

SSM Health

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

SSM HEALTH

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
SSM Health Care Corporation
St. Louis, Missouri

We have audited the accompanying consolidated financial statements of SSM Health Care Corporation and its subsidiaries (doing business as SSM Health) (SSMH), which comprise 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 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 audit 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 SSMH'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 SSMH'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 present fairly, in all material respects, the financial position of SSMH as of December 31, 2017 and 2016, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Consolidating Schedules

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating schedules on pages 54–59 are 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 are not a required part of the consolidated financial statements. This supplementary information is the responsibility of SSMH'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 28, 2018

SSM HEALTH

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

	2017	2016
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 126,943	\$ 167,548
Investments	88,352	33,859
Current portion of assets limited as to use	385,611	334,557
Patient accounts receivable—less allowance for uncollectible accounts of \$146,357 in 2017 and \$149,509 in 2016	627,939	671,300
Premium receivable—less allowance for uncollectible accounts of \$1,300 in 2017 and \$1,000 in 2016	9,549	8,018
Other receivables	320,915	298,583
Inventories, prepaid expenses, and other	222,543	143,092
Estimated third-party payor settlements	<u>38,232</u>	<u>38,249</u>
Total current assets	1,820,084	1,695,206
ASSETS LIMITED AS TO USE OR RESTRICTED—Excluding current portion	2,890,558	2,319,809
PROPERTY AND EQUIPMENT—Net	2,217,160	2,234,929
OTHER ASSETS:		
Goodwill	121,191	121,191
Intangible assets—net	207,021	243,842
Investments in unconsolidated entities	107,670	96,542
Other	<u>13,125</u>	<u>11,989</u>
Total other assets	<u>449,007</u>	<u>473,564</u>
TOTAL	<u>\$ 7,376,809</u>	<u>\$ 6,723,508</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Revolving line of credit	\$ 185,550	\$ 150,125
Current portion of long-term debt and capital lease obligations	31,490	35,087
Accounts payable, accrued expenses, and other current liabilities	1,215,030	1,020,411
Commercial paper	200,000	399,870
Short-term borrowings	300,000	300,000
Unearned premiums	30,212	23,883
Payable under securities lending agreements	50,543	45,532
Estimated third-party payor settlements	<u>164,032</u>	<u>158,158</u>
Total current liabilities	2,176,857	2,133,066
LONG-TERM DEBT—Excluding current portion	1,627,963	1,262,882
ESTIMATED SELF-INSURANCE OBLIGATIONS	103,805	97,466
CAPITAL LEASE OBLIGATIONS—Excluding current portion	20,988	21,839
PENSION LIABILITY	795,395	809,290
OTHER LIABILITIES	<u>300,139</u>	<u>293,113</u>
Total liabilities	<u>5,025,147</u>	<u>4,617,656</u>
NET ASSETS:		
Unrestricted:		
Noncontrolling interest in subsidiaries	146,062	155,057
SSM Health unrestricted net assets	<u>2,123,839</u>	<u>1,873,787</u>
Total unrestricted net assets	2,269,901	2,028,844
Temporarily restricted	52,975	48,754
Permanently restricted	<u>28,786</u>	<u>28,254</u>
Total net assets	<u>2,351,662</u>	<u>2,105,852</u>
TOTAL	<u>\$ 7,376,809</u>	<u>\$ 6,723,508</u>

See notes to consolidated financial statements.

SSM HEALTH

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

	2017	2016
OPERATING REVENUES AND OTHER SUPPORT:		
Net patient service revenues before provision for uncollectible accounts	\$ 4,656,527	\$ 4,506,952
Less provision for uncollectible accounts	<u>(297,778)</u>	<u>(286,710)</u>
Net patient service revenues	4,358,749	4,220,242
Premiums earned	1,319,274	1,308,867
Investment income	74,714	36,567
Income from unconsolidated entities—net	15,227	16,816
Other revenue	718,923	519,644
Net assets released from restrictions	<u>10,119</u>	<u>7,035</u>
Total operating revenues and other support	<u>6,497,006</u>	<u>6,109,171</u>
OPERATING EXPENSES:		
Salaries and benefits	2,861,288	2,722,662
Medical claims	584,512	564,548
Supplies	1,341,508	1,157,188
Professional fees and other	1,345,138	1,325,165
Interest	67,727	56,788
Depreciation and amortization	<u>281,837</u>	<u>272,808</u>
Total operating expenses	<u>6,482,010</u>	<u>6,099,159</u>
INCOME FROM OPERATIONS BEFORE OTHER ITEMS	14,996	10,012
OTHER ITEMS—Nonrecurring items	<u>9,272</u>	<u>-</u>
OPERATING INCOME AFTER OTHER ITEMS	<u>5,724</u>	<u>10,012</u>
NONOPERATING GAINS AND (LOSSES):		
Investment income	242,596	87,492
Loss from early extinguishment of debt	(8,318)	-
Change in fair value of interest rate swaps	7,744	1,766
Other—net	<u>(3,081)</u>	<u>1,214</u>
Total nonoperating gains—net	<u>238,941</u>	<u>90,472</u>
EXCESS OF REVENUES OVER EXPENSES BEFORE INCOME TAXES	244,665	100,484
INCOME TAX EXPENSE	<u>1,691</u>	<u>1,118</u>
EXCESS OF REVENUES OVER EXPENSES	242,974	99,366
(DEFICIT) EXCESS OF REVENUES OVER EXPENSES ATTRIBUTABLE TO NONCONTROLLING INTEREST	<u>(3,086)</u>	<u>5,841</u>
EXCESS OF REVENUES OVER EXPENSES—Net of noncontrolling interest	<u>\$ 246,060</u>	<u>\$ 93,525</u>

(Continued)

SSM HEALTH

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	\$ 242,974	\$ 99,366
Pension-related changes other than net periodic pension cost	6,204	(135,884)
Net assets released from restrictions for property acquisitions	1,595	11,177
Distributions to noncontrolling owners	(5,909)	(5,602)
Noncontrolling interest related to acquisition	-	1,198
Purchase of subsidiary from noncontrolling owner	(4,450)	-
Other—net	<u>643</u>	<u>1,214</u>
Increase (decrease) in unrestricted net assets	<u>241,057</u>	<u>(28,531)</u>
TEMPORARILY RESTRICTED NET ASSETS:		
Contributions for charity care, property acquisitions, and other programs	11,071	11,218
Gains on investments—net	4,866	2,089
Net assets released from restrictions for operations	(10,119)	(7,035)
Net assets released from restrictions for property acquisitions	(1,595)	(11,177)
Other—net	<u>(2)</u>	<u>(8)</u>
Increase (decrease) in temporarily restricted net assets	<u>4,221</u>	<u>(4,913)</u>
PERMANENTLY RESTRICTED NET ASSETS:		
Contributions for charity care and other programs	1,029	1,822
(Losses) gains on investments—net	<u>(497)</u>	<u>695</u>
Increase in permanently restricted net assets	<u>532</u>	<u>2,517</u>
CHANGE IN NET ASSETS	245,810	(30,927)
NET ASSETS—Beginning of year	<u>2,105,852</u>	<u>2,136,779</u>
NET ASSETS—End of year	<u>\$2,351,662</u>	<u>\$2,105,852</u>

See notes to consolidated financial statements.

(Concluded)

SSM HEALTH

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

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 245,810	\$ (30,927)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Noncontrolling interest related to acquisition	-	(1,198)
Pension-related changes other than net periodic pension cost	(6,204)	135,884
Purchase of subsidiary from noncontrolling owner	4,450	-
Depreciation and amortization	281,838	272,808
Loss on early extinguishment of debt	8,318	-
Provision for uncollectible accounts and bad debts	297,794	286,654
Contributions restricted for long-term investment	(4,909)	(3,268)
Distributions to noncontrolling owners—net	5,909	5,602
Gains and losses on investments—net	(289,972)	(99,118)
Equity in earnings of unconsolidated entities	(15,227)	(16,816)
Change in fair value of interest rate swaps	(7,744)	(1,766)
Loss on disposal of assets	19	1,064
Distributions from unconsolidated entities	8,736	12,081
Changes in assets and liabilities:		
Investments	(55,038)	18,318
Patient accounts receivable	(254,417)	(381,549)
Premiums receivable	(1,531)	(1,717)
Other receivables, inventories, prepaid expenses, and other	(106,764)	(65,654)
Accounts payable, accrued expenses, and other liabilities	217,877	105,219
Other changes to pension liability	(7,300)	(15,249)
Estimated self-insurance obligations	12,020	37
Net cash provided by operating activities	<u>333,665</u>	<u>220,405</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(209,499)	(322,139)
Proceeds from disposal of property and equipment	4,085	2,540
Purchase of assets limited as to use or restricted	(3,453,488)	(5,288,283)
Proceeds from sales of assets limited as to use or restricted	3,130,430	5,354,720
Contributions to unconsolidated entities	(5,079)	(2,369)
Acquisition of hospitals and health care entities—net of cash received	-	(8,967)
Purchases of other assets	(24,979)	(37,844)
Proceeds from sales of other assets	836	-
Net cash used in investing activities	<u>(557,694)</u>	<u>(302,342)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from issuance of long-term debt	604,690	-
Payments on long-term debt	(249,023)	(36,263)
Debt issuance costs	(3,604)	-
Contributions restricted for long-term investment	4,909	3,268
Distributions to noncontrolling owners—net	(5,909)	(5,602)
Purchase of subsidiary from noncontrolling owner	(3,907)	-
Proceeds from patient loans	12,532	11,539
Payments on patient loans	(11,819)	(10,174)
Proceeds from short-term borrowings and commercial paper	-	49,933
Payments on short-term borrowings and commercial paper	(199,870)	-
Proceeds from revolving line of credit	185,462	258,900
Payments on revolving line of credit	(150,037)	(108,927)
Net cash provided by financing activities	<u>183,424</u>	<u>162,674</u>
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(40,605)	80,737
CASH AND CASH EQUIVALENTS—Beginning of year	<u>167,548</u>	<u>86,811</u>
CASH AND CASH EQUIVALENTS—End of year	<u>\$ 126,943</u>	<u>\$ 167,548</u>

See notes to consolidated financial statements.

SSM HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016 (Dollars in thousands)

1. ORGANIZATION

SSM Health (SSMH) is a multiinstitutional health care system located primarily in Missouri, Oklahoma, Wisconsin, and Illinois. SSM Health Care Corporation (SSMHCC) (doing business as SSMH) is the principal not-for-profit corporation that holds membership or stock ownership in other affiliated corporations. SSMHCC has been established as the parent corporation. Through its affiliated corporations, SSMH owns and operates 19 acute care hospitals, one children's hospital, two long-term care facilities, a health maintenance organization, a national pharmacy benefit management company, an extensive network of physician practice operations, and other health care businesses.

SSMHCC and most of its affiliated subsidiary corporations are organizations described in Section 501(c)(3) of the Internal Revenue Code (IRC). As such, they are exempt from federal income tax on income from activities related to their exempt purposes under IRC Section 501(a). Certain subsidiaries of SSMH are for-profit entities that are taxable under the IRC.

SSMH is sponsored by SSM Health Ministries, an independent eight-member body composed of three Franciscan Sisters of Mary and five lay people who collectively hold certain reserved powers over SSMH.

2. SSMH SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Presentation—The consolidated financial statements include the accounts of SSMHCC and all wholly owned, majority owned, and controlled entities, including the consolidated statements of SSMH Liability Trust I and SSMH Liability Trust II as described in Note 14. All significant intercompany balances and transactions have been eliminated in consolidation.

Cash and Cash Equivalents—Cash and cash equivalents include investments in highly liquid debt instruments with a maturity of three months or less when purchased. The carrying amounts reported in the consolidated balance sheets approximate their fair value.

Investments—Investments are measured at fair value and include liquid investments maintained for near-term cash flow purposes, with original maturities at time of purchase of greater than three months.

Financial Instruments—Management's estimates of the fair value of financial instruments are described elsewhere in the notes to the consolidated financial statements. Investments reported as assets that are designated as limited as to use or restricted, investments, and interest rate swaps are measured at fair value as described in Note 7. Long-term debt fair value is disclosed in Note 12. Due to the volatility of the US economy and the financial markets, there is uncertainty regarding the long-term impact market conditions will have on SSMH's investment portfolio.

Patient Accounts Receivable—Patient accounts receivable are stated at estimated net realizable amounts from patients, third-party payors, and other insurers for services provided. Management periodically reviews the adequacy of the allowance for uncollectible accounts based on historical experience, trends in health care coverage, and other collection indicators.

SSMH's mission is to provide exceptional health care services to all persons regardless of their ability to pay. After all payments, discounts, and reasonable collection efforts have been exhausted, SSMH follows established guidelines for placing certain past-due patient balances with collection agencies, subject to the terms of certain restrictions on collection efforts as determined by SSMH. Accounts placed with collection agencies are written off and excluded from patient accounts receivable and allowance for uncollectible accounts.

SSMH has entered into a contractual agreement with a third-party bank to provide interest-free loans to SSMH's patients. This arrangement provides for the full recourse purchase of qualifying patient liability accounts receivable balances by the bank, for a nominal fee to SSMH. The bank enters into a loan agreement with the patient and proceeds to bill and collect payments from the patient. If the patient defaults on the loan agreement or the loan meets certain other criteria, the bank will request repayment of the remaining loan balance from SSMH. Because SSMH is responsible for the repayment of the full amount of the patient loan balance under certain circumstances, an obligation is recorded in current liabilities and a corresponding current receivable is recorded. The outstanding loan balance under this agreement was \$15,428 and \$15,289 at December 31, 2017 and 2016, respectively, which is included in accounts payable, accrued expenses, and other current liabilities. The corresponding receivable is included in other receivables.

Other Receivables—Other receivables consist primarily of amounts from clients for pharmacy and member claims and rebates receivable from pharmaceutical manufacturers. SSMH assumes no risk for payment of the claims and considers these accounts to be fully collectible.

Premium Receivable and Unearned Premiums—Premiums are recognized in the period for which services are covered. Premium receivable includes amounts due from subscriber groups for premiums. Premiums billed and due in advance of a coverage period are included in unearned premiums.

Inventories—Inventories are stated at the lower of cost or net realizable value. Cost is determined principally using the first-in, first-out method. Supplies and pharmaceuticals are expensed when they are distributed for use. SSMH held inventories in the amount of \$98,024 and \$93,323 at December 31, 2017 and 2016, respectively. These amounts are included in inventories, prepaid expenses, and other.

Estimated Third-Party Payor Receivable and Payable Settlements—SSMH has agreements with payors that provide for payments at amounts different from established charges. The basis for payment under these agreements includes prospectively determined rates, cost reimbursement, and negotiated discounts from established charges. These estimated amounts are subject to further adjustments upon review by third-party payors. See Note 21.

