

NORTON HEALTHCARE, INC.
Combined Income Statement vs Prior Year - Quarterly - Dollars in Thousands
for ** Consolidated Level Range **
December 31, 2017

03/09/18
12:09
ISCQTRROUOLD

	Quarter Ending 12/31/17	Quarter Ending 12/31/16	Quarter Ending Variance	Year to Date 12/31/17	Year to Date 12/31/16	Year to Date Variance
Pt Serv Rev before Bad Deb	583,192	541,852	41,340	2,211,840	2,107,214	104,626
Provision for Bad Debt	(18,323)	(10,117)	(8,206)	(75,897)	(67,088)	(8,809)
Net Patient Service Revenu	564,869	531,735	33,134	2,135,943	2,040,126	95,817
Other Revenue	11,035	14,138	(3,103)	38,811	41,482	(2,671)
Donations & Contributions	4,938	4,373	565	12,610	10,624	1,986
Joint Venture Results	411	5	406	756	(1,433)	2,189
Total Net Revenue	581,253	550,251	31,002	2,188,120	2,090,799	97,321
Expenses						
Salary and Wages	249,178	235,737	(13,441)	954,242	906,747	(47,495)
Contract Labor	2,246	2,332	86	10,194	10,226	32
Employee Benefits	42,781	45,244	2,463	191,874	196,410	4,536
Professional Fees	17,169	17,213	44	69,350	63,759	(5,591)
Drugs	51,192	39,620	(11,572)	186,960	152,246	(34,714)
Supplies	73,905	70,312	(3,593)	287,093	266,930	(20,163)
Fees, Special Services	42,456	33,362	(9,094)	120,636	114,658	(5,978)
Repairs and Maintenance	13,808	12,020	(1,788)	53,057	49,129	(3,928)
Equipment Rent	2,079	1,886	(193)	7,476	6,534	(942)
Rents and Leases	6,456	6,587	131	27,858	26,442	(1,416)
Utilities	5,494	5,519	25	22,154	21,586	(568)
Insurance	(6,016)	2,749	8,765	11,517	19,070	7,553
Provider Tax	5,032	5,032	0	20,130	20,130	0
Other	6,613	6,533	(80)	19,685	17,479	(2,206)
Subtotal Direct Expenses	512,393	484,146	(28,247)	1,982,226	1,871,346	(110,880)
EBITDA	68,860	66,105	2,755	205,894	219,453	(13,559)
Fixed Expenses						
Depreciation & Amortizat	23,091	22,581	(510)	90,890	86,570	(4,320)
Interest Expense	9,944	10,415	471	40,006	38,063	(1,943)
Patient Service Margin	35,825	33,109	2,716	74,998	94,820	(19,822)

Report Generation

NORTON HEALTHCARE, INC. 03/09/18
Combined Income Statement vs Prior Year - Quarterly - Dollars in Thousands 12:09
for ** Consolidated Level Range ** ISCQTRROUOLD
December 31, 2017

	Quarter Ending			Year to Date		
	12/31/17	12/31/16	Variance	12/31/17	12/31/16	Variance
Investment Income (Loss)	29,980	14,567	15,413	76,914	36,046	40,868
Operating Income (Loss	65,805	47,676	18,129	151,912	130,866	21,046
Non-Operating Rev (Exp)						
Chg in Unreal G/(L) in I	7,256	(2,832)	10,088	60,016	23,373	36,643
Other Non-Operating Reve	(89)	(512)	423	(80)	5,116	(5,196)
Chg in Fair Value of Swa	(309)	(8,545)	8,236	466	(10,289)	10,755
Net Periodic Pension Cos	(1,758)	(1,574)	(184)	(11,925)	(5,524)	(6,401)
James R. Petersdorf Fund		245	(245)	(300)	(804)	504
Total Non-Operating Rev (	5,100	(13,218)	18,318	48,177	11,872	36,305
Excess Rev Over Exp	70,905	34,458	36,447	200,089	142,738	57,351
Other Equity Transactions	2,994	5,321	(2,327)	14,093	961	13,132
Inc(Decr) in Net Assets	73,899	39,779	34,120	214,182	143,699	70,483
STATISTICS:						
Admissions	18,602	17,573	1,029	72,126	68,189	3,937
Adjusted Admissions	41,816	38,188	3,628	159,427	148,209	11,218
Patient Days	92,447	92,828	(381)	367,462	362,203	5,259
Adjusted Patient Days	207,815	201,725	6,090	812,238	787,252	24,986
O/P Visits (Excl ER & OP S	135,158	128,263	6,895	536,783	508,353	28,430
E/R Visits	64,082	61,327	2,755	245,652	246,963	(1,311)
Outpatient Surgery	8,900	9,178	(278)	34,995	35,415	(420)
Inpatient Surgery	5,238	5,131	107	20,881	20,391	490
Deliveries	1,949	1,814	135	7,712	7,932	(220)
Clinic/Phys Visits	547,324	497,998	49,326	2,114,569	1,937,380	177,189
Acute LOS	4.97	5.28	(0.31)	5.09	5.31	(0.22)
FTE	12,360.1	11,924.0	(436.1)	12,205.8	11,714.4	(491.4)
FTE/AOB	5.47	5.44	(0.03)	5.49	5.43	(0.06)
wRVUs	1,083,965	1,061,177	22,788	4,194,538	4,093,478	101,060
Observation Cases	6,468	6,874	(406)	25,902	26,952	(1,050)

NORTON HEALTHCARE INC. 03/06/18
Combined Balance Sheets 13:20
In Thousands BS-CMB-BRD

	December 2017	December 2016	Increase (Decrease)	%
Assets				
Current Assets				
Cash and Cash Equivalents	122,747	161,959	(39,212)	(24)
Mkt Securities & Other Inv	124,792	18,844	105,948	562
Gross A/R (Net of CA's)	370,635	338,401	32,234	10
Allowances for Bad Debt	(106,890)	(90,716)	(16,174)	18
Net A/R	263,745	247,686	16,059	6
Miscellaneous Receivables	20,528	18,751	1,777	9
CP Assets Limited to Use	24,729	28,319	(3,590)	(13)
Inventories	50,417	49,756	661	1
Prepaid Expenses	36,648	29,589	7,059	24
Total Current Assets	643,605	554,904	88,702	16
Assets Limited as to Use				
By Board of Directors	1,140,784	1,012,307	128,477	13
By Bond Indenture Trust	135,580	258,158	(122,578)	(47)
By Self Insurance Trust	91,392	109,188	(17,796)	(16)
Restricted Funds	85,513	59,428	26,085	44
Total Assets Limited as to Use	1,453,269	1,439,081	14,188	1
Net Property Plant & Equipmt	878,268	797,427	80,842	10
Other Assets:				
Investments in Joint Ventur	63,705	54,559	9,146	17
Beneficial Int. in Outsd Tr	23,125	20,313	2,812	14
Goodwill & Net Intang Assets	20,626	20,735	(109)	(1)
Other	47,997	55,127	(7,130)	(13)
Total Other Assets	155,453	150,734	4,719	3
Total Assets	3,130,595	2,942,145	188,450	6