Assets Limited as to use or Restricted—Assets limited as to use include investments and other assets set aside by the Board of Directors or management at their discretion for future capital improvements, medical insurance claims or for other purposes, and assets held in trust under bond indentures and self-insurance agreements. Assets restricted as to

use include investments and other assets whose use is restricted by donors (temporarily or permanently).

Pooled Investments—SSMH holds the majority of its investments in a pooled investment program, which also includes the investments of its defined benefit plans. The earnings are allocated proportionately according to ownership percentages as defined in pooled investment agreements.

SSMH has elected the fair value option for financial investments in limited partnerships and limited liability corporations made through its centralized investment program that would otherwise be recorded using either the cost or equity methods. SSMH made this election in order to ensure that the accounting treatment of these investments was comparable between categories, regardless of the current organizational structure of the various investments. Interest and dividend income on investments for which the fair value option has been elected is included in either operating or nonoperating investment income depending on various factors as described in SSMH's investment income accounting policy below.

Derivative Instruments—It is SSMH's policy to provide sound stewardship of fiscal resources by effectively managing both the level of outstanding debt and the proportion of variable to fixed rate debt. Accordingly, SSMH periodically enters into derivative arrangements to manage interest rate risk related to variable rate debt.

Within established investment policy guidelines, SSMH may also enter into various exchange-traded and over-the-counter derivative contracts for economic hedging purposes, including futures, options, swaps and forward contracts.

SSMH records derivative instruments as either an asset or liability measured at its fair value (Note 7). The estimated fair value of all derivative instruments has been determined using available market information and valuation methodologies, primarily discounted cash flows. These amounts are reported in other noncurrent liabilities for interest rate swap derivatives and in assets whose use is limited for investment asset derivatives. SSMH does not offset fair value amounts recognized for derivative instruments and fair value amounts recognized for cash collateral posted.

The net change in the fair value is recorded as a nonoperating gain or loss. The difference between the actual amount paid and the actual amount received on all interest rate swaps is accrued and recognized as an adjustment to interest expense. See Note 17.

Securities Lending Program—SSMH participates in securities lending transactions with its custodian whereby SSMH lends a portion of its investments to various brokers in exchange for collateral for the securities loaned, usually on a short-term basis. SSMH maintains effective control of the loaned securities through its custodian during the term of the arrangement in that they may be recalled at any time. Collateral received from brokers must equal at least 102% of the original market value of the securities on loan, and is subsequently adjusted for market fluctuations. SSMH must return to the borrower the original value of collateral received regardless of the impact of market fluctuations. All collateral is in the form of treasury securities, which can be re-invested in a pool maintained by the custodian. Under the terms of the agreement, the borrower must return the same, or substantially the same, investments that were borrowed.

The securities on loan under this program are recorded as assets whose use is limited. The market value of collateral held for loaned securities is reported as collateral held under a

securities lending program and an obligation is recorded in current liabilities for repayment of collateral upon settlement of the lending transaction. The fees received for these transactions are recorded in investment income.

Property and Equipment—Property and equipment acquisitions are recorded at cost or, if donated or impaired, at fair value at the date of receipt or impairment. Depreciation expense is determined using the straight-line method over the estimated useful life of the asset: 5 to 25 years for land improvements, 5 to 40 years for buildings, and 3 to 20 years for equipment. Equipment under capital leases is amortized using the straight-line method over the shorter of the lease term or the estimated useful life of the equipment. Such amortization is included in depreciation and amortization expense. Interest costs incurred on borrowed funds during construction periods are capitalized as a component of the asset cost.

SSMH periodically evaluates property and equipment to determine whether assets may have been impaired. The evaluations address the estimated recoverability of the assets' carrying value. Such analyses require various valuation techniques using management assumptions, including estimates of future cash flows. There were no impairments identified during 2017 or 2016.

Goodwill—Goodwill represents the future economic benefits arising from assets acquired in business combinations that are not individually identified and separately recognized. Goodwill is evaluated for possible impairment at the reporting unit level at least annually or whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. Fair value of a reporting unit is estimated using a combination of income-based and market-based valuation methodologies. An impairment is recorded if the carrying value of the goodwill exceeds its implied fair value.

Intangible Assets—Intangible assets include capitalized computer software costs, tradenames, noncompete agreements, and other intangible assets acquired from independent parties. Intangible assets with a definite life are amortized on a straight-line basis, with estimated useful lives ranging from one to 20 years. Amortization of intangible assets is included in depreciation and amortization expense. SSMH reviews the carrying value of its amortizable intangible assets only when impairment indicators are present. SSMH evaluates intangible assets for impairment by comparing the estimates of undiscounted future cash flows to the carrying values of the related assets. Indefinite-lived intangible assets are evaluated for possible impairment at least annually or whenever events or changes in circumstances indicate the asset might be impaired. There were no impairments identified during 2017 or 2016.

Software Costs—Capitalized computer software costs include internally developed software. Costs incurred in developing and installing internal use software are expensed or capitalized depending on whether they are incurred in the preliminary project stage, application development stage, or post implementation stage. Capitalized software costs and related accumulated amortization expenses are included in net intangible assets.

Investments in Unconsolidated Entities—Investments in unconsolidated entities, other than limited partnerships and limited liability corporations in the pooled investment program, are accounted for under the cost or equity method of accounting, as appropriate. SSMH accounts for the investment under the cost method if it does not have the ability to exercise influence over the investee, generally evidenced by less than 20% ownership interest. SSMH utilizes the equity method of accounting for its investments in unconsolidated entities over which it exercises significant influence. SSMH evaluates these

investments for other-than-temporary impairment in accordance with accounting standards for equity method investments. There were no material impairments identified during 2017 or 2016.

Pension Liability—Pension liability represents the value of the projected benefit obligation of SSMH's pension plans over the fair value of the plans' assets. The pension plan obligations and plan assets are measured as of December 31. In 2017, SSMH recorded \$6,204 to decrease its pension liability and increase unrestricted net assets. The gain was primarily a result of strong investment earnings partially offset by a lower discount rate. In 2016, SSMH recorded \$135,884 to increase its pension liability and decrease unrestricted net assets. The loss was primarily a result of a lower discount rate.

Other Liabilities—Other liabilities include various deferred compensation plans, the fair value of interest rate swaps, deferred revenue, and various other noncurrent liabilities.

Temporarily and Permanently Restricted Net Assets—Temporarily restricted net assets are those whose use by SSMH has been limited by donors to a specific time period or purpose. These assets are restricted for funding a specific program, capital projects, and other purposes. Permanently restricted net assets have been restricted by donors to be maintained by SSMH in perpetuity. They are generally restricted to provide ongoing income for a specific program.

Noncontrolling Interests—The consolidated financial statements include all assets, liabilities, revenue, and expenses of less than 100% owned or controlled entities that SSMH controls in accordance with applicable accounting guidance. Accordingly, SSMH has reflected a noncontrolling interest for the portion of net assets not owned or controlled by SSMH separately on the consolidated balance sheets.

Net Patient Service Revenues—SSMH recognizes net patient service revenues before provision for uncollectible accounts in the period in which services are provided. SSMH has agreements with payors that provide for payments at amounts different from established charges. The basis for payment under these agreements includes prospectively determined rates, cost reimbursement, and negotiated discounts from established charges.

Net patient service revenues are reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments due to future audits, reviews, and investigations. The differences between the estimated and actual adjustments are recorded as part of net patient service revenues in future periods, as the amounts become known, or as years are no longer subject to such audits, reviews, and investigations.

Premiums Earned—SSMH receives capitation insurance premiums based on the demographic characteristics of covered members in exchange for providing comprehensive medical services for those members. SSMH recorded capitated revenue of \$1,205,424 and \$1,203,365 for the years ended December 31, 2017 and 2016, respectively. Capitation revenue is included in premiums earned. Premiums earned also includes administration fees recognized on a per-member, per-month basis earned by SSMH's national pharmacy benefit management company of \$97,255 and \$89,894 for the years ended December 31, 2017 and 2016, respectively, as well as other administrative fees.

Medical Claims—Medical claims consist of payments to health care providers and are accrued as of the date of service and reported net of recoveries of \$45,570 and \$80,215

for the years ended December 31, 2017 and 2016, respectively. Recoveries consist mainly of drug company volume discounts, CMS risk-sharing and subsidies and reinsurance.

Changes in estimates of claims costs resulting from an ongoing review process and differences between estimates and payments for claims are recognized in the period in which the change in estimate is identified or payments are made. The liability for unpaid medical claims for medical services purchased, which is included in accounts payable, is based on known amounts of reported claims and an estimate of incurred but not reported claims using past experience adjusted for current trends.

Investment Income—Most investment income is reported as nonoperating gains or losses. Investment income on funds held in trust for self-insurance purposes, funds held for insurance and pharmacy benefit purposes, funds held under certain employee benefit plans, and unrestricted funds held by foundations is included in operating investment income. The cost of investments sold is based on the specific-identification method.

Investment income on investments of donor-restricted funds, other than endowments, is included in excess of revenues over expenses unless the income or loss is restricted by donors. Investment income that is restricted by the donor is recorded directly to temporarily or permanently restricted net assets, in accordance with the donor-imposed restrictions.

SSMH values commingled funds, hedge funds, and certain limited partnership and REIT interests at net asset value. Limited partnership interests not recorded at net asset value are recorded at fair value as determined by external fund managers based on factors described in Note 7. Gains and losses on these investments are included in nonoperating investment income unless it is restricted by donors.

SSMH classifies its debt and equity securities as trading securities. Changes in the fair values of trading securities are recorded in the excess of revenues over expenses.

The change in unrealized gains and losses on investments recorded as a change in unrestricted net assets includes the unrealized gains or losses related to investments in unconsolidated entities.

SSMH reports investment income net of investment fees paid. Investment fees totaled \$10,003 and \$10,804 for the years ended December 31, 2017 and 2016, respectively.

Contributions—Contributions, including unconditional promises to give, are recognized at their fair value at the time of receipt. For financial reporting purposes, SSMH distinguishes between contributions that are unrestricted, temporarily restricted, or permanently restricted based on the restrictions placed on their use by the donors. Contributions restricted for additions to property and equipment are recorded as temporarily restricted assets. When the restrictions have been met, these temporarily restricted contributions are recorded as net assets released from restrictions for property acquisitions. Contributions temporarily restricted for other purposes are reported as temporarily restricted contributions if the restrictions are not met in the same reporting period. When such donor-imposed restrictions are met in subsequent reporting periods, they are reported as net assets released from restrictions and an increase to unrestricted net assets. Contributions of assets that donors have stipulated must be maintained permanently, with only the income earned thereon available for use, are classified as permanently restricted assets. Contributions for which donors have not stipulated restrictions are reported as other revenue.

Endowment assets include donor-restricted funds that SSMH must hold in perpetuity or for a donor-specified period. SSMH preserves the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. SSMH classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and, if applicable, (c) accumulations to the permanent endowment made in accordance with specific donor instructions. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the SSMH entity that received the donation. SSMH considers the following factors in making determinations to appropriate or accumulate donor-restricted endowment funds:

- a. State law
- b. The duration and preservation of the fund
- c. The purposes of the donor-restricted endowment funds and how they relate to SSMH's priorities for carrying out its mission within the communities it serves
- d. General economic conditions
- e. The possible effects of inflation and deflation
- f. The expected total return from income and the appreciation of investments
- g. Other resources available to the entity and its beneficiary, if applicable
- h. The investment policies of the entity

Electronic Health Record Incentives—Under certain provisions of the American Recovery and Reinvestment Act of 2009 (ARRA), federal incentive payments are available to hospitals, physicians, and certain other professionals (“Providers”) when they adopt, implement, or upgrade (AIU) certified electronic health record (EHR) technology or become “meaningful users,” as defined under ARRA, of EHR technology in ways that demonstrate improved quality, safety, and effectiveness of care. Providers can become eligible for annual Medicare incentive payments by demonstrating meaningful use of EHR technology in each period over four periods. Medicaid providers can receive their initial incentive payment by satisfying AIU criteria, but must demonstrate meaningful use of EHR technology in subsequent years in order to qualify for additional payments. Hospitals may be eligible for both Medicare and Medicaid EHR incentive payments; however, physicians and other professionals may be eligible for either Medicare or Medicaid incentive payments, but not both. Hospitals that are meaningful users under the Medicare EHR incentive payment program are deemed meaningful users under the Medicaid EHR incentive payment program and do not need to meet additional criteria imposed by a state. Medicaid EHR incentive payments to Providers are 100% federally funded and administered by the states. CMS established calendar year 2011 as the first year states could offer EHR incentive payments. Before a state may offer EHR incentive payments, the state must submit and CMS must approve the state’s incentive plan.

SSMH recognizes Medicaid EHR incentive payments in its consolidated statements of operations for the first payment year when (1) CMS approves a state’s EHR incentive plan; and (2) its hospital or employed physician acquires certified EHR. Medicare and Medicaid

EHR incentive payments for subsequent payment years are recognized in the period during which the specified meaningful use criteria are met. SSMH recognizes Medicare EHR incentive when (1) the specified meaningful use criteria are met; and (2) contingencies in estimating the amount of the incentive payments to be received are resolved. During the years ended December 31, 2017 and 2016, certain of SSMH's entities satisfied the CMS AIU and/or meaningful use criteria. As a result, SSMH recognized \$422 and \$864 of Medicaid EHR incentive payments as other revenue for the years ended December 31, 2017 and 2016, respectively. SSMH recognized \$2,618 and \$9,707 of Medicare EHR incentive payments as other revenue for the years ended December 31, 2017 and 2016, respectively.

Performance Indicator—The consolidated statements of operations and changes in net assets include excess of revenues over expenses as SSMH's performance indicator. Changes in unrestricted net assets that are excluded from excess of revenues over expenses, consistent with industry practice, include: permanent transfers of assets to and from affiliates for other than goods and services; contributions of long-lived assets (including assets acquired using contributions that by donor restriction were to be used for the purpose of acquiring such assets); noncontrolling interests related to acquisitions and changes in ownership while retaining controlling financial interests; distributions to noncontrolling owners; and pension-related changes other than the net periodic pension cost.

Consolidated Statements of Operations—For the purpose of display, transactions deemed by management to be ongoing, major, or central to the provision of health care and related services are reported as operating revenues and expenses. Peripheral or incidental transactions are reported as nonoperating gains and losses.

Other Items – Other items includes unusual and nonrecurring revenues and expenses. During 2017 SSMH incurred certain expenses related to a one-time reduction in force. SSMH incurred a fee related to the early termination of contracted services.

Advertising Costs—SSMH expenses advertising costs as they are incurred. Advertising expenses were \$18,512 and \$20,666 for the years ended December 31, 2017 and 2016, respectively, and are included in professional fees and other.

Income Taxes—SSMH has established its status as an organization exempt from income taxes under IRC Section 501(c)(3) and the laws of the states in which it operates, and as such, is generally not subject to federal or state income taxes. However, SSMH is subject to income taxes on net income derived from a trade or business, regularly carried on, which does not further the organization's exempt purpose. No significant income tax provisions have been recorded in the financial statements for net income, if any, derived from any unrelated business or investment income as management has determined that such amounts are not material to the consolidated financial statements as a whole.

SSMH's for-profit subsidiaries account for income taxes related to their operations. The for-profit subsidiaries recognize deferred tax assets and liabilities for temporary differences between the financial reporting basis and the tax basis of their assets and liabilities along with net operating losses that meet the more likely than not recognition criteria. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs. Penalties and interest incurred on income tax liabilities are included in income tax expense.

SSMH evaluates its uncertain tax positions on an annual basis. A tax benefit from an uncertain tax position may be recognized when it is more likely than not that the position will be sustained upon examination, including resolutions of any related appeals or litigation processes, based on the technical merits. There have been no uncertain tax positions recorded in 2017 or 2016.

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 to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Estimates can significantly impact the following balances reported on the consolidated balance sheets: assets limited as to use, allowances for uncollectible accounts receivable, estimated third-party payor settlements, goodwill and net intangible assets, self-insurance obligations, pension liability, medical claims payable, and other liabilities. Actual results could differ from those estimates.

Non-Cash Transactions—During the years ended December 31, 2017 and 2016, SSMH had the following non-cash transactions:

	2017	2016
(Increase) decrease in securities lending program	\$ (5,011)	\$ 74,179
Property and equipment purchases included in accounts payable	32,399	34,271
Capital leases	598	600

Premium Stabilization and Cost-Sharing Reduction Programs—During 2014, under the Affordable Care Act (ACA), three programs (collectively referred to as the “Premium Stabilization Programs”) designed to stabilize health insurance markets and an additional program (the “Cost-Sharing Reduction Program”) designed to assist low-income insureds with their member responsibility payments became effective. The Premium Stabilization Programs include a permanent risk adjustment program, a temporary risk corridors program and a transitional reinsurance program. The risk-adjustment provisions of the ACA are permanent regulations and apply to market-reform-compliant individual and small group plans in the commercial markets. The risk corridors provisions and the reinsurance programs were in place for three years and were terminated as of December 31, 2016. The Cost-Sharing Reduction Program provides a reimbursement for a portion of health care costs for certain low-income individual members of eligible plans.

SSMH has recorded receivables and payables based on estimates determined in accordance with the ACA programs described above and anticipated program funding availability. The net amount is not material to the consolidated financial statements in 2017 and 2016. The final determination and settlement of net amounts receivable or payable are not anticipated to have a material adverse impact on SSMH’s consolidated cash flows and operations.

New Accounting Pronouncements—In March 2018, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2017-08 which shortens the amortization period for certain callable debt securities held at a premium to be amortized to the earliest call date. SSMH will adopt ASU 2017-08 in the reporting period beginning

January 1, 2020 and is currently evaluating the impact on the consolidated financial statements.

In March 2017, the FASB issued ASU 2017-07, *Compensation-Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*. The ASU requires an employer to report the service cost component in the same line item as other compensation costs arising from services rendered by employees during the period. It also requires the other components of net periodic pension cost and net periodic postretirement benefit cost to be presented separately from the service cost component and outside a subtotal of income from operations. SSMH will adopt ASU 2017-07 in the reporting period beginning January 1, 2019. SSMH is currently evaluating the potential impact on the consolidated financial statements.

In January 2017, the FASB issued ASU 2017-04, *Intangibles-Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment*, which 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. SSMH early adopted ASU 2017-04 on January 1, 2017, and there was no impact to the consolidated financial statements.

In January 2017, the FASB issued ASU 2017-02, *Not-for-Profit Entities-Consolidation (Subtopic 958-810)*, which 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. SSMH adopted ASU 2017-02 on January 1, 2017, and there was no impact on the consolidated financial statements.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*. ASU 2014-09 will supersede the revenue recognition requirements in Topic 605, *Revenue Recognition*, and most industry-specific guidance, and creates a Topic 606, *Revenue from Contracts with Customers*. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. SSMH will adopt ASU 2014-09 in the reporting period beginning January 1, 2018. Although the adoption of ASU 2014-09 will have an effect on the amounts presented in certain categories in the consolidated statement of operations, it will not have a material impact on the consolidated financial statements. Adoption of ASU 2014-09 will require enhanced footnote disclosures related to the disaggregation of revenue and significant judgements made in measurement and recognition.

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows—Restricted Cash*, which requires that a statement of cash flows explain the change during the period in the total cash, cash equivalents and amounts generally described as restricted cash or restricted cash equivalents. SSMH will adopt ASU 2016-18 in the reporting period beginning January 1, 2019. Upon adoption, SSMH will include restricted cash and restricted cash equivalents with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the consolidated statements of cash flows and related disclosures. Adoption will not have an impact on the consolidated balance sheets or consolidated statements of operations and changes in net assets.

In August 2016, the FASB issued ASU 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities* to improve the financial reporting of not-for-profit entities. The guidance requires two categories of net assets instead of the current three and will

enhance disclosures. SSMH will adopt ASU 2016-14 in the reporting period beginning January 1, 2018. Although the adoption of ASU 2016-14 will have an effect on the presentation of the net asset sections in the consolidated financial statements, it will have no impact on the total amount of net assets or revenues over expenses shown in the consolidated financial statements.

In March 2016, The FASB issued ASU 2016-07, *Investments—Equity Method and Joint Ventures (Topic 323)—Simplifying the Transition to the Equity Method of Accounting*, which eliminates the requirement to retrospectively apply the equity method to an investment that becomes qualified for the equity method of accounting as a result of an increase in the level of ownership interest or degree of influence. SSMH adopted ASU 2016-07 on January 1, 2017, and there was no impact on the consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*, to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. ASU 2016-02 retains a distinction between operating leases and financing leases, and the classification criteria is substantially similar to previous lease guidance. The main change in the new guidance is the requirement for all leases to be recognized on the balance sheet at the present value of lease payments. SSMH will adopt ASU 2016-02 in the reporting period beginning January 1, 2019. SSMH is currently evaluating the impact on the consolidated financial statements.

In August 2014, the FASB issued ASU 2014-15, *Presentation of Financial Statements—Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern*. ASU 2014-15 provides guidance about management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern and to provide related footnote disclosures. SSMH adopted ASU 2014-15 on January 1, 2017, and there was no impact on the consolidated financial statements.

3. UNCOMPENSATED CARE

In line with its mission, SSMH provides services to patients without regard to their ability to pay for those services. For some of its patient services, SSMH receives no payment or payment that is less than the full cost of providing the services.

SSMH voluntarily provides free care to patients who are unable to pay for all or part of their health care expenses as determined by SSMH's criteria for financial assistance. Because SSMH does not pursue the collection of amounts determined to qualify as charity care, they are not reported as patient service revenues.

In some cases, SSMH does not receive the amount billed for patient services even though it did not receive information necessary to determine if the patients met the criteria for financial assistance.

The estimated cost of charity care and the cost of uncollectible accounts are below. The estimated costs are calculated using the costs of providing patient care divided by gross patient service revenue. This ratio is then multiplied by the gross charity and uncollectible charges to determine estimated costs.

	2017	2016
Cost of charity care	\$ 125,584	\$98,561
Cost of uncollectible accounts	106,101	99,483

SSMH also commits significant time and resources to activities and critical services that address unmet community needs. Many of these activities are sponsored with the knowledge that they will not be self-supporting or financially viable. Such programs include health screenings and assessments, prenatal education and care, hospice, support for residences for homeless persons, trauma care, community health education and various support groups.

4. NET PATIENT SERVICE REVENUES

A significant portion of SSMH's revenue is generated under agreements with Medicare and Medicaid. Payments for services covered by Medicare are based on federal regulations specific to the type of service provided. Medicare pays for most services at a prospective rate. Hospital facilities that meet certain requirements receive additional funds in partial payment for the cost of medical education and caring for the indigent. The rates for services covered by Medicaid are determined by the regulations of the state in which the beneficiary is a resident. Medicare and Medicaid regulations are complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount.

SSMH has an estimation process for recording Medicare net patient service revenue and estimated cost report settlements. Accruals are recorded to reflect the expected final cost report settlements. Accruals are based upon filed cost reports or an estimate of what is expected to be reported on cost reports not yet filed.

In addition, SSMH has negotiated contracts with certain other third-party payors. Revenues under these contracts are based primarily on payment terms involving predetermined rates per diagnosis, per diem rates, discounted fee-for-service rates, and other similar contractual arrangements. SSMH estimates the discounts for contractual allowances at the individual hospital level utilizing billing data on an individual patient basis. On a monthly basis, an estimate is made of the expected reimbursement for patients of managed care plans based on the applicable contract terms.

SSMH provides discounts on charges for hospital services to all patients without insurance and who do not receive their health care services under Medicare, Medicaid or a public aid program. The discount varies by geographical location, primarily based on the discounts negotiated with private third-party payors in that location. The total discounts provided to uninsured patients under this policy were \$256,509 and \$295,463 for the years ended December 31, 2017 and 2016, respectively, and are included as a reduction in net patient service revenues. If it is determined that an uninsured patient is eligible for a charity discount for hospital services, the charity discount will be taken after the discount for uninsured patients has been applied.

SSMH participates in assessment programs in the four states in which it operates. For the year ended December 31, 2017, SSMH recognized \$273,209 in revenue and \$181,758 in expenses relating to these programs. For the year ended December 31, 2016, SSMH recognized \$263,459 in revenue and \$174,306 in expenses relating to these programs.

The table below shows the sources of net patient service revenue before provision for uncollectible accounts.

	2017	2016
Medicare	\$ 1,300,179	\$ 1,263,788
Medicaid	587,646	599,776
Managed care	2,288,984	2,191,989
Other	<u>479,718</u>	<u>451,399</u>
Net patient service revenue before provision for uncollectible accounts	<u>\$ 4,656,527</u>	<u>\$ 4,506,952</u>

A summary of SSMH's Medicare, Medicaid, and managed care utilization percentages, based upon net patient revenue before provision for uncollectible accounts is as follows:

	2017	2016
Medicare	28 %	28 %
Medicaid	13	13
Managed care	49	49
Other	<u>10</u>	<u>10</u>
	<u>100 %</u>	<u>100 %</u>

In 2017 and 2016, net patient service revenues increased by \$17,706 and \$6,135, respectively, relating to changes in estimates for prior years' settlements from Medicare, Medicaid, and other programs.

5. CONCENTRATION OF CREDIT RISK

SSMH provides health care services through its inpatient and outpatient care facilities located in their respective communities. SSMH attempts to collect amounts due from patients, including co-payments and deductibles for patients with insurance, at the time of service, while complying with all federal and state laws and regulations, including the Emergency Medical Treatment and Active Labor Act (EMTALA). Generally, as required by EMTALA, patients may not be denied emergency treatment due to the inability to pay. In non-emergency circumstances or for elective procedures, SSMH's policy is to verify insurance prior to treatment; however, exceptions can occur. SSMH generally does not require collateral or other security in extending credit to patients; however, it routinely obtains assignment of (or is otherwise entitled to receive) patients' benefits payable under their health insurance programs, plans, or policies (e.g., Medicare, Medicaid, health maintenance organizations, and commercial insurance policies).

SSMH records an allowance for uncollectible accounts by establishing an allowance to reduce the carrying value of receivables to their estimated net realizable value. This allowance is calculated on an individual entity basis and is based upon the aging of accounts receivable by payor class, historical collection experience, and other relevant factors. SSMH reviews its financial assistance and billing policies on a regular basis to ensure compliance with IRS 501(r) regulations in accordance with the ACA. During 2017, SSMH revised its financial assistance policy to provide clarification on guidelines for presumptive financial assistance. These changes did not have a significant impact on the allowance for uncollectible accounts or on net patient receivables as of December 31, 2017. There were no changes to the billing and collections policies in 2017 and 2016.

The mix of net receivables from patients and third-party payors as of December 31, 2017 and 2016, is as follows:

	2017	2016
Medicare	18 %	17 %
Medicaid	10	12
Managed care	46	45
Other	<u>26</u>	<u>26</u>
	<u>100 %</u>	<u>100 %</u>

6. ASSETS LIMITED AS TO USE OR RESTRICTED

The SSMH Board of Directors and management have designated the accumulation of certain funds for future replacement of property and equipment, other capital improvements, debt retirement, medical insurance claims, and other purposes. Additionally, under the terms of the indentures for various bond issues, funds held by trustees have been established and legally designated for debt service.

A summary of assets limited as to use or restricted as of December 31, 2017 and 2016, is as follows:

	2017	2016
Assets limited as to use:		
Board designated for property and equipment, long-term employee benefit programs, and other	<u>\$ 2,924,500</u>	<u>\$ 2,327,239</u>
Securities on deposit as required by state regulators	<u>16,691</u>	<u>30,531</u>
Held by trustee:		
Bond funds		34
Self-insurance (Note 14)	202,674	174,022
Collateral held under securities lending agreements	<u>50,543</u>	<u>45,532</u>
	<u>253,217</u>	<u>219,588</u>
Assets restricted by donor as to use:		
Temporarily restricted	52,975	48,754
Permanently restricted	<u>28,786</u>	<u>28,254</u>
	<u>81,761</u>	<u>77,008</u>
Total assets limited as to use or restricted	3,276,169	2,654,366
Less current portion	<u>385,611</u>	<u>334,557</u>
Noncurrent portion	<u>\$ 2,890,558</u>	<u>\$ 2,319,809</u>

A summary of investment income for the years ended December 31, 2017 and 2016, is as follows:

	2017	2016
Interest and dividends	\$ 42,402	\$ 37,950
Realized and unrealized gains on investments—net	<u>279,277</u>	<u>88,893</u>
Total	<u>\$321,679</u>	<u>\$126,843</u>

The change in net unrealized gain on investments held at December 31, 2017 and 2016, was \$226,311 and \$35,532, respectively.

Gains and losses on investments by major category of investments for the years ended December 31, 2017 and 2016, is as follows:

	2017	2016
Corporate obligations, government securities and other fixed income	\$ 31,395	\$14,664
Domestic equities	118,225	51,442
International equities	113,279	14,324
Limited partnership and REIT interests	4,792	6,479
Hedge funds	11,586	(3,184)
Other	<u>-</u>	<u>5,168</u>
Total	<u>\$279,277</u>	<u>\$88,893</u>

The gains and losses related to each category include realized and unrealized gains and losses on both derivative and nonderivative instruments.