Report Generation

NORTON HEALTHCARE INC. 03/06/18

Combined Balance Sheets 13:20

In Thousands BS-CMB-BRD

	December 2017	December 2016	Increase (Decrease)	%
Liabilities and Net Assets				
Current Liabilities:				
Accounts Payable	78,284	66,576	11,708	18
Grants Payable	1,031	1,641	(610)	(37)
Accrued Expense & Other	74,487	83,369	(8,882)	(11)
Accrued Payroll Items	159,882	161,489	(1,607)	(1)
Due to Third-Party Payors	32,107	33,470	(1,363)	(4)
Accrued Interest	8,587	8,587		
Current Portion LT Debt	37,266	36,288	978	3
Total Current Liabilities	391,644	391,419	225	
Other Noncurrent Liabilities:				
Pension	66,702	56,416	10,286	18
Insurance Liability	87,018	109,054	(22,036)	(20)
Other	79,350	65,653	13,697	21
Total Other Noncurrent liabil	233,070	231,123	1,946	1
Total Long-term Debt	1,099,213	1,132,251	(33,039)	(3)
Net Assets:				
Unrestricted	1,287,206	1,073,028	214,178	20
Temporarily Restricted	78,277	76,160	2,117	3
Permanently Restricted	41,186	38,163	3,023	8
Total Net Assets	1,406,669	1,187,351	219,318	18
Total Liablities & Net Assets	3,130,595	2,942,145	188,450	6

NORTON HEALTHCARE INC. 03/06/18

Combined Balance Sheets 13:20

In Thousands BS-CMB-BRD

	December 2017	December 2016	Increase (Decrease)	%
Net Assets:				
UNRESTRICTED				
Fund Balance-Unrestricted	427,145	419,405		
RETAINED EARNINGS	645,883	509,924		
Retained Earnings-Undist	214,178	143,699		
Total Unrestricted	1,287,206	1,073,028		
TEMPORARILY RESTRICTED				
Fund Balance-Temporarily Restr	76,160	71,554		
Contributions & Grants	5,140	12,479		
Bequests	434			
Raffle Fundraising	22	18		
Special Event Costs	(550)	(708)		
Investment Income	3,159	1,540		
Inc Dist fr Trust/Change in BI	868	865		
Assets Released-Programs/Asst.	(5,941)	(4,710)		
Assets Relsd-PP&E/Time Restr	(2,818)	(5,190)		
Unrealized Gain/Loss	2,469	919		
Fdtn OH Expense Alloc	(666)	(652)		
Transfer to/from Affiliates		81		
Total Temporarily Restricted	78,277	76,160		
PERMANENTLY RESTRICTED				
Fund Balance--Permanently Rest	38,163	37,903		
Contributions & Grants	645	31		
Investment Income	95	36		
Beneficial Interest Trust Chan	2,198	241		
Unrealized Gain/Loss (Perm Res	85	32		
Transfer to/from Affiliates		(81)		
Total Permanently Restricted	41,186	38,163		
TOTAL NET ASSETS	1,406,669	1,187,351		

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

	Year Ended December 31, 2017	Year Ended December 31, 2016
Operating Activities		
Change in unrestricted net assets	214,178	143,861
Change in temporarily restricted net assets	2,117	4,816
Change in permanently restricted net assets	3,023	260
Change in net assets	219,318	148,936
Adjustments to reconcile change in net assets to net cash provided by operating activities and nonoperating gains and lossses - net:		
Depreciation and amortization	90,890	86,570
Discount accretion	3,277	6,412
Change in net unrealized gains and losses on investments	(62,570)	(24,325)
Change in interest rate swap value	(466)	10,289
Change in pension plan assets and obligation	(1,769)	3,625
Gain on debt refinancing	-	(5,644)
Restricted contributions and investment income	(22,014)	(14,676)
Changes in operating assets and liabilities:		
Change in patient accounts receivable, net of provision for doubtful accounts	(16,059)	(5,458)
Change in assets limited as to use, net	51,972	(540,010)
Change in amounts due to third-party payors	(1,363)	7,821
Change in other current and noncurrent assets and liabilities	(113,930)	44,553
Cash flow from operating activities	147,286	(281,906)
Investing Activities		
Purchase of property and equipment, net	(171,732)	(119,891)
Change in joint ventures and other	(9,146)	(5,515)
Cash flow from investing activities	(180,878)	(125,406)
Financing Activities		
Increase in long-term debt	8,653	717,502
Principal payments on long-term debt	(36,288)	(30,282)
Payment on 2006 bonds	-	(310,619)
Payment on 2011D & 2013B	-	(100,075)
Cost of long-term debt issuances	-	(4,566)
Restricted contributions and investment income	22,014	14,676
Cash flow from financing activities	(5,621)	286,637
Change in cash and cash equivalents	(39,213)	(120,675)
Cash and cash equivalents at beginning of year	161,959	282,634
Cash and cash equivalents at end of month	122,747	161,959

Report Generation

NORTON HEALTHCARE, INC. 02/26/18 09:48
Combining Income Statement By Legal Entity Dollars in Thousands ISCMBYTDROUN
December 31, 2017 YEAR TO DATE

	Norton System Office	Norton Hospitals Inc.	CMA	Norton Properties Inc.	Norton Enterprises Inc.	Children's Hospital Foundation	Norton Healthcare Foundation	Eliminations	Combined Total
Pt Serv Rev before Bad Debt		1,860,275	330,653		32,817			(11,904)	2,211,841
Provision for Bad Debt	(537)	(61,722)	(10,340)		(3,299)				(75,898)
Net Patient Service Revenue	(537)	1,798,553	320,313		29,518			(11,904)	2,135,943
Other Revenue	11,182	11,777	26,160	40,437	7,114	506	841	(59,206)	38,811
Donations & Contributions	738	8,697	940		1	11,084	4,347	(13,198)	12,609
Joint Venture Results	236	2,557			(2,037)				756
Total Net Revenue	11,619	1,821,584	347,413	40,437	34,596	11,590	5,188	(84,308)	2,188,119
Expenses									
Salary and Wages	123,374	515,810	298,613	585	14,151	1,509	341	(140)	954,243
Contract Labor	552	8,090	662	224	666				10,194
Employee Benefits	27,526	119,208	41,976	473	2,364	284	44		191,875
Professional Fees	684	71,435	1,722			64		(4,556)	69,349
Drugs	145	174,901	11,844		70				186,960
Supplies	(628)	268,866	12,100	91	5,990	334	340		287,093
Fees, Special Services	55,853	57,113	17,370	1,037	8,165	1,040	606	(20,547)	120,637
Repairs and Maintenance	39,272	12,111	427	1,205	42				53,057
Equipment Rent	529	5,717	1,133	14	64	14	5		7,476
Rents and Leases	7,418	16,688	21,026	27,605	603	92	31	(45,604)	27,859
Utilities	2,346	14,706	3,322	1,552	216	11	2		22,155
Insurance	(60)	6,476	4,577	53	130	234	107		11,517
Provider Tax		20,130							20,130
Other	5,744	5,168	4,452	610	549	13,083	3,541	(13,461)	19,686
Management Fee	(157,639)	152,902	1,540	389	2,808				
Subtotal Direct Expenses	105,116	1,449,321	420,764	33,838	35,818	16,665	5,017	(84,308)	1,982,231
EBITDA	(93,497)	372,263	(73,351)	6,599	(1,222)	(5,075)	171		205,888
Fixed Expenses									
Depreciation & Amortization	20,213	59,358	4,760	6,273	275	9	2		90,890
Interest Expense	(5,651)	41,287		3,009	1,359	1			40,005
Patient Service Margin	(108,059)	271,618	(78,111)	(2,683)	(2,856)	(5,085)	169		74,993

NORTON HEALTHCARE, INC. 02/26/18 09:48
Combining Income Statement By Legal Entity Dollars in Thousands
December 31, 2017 YEAR TO DATE ISCMBYTDROUN