Investment income (loss) is reported as follows:

	2017	2016
Operating investment income	\$ 74,714	\$ 36,567
Nonoperating investment income	242,596	87,492
Gains on investments—net—temporarily restricted net assets	4,866	2,089
(Losses) gains on investments—net—permanently restricted net assets	<u>(497)</u>	<u>695</u>
Total	<u>\$321,679</u>	<u>\$126,843</u>

The securities on loan are included in the following classifications:

	2017	2016
Equity securities	\$42,919	\$26,094
Government securities	2,790	17,928
Corporate obligations	<u>3,402</u>	<u>474</u>
Total	<u>\$49,111</u>	<u>\$44,496</u>

SSMH recorded net investment income of \$87 and \$303 on these transactions for the years ended December 31, 2017 and 2016, respectively. Net investment income represents the amount received as investment income on the securities received as collateral, offset by the fees paid to the various brokers, and the investment earnings on the securities loaned to the brokers.

7. FAIR VALUE MEASUREMENTS

SSMH defines fair value as the price that would be received upon the sale of an asset or paid upon the transfer of a liability in an orderly transaction between market participants at the measurement date and in the principal or most advantageous market for that asset or liability. The fair value should be calculated based on assumptions that market participants would use in pricing the asset or liability, not on assumptions specific to the entity. In addition, the fair value of liabilities should include consideration of nonperformance risk, including SSMH's own credit risk.

The fair values of all assets and liabilities recognized or disclosed at fair value are classified based on the lowest level of significant inputs. SSMH used the following methods to determine fair value:

Level 1—Quoted prices (unadjusted) in active markets for identical assets or liabilities that SSMH has the ability to access on the report date.

Level 2—Inputs (financial matrices, models, valuation techniques) other than quoted market prices included in Level 1, that are observable for the asset or liability, either directly or indirectly. If the asset or liability has a specified (contractual) term, a Level 2 input must be observable for substantially the full term of the asset or liability. Such observable inputs include benchmarking prices for similar assets in active, liquid markets, quoted prices in markets that are not active and observable yields, and spreads in the market.

Level 3—Inputs (such as professional appraisals, quoted prices from inactive markets that require adjustment based on significant assumptions or data that is not current, or data from independent sources) that are unobservable for the asset or liability.

Assets and liabilities measured at fair value on a recurring basis as listed in the following tables use the following valuation methodologies:

Cash and Cash Equivalents—Limited or Restricted—Cash equivalents that trade on a regular basis in active markets are classified as Level 1 in the fair value hierarchy. Those that do not meet this criteria are classified as Level 2.

Corporate Obligations—Corporate obligations are valued using quoted market prices and/or other market data for the same or comparable securities and transactions in establishing the prices, discounted cash flow models, and other pricing methods. These models are primarily industry-standard models that consider various assumptions, including time value and yield curve, as well as other relevant economic measures. Due to the nature of pricing methods utilized, corporate obligations are classified as Level 2 within the fair value hierarchy.

Government Securities—Government securities are valued using quoted market prices and/or other market data for the same or comparable securities and transactions in establishing the prices, discounted cash flow models, and other pricing methods. These models are primarily industry-standard models that consider various assumptions, including time value and yield curve, as well as other relevant economic measures. Due to the nature of pricing methods utilized, government securities are classified as Level 2 within the fair value hierarchy.

Mutual Funds—Mutual funds are valued using the net asset value based on the value of the underlying assets owned by the fund, minus liabilities, divided by the number of shares outstanding, and multiplied by the number of shares owned and are classified as Level 1 within the fair value hierarchy.

Equities—Equity securities are valued at the closing price reported on the applicable exchange on which the security is traded and are classified as Level 1 within the fair value hierarchy.

Derivative Financial Instruments—Derivative financial instruments consist of interest rate swaps and options, credit default swaps, and futures, for which fair values are estimated based on quoted market prices and/or other market data for the same or comparable instruments and transactions in establishing the prices. These derivatives are classified as Level 2 within the fair value hierarchy.

Guaranteed Fixed Funds—Guaranteed fixed funds are valued using quoted market prices and/or other market data for the same or comparable securities and transactions in establishing the prices, discounted cash flow models, and other pricing methods. These models are primarily industry-standard models that consider various assumptions, including time value and yield curve, as well as other relevant economic measures. Due to the nature of pricing methods utilized, guaranteed fixed funds are classified as Level 2 within the fair value hierarchy.

Pooled Separate Accounts—Assets are represented by a “unit of account.” The redemption value of those units is based on a per unit value whose value is the result of the accumulated values of underlying investments. The underlying investments are valued in accordance with the corresponding valuation method for the investments held. Pooled separate accounts are classified as Level 2 within the fair value hierarchy.

Securities Lending—The security lending collateral is invested in a Northern Trust-sponsored commingled collateral fund, which is composed primarily of short-term securities. The fair value of the commingled collateral fund is determined using the calculated net asset value per share (or its equivalent) for the fund with the underlying securities valued using techniques similar to those used for marketable securities. As security lending is measured at net asset value, it is included separately from the fair value hierarchy in the table below.

Commingled Funds—Commingled funds are valued using the net asset value based on the value of the underlying assets owned by the fund, minus liabilities, multiplied by the current percentage ownership of the fund. The underlying investments are valued in accordance with the corresponding valuation method for the investments held. As commingled funds are measured at net asset value, they are included separately from the fair value hierarchy in the table below.

Hedge Funds—Hedge funds are valued primarily using net asset values, which approximate fair value, as determined by an external fund manager based on quoted market prices, operating results, balance sheet stability, growth, and other business and market sector fundamentals. As investments in hedge funds are measured at net asset value, they are included separately from the fair value hierarchy in the table below.

Limited Partnership and Real Estate Investment Trust (REIT) Interests—Partnership and REIT interests are primarily valued based on the most current financial statements issued by each fund adjusted for cash flow to and from the fund subsequent to

the financial statement reporting date. The underlying investments are valued in accordance with the corresponding valuation method for the investments held. The prices used to generate these valuations are unobservable and therefore are classified as Level 3 within the fair value hierarchy. Limited partnership interests whose underlying securities are publically traded are valued at the closing price reported on the applicable exchange on which the underlying securities are traded and are classified as Level 2 within the fair value hierarchy. A portion of partnership and REIT interests are valued using net asset values, which approximate fair value, as determined by an external fund manager based on quoted market prices, operating results, balance sheet stability, growth and other business and market sector fundamentals.

SSMH may be required, from time to time, to measure certain assets at fair value on a nonrecurring basis in accordance with GAAP. The following describes assets measured at fair value on a nonrecurring basis:

Goodwill—The fair value of goodwill is determined based on valuation methodologies as described in Note 2.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while SSMH believes that its methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

SSMH holds the majority of its financial assets in a pooled investment program, which also includes the investments of its defined benefit plans. The tables below do not reflect actual securities owned by SSMH. The values below represent SSMH's allocated non-pension share of the pooled investment program as well as investments in nonpooled assets.

The following tables summarize assets and liabilities measured at fair value on a recurring basis and nonrecurring basis by the level of significant input:

2017	Level 1	Level 2	Level 3	Total
Recurring fair value measurements:				
Assets:				
Cash and cash equivalents—restricted	\$ 315,731	\$ 43,512	\$ -	\$ 359,243
Corporate obligations	-	259,433	-	259,433
Government securities	-	613,300	-	613,300
Mutual funds:				
Domestic equities	199,037	-	-	199,037
International equities	90,839	-	-	90,839
Fixed income	45,045	-	-	45,045
Equities—domestic	607,387	-	-	607,387
Derivative financial instruments	-	3,569	-	3,569
Limited partnerships	-	143,803	94,111	237,914
Guaranteed fixed funds	-	5,894	-	5,894
Pooled separate accounts	-	6,249	-	6,249
Subtotal	<u>\$ 1,258,039</u>	<u>\$ 1,075,760</u>	<u>\$ 94,111</u>	2,427,910
Investments measured at net asset value:				
Commingled funds:				
Securities lending				50,543
International equities				297,526
Fixed income				199,910
Hedge funds				285,902
Limited partnerships and REIT interests				<u>90,168</u>
Total assets				<u>\$ 3,351,959</u>
Liabilities—interest rate swaps	<u>\$ -</u>	<u>\$ 134,800</u>	<u>\$ -</u>	<u>\$ 134,800</u>
Nonrecurring fair value measurements— goodwill	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

2016	Level 1	Level 2	Level 3	Total
Recurring fair value measurements:				
Assets:				
Cash and cash equivalents—restricted	\$ 347,779	\$ 2,919	\$ -	\$ 350,698
Corporate obligations	-	198,065	-	198,065
Government securities	-	409,326	-	409,326
Mutual funds:				
Domestic equities	218,096	-	-	218,096
International equities	205,286	-	-	205,286
Fixed income	103	-	-	103
Equities—domestic	530,169	-	-	530,169
Derivative financial instruments	-	4,139	-	4,139
Limited partnerships	-	-	38,912	38,912
Guaranteed fixed funds	-	5,790	-	5,790
Pooled separate accounts	<u>-</u>	<u>4,977</u>	<u>-</u>	<u>4,977</u>
Subtotal	<u>\$ 1,301,433</u>	<u>\$ 625,216</u>	<u>\$ 38,912</u>	1,965,561
Investments measured at net asset value:				
Commingled funds:				
Securities lending				45,532
International equities				184,560
Fixed income				159,637
Hedge funds				235,957
Limited partnerships and REIT interests				<u>87,582</u>
Total assets				<u>\$ 2,678,829</u>
Liabilities—interest rate swaps	<u>\$ -</u>	<u>\$ 142,544</u>	<u>\$ -</u>	<u>\$ 142,544</u>
Nonrecurring fair value measurements—goodwill	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

The following table reconciles the information about the fair value of SSMH's financial instruments measured at fair value on a recurring basis presented in the table above to amounts presented in the consolidated balance sheets as of December 31, 2017 and 2016:

	2017	2016
Assets:		
Investments	\$ 88,352	\$ 33,859
Assets limited as to use or restricted—current portion	385,611	334,557
Assets limited as to use or restricted—excluding current portion	2,890,558	2,319,809
Less items not recorded at fair value:		
Unconditional promises to give—net	(5,915)	(3,872)
Other	<u>(6,647)</u>	<u>(5,524)</u>
Total assets	<u>\$ 3,351,959</u>	<u>\$ 2,678,829</u>

It is SSMH's policy that transfers between levels will occur when revised information regarding the lowest level of significant inputs becomes available. There were no transfers between levels during 2017 or 2016.

Changes related to the fair values based on Level 3 inputs for the years ended December 31, 2017 and 2016, are summarized as follows:

	<u>Limited Partnerships</u>	
	<u>2017</u>	<u>2016</u>
Beginning balance	\$ 38,912	\$ 39,148
Realized gains	2,971	6,700
Unrealized losses	(1,244)	(4,489)
Purchases	70,143	13,339
Sales	<u>(16,671)</u>	<u>(15,786)</u>
Ending balance	<u>\$ 94,111</u>	<u>\$ 38,912</u>

The commingled funds, hedge funds, and certain limited partnership and REIT interests are redeemable at net asset value under the original terms of the agreements. However, it is possible that these redemption rights may be restricted or eliminated by the funds in the future in accordance with the underlying fund agreements. Assets recorded at net asset value at December 31, 2017 and 2016, are as follows:

December 31, 2017			
	Fair Value	Redemption Frequency	Redemption Notice Period
Commingled funds ^(a)	\$ 547,979	Daily, semi-monthly, monthly	0–6 days
Hedge funds ^(b)	285,902	Monthly, quarterly, annually	30–90 days
Limited partnerships and REIT interests ^(c)	<u>90,168</u>	Quarterly	45–60 days
Total	<u>\$ 924,049</u>		
December 31, 2016			
	Fair Value	Redemption Frequency	Redemption Notice Period
Commingled funds ^(a)	\$389,729	Daily, semi-monthly, monthly	0–6 days
Hedge funds ^(b)	235,957	Monthly, quarterly, annually	30–90 days
Limited partnerships and REIT interests ^(c)	<u>87,582</u>	Quarterly	45–60 days
Total	<u>\$713,268</u>		

(a) This category includes investments in commingled funds that primarily invest in financial instruments of US and non-US entities, bonds, notes, bills, currencies, and interest rate and derivative products.

- (b) This category includes investments in hedge funds that maintain positions in long-short equity, credit, and derivative securities. A wide variety of investment processes can be employed to arrive at an investment decision, including both quantitative and fundamental techniques, and the managers can maintain net long or net short exposure levels based on market views. The strategy designs a diversified portfolio of managers and strategies with the objective of significantly lowering the risk and volatility of investing with an individual manager.
- (c) This category includes investments in certain limited partnerships and REIT interests that invest in the following: underperforming and distressed real estate assets at well below potential replacement cost and which create significant value-added upside through extensive repositioning and capital improvements; distressed real estate and real estate-related debt, companies, securities, and other assets; high-quality properties in major metropolitan areas; and participating mortgages secured by core real estate properties. Investments in real estate are valued based upon independent appraisals using a cost approach, market approach, or income approach, as well as consideration of other third-party evidence.

SSMH had unfunded commitments to purchase limited partnership interests in the amount of \$146,108 and \$51,416 at December 31, 2017 and 2016, respectively.

8. PROPERTY AND EQUIPMENT

A summary of property and equipment at December 31, 2017 and 2016, is as follows:

	2017	2016
Land and improvements	\$ 184,490	\$ 177,197
Buildings	2,754,421	2,618,719
Equipment	<u>1,292,175</u>	<u>1,241,845</u>
	4,231,086	4,037,761
Less accumulated depreciation	<u>2,152,357</u>	<u>1,979,780</u>
	2,078,729	2,057,981
Real estate held for future development	7,314	8,452
Construction in process	<u>131,117</u>	<u>168,496</u>
Total	<u><u>\$ 2,217,160</u></u>	<u><u>\$ 2,234,929</u></u>

Depreciation expense for the years ended December 31, 2017 and 2016, totaled \$222,032 and \$212,128, respectively.

The book value of equipment under capital lease obligations at December 31, 2017 and 2016, totaled \$28,062 and \$27,371, respectively. The related accumulated depreciation totaled \$7,197 and \$5,254, respectively, at December 31, 2017 and 2016. These amounts are included in the above summary of property and equipment.

9. GOODWILL AND OTHER INTANGIBLE ASSETS

The following table provides information on changes in the carrying amount of goodwill for the years ended December 31, 2017 and 2016:

	2017	2016
Balance—beginning of the period:		
Goodwill	\$ 159,494	\$ 145,533
Accumulated impairment losses	<u>(38,303)</u>	<u>(38,303)</u>
	121,191	107,230
Goodwill acquired during the year	<u>-</u>	<u>13,961</u>
Balance—end of the period:		
Goodwill	159,494	159,494
Accumulated impairment losses	<u>(38,303)</u>	<u>(38,303)</u>
Total	<u><u>\$121,191</u></u>	<u><u>\$121,191</u></u>

SSMH performed its annual goodwill impairment test for its reporting units and no impairments were recognized on goodwill for the years ended December 31, 2017 or 2016.

The following table provides information regarding other intangible assets for the years ended December 31, 2017 and 2016:

	<u>2017</u>		<u>2016</u>	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Amortized intangible assets:				
Software	\$ 332,337	\$ 254,783	\$ 364,262	\$ 262,468
Trade name	119,742	37,641	119,742	29,136
Customer contracts	60,100	13,634	60,100	10,295
Other	<u>3,948</u>	<u>3,048</u>	<u>8,152</u>	<u>6,515</u>
Total	<u><u>\$516,127</u></u>	<u><u>\$309,106</u></u>	<u><u>\$552,256</u></u>	<u><u>\$308,414</u></u>

The weighted-average amortization period for the intangible assets subject to amortization acquired during the year ended December 31, 2017, is approximately 4.6 years. There are no expected residual values related to these intangible assets.

Amortization expenses on these intangible assets was \$60,821 and \$62,383 during the years ended December 31, 2017 and 2016, respectively. There are no other intangible assets that are not subject to amortization.

The estimated future amortization of intangible assets with finite useful lives as of December 31, 2017, is as follows:

Years Ending December 31	
2018	\$46,713
2019	33,338
2020	20,954
2021	16,132
2022	15,455

10. INVESTMENTS IN UNCONSOLIDATED ENTITIES

SSMH included the following income from operations from equity method investments in health care joint ventures for the years ended December 31, 2017 and 2016, as operating revenues:

	2017	2016
Income from operations	\$15,480	\$16,972
Losses from operations	<u>(253)</u>	<u>(156)</u>
Net income from operations	<u>\$15,227</u>	<u>\$16,816</u>

The total carrying amount of cost-method investments was \$5,796 and \$6,077 at December 31, 2017 and 2016, respectively.

During 2013, Premier, Inc., a national health care alliance, issued an initial public offering (IPO). As a result of the IPO, Premier, Inc. acquired under a unit put/call agreement a portion of SSMH's pre-IPO partnership units for \$11,133 and SSMH's remaining investment in Premier, Inc. was converted to Class B common units. In connection with the reorganization, SSMH has the right to exchange one-seventh of its Class B common units to either cash or Class A common stock in each of the subsequent seven years. As the common units become eligible for redemption, SSMH recognizes the gain associated with the redemption to Class A stock, either as a reduction of supply expense prior to the redemption to Class A stock or as unrealized gains subsequent to the redemption. During the year ended December 31, 2017, SSMH recognized \$10,414 as a reduction in supply expense and \$1,086 as unrealized losses. During 2016, SSMH sold 494,595 shares of its Class A stock. During the year ended December 31, 2016, SSMH recognized \$10,224 as a reduction in supply expense, \$1,669 as realized losses and \$2,244 as unrealized losses. SSMH has recorded its remaining common units and membership interest as a cost method investment in unconsolidated entities with a carrying amount of \$796 and \$1,077 at December 31, 2017 and 2016, respectively.

11. BUSINESS ACQUISITIONS

SSMH entered into the following significant acquisition activities during the years ended December 31, 2017 and 2016.

Oncology Practice—Effective October 11, 2017, SSMH purchased the remaining shares of an oncology practice from the noncontrolling owner for \$4,450, consisting of \$3,907 in

cash and \$543 in accounts payable. Prior to the 2017 transaction, SSMH owned a 51% controlling interest and the subsidiary is fully consolidated in these financial statements. As such, there is no gain or loss recognized in the consolidated statements of operations and the change is reflected in SSMH's unrestricted net assets. See Note 19.

SSM St. Clare Surgical Center, LLC—Prior to October 5, 2016, SSMH owned a 29% interest in SSM St. Clare Surgical Center, LLC (Surgical Center), accounted for under the equity method of accounting. SSMH reported its interest in the Surgical Center within investments in unconsolidated entities in the consolidated balance sheets. Effective October 5, 2016, SSMH acquired an additional 30% interest in the Surgical Center, for \$1,466, becoming the majority owner of the Surgical Center. As a result of the acquisition, SSMH recorded related goodwill of \$3,401 and a noncontrolling interest of \$1,198 in the consolidated balance sheets. Results of operations for the business have been included in SSMH's consolidated financial statements subsequent to the date of acquisition.

In connection with the acquisition, the carrying value of SSMH's 29% ownership interest in the Surgical Center was remeasured to fair value resulting in the recognition of a gain of \$1,451 during the year ended December 31, 2016. Additional disclosures and pro forma results of operations for the acquisition of the Surgical Center have not been presented because they are not material to SSMH's consolidated financial statements.

Physicians Surgery Center at DePaul, LLC—Prior to April 8, 2016, SSMH owned a 33% interest in Physicians Surgery Center at DePaul, LLC (ASC), an ambulatory surgery center located in Bridgeton, Missouri. The ownership interest was accounted for under the equity method of accounting and reported within investments in unconsolidated entities in the consolidated balance sheets. On April 8, 2016, SSMH acquired the assets and certain liabilities of the ASC, for consideration of \$11,148 and recorded related goodwill of \$10,560. The results of ASC's operations since the acquisition are included in SSMH's consolidated statements of operations.

In connection with the acquisition, SSMH reported a gain of \$3,716 on its preexisting ownership interest during the year ended December 31, 2016. Additional disclosures and pro forma results of operations for the acquisition of the ASC have not been presented because they are not material to SSMH's consolidated financial statements.

12. DEBT AND CAPITAL LEASE OBLIGATIONS

Debt at December 31, 2017 and 2016, consists of the following:

	2017	2016
Under the Master Indenture:		
Fixed rate:		
Series 2017A Bonds, 3.82%, due in 2027	\$ 500,000	\$ -
Series 2014A Bonds, 4.70%, due serially through 2034 (plus unamortized premium of \$15,511 and \$17,052 at December 31, 2017 and 2016, respectively)	251,546	253,088
Series 2012A Bonds, 3.00%, due serially through 2045	102,640	-
Series 2010A Bonds, 5.05%, due serially through 2034 (plus unamortized premium of \$1,577 and \$1,751 at December 31, 2017 and 2016, respectively)	109,547	109,721
Series 2010B Bonds, 4.80%, due serially through 2034 (plus unamortized premium of \$819 and \$909 at December 31, 2017 and 2016, respectively)	140,784	140,873
Series 2008A Bonds, 5.00%, defeased February 2017, (less unamortized discount of \$2,101 at December 31, 2016)	<u>-</u>	<u>101,899</u>
Total fixed rate debt	<u>1,104,517</u>	<u>605,581</u>
Variable rate:		
Series 2014B-G Variable Rate Demand Bonds, 1.07% to 1.82% at December 31, 2017, due serially through 2044	300,000	300,000
Series 2014H-K Variable Rate Direct Loans, 1.43% to 1.80% at December 31, 2017, due serially through 2045	331,905	331,905
Series 2012A Variable Rate Direct Loans, converted to fixed April 2017	-	104,690
Series 2012B Variable Rate Direct Loans, 1.60% at December 31, 2017, due serially through 2045	68,115	69,465
Series 2002B, Auction Rate Bonds, 2.73% at December 31, 2017, term bonds due between 2018 and 2020	10,200	13,250
Series 1998B, Auction Rate Bonds, 2.33% to 2.73% at December 31, 2017, due serially through 2019	<u>17,100</u>	<u>40,250</u>
Total variable rate debt	727,320	859,560
Taxable debt—Fixed rate direct loan, 2.29% due in annual installments through 2019	84,082	87,405
Deferred financing costs	(8,882)	(6,668)
Note payable to Felician Services, Inc.	43,841	42,935
Surplus notes, 0.89% at December 31, 2017, due in 2022	6,663	6,663
Notes payable, due at various dates through 2029, interest at 4.50%, unsecured	329	369
Capital lease obligations, at varying rates from 3.25% to 10.24% collateralized by leased equipment	<u>22,571</u>	<u>23,963</u>
Total other debt	<u>73,404</u>	<u>73,930</u>
Total debt and capital lease obligations	1,980,441	1,619,808
Less capital lease obligations, excluding current portion	20,988	21,839
Less short-term borrowings	300,000	300,000
Less current portion of long-term debt and capital lease obligations	<u>31,490</u>	<u>35,087</u>
Total long-term debt	<u>\$ 1,627,963</u>	<u>\$ 1,262,882</u>

SSM Health Master Indenture—SSMHCC is a member of the SSM Health Credit Group (the “Credit Group”) and the only obligated group member pursuant to a master trust indenture (amended and restated) dated May 15, 1998. Effective January 1, 2016, SSM-SLUH was designated as a member of the Credit Group. SSMH corporations not included in

the Credit Group include Dean Health Plan and Dean Health Insurance, Inc. (DHI) as well as a variety of entities consisting primarily of foundations, medical office building corporations, employed physician practices, and various other corporations involved in activities supporting SSMH. Certain of SSMH's affiliates are "Designated Affiliates" under the master trust indenture. The net assets of the Designated Affiliates are available to SSMHCC to service all obligations under the master indenture. Various issuing authorities have issued tax-exempt revenue bonds under the master trust indenture. The payment of Series 2002B and 1998B which total \$27,300 and \$53,500 at December 31, 2017 and 2016, respectively, is insured by municipal bond insurance policies. The remaining bonds are uninsured. All master indenture debt is subject to certain debt covenants, including the maintenance of certain financial ratios.

On April 28, 2017, SSMH completed the conversion of the Series 2012A bonds from a variable interest rate to a fixed interest rate. In conjunction with the fixed rate conversion SSMH entered into a total return swap which effectively converts the debt back to a variable rate. See Note 17. This transaction resulted in no new debt for SSMH. SSMH recorded a loss on the extinguishment of debt of \$278 in connection with this issue. The loss is included in nonoperating gains (losses).

On April 19, 2017, SSMH completed the issuance of \$500,000 in taxable fixed rate bonds (Series 2017A). Of the proceeds, \$200,000 was used to pay down taxable commercial paper and the remainder, net of costs of issuance, was added to unrestricted cash and investments.

On February 23, 2017, SSMH completed a full defeasance of the \$104,000 in outstanding Series 2008A bonds through an advanced refunding transaction. SSMH utilized its general revolving line of credit and drew \$110,462 to fund the escrow account and pay costs of issuance. SSMH recorded a loss on the extinguishment of debt of \$8,040 in connection with this issue. The loss is included in nonoperating gains (losses).

On January 4, 2016, SSMH completed the partial redemption of \$1,110 of the Series 2014A, 2014K, 2012B, and 2010B bonds.

Auction Rate Bonds—The debt includes \$27,300 and \$53,500 at December 31, 2017 and 2016, respectively, of variable auction rate bonds. The interest rates on these bonds are reset at regular intervals of 35 days. The bonds are bought and sold at the lowest bid rate at which all of the outstanding bonds can be sold. This rate varies based on market conditions. If there are insufficient orders to purchase all of the bonds available for sale, the rate is set at a maximum rate required by the bond agreement. The maximum rate for SSMH's auction rate bonds is the higher of 175% of the after-tax equivalent rate or the 30-day Tax-exempt Municipal Commercial Paper Index, but no more than 12%.

Variable Rate Bonds—The debt includes \$802,660 and \$806,060 at December 31, 2017 and 2016, respectively, of variable rate bonds. The interest rates on these bonds are reset at daily or longer intervals. The Series 2014 variable rate demand bonds, totaling \$300,000 at December 31, 2017 and 2016, are supported through self-liquidity. The remaining variable rate bonds were issued as funded direct placements that do not require liquidity support.

Surplus Notes—As part of a third-party service agreement, DHI has entered into a surplus note agreement in the amount of \$6,663. Principal and interest repayments must be approved by the Office of the Commissioner of Insurance (OCI) of the State of Wisconsin. Repayment of the note will not occur until the earlier of OCI approval or

18 months after the service agreement termination date of December 31, 2020. Interest is accrued on the outstanding principal balance at the one-year U.S. Treasury securities rate as set on the first business day of the calendar year. The annual interest rate for the years ended December 31, 2017 and 2016, was 0.89% and 0.61%, respectively.

Note Payable to Felician Services, Inc. (FSI)—On July 1, 2007, SSMH entered into an installment note payable to FSI. Under the terms of the agreement, FSI may elect to convert the note to pay status on or after December 31, 2015. SSMH will begin making twenty annual payments on the note, with the first one due one year after FSI has notified SSMH of its election to convert the note to pay status. The fixed interest rate will be equal to the 20-year municipal market data index plus 0.25 on the first day the note is in pay status. As of December 31, 2017, FSI had not elected to convert the note to pay status.

Until the note is in pay status, the principal is adjusted annually based on a specified consumer price index. The principal of the note was adjusted \$906 and \$871 for the years ended December 31, 2017 and 2016, respectively, from the book value at July 1, 2007, which is reflected in interest expense.

Liquidity Agreement—The Series 2014 B-G Variable Rate Demand Bonds are supported through self-liquidity. These series are classified as short-term borrowings based upon these accelerated terms. The contingent payments below reflect these accelerated terms. However, SSMH's contractual payments do not reflect these accelerated terms. If any of these agreements are terminated and not replaced, extended, or renewed, SSMH can be required to purchase the tendered bonds at the specified bank rate in a specified period of time.

Contractual and Contingent Principal Repayments—Contractual and contingent principal repayments on debt and capital lease obligations of SSMH are as follows:

	<u>Debt</u>		<u>Capital Lease Obligations</u>
	<u>Contractual Payments</u>	<u>Contingent Payments</u>	
2018	\$ 29,907	\$ 329,907	\$ 3,374
2019	31,099	31,099	2,939
2020	31,252	31,252	2,932
2021	32,659	32,659	2,882
2022	34,148	34,148	2,862
Thereafter	<u>1,789,780</u>	<u>1,489,780</u>	<u>23,336</u>
	1,948,845	1,948,845	38,325
Plus amount representing net premium	17,907	17,907	
Less amount representing interest under capital lease obligations			<u>15,754</u>
Plus capital lease principal payments	22,571	22,571	<u>\$22,571</u>
Less deferred financing costs	<u>(8,882)</u>	<u>(8,882)</u>	
Total debt and capital lease obligations	<u>\$ 1,980,441</u>	<u>\$ 1,980,441</u>	

Commercial Paper—SSMH utilizes commercial paper supported by self-liquidity for general corporate purposes. Under the program, SSMH is registered to issue up to \$400,000. At December 31, 2017 and 2016, \$200,000 and \$400,000 of commercial was issued. Annual interest rates charged during the year ended December 31, 2017, were 1.40% to 1.70%.