	Norton System Office	Norton Hospitals Inc.	CMA	Norton Properties Inc.	Norton Enterprises Inc.	Children's Hospital Foundation	Norton Healthcare Foundation	Eliminations	Combined Total
Investment Income (Loss)	73,892					2,798	223		76,913
Operating Income (Loss)	(34,167)	271,618	(78,111)	(2,683)	(2,856)	(2,287)	392		151,906
Non-Operating Rev (Exp)									
Change in Unreal G/(L) Inv	57,876					1,955	185		60,016
Other Non-Operating Revenue		5	(48)		(37)				(80)
Chg in Fair Value of Swap	466								466
Net Periodic Pension Cost	(11,925)								(11,925)
James R. Petersdorf Fund	(348)		48						(300)
Total Non-Operating Rev (Exp)	46,069	5			(37)	1,955	185		48,177
Excess Rev Over Exp	11,902	271,623	(78,111)	(2,683)	(2,893)	(332)	577		200,083
Other Equity Transactions	1,229	11,789	365			748	(38)		14,093
Inc(Decr) in Net Assets	13,131	283,412	(77,746)	(2,683)	(2,893)	416	539		214,176
STATISTICS:									
Admissions - Acute		72,126							72,126
Patient Days - Acute		367,462							367,462
O/P Visits (Excl ER & OP Surg)		536,783							536,783
E/R Visits		245,652							245,652
Outpatient Surgery		34,995							34,995
Inpatient Surgery		20,881							20,881
Deliveries		7,712							7,712
Clinic/Phys Visits		108,579	1,997,211		8,779				2,114,569
wRVUs			3,657,207		5,676				3,662,883
Observation Cases		25,902							25,902

NORTON HEALTHCARE, INC. 03/09/18 11:31
Combining Balance Sheet By Legal Entity Dollars in Thousands B-COMBROUOLD
To Date Ending December 31, 2017

	Norton System Office	Norton Hospitals Inc.	CMA	Norton Properties Inc.	Norton Enterprises Inc.	Chidren's Hospital Foundation	Norton Healthcare Foundation	Eliminations	Combined Total
Assets									
Current Assets									
Cash and Cash Equivalents	121,762	9	591		46	335	3		122,746
Mkt Securities & Other Inv	124,792								124,792
Gross A/R (Net of CA's)	(37)	320,648	38,166		11,859				370,635
Allowances for Bad Debt		(92,777)	(10,291)		(3,823)				(106,891)
Net A/R	(37)	227,872	27,875		8,036				263,745
Miscellaneous Receivables	10,556	552	83			3,777	5,560		20,528
CP Assets Limited to Use	24,729								24,729
Inventories	794	48,251	274		988	39	70		50,416
Prepaid Expenses	31,526	2,090		2,881	35	116			36,648
Total Current Assets	314,121	278,774	28,823	2,881	9,105	4,268	5,633		643,605
Assets Limited as to Use									
By Board of Directors	1,103,039					34,176	3,569		1,140,784
By Bond Indenture Trust	135,580								135,580
By Self Insurance Trust	91,392								91,392
Restricted Funds	30,869					28,281	26,363		85,513
Total Assets Limited as to Use	1,360,879					62,458	29,932		1,453,269
Net Property Plant & Equipmt	93,448	673,568	31,101	79,659	441	51			878,268
Other Assets:									
Other Receivables from Affi	(703,238)	1,264,938	(491,333)	(32,718)	(37,264)	(520)	135		
Investments in Joint Ventur	790	47,343			28,414			(12,842)	63,705
Beneficial Int. in Outsd Tr						15,472	7,652		23,124
Goodwill & Net Intang Assets		7,446	3,503		9,677				20,626
Other	25,292			4		15,866	6,834		47,936
Total Other Assets	(677,155)	1,319,728	(487,831)	(32,714)	827	30,818	14,622	(12,842)	155,453
Total Assets	1,091,293	2,272,070	(427,906)	49,826	10,373	97,595	50,187	(12,842)	3,130,595

Report Generation

NORTON HEALTHCARE, INC. 03/09/18
Combining Balance Sheet By Legal Entity Dollars in Thousands B-COMBROUOLD 11:31
To Date Ending December 31, 2017

	Norton System Office	Norton Hospitals Inc.	CMA	Norton Properties Inc.	Norton Enterprises Inc.	Chidren's Hospital Foundation	Norton Healthcare Foundation	Eliminations	Combined Total
Liabilities and Net Assets									
Current Liabilities:									
Accounts Payable	17,429	57,005	2,252	656	858	54	31		78,285
Grants Payable	1,031								1,031
Accrued Expense & Other	38,460	29,249	5,184	97	636	851	10		74,487
Accrued Payroll Items	135,799	4,750	19,034		299				159,882
Due to Third-Party Payors		32,107							32,107
Accrued Interest	8,587								8,587
Current Portion LT Debt	33,835			3,431					37,266
Total Current Liabilities	235,141	123,111	26,470	4,184	1,793	905	41		391,644
Other Noncurrent Liabilities:									
Pension	66,702								66,702
Insurance Liability	87,018								87,018
Other	53,732	7,439		13,770		2,212	2,197		79,350
Total Other Noncurrent liabil	207,452	7,439		13,770		2,212	2,197		233,070
Total Long-term Debt	1,061,932			37,281					1,099,213
Net Assets:									
Unrestricted	(413,519)	2,134,594	(454,769)	(5,414)	8,580	28,609	1,966	(12,842)	1,287,205
Temporarily Restricted	287	6,926	394	4		42,869	27,798		78,278
Permanently Restricted						23,000	18,185		41,185
Total Net Assets	(413,232)	2,141,520	(454,376)	(5,409)	8,580	94,478	47,949	(12,842)	1,406,669
Total Liablities & Net Assets	1,091,293	2,272,070	(427,906)	49,826	10,373	97,595	50,187	(12,842)	3,130,595

Report Generation

NORTON HEALTHCARE, INC.
Combining Balance Sheet By Legal Entity
Changes in Net Assets
To Date Ending December 31, 2017