Revolving Line of Credit—SSMH utilizes revolving lines of credit for general corporate purposes. On April 22, 2016, SSMH entered into a \$500,000 364-day revolving line of credit agreement. This agreement was renewed at the same terms on April 17, 2017 and is secured under SSMH's existing master trust indenture. As of December 31, 2017 and 2016, SSMH had borrowings of \$185,462 and \$150,000, respectively, on this line.

Fair Value of Debt—The valuation of the estimated fair value of fixed-rate long-term debt is completed by a third-party service and accepted by management and takes into account a number of factors including, but not limited to, any one or more of the following: general interest rate and market conditions; macroeconomic and/or deal-specific credit fundamentals; valuations of other financial instruments that may be comparable in terms of rating, structure, maturity and/or covenant protection; investor opinions about the respective deal parties; size of the transaction; cash flow projections, which in turn are based on assumptions about certain parameters that include, but are not limited to, default, recovery, prepayment, and reinvestment rates; administrator reports, asset manager estimates, broker quotation, and/or trustee reports; and comparable trades, where observable. Based on the inputs in determining the estimated fair value of debt this liability would be considered Level 2. The fair value of debt approximated \$2,037,000 and \$1,675,001 at December 31, 2017 and 2016, respectively, compared to carrying amounts net of deferred financing costs of \$1,989,323 and \$1,626,477, respectively.

Deferred Financing Costs—Deferred financing costs are amortized using the effective interest rate method over the term of the related obligation.

Cash Paid for Interest—Cash paid for interest totaled \$67,131 and \$58,968 for the years ended December 31, 2017 and 2016, respectively. SSMH capitalized interest costs in the amounts of \$1,913 and \$3,307 in the years ended December 31, 2017 and 2016, respectively.

13. PENSION

SSMH administers several qualified and nonqualified pension plans for its employees. On November 3, 2015, SSMH announced plan changes, effective January 1, 2016, for most of its pension plans. Under the revised plans, employees meeting certain age and length of employment eligibility requirements will continue to earn benefits in the pension plans until December 31, 2020, at which time their pension benefits will be frozen and they will move into SSMH's defined contribution (DC) formula. Employees in these plans that did not meet these eligibility criteria as of January 1, 2016 had their pension benefits frozen as of December 31, 2015, and moved to the DC formula on January 1, 2016. Effective January 1, 2021, no further benefits will be earned in the pension plans.

The following table summarizes the benefit obligations, the fair value of plan assets, and the funded status at December 31, 2017 and 2016:

	2017	2016
Change in projected benefit obligation:		
Projected benefit obligation—beginning of period	\$ 2,204,762	\$ 2,032,907
Service cost, benefits earned during the period	47,478	44,594
Interest costs on projected benefit obligation	89,811	88,136
Actuarial loss	132,705	139,281
Settlements	(2,173)	-
Benefits paid	<u>(98,814)</u>	<u>(100,156)</u>
Projected benefit obligation—end of period	<u>2,373,769</u>	<u>2,204,762</u>
Change in plan assets:		
Fair value of plan assets—beginning of period	1,391,717	1,340,497
Actual return on plan assets	203,612	73,049
Employer contributions	79,885	78,327
Settlements	(2,173)	-
Benefits paid	<u>(98,814)</u>	<u>(100,156)</u>
Fair value of plan assets—end of period	<u>1,574,227</u>	<u>1,391,717</u>
Net amount recognized at end of period and funded status	<u>\$ (799,542)</u>	<u>\$ (813,045)</u>
Accumulated benefit obligation—end of period	<u>\$ 2,338,988</u>	<u>\$ 2,165,881</u>

Under accounting guidelines non-qualified pension plan liabilities are included as plan liabilities, but the investments are not considered to be plan assets. Accordingly, the table above does not include investments with a fair value of \$52,895 and \$48,097 as of December 31, 2017 and 2016, respectively, which are included as assets limited as to use on SSMH's consolidated balance sheets.

The following is a summary of the amounts recognized in the consolidated balance sheets for the years ended December 31, 2017 and 2016:

	2017	2016
Amounts recognized in the consolidated balance sheets consist of:		
Accounts payable and accrued expenses	\$ (4,147)	\$ (3,755)
Long-term pension liability	<u>(795,395)</u>	<u>(809,290)</u>
Net amount recognized	<u>\$ (799,542)</u>	<u>\$ (813,045)</u>
Amounts recognized in unrestricted net assets consist of:		
Beginning of year balance	\$ 816,188	\$ 680,304
Arising during current year—net actuarial loss	43,811	178,022
Actuarial loss recognized due to settlement	(453)	-
Reclassified into net periodic benefit cost:		
Net actuarial loss	(60,778)	(53,354)
Prior service credit	<u>11,216</u>	<u>11,216</u>
End-of-year balance	<u>\$ 809,984</u>	<u>\$ 816,188</u>

The net loss and prior service (credit) cost for the defined benefit pension plans that will be amortized from unrestricted net assets into net periodic benefit costs over the next fiscal year are \$70,432 and \$(11,216), respectively.

The following is a summary of the components of net periodic pension cost for the years ended December 31, 2017 and 2016:

	2017	2016
Service cost, benefits earned during the period	\$ 47,478	\$ 44,594
Interest costs on projected benefit obligation	89,811	88,136
Expected return on plan assets	(114,719)	(111,789)
Amortization of unrecognized:		
Prior service credits	(11,216)	(11,216)
Net loss	<u>60,778</u>	<u>53,354</u>
Net periodic pension cost	72,132	63,079
Settlement	<u>453</u>	<u>-</u>
Total cost, recorded as salaries and benefits	<u>\$ 72,585</u>	<u>\$ 63,079</u>

The following are the actuarial assumptions used by the pension plans to develop the components of pension expense for the years ended December 31, 2017 and 2016:

	2017	2016
Discount rates	4.10 %	4.35 %
Rates of salary increase	3.00	3.00
Return on plan assets	7.75	8.00

The following are the actuarial assumptions used by the pension plans to develop the components of the pension projected benefit obligation as of December 31, 2017 and 2016:

	2017	2016
Discount rates	3.65 %	4.10 %
Rates of salary increase	3.00	3.00

SSMH expects to contribute a minimum of \$80,238 to its pension plans in 2018.

Estimated Future Benefit Payments—The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

	Pension Benefits
2018	\$119,924
2019	134,167
2020	148,495
2021	149,460
2022	147,027
Years 2023–2027	730,178

The actual plan asset allocations and the allocation goals comprise the following investment classifications at December 31, 2017 and 2016:

	2017	2016	Allocation Goals
Cash, cash equivalents, and short-term investments	2 %	1 %	1 %
Equities	48	50	43
Fixed income	18	19	16
Real asset investments	12	12	12
Hedge funds	18	17	18
Private equity	<u>2</u>	<u>1</u>	<u>10</u>
	<u>100 %</u>	<u>100 %</u>	<u>100 %</u>

SSMH's investment objective with respect to pension plans is to produce sufficient current income and capital growth through a portfolio of equity, fixed-income, hedge fund, real

asset and private equity investments, which together with appropriate employer contributions is sufficient to provide for the pension benefit obligations. Within the equity, hedge fund, real asset, and private equity categories are investments in limited partnerships and REIT interests. The assumed return on plan assets is intended to be a long-term rate expected on funds invested or to be invested in accordance with SSMH's asset allocation policy to provide for benefits reflected in the plans' projected benefit obligation. In developing the assumptions, SSMH evaluates input from its actuary and pension fund investment advisors. Pension assets are managed by outside investment managers in accordance with the investment policies and guidelines established by the pension trustees, and are diversified by investment style, asset category, sector, industry, issuer, geographical location, and maturity. Pension assets are rebalanced each quarter to the plan's asset allocation guidelines. SSMH anticipates that its investment managers will continue to generate long-term returns equal to or in excess of its assumed rates.

SSMH holds the majority of the plan's financial assets in a pooled investment program, which also includes the investments included in investments and assets whose use is limited. The tables below do not reflect actual securities owned by the plan. The values below represent the plan's allocated proportionate share of the pooled investment program.

Following is a summary of plan assets by the level of significant input. For description of levels, valuation techniques, and inputs, see Note 7.

2017	Level 1	Level 2	Level 3	Total
Assets:				
Cash equivalents	\$ 26,375	\$ 12,247	\$ -	\$ 38,622
Corporate obligations	-	52,740	-	52,740
Government securities	-	171,921	-	171,921
Mutual funds—international equities	57,349	-	-	57,349
Equities—domestic	409,857	-	-	409,857
Derivative financial instruments	-	1,243	-	1,243
Limited partnerships	<u>-</u>	<u>96,112</u>	<u>109,537</u>	<u>205,649</u>
Subtotal	<u>\$493,581</u>	<u>\$334,263</u>	<u>\$109,537</u>	937,381
Investments measured at net asset value:				
Commingled funds:				
Securities lending				33,319
International equities				198,667
Fixed income				60,970
Hedge funds				261,357
Limited partnerships and REIT interests				<u>115,852</u>
Total assets				1,607,546
Payable under security lending agreement				<u>(33,319)</u>
Fair value of plan assets				<u>\$1,574,227</u>

2016	Level 1	Level 2	Level 3	Total
Assets:				
Cash equivalents	\$ 47,766	\$ 1,218	\$ -	\$ 48,984
Corporate obligations	-	67,247	-	67,247
Government securities	-	129,402	-	129,402
Mutual funds—international equities	154,653	-	-	154,653
Equities—domestic	390,935	-	-	390,935
Derivative financial instruments	-	1,727	-	1,727
Limited partnerships	<u>-</u>	<u>-</u>	<u>51,081</u>	<u>51,081</u>
Subtotal	<u>\$593,354</u>	<u>\$199,594</u>	<u>\$51,081</u>	844,029
Investments measured at net asset value:				
Commingled funds:				
Securities lending				26,793
International equities				140,674
Fixed income				57,873
Hedge funds				237,692
Limited partnerships and REIT interests				<u>111,449</u>
Total assets				1,418,510
Payable under security lending agreement				<u>(26,793)</u>
Fair value of plan assets				<u>\$1,391,717</u>

It is the plan's policy that transfers between levels will occur when revised information regarding the lowest level of significant inputs becomes available. There were no transfers between levels in 2017 or 2016.

Changes related to the fair values based on Level 3 inputs are summarized as follows:

	<u>Limited Partnerships</u>	
	2017	2016
Beginning balance	\$ 51,081	\$51,976
Actual return on plan assets—realized	4,104	8,494
Actual return on plan assets—unrealized	(2,172)	(5,792)
Purchases, sales, and settlements—net	<u>56,524</u>	<u>(3,597)</u>
Ending balance	<u>\$109,537</u>	<u>\$51,081</u>

The commingled funds, hedge funds, and certain limited partnership and REIT interests are redeemable at net asset value under the original terms of the agreements. However, it is possible that these redemption rights may be restricted or eliminated by the funds in the future in accordance with the underlying fund agreements. Assets recorded at net asset value at December 31 are as follows:

December 31, 2017			
	Fair Value	Redemption Frequency	Redemption Notice Period
Commingled funds ^(a)	\$292,956	Daily, semi-monthly, monthly	0–6 days
Hedge funds ^(b)	261,357	Monthly, quarterly, annually	5–90 days
Limited partnerships and REIT interests ^(c)	<u>115,852</u>	Quarterly	45–60 days
Total	<u>\$670,165</u>		
December 31, 2016			
	Fair Value	Redemption Frequency	Redemption Notice Period
Commingled funds ^(a)	\$225,340	Daily, semi-monthly, monthly	0–6 days
Hedge funds ^(b)	237,692	Monthly, quarterly, annually	5–90 days
Limited partnerships and REIT interests ^(c)	<u>111,449</u>	Quarterly	45–60 days
Total	<u>\$574,481</u>		

^(a) This category includes investments in commingled funds that primarily invest in financial instruments of US and non-US entities, bonds, notes, bills, currencies, and interest rate and derivative products.

^(b) This category includes investments in hedge funds that maintain positions in long-short equity, credit and derivative securities. A wide variety of investment processes can be employed to arrive at an investment decision, including both quantitative and fundamental techniques, and the managers can maintain net long or net short exposure levels based on market views. The strategy designs a diversified portfolio of managers and strategies with the objective of significantly lowering the risk and volatility of investing with an individual manager.

^(c) This category includes investments in certain limited partnership and REIT interests that invest in the following: underperforming and distressed real estate assets at well below potential replacement cost and which create significant value-added upside through extensive repositioning and capital improvements; distressed real estate and real estate-related debt, companies, securities, and other assets; high-quality properties in major metropolitan areas; and participating mortgages secured by core real estate properties. Investments in real estate are valued based upon independent appraisals using a cost approach, market approach, or income approach, as well as consideration of other third-party evidence.

The plan had unfunded commitments to purchase limited partnership interests in the amounts of \$174,496 and \$71,932 at December 31, 2017 and 2016, respectively.

Defined Contribution Plans—SSMH contributes to a defined contribution plan for eligible employees based upon a percentage of employee compensation. The expense for this plan was \$26,264 and \$23,207 for 2017 and 2016, respectively, and is included in salaries and benefits. SSMH also sponsors defined contribution plans covering employees who participate in the voluntary tax deferred annuity program and other defined contribution plans and who meet age and service requirements. SSMH's contributions to these plans are based on a percentage of employee compensation or employee contributions. The defined contribution pension expense for these plans was \$38,365 and \$29,975 for 2017 and 2016, respectively, and is included in salaries and benefits.

14. SELF-INSURANCE

Professional and General Liability Insurance—A majority of the members of SSMH participate in the SSMH Liability Trust I or SSMH Liability Trust II (the "Trusts"). Both Trusts are revocable grantor trusts. These Trusts, which cover primary limits of professional and general liability, require annual contributions by participating entities at actuarially determined amounts. All professional and general liability claims and workers' compensation claims are paid from the Trusts subject to certain liability limitations.

SSMH's underlying self-insured retention for professional liability claims is as follows:

	January 1, 2016 to December 31, 2017
Per occurrence limits—Missouri, Oklahoma, and Illinois	\$5,000
Annual aggregate	None

SSMH's hospitals and physicians located in Wisconsin are qualified health care providers as defined by Wisconsin state statutes regarding professional liability coverage and participate in the State of Wisconsin Injured Patients and Families Compensation Fund (PCF). As defined by Wisconsin state statute, these hospitals and physicians have separate professional liability limits of \$1,000 per claim and a \$3,000 annual aggregate applied to each qualified provider. Losses in excess of these amounts are fully covered through mandatory participation in the PCF. SSMH is commercially insured up to these limits for these hospitals and physicians. For any Wisconsin operation not qualified to participate in the PCF, separate commercial limits of liability are purchased; limits and coverages are evaluated annually.

SSMH's underlying self-insured retention for general liability claims is as follows:

	January 1, 2016 to December 31, 2017
Per occurrence limits—Missouri, Oklahoma, Wisconsin, and Illinois	\$3,000
Annual aggregate	None

SSMH maintains reinsurance through a wholly owned captive for professional and general liability claims exceeding the underlying self-insured retention. As of December 31, 2017,

the reinsurance provides coverage up to the limits in the following table. The sublimits that apply are part of and not in addition to the overall policy aggregate limits.

	All Locations
Each loss event	\$ 135,000
Annual aggregate, per location	135,000
Annual aggregate all locations	160,000

The estimated professional and general liability obligation is recorded in the consolidated financial statements at the present value of future cash payments for both asserted and unasserted claims, using a discount rate of 3.0% at December 31, 2017 and 2016. The liability for self-insured reserves represents estimates of the ultimate net cost of all losses and related expenses, which are incurred but not paid at the balance sheet date based on an actuarial valuation. This estimated obligation is \$110,581 and \$100,044 at December 31, 2017 and 2016, respectively, of which \$26,637 and \$23,074 is recorded in accounts payable, accrued expenses, and other current liabilities at December 31, 2017 and 2016, respectively.

The accumulated assets of the Trusts are not available to participating members except to pay covered professional liability claims or to reduce future contributions when warranted by claims experience. In the event the Trusts are ever depleted, the participating members would be required to fund deficiencies based on future actuarial determinations.

DHS retains deductible levels with respect to its professional liability program. For professional liability claims reported on or after July 1, 2004, the per-occurrence deductible level is \$1,000 per defendant, and the annual aggregate deductible level is \$3,000. DHS is contractually obligated to reimburse its insurance carriers for all claims paid under the professional liability policies. The PCF also provides unlimited insurance for amounts in excess of the deductibles. DHS recognized a liability of \$10,500 and \$11,256 at December 31, 2017 and 2016, respectively, of which \$1,550 and \$1,700 is recorded in accounts payable, accrued expenses, and other current liabilities at December 31, 2017 and 2016, respectively.

Workers' Compensation—A majority of the members of SSMH participate in SSMH's centralized self-insured workers' compensation program. Claims in excess of certain liability limitations are covered by commercial insurance. The estimated workers' compensation liability obligation is actuarially determined and recorded in the consolidated financial statements at the present value of future cash payments for both asserted and unasserted claims, using a discount rate of 1.0% at December 31, 2017 and 2016. DHS maintains a fully insured workers' compensation program through commercial insurance.

Employee Health Insurance—A majority of the members of SSMH participate in the SSM Employee Health Care Plan (the "HC Plan"). Each participating member funds an actuarially determined amount for payment of covered benefits and related expenses, which are subject to certain limitations. Claims paid by the HC Plan are included in salaries and benefits expense and include claims paid by the HC Plan to SSMH entities of \$99,439 and \$105,384 for the years ended December 31, 2017 and 2016, respectively. SSM of Wisconsin members are fully insured under Dean Health Plan.

15. ASSET RETIREMENT OBLIGATIONS

SSMH has recorded conditional asset retirement obligations and capitalized retirement costs related to the estimated cost of removing asbestos from its facilities. Federal and state regulations require the removal of asbestos when a building is demolished or, at a minimum, encapsulation of the asbestos when it would be exposed during renovation. The obligation is included in other liabilities, and the capitalized costs are included in property and equipment. The following summarizes the asset retirement obligations at December 31, 2017 and 2016:

	2017	2016
Balance—beginning of the period	\$8,197	\$8,344
Retirements	(421)	(450)
Accretion expense	<u>296</u>	<u>303</u>
Balance—end of the period	<u>\$8,072</u>	<u>\$8,197</u>

16. ENDOWMENTS

Endowments consist of approximately 50 individual funds established for a variety of purposes. They include both donor-restricted endowment funds and funds designated by the boards of trustees or governors of its 15 foundations to function as endowments (board-designated endowment funds). Net assets associated with endowment funds, including board-designated funds, are classified and reported based on the existence or absence of donor-imposed restrictions and the nature of the restrictions, if any.

Endowment Net Asset Composition by Type of Fund as of December 31, 2017	Temporarily			Total
	Unrestricted	Restricted	Permanently Restricted	
Donor-restricted endowment funds	\$ -	\$9,913	\$28,786	\$38,699
Board-designated endowment funds	<u>9,327</u>	<u>-</u>	<u>-</u>	<u>9,327</u>
Total funds	<u>\$9,327</u>	<u>\$9,913</u>	<u>\$28,786</u>	<u>\$48,026</u>

Endowment Net Asset Composition by Type of Fund as of December 31, 2016	Temporarily			Total
	Unrestricted	Restricted	Permanently Restricted	
Donor-restricted endowment funds	\$ -	\$7,060	\$28,254	\$35,314
Board-designated endowment funds	<u>8,622</u>	<u>-</u>	<u>-</u>	<u>8,622</u>
Total funds	<u>\$8,622</u>	<u>\$7,060</u>	<u>\$28,254</u>	<u>\$43,936</u>

Changes in Endowment Net Assets for the Fiscal Year Ended December 31, 2017	Temporarily Permanently			Total
	Unrestricted	Restricted	Restricted	
Endowment net assets—beginning of year	<u>\$8,622</u>	<u>\$7,060</u>	<u>\$28,254</u>	<u>\$43,936</u>
Investment return:				
Investment income	241	1,513	(573)	1,181
Net appreciation (realized and unrealized)	<u>704</u>	<u>1,825</u>	<u>76</u>	<u>2,605</u>
Total investment return	945	3,338	(497)	3,786
Contributions	63	2	1,029	1,094
Appropriation of endowment assets for expenditure	<u>(303)</u>	<u>(487)</u>	<u>-</u>	<u>(790)</u>
Endowment net assets—end of year	<u>\$9,327</u>	<u>\$9,913</u>	<u>\$28,786</u>	<u>\$48,026</u>

Changes in Endowment Net Assets for the Fiscal Year Ended December 31, 2016	Temporarily Permanently			Total
	Unrestricted	Restricted	Restricted	
Endowment net assets—beginning of year	<u>\$8,334</u>	<u>\$6,444</u>	<u>\$25,737</u>	<u>\$40,515</u>
Investment return:				
Investment income	423	849	35	1,307
Net appreciation (realized and unrealized)	<u>47</u>	<u>316</u>	<u>660</u>	<u>1,023</u>
Total investment return	470	1,165	695	2,330
Contributions	124	2	1,822	1,948
Appropriation of endowment assets for expenditure	<u>(306)</u>	<u>(551)</u>	<u>-</u>	<u>(857)</u>
Endowment net assets—end of year	<u>\$8,622</u>	<u>\$7,060</u>	<u>\$28,254</u>	<u>\$43,936</u>

Funds with Deficiencies—From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or current law requires SSMH to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature are reported in unrestricted net assets. There were no such deficiencies as of December 31, 2017 and 2016.

Return Objectives and Risk Parameters—SSMH has investment and spending practices for endowment assets that intend to provide a predictable stream of funding to programs

supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that SSMH must hold in perpetuity or for a donor-specified period(s) as well as board-designated funds. The policy allows the endowment assets to be invested in a manner that is intended to produce results that exceed the price and yield results of the allocation index while assuming a moderate level of investment risk. SSMH expects its endowment funds to provide a rate of return that preserves the gift and generates earnings to achieve the endowment purpose.

Strategies Employed for Achieving Objectives—To satisfy its long-term rate-of-return objectives, SSMH relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and interest and dividend income. SSMH uses a diversified asset allocation to achieve its long-term return objectives within prudent risk constraints to preserve capital.

Spending Policy and how the Investment Objectives Relate to Spending Policy—SSMH has a practice of distributing the major portion of current-year earnings on the endowment funds, if the restrictions have been met. Some of the donor-restricted endowments require a portion of the earnings to increase the corpus of the endowment. This is consistent with the organization's objective to maintain the purchasing power of the endowment assets held in perpetuity as well as to provide additional real growth through new gifts and investment return.

17. DERIVATIVE INSTRUMENTS

SSMH utilizes various interest rate swap contracts to manage the risk of increased interest rates payable of certain variable-rate bonds. None of these swaps has been designated as hedges of the interest payments on outstanding debt obligations for accounting purposes. At December 31, 2017 and 2016, SSMH was a party to fixed-payer interest rate swap agreements, which convert SSMH's variable-rate debt to fixed-rate debt. Additionally, at December 31, 2017 and 2016, SSMH was a party to fixed-spread-basis interest rate swap agreements, in which SSMH pays a fixed rate and receives a percentage of LIBOR plus a spread.

Certain swap agreements require SSMH to provide collateral if SSMH's liability, determined on a mark-to-market basis, exceeds a specified threshold. At December 31, 2017 and 2016, no collateral was required to be provided related to this liability.

As part of its pooled investment program, SSMH holds investments in interest rate swaps and options, credit default swaps and currency futures. This economic hedging is based on investment portfolio exposure to long-only equities, foreign exchange and fixed income. No leverage is utilized for this hedging activity.

The following table shows the outstanding notional amount of derivative instruments measured at fair value as reported in other liabilities and assets whose use is limited in the consolidated balance sheets as of December 31, 2017 and 2016:

December 31, 2017	Recorded on Balance Sheet	Maturity Date of Derivatives	Fixed Rate	Notional Amount Outstanding	Fair Value
Derivatives not designated as hedges—interest rate swaps	Other liabilities	2034–2044	2.81%–5.22%	\$ 1,004,740	\$(134,800)
Derivatives not designated as hedges	Assets limited as to use or restricted				
Credit default swaps		2019-2058		49,580	1,497
Futures		2018		222,474	668
Interest rate swaps		2019-2048	0.75%–2.75%	99,311	862
Options		2018-2019		<u>247,901</u>	<u>542</u>
				<u>619,266</u>	<u>3,569</u>
Total				<u>\$ 1,624,006</u>	<u>\$(131,231)</u>
December 31, 2016	Recorded on Balance Sheet	Maturity Date of Derivatives	Fixed Rate	Notional Amount Outstanding	Fair Value
Derivatives not designated as hedges—interest rate swaps	Other liabilities	2034–2044	2.81%–5.22%	\$ 837,100	\$(142,544)
Derivatives not designated as hedges—derivative financial instruments	Assets limited as to use or restricted	2017-2058	0.0%–3.59%	<u>782,775</u>	<u>4,139</u>
Total				<u>\$ 1,619,875</u>	<u>\$(138,405)</u>

Fair value is based on significant other observable inputs (Level 2) at December 31, 2017 and 2016. The gains and losses related to derivative instruments have been included in the disclosures reported in Note 6.

SSMH's credit derivative instruments are under a master agreement that provides the ability to close out and net the total exposure to a counterparty in the event of a default or other termination events. Counterparty risk is managed by requiring high credit standards for SSMH's counterparties as well as collateral posting requirements. As of December 31, 2017 and 2016, SSMH posted \$3,769 and \$5,520, respectively, of collateral for the credit derivative instruments allocated to SSMH from the pooled investment program. SSMH's interest rate swap agreements allow for net settlements of payment in the normal course as well as offsetting of all contracts with a given counterparty in the event of default or bankruptcy of one of the two parties of the transaction. As of December 31, 2017 and 2016, there was no collateral posted for the interest rate swaps.

The net presentation of SSMH's financial instruments subject to rights of offset are summarized as follows:

Offsetting of Financial and Derivative Assets

Description	Gross Amounts of Recognized Assets	Gross Amounts Offset in the Consolidated Balance Sheets	Net Amounts Presented in the Consolidated Balance Sheets	Gross Amounts Not Offset in the Consolidated Balance Sheets	Net Amount
As of December 31, 2017					
Asset Derivatives—					
Credit Default Swap	\$ 1,497	\$ -	\$ 1,497	\$ -	\$ 1,497
Futures	182,320	(181,652)	668	-	668
Interest rate swaps	1,291	(429)	862	-	862
Options	3,013	(2,471)	542	-	542
As of December 31, 2016—asset derivative financial instruments					
	193,880	(189,741)	4,139	-	4,139

Offsetting of Financial and Derivative Liabilities

Description	Gross Amounts of Recognized Liabilities	Gross Amounts Offset in the Consolidated Balance Sheets	Net Amounts Presented in the Consolidated Balance Sheets	Gross Amounts Not Offset in the Consolidated Balance Sheets	Net Amount
As of December 31, 2017:					
Asset Derivatives—					
Futures	\$ 181,652	\$(181,652)	\$ -	\$ -	\$ -
Interest rate swaps	429	(429)	-	-	-
Options	2,471	(2,471)	-	-	-
Liability Derivatives—interest rate swaps	134,800	-	134,800	-	134,800
As of December 31, 2016:					
Asset derivative financial instruments	189,741	(189,741)	-	-	-
Liability Derivatives—interest rate swaps	142,544	-	-	-	142,544

18. INCOME TAXES

The components of income tax expense for the years ended December 31, 2017 and 2016, are as follows:

	2017	2016
Current tax expense:		
Federal	\$1,270	\$ 923
State	<u>421</u>	<u>195</u>
Income tax expense	<u>\$1,691</u>	<u>\$1,118</u>

Deferred income taxes reflect the tax impact of carryforwards and temporary differences between the financial statement carrying amounts and the tax basis of assets and liabilities. The components of deferred taxes are as follows:

	2017	2016
Assets:		
Net operating loss and credit carryforwards	\$ 256,580	\$ 372,270
Accrued employee compensation	9,250	12,235
Other nondeductible liabilities	10,040	13,772
Uncollectible accounts	1,610	2,771
Other	<u>8,240</u>	<u>6,744</u>
Assets	<u>285,720</u>	<u>407,792</u>
Liabilities:		
Depreciable and amortizable assets	(46,970)	(77,781)
Investment in subsidiaries	(6,290)	(12,650)
Other	<u>(4,750)</u>	<u>(6,165)</u>
Liabilities	<u>(58,010)</u>	<u>(96,596)</u>
Valuation allowance	<u>(227,710)</u>	<u>(311,196)</u>
Net deferred income tax assets	<u>\$ -</u>	<u>\$ -</u>

As of December 31, 2017 and 2016, the deferred income tax benefits were recorded net of a valuation allowance of \$227,710 and \$311,196, respectively, primarily due to net operating loss carryforwards available related to its for-profit subsidiaries, which expire between 2018 and 2036. A valuation allowance was provided because it is more likely than not that the net operating losses will expire unutilized. During the year ended December 31, 2017, SSMH increased the valuation allowance by an additional \$32,137 based on 2017 net losses. SSMH decreased the allowance by \$115,623 as a result of the remeasurement of the valuation allowance from 34% to 21% as a result of the Tax Cuts and Jobs Act which was approved by Congress on December 22, 2017. During the year ended December 31, 2016, SSMH increased the valuation allowance by \$63,312 based on 2016 net losses.