03/09/18
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B-COMBROUOLD

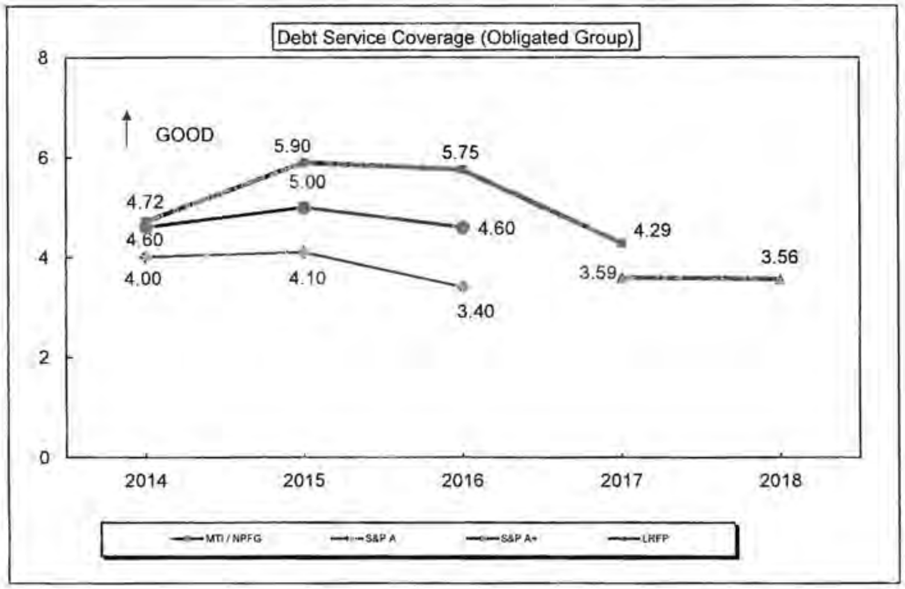
	Norton System Office	Norton Hospitals Inc.	CMA	Norton Properties Inc.	Norton Enterprises Inc.	Children's Hospital Foundation	Norton Healthcare Foundation	Eliminations	Combined Totals
Net Assets:									
UNRESTRICTED									
Fund Balance-Unrestricted	(99,361)	465,965	(6,207)	25,465	3,610	33,207	5,636	(1,171)	427,144
Capital Stock					1			(1)	
Contributed Capital					12,841			(12,841)	
RETAINED EARNINGS	(327,289)	1,385,215	(370,817)	(28,197)	(4,976)	(5,011)	(4,212)	1,171	645,884
Retained Earnings-Undist	13,131	283,414	(77,745)	(2,682)	(2,895)	413	541		214,177
Total Unrestricted	(413,519)	2,134,594	(454,769)	(5,414)	8,580	28,609	1,966	(12,842)	1,287,206
TEMPORARILY RESTRICTED									
Fund Balance-Temporarily Restr	162	5,116	1,157			39,153	30,571		76,159
Contributions & Grants	610	7,509	443	4		7,993	(3,142)	(8,276)	5,141
Bequests							434		434
Raffle Fundraising						6	16		22
Special Event Costs						(525)	(25)		(550)
Investment Income						1,593	1,566		3,159
Inc Dist fr Trust/Change in BI						529	338		867
Assets Released-Programs/Asst.	(358)	(3,606)	(832)			(3,528)	(1,992)	4,375	(5,941)
Assets Relsd-PP&E/Time Restr	(90)	(1,883)	(374)			(3,314)	(1,057)	3,902	(2,816)
Unrealized Gain/Loss--Temp Res						1,131	1,338		2,469
Fdtn OH Expense Alloc						(425)	(241)		(666)
Transfer to/from Affiliates	(36)	(210)				255	(9)		
Total Temporarily Restricted	287	6,926	394	4		42,869	27,798		78,277
PERMANENTLY RESTRICTED									
Fund Balance--Permanently Rest						21,221	16,942		38,163
Contributions & Grants						29	616		645
Investment Income						95			95
Beneficial Interest Trust Chan						1,570	628		2,198
Unrealized Gain/Loss (Perm Res						85			85
Total Permanently Restricted						23,000	18,185		41,186
TOTAL NET ASSETS	(413,232)	2,141,520	(454,376)	(5,409)	8,580	94,478	47,949	(12,842)	1,406,669

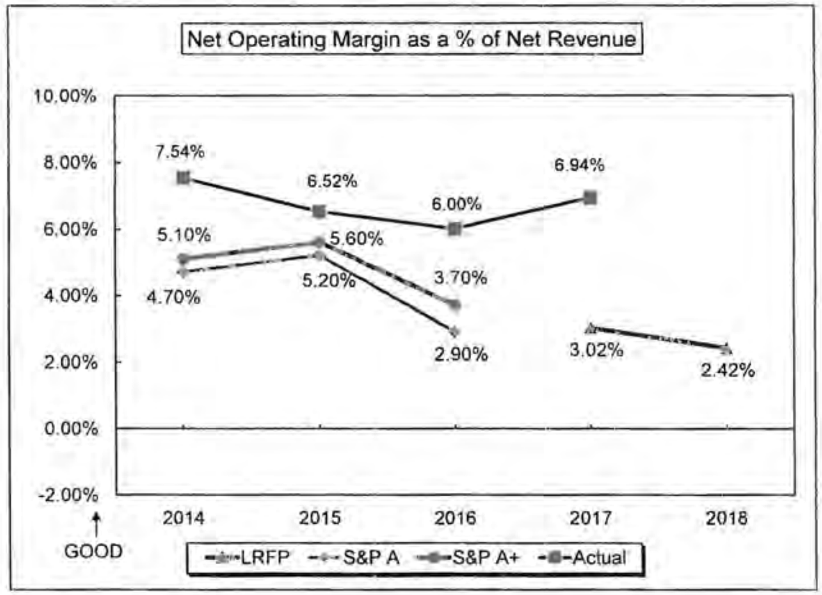
NORTON HEALTHCARE

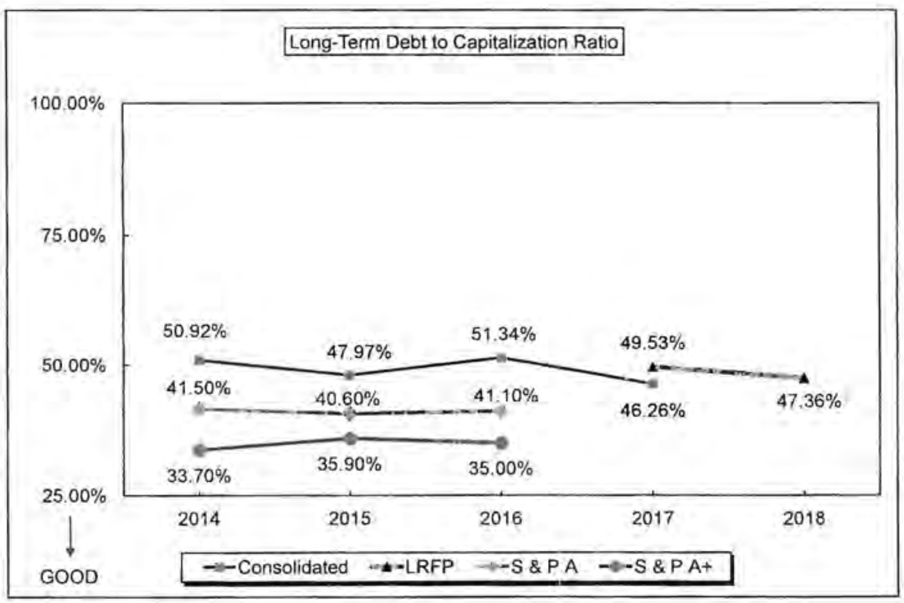
Key Long-Term Financial Indicators

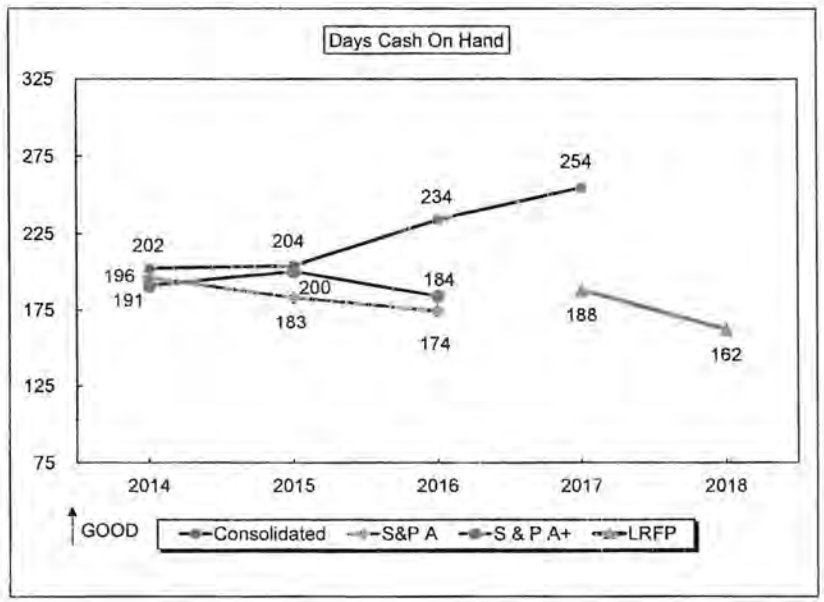
December 31, 2017

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



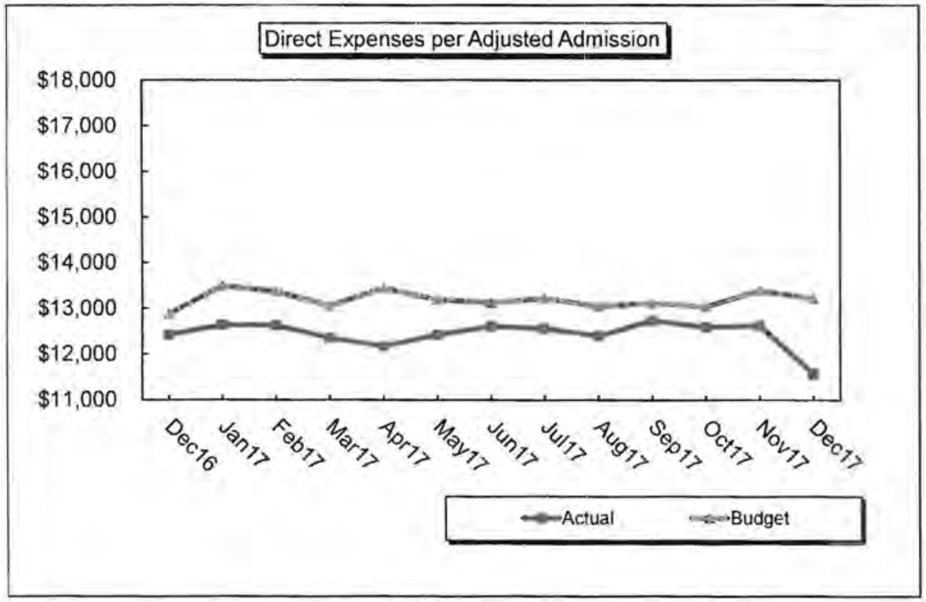


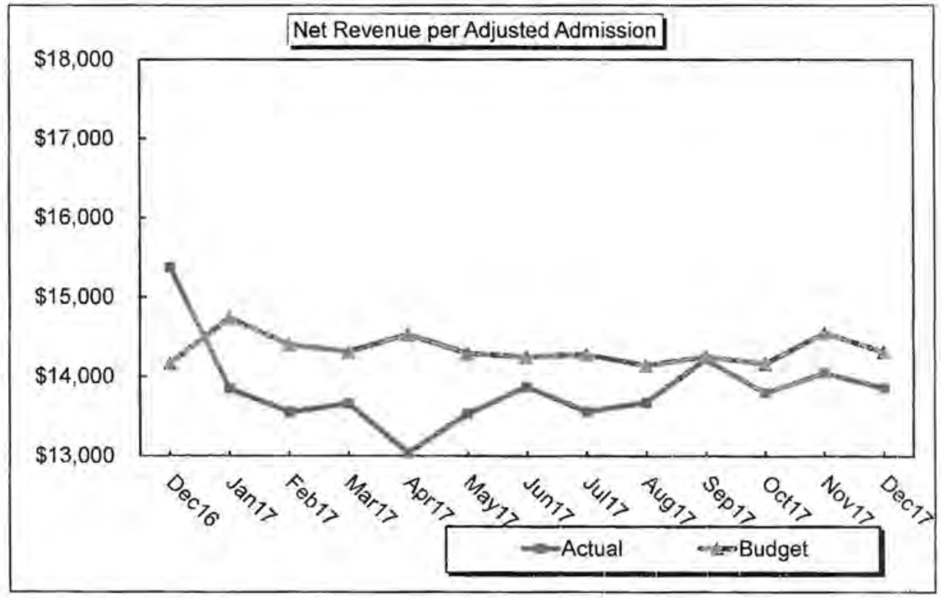


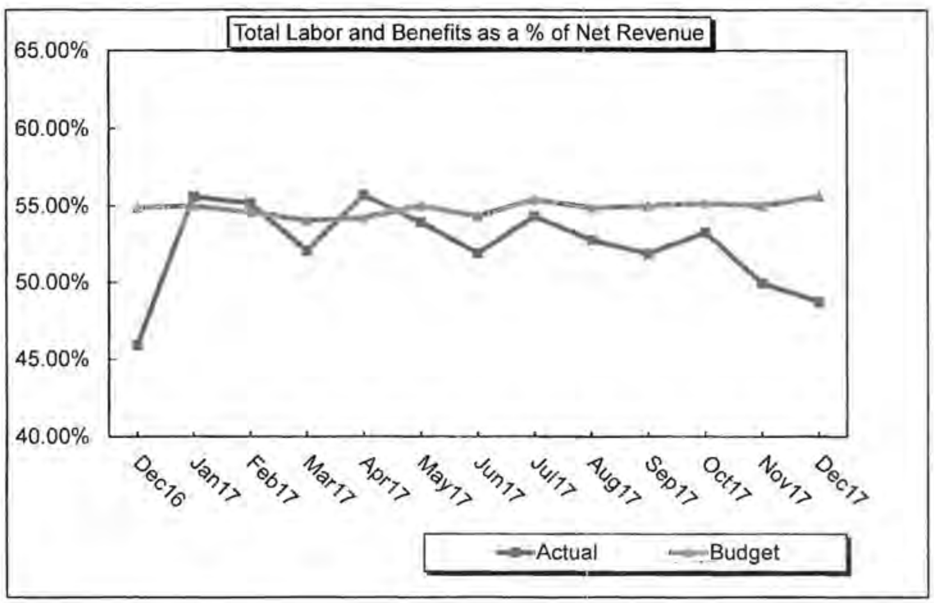


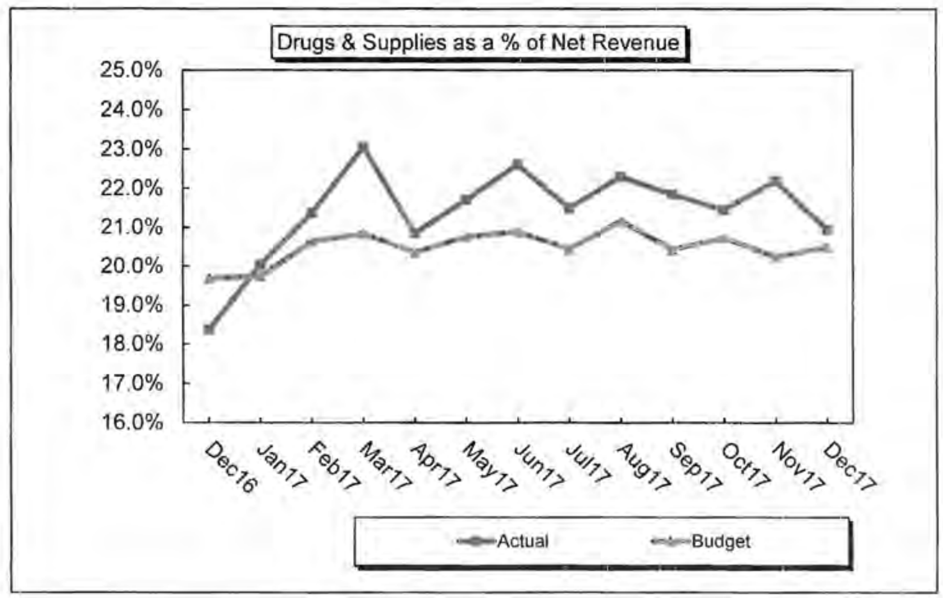
NORTON HEALTHCARE

Key Statistical Financial Indicators
December 31, 2017





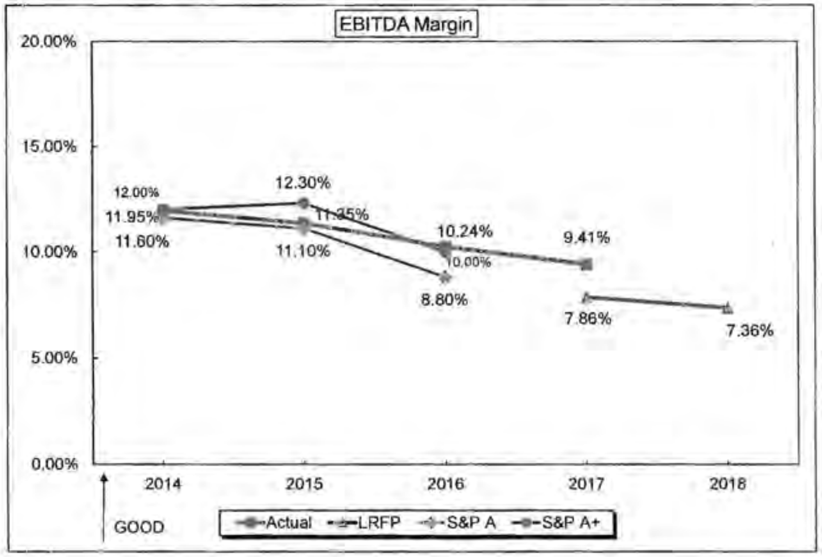


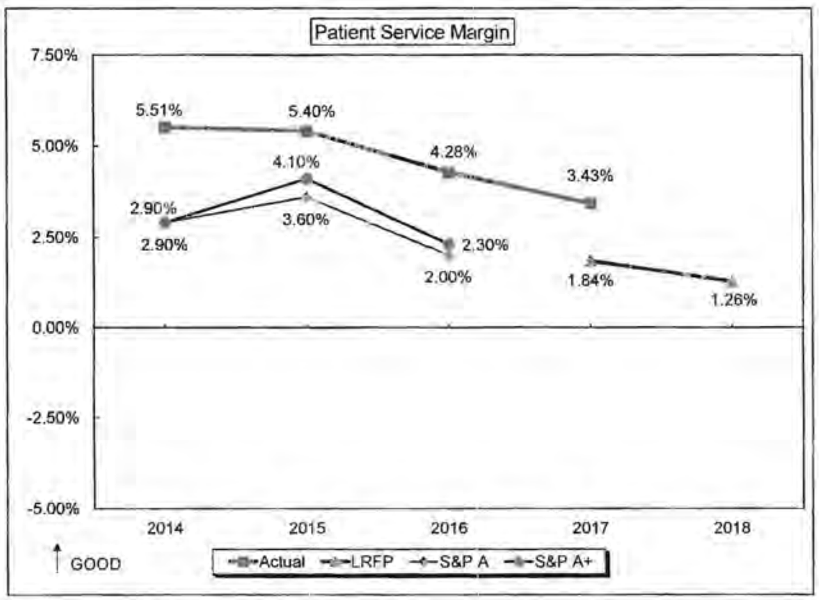


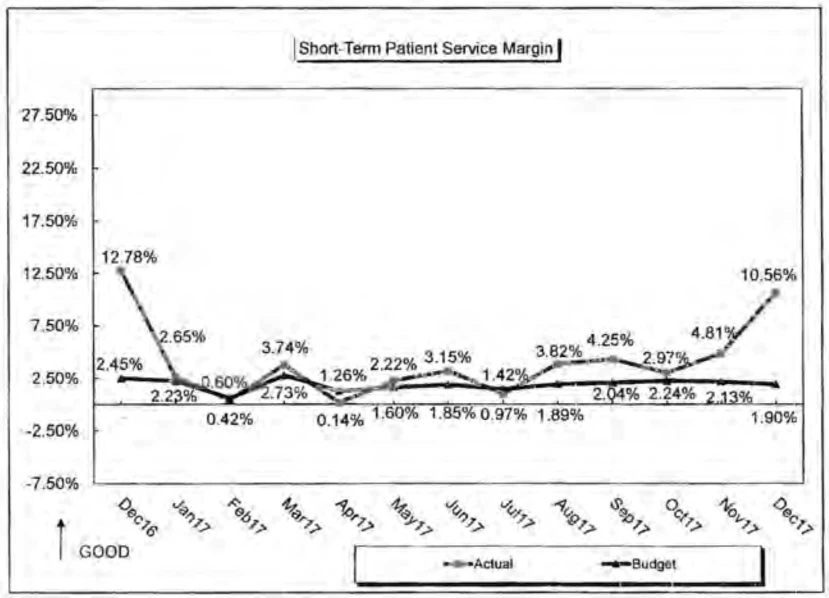
NORTON HEALTHCARE

Key Operating Margin Financial Indicators
December 31, 2017

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

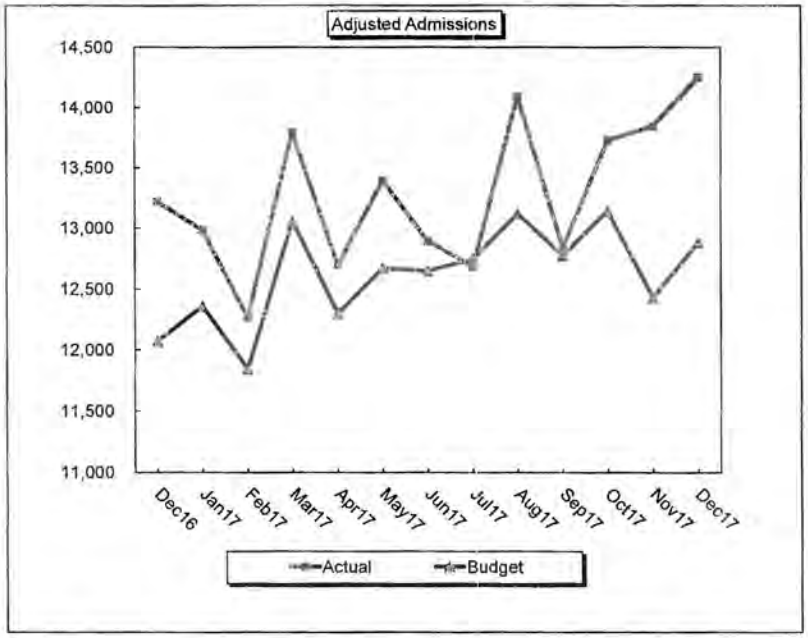


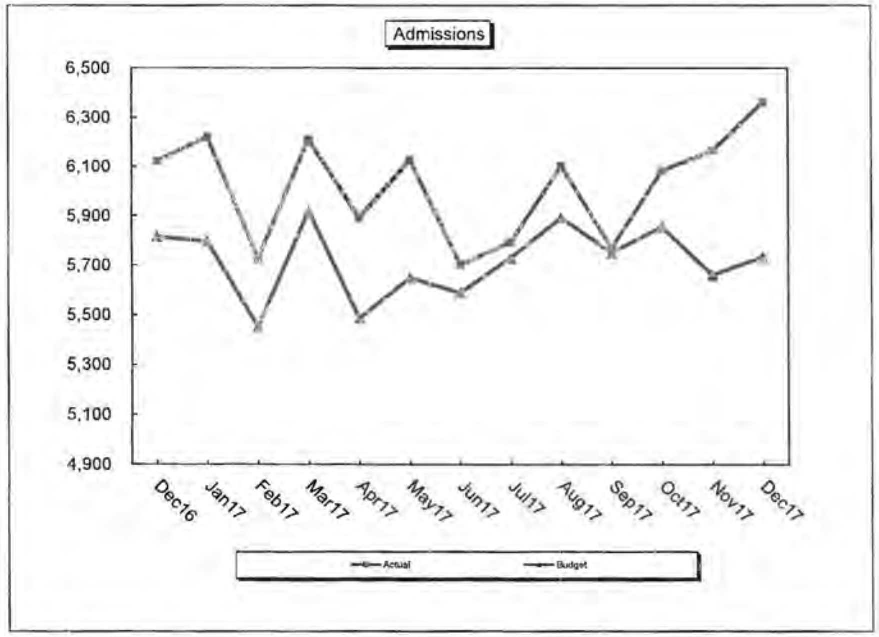


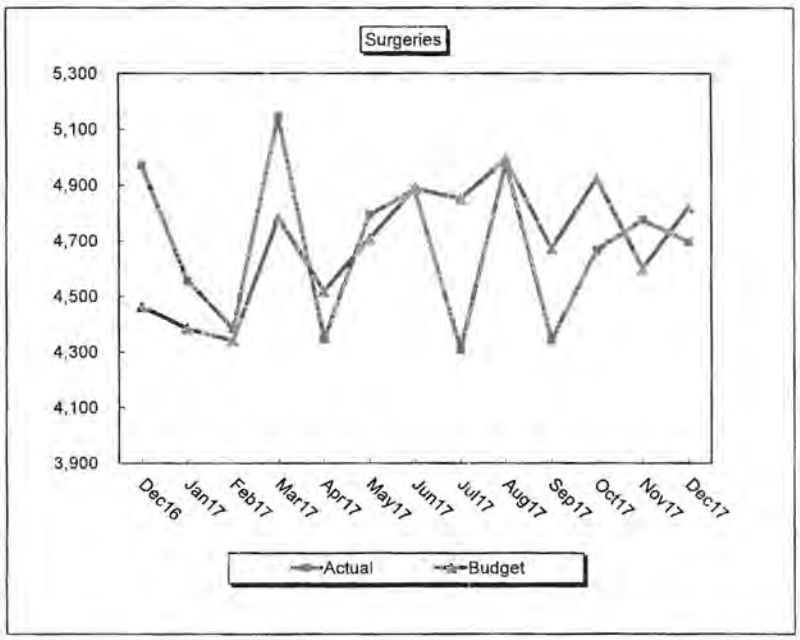


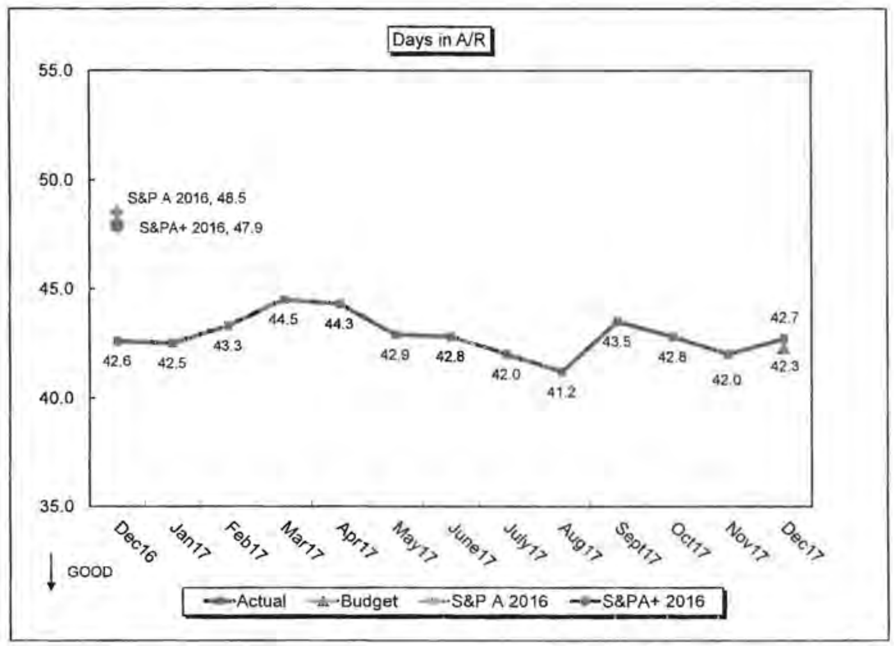
NORTON HEALTHCARE

Key Volume Financial Indicators
December 31, 2017









Norton Healthcare, Inc. and Affiliates

Additional Disclosures

December 31, 2017

1. Description of Organization and Reclassifications

Organization

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

Reclassifications

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

2. Commitments and Contingency

The Corporation is in the process of improving and expanding its facilities. Commitments related to renovation of existing facilities or construction of new facilities total $55.4 million at December 31, 2017. This will be funded through bond proceeds and cash flows generated from operations.

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

3. Employee Benefit Plans

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

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

3. Employee Benefit Plans (continued)

same statement of operations line item as other employee compensation costs from services rendered during the period. Employers are to present the other components of net periodic pension cost separately from the line item that includes service cost and outside of operating income. The Corporation adopted the provisions of ASU 2017-07 in the first quarter of 2017. The defined benefit pension plan was frozen effective January 1, 2010. As a result, in future years, no service cost will be incurred. The other components of net periodic pension cost were $11.9 million and $5.5 million for the years ending December 31, 2017 and 2016, respectively, and are presented in the line item "Net periodic pension cost" included in Non-operating gains (losses) section in the combined income statement. The 2016 amounts, which were previously reported in employee benefits, have been reclassified to conform to the 2017 presentation in the combined income statement.

A summary of the components of net periodic benefit cost for the defined benefit pension plan for the years ending December 31, 2017 and 2016 is as follows:

	Year Ended December 31,	
($ in thousands)	**2017**	**2016**
Interest cost	**$ 8,831**	$9,425
Expected return on plan assets	**(4,417)**	(5,209)
Amortization net loss	**4,372**	5,308
Settlement cost	**3,139**	3,140
Accelerated loss contingency expense	**-**	(7,140)
Net periodic benefit cost	**$11,925**	$5,524

4. Fair Value Measurements

The Corporation follows the provisions of FASB Accounting Standards Codification (ASC) 820, *Fair Value Measurements and Disclosures* (ASC 820*)*, which defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, and establishes a framework for measuring fair value. ASC 820 defines a three-level hierarchy for fair value measurements based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date.

4. Fair Value Measurements (continued)

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

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

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

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

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

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

4. Fair Value Measurements (continued)

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

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

Valuation - Beneficial interests in outside trusts

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

Valuation - Interest rate swap asset(liability)

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

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

4. Fair Value Measurements (continued)

($ in thousands)	December 31, 2017	December 31, 2016	Level
Marketable securities and other investments at fair value			
Total Marketable debt securities [A]	**$124,792**	$18,844	2
Assets limited as to use at fair value			
By Board of Trustees and Donors:			
Cash	**138**	4,072	1
Mutual funds:			
Templeton Global Equity Fund [B]	**95,802**	75,537	1
PIMCO Real Return Fund [C]	**46,170**	52,152	1
Capital World Growth and Income Fund [D]	**88,032**	72,874	
Dodge & Cox Global Stock Fund [E]	**82,280**	78,446	1
Dreyfus Global Equity Fund [F]	**91,315**	71,634	1
Wells Capital Management Core Fixed Income [G]	**53,673**	60,865	1
Vanguard Emerging Market Stock Fund [H]	**22,913**	-	1
MetWest Total Return Bond Fund [I]	**51,951**	-	1
Other publicly traded mutual funds [J]	**41,560**	34,751	1
Total Mutual Funds	**573,696**	446,259	1
Common and collective trust funds [K]	**50,172**	46,726	N/A
Separate accounts:			
PNC (Marketable Debt Securities) [L]	**15**	54,442	2
Sterling Capital [M]	**64,211**	61,681	2
EPOCH All Cap US Equity [N]	**37,589**	41,744	1
Baron (Domestic Equity Growth)[O]	**5**	5	1
Disciplined Growth Investors [P]	**37,892**	38,722	1
Other [Q]	**1,680**	1,289	1
Total Separate Accounts	**141,392**	197,883	
Total by Board of Trustees and donors at fair value	**765,398**	694,940	

4. Fair Value Measurements (continued)

($ in thousands)	December 31, 2017	December 31, 2016	Level
By contractual agreements:			
Cash	**32,369**	14,056	1
Total assets limited as to use by contractual agreements	**32,369**	14,056	
By Self Insurance Trust Agreements:			
Sterling Behavioral Small Cap Value [(R)]	**5,717**	6,232	1
Total Mutual Funds	**5,717**	6,232	
Separate Accounts:			
Cash	**5,957**	6,564	1
Marketable debt securities [(S)]	**81,742**	100,861	2
Sterling Special Opportunities Equity [(T)]	**21,184**	22,000	1
Total Separate Accounts	**108,883**	129,425	
Total assets limited as to use by self-insurance trust agreements	**114,600**	135,657	
By Bond Indenture Trust Agreements:			
Cash	**21**	59	1
Marketable debt securities [(U)]	**135,580**	258,120	2
Total assets limited as to use by Bond Indenture	**135,601**	258,179	
Total Assets Limited as to Use at Fair Value	**1,047,968**	1,102,832	
Assets limited as to use at net asset value:			
Hedge funds [(V)]	**306,855**	275,290	N/A
Real estate funds [(W)]	**96,699**	81,540	N/A
Private Equity [(X)]	**26,476**	7,738	N/A
Total assets limited as to use at net asset value	**430,030**	364,568	

4. Fair Value Measurements (continued)

($ in thousands)	December 31, 2017	December 31, 2016	Level
Less current portion of self-insurance trust and bond indenture and assets limited as to use in escrow	**(24,729)**	(28,319)	
Total assets limited as to use	**$ 1,453,269**	$ 1,439,081	
Other assets at fair value:			
Beneficial interest in outside trusts	**$ 23,125**	$ 20,313	2
Interest rate swap (Note 5)	**711**	245	2

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

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

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

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

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

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

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

(H) Mutual fund seeks to provide long-term capital appreciation. The fund invests mainly in equity securities of companies located in emerging markets including small, mid, and large capitalization companies.

4. Fair Value Measurements (continued)

(I) Mutual fund seeks to maximize long-term total return. A least 80% of its net assets are invested in investment grade fixed income securities or unrated securities of similar quality. Up to 20% of the Fund's net assets may be invested in securities rated below investment grade

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

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

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

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

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

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

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

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

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

4. Fair Value Measurements (continued)

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

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

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

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

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

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

5. Swap Agreements

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

5. Swap Agreements (continued)

At December 31, 2017 the Corporation holds the following interest rate swaps:

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

All of the Corporation's interest rate swaps are with Citigroup and were issued pursuant to a single International Swaps and Derivatives Association, Inc. agreement with that counterparty. All of the Corporation's swaps are viewed under a master netting arrangement to determine the aggregate amount of collateral to be posted or received by the Corporation, and, consistent with industry practice require posting of collateral should either party's cumulative mark to market liability exceed certain thresholds based upon the credit rating of the counterparty. At December 31, 2017 and December 31, 2016, based upon the agreements with Citigroup, the Corporation had a contract value which was an asset of $0.1 million and a liability of $2.5 million respectively. Based upon the Corporation's lowest credit rating (A-), collateral must be posted for liabilities in excess of $25 million.

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

For the Corporation's combined financial statements, these interest rate swaps are recorded at fair value in accordance with ASC 815 – *Derivatives and Hedging*. The Corporation uses an external party to calculate fair value in accordance with ASC 820, which is described in detail in Note 4. The external party uses the discounted cash flow method by taking observable inputs from the inter-dealer interest rate swap market. The Corporation's credit risk is estimated using not-for-profit healthcare credit spreads. Citigroup's credit risk is estimated using corporate bond spreads; these credit spreads are then added to the LIBOR discount curve, as applicable, and any collateral posted at the valuation date is taken into account. None of these interest rate swap agreements has been designated as a hedge for accounting purposes; therefore, the change in fair market value for these interest rate swap agreements appears in the income statement under Non-operating gains (losses) in the line "Change in fair value of swap". The cash flow impact of the swap agreements appears in the combined statement of operations income statement and increases or decreases the "Interest expense" line. The fair value at December 31, 2017 and 2016 was an asset and is included in the combined balance sheet under Other assets in the line "Other". The

5. Swap Agreements (continued)

cash flow for these swaps is settled semi-annually on April 1st and October 1st. In the interim periods a receivable or payable is recorded, currently the cash flows are in a receivable position and this receivable is included in the line "Miscellaneous receivables" under Current assets in the combined balance sheet.

	Balance Sheet Impact		
($ in thousands)	Miscellaneous Receivables	Fair Value of Swap	Balance Sheet Impact Total
December 31, 2016	$ 314	$ 245	$ 559
Decrease to Interest Expense	2,162	-	2,162
SWAP Cash Settlements Received	(2,035)	-	(2,035)
Change in Fair Value of Swap	-	466	466
December 31, 2017	$ 441	$ 711	$ 1,152

6. Net Patient Service Revenue

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

6. Net Patient Service Revenue (continued)

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

	Year Ended December 31,			
($ in thousands)	**2017**	**% of Total**	2016	% of Total
Medicare	**$649,143**	**30%**	$575,244	27%
Medicaid	**427,346**	**19%**	417,615	20%
Commercial/Self-Pay/Other	**1,135,350**	**51%**	1,114,355	53%
Revenue before provision of doubtful accounts	**2,211,839**	**100%**	2,107,214	100%
Provision for doubtful accounts	**75,897**		67,088	
	$2,135,942		$2,040,126	

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

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

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

6. Net Patient Service Revenue (continued)

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

The allowance for doubtful accounts was approximately $106.9 million and $90.7 million at December 31, 2017 and 2016, respectively. These balances as a percent of patient accounts receivable net of contractual adjustments were approximately 28.8% and 26.8% as of December 31, 2017 and 2016, respectively. The majority of the Corporation's allowance for doubtful accounts and the related provision for doubtful accounts relate to self-pay patient accounts receivable. The following is a summary of the Corporation's allowance for doubtful accounts activity:

($ in thousands)	**Year Ended December 31, 2017**	Year Ended December 31, 2016
Balance at Beginning of Period	**$ 90,716**	$86,316
Additions Charged to Cost and Expenses	**75,897**	67,088
Accounts Written off, Net of Recoveries and other	**(59,723)**	(62,688)
Balance at End of Period	**$106,890**	$90,716

7. Subsequent Events

Management has evaluated all events and transactions that occurred after December 31, 2017 through March 12, 2018 and determined there are no subsequent events to report.

CERTIFICATION

Bondholder - Quarterly

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

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

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

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

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

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

Dated this 12th day of March, 2018.

Michael W. Gough
Executive Vice President and COO