The provision for federal income taxes incurred is different from that which would be obtained by applying the statutory federal income tax rate of 21% to net income before taxes. The significant items causing this difference are the net income of tax exempt subsidiaries, changes in valuation allowances on deferred tax assets, and nondeductible compensation.

SSMH files income tax returns in the US federal jurisdiction and in various state jurisdictions. SSMH is no longer subject to US or state income tax examinations by tax authorities for the years before 2013.

Cash Paid for Income Taxes—Cash paid for income taxes totaled \$1,706 and \$1,599 for the years ended December 31, 2017 and 2016, respectively.

19. NET ASSETS

SSMH reports the noncontrolling interest in the net assets of consolidated subsidiaries as a separate component of the appropriate class of net assets. The reconciliation of noncontrolling interest reported in unrestricted net assets is as follows:

	Total	SSMH Unrestricted Net Assets	Noncontrolling Interest
Unrestricted net assets—January 1, 2016	<u>\$2,057,375</u>	<u>\$1,903,755</u>	<u>\$153,620</u>
Excess of revenues over expenses	99,366	93,525	5,841
Pension-related changes	(135,884)	(135,884)	-
Distributions to noncontrolling owners	(5,602)	-	(5,602)
Net assets released from restrictions	11,177	11,177	-
Noncontrolling interest related to acquisition	1,198	-	1,198
Other—net	<u>1,214</u>	<u>1,214</u>	<u>-</u>
Change in unrestricted net assets	<u>(28,531)</u>	<u>(29,968)</u>	<u>1,437</u>
Unrestricted net assets—December 31, 2016	<u>2,028,844</u>	<u>1,873,787</u>	<u>155,057</u>
Excess (deficit) of revenues over expenses	242,974	246,060	(3,086)
Pension-related changes	6,204	6,204	-
Distributions to noncontrolling owners	(5,909)	-	(5,909)
Net assets released from restrictions	1,595	1,595	-
Purchase of subsidiary from noncontrolling owner	(4,450)	(4,450)	-
Other—net	<u>643</u>	<u>643</u>	<u>-</u>
Change in unrestricted net assets	<u>241,057</u>	<u>250,052</u>	<u>(8,995)</u>
Unrestricted net assets—December 31, 2017	<u>\$2,269,901</u>	<u>\$2,123,839</u>	<u>\$146,062</u>

20. FUNCTIONAL EXPENSES

SSMH provides general health care services to residents within its geographic locations. Expenses related to providing these services are as follows:

	2017	2016
Health care services	\$5,900,972	\$5,748,147
General and administrative	579,933	341,957
Fundraising	<u>10,377</u>	<u>9,055</u>
Total expenses	<u>\$6,491,282</u>	<u>\$6,099,159</u>

21. COMMITMENTS AND CONTINGENT LIABILITIES

Leases for property and equipment that do not meet the criteria for capitalization are classified as operating leases with related rentals charged to operating expense on a straight-line basis over the term of the lease.

The following is a schedule of future minimum lease payments under operating leases as of December 31, 2017, that have initial or remaining lease terms in excess of one year:

2018	\$ 60,272
2019	51,171
2020	40,754
2021	33,245
2021	27,151
Thereafter	<u>83,151</u>
 Total minimum lease payments	 <u>\$295,744</u>

Total rental and lease expense was approximately \$81,623 and \$78,669 in 2017 and 2016, respectively.

SSMH has outstanding letters of credit of \$3,709 and \$3,315 at December 31, 2017 and 2016, respectively. There were no outstanding draws on these letters of credit.

As of December 31, 2017, SSMH has entered into construction projects for new facilities and capital improvements to existing facilities. As of December 31, 2017, SSMH has unmet commitments of approximately \$12,462, which will be financed with board-designated assets, project funds, or cash generated from operations. As part of acquisition agreements in Wisconsin and Missouri, SSMH has committed an additional \$589,373 for facility improvements to be paid out from 2014 to 2020. Of this amount \$48,074 has been spent as of December 31, 2017.

SSMH has entered into certain other income guarantees with outside entities to be paid out from 2018 through 2019, which totaled \$120,661 at December 31, 2017.

During a periodic cost report audit performed by the Medicare Administrative Contractor (MAC) in Oklahoma, the MAC identified potential issues with the calculation of the disproportionate share hospital (DSH) payments paid to SSMH's Oklahoma facility (the Hospital). The issue is related to the Medicare DSH calculation of Medicaid days for child and adolescent patients who received inpatient behavioral health services in acute licensed beds at SAH. The MAC determined that the services provided to those patients were "residential treatment services" (non-acute) and the associated DSH payments should therefore be adjusted accordingly. In 2013, the Centers for Medicare and Medicaid Services (CMS) rendered a ruling for full repayment of the DSH payments received and recognized as revenue attributable to the adolescent psychiatric program for the year ended December 31, 2006. Management anticipated that this ruling would be applied to Cost Report years 2004 to 2013. As of December 31, 2017 and 2016, \$44,511 and \$51,448, respectively, is included in estimated third-party payor settlements payables related to this ruling.

SSMH has engaged external counsel to assist in an appeal process related to the ruling. The Provider Reimbursement Review Board (PRRB) heard the appeal and, in January 2018,

ruled in favor of the Hospital for the 2006 DSH settlement. The decision is still under review and SSMH is continuing the litigation process. Although this new information is in SSMH's favor, the criteria to derecognize the liability has not been met as of December 31, 2017.

In early 2018, the current MAC communicated preliminary audit adjustments related to 2013 and 2014 that indicate they are disallowing additional acute days relating to the DSH calculation. These days were previously accepted by CMS. Given the previous acceptance by CMS of such days and the positive developments in the 2006 DSH matter described above, SSMH does not believe a potential payment related to this issue is probable and therefore, no additional liability has been recorded as of December 31, 2017.

Outside of the matters described above, SSMH is involved in litigation and regulatory investigations arising in the normal course of business. After consultation with legal counsel, it is management's opinion that these matters will be resolved without a material adverse effect on SSMH's consolidated financial position or consolidated results of operations.

22. SUBSEQUENT EVENTS

For the year ended December 31, 2017, SSMH has evaluated subsequent events for potential recognition and disclosure through March 28, 2018, the date the financial statements were issued. During this period, there was the following subsequent event that required recognition or disclosure in the accompanying consolidated financial statements:

Effective January 1, 2018, SSMH and the Congregation of Sisters of St. Agnes (CSA) entered into an agreement that transferred sponsorship of the CSA's Wisconsin-based healthcare ministries, Agnesian HealthCare (Agnesian), based in Fond du Lac, Wis., and Monroe Clinic (Monroe), based in Monroe, Wis., to SSMH. The combined ministries are comprised of four hospitals, eight post-acute facilities, and multiple outpatient care sites in South Central Wisconsin.

As a result of the sponsorship transfer, SSMH's integrated health care delivery network in Wisconsin now extends into Northern Illinois and includes seven hospitals, 10 post-acute facilities, and more than 85 physician offices and other outpatient care sites, as well as a health plan and pharmacy benefit management company. In addition, the health system now has about 14,000 employees and physicians in Wisconsin – and more than 40,000 across the Midwest.

In connection with its acquisition of Agnesian and Monroe, SSMH paid cash consideration of \$75,000 to the CSA. SSMH is waiting for final valuations of the acquired assets and liabilities to complete the necessary disclosures and expects to finalize the valuation and complete the purchase price allocation as soon as practicable but no later than one year from the acquisition date.

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SSM HEALTH CONSOLIDATING SCHEDULES

SSM HEALTH

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

	Credit Group	Other Entities	Eliminations	Total
ASSETS				
CURRENT ASSETS:				
Cash and cash equivalents	\$ 92,391	\$ 34,552	\$ -	\$ 126,943
Investments	32,707	55,645	-	88,352
Current portion of assets limited as to use	221,433	164,178	-	385,611
Patient accounts receivable—less allowance for uncollectible accounts	605,681	22,258	-	627,939
Premium receivable—less allowance for uncollectible accounts	-	9,549	-	9,549
Other receivables	333,597	6,075	(18,757)	320,915
Inventories, prepaid expenses, and other	222,180	1,345	(982)	222,543
Estimated third-party payor settlements	36,607	1,625	-	38,232
Total current assets	<u>1,544,596</u>	<u>295,227</u>	<u>(19,739)</u>	<u>1,820,084</u>
ASSETS LIMITED AS TO USE OR RESTRICTED—Excluding current portion	<u>2,628,565</u>	<u>261,993</u>	<u>-</u>	<u>2,890,558</u>
PROPERTY AND EQUIPMENT—Net	2,153,503	63,657	-	2,217,160
OTHER ASSETS:				
Goodwill	96,867	24,324	-	121,191
Intangible assets—net	172,550	34,471	-	207,021
Investments in unconsolidated entities	289,850	1,079	(183,259)	107,670
Other	12,784	341	-	13,125
Total other assets	<u>572,051</u>	<u>60,215</u>	<u>(183,259)</u>	<u>449,007</u>
TOTAL	<u>\$ 6,898,715</u>	<u>\$ 681,092</u>	<u>\$ (202,998)</u>	<u>\$ 7,376,809</u>
LIABILITIES AND NET ASSETS				
CURRENT LIABILITIES:				
Revolving line of credit	\$ 185,462	\$ 88	\$ -	\$ 185,550
Current portion of long-term debt and capital lease obligations	31,277	213	-	31,490
Accounts payable, accrued expenses, and other current liabilities	1,083,028	151,594	(19,592)	1,215,030
Commercial paper	200,000	-	-	200,000
Short-term borrowings	300,000	-	-	300,000
Unearned premiums	-	30,212	-	30,212
Payable under securities lending agreements	50,076	467	-	50,543
Estimated third-party payor settlements	131,352	32,680	-	164,032
Total current liabilities	1,981,195	215,254	(19,592)	2,176,857
LONG-TERM DEBT—Excluding current portion	1,621,018	6,945	-	1,627,963
ESTIMATED SELF-INSURANCE OBLIGATIONS	86,807	16,998	-	103,805
CAPITAL LEASE OBLIGATIONS—Excluding current portion	15,046	5,942	-	20,988
PENSION LIABILITY	795,395	-	-	795,395
OTHER LIABILITIES	286,907	13,232	-	300,139
Total liabilities	<u>4,786,368</u>	<u>258,371</u>	<u>(19,592)</u>	<u>5,025,147</u>
NET ASSETS:				
Unrestricted:				
Noncontrolling interest in subsidiaries	142,179	3,883	-	146,062
SSMH unrestricted net assets	<u>1,895,150</u>	<u>346,518</u>	<u>(117,829)</u>	<u>2,123,839</u>
Total unrestricted net assets	2,037,329	350,401	(117,829)	2,269,901
Temporarily restricted	46,232	52,156	(45,413)	52,975
Permanently restricted	28,786	20,164	(20,164)	28,786
Total net assets	<u>2,112,347</u>	<u>422,721</u>	<u>(183,406)</u>	<u>2,351,662</u>
TOTAL	<u>\$ 6,898,715</u>	<u>\$ 681,092</u>	<u>\$ (202,998)</u>	<u>\$ 7,376,809</u>

See notes to consolidating schedules.

SSM HEALTH

CONSOLIDATING SCHEDULE—BALANCE SHEET INFORMATION AS OF DECEMBER 31, 2016 (In thousands)

	Credit Group	Other Entities	Eliminations	Total
ASSETS				
CURRENT ASSETS:				
Cash and cash equivalents	\$ 101,752	\$ 65,796	\$ -	\$ 167,548
Investments	12,621	21,238	-	33,859
Current portion of assets limited as to use	223,755	110,802	-	334,557
Patient accounts receivable—less allowance for uncollectible accounts	648,809	22,491	-	671,300
Premium receivable—less allowance for uncollectible accounts	-	8,018	-	8,018
Other receivables	298,941	19,330	(19,688)	298,583
Inventories, prepaid expenses, and other	139,859	4,334	(1,101)	143,092
Estimated third-party payor settlements	<u>22,345</u>	<u>15,904</u>	<u>-</u>	<u>38,249</u>
Total current assets	<u>1,448,082</u>	<u>267,913</u>	<u>(20,789)</u>	<u>1,695,206</u>
ASSETS LIMITED AS TO USE OR RESTRICTED—Excluding current portion	<u>2,092,275</u>	<u>227,534</u>	<u>-</u>	<u>2,319,809</u>
PROPERTY AND EQUIPMENT—Net	2,168,554	66,375	-	2,234,929
OTHER ASSETS:				
Goodwill	96,867	24,324	-	121,191
Intangible assets—net	199,620	44,222	-	243,842
Investments in unconsolidated entities	251,802	3,466	(158,726)	96,542
Other	<u>11,691</u>	<u>298</u>	<u>-</u>	<u>11,989</u>
Total other assets	<u>559,980</u>	<u>72,310</u>	<u>(158,726)</u>	<u>473,564</u>
TOTAL	<u>\$ 6,268,891</u>	<u>\$ 634,132</u>	<u>\$ (179,515)</u>	<u>\$ 6,723,508</u>
LIABILITIES AND NET ASSETS				
CURRENT LIABILITIES:				
Revolving line of credit	\$ 150,000	\$ 125	\$ -	\$ 150,125
Current portion of long-term debt and capital lease obligations	34,906	181	-	35,087
Accounts payable, accrued expenses, and other current liabilities	845,074	196,112	(20,775)	1,020,411
Commercial paper	399,870	-	-	399,870
Short-term borrowings	300,000	-	-	300,000
Unearned premiums	-	23,883	-	23,883
Payable under securities lending agreements	45,192	340	-	45,532
Estimated third-party payor settlements	<u>132,412</u>	<u>25,746</u>	<u>-</u>	<u>158,158</u>
Total current liabilities	1,907,454	246,387	(20,775)	2,133,066
LONG-TERM DEBT—Excluding current portion	1,255,891	6,991	-	1,262,882
ESTIMATED SELF-INSURANCE OBLIGATIONS	82,958	14,508	-	97,466
CAPITAL LEASE OBLIGATIONS—Excluding current portion	15,730	6,109	-	21,839
PENSION LIABILITY	809,290	-	-	809,290
OTHER LIABILITIES	<u>265,723</u>	<u>27,390</u>	<u>-</u>	<u>293,113</u>
Total liabilities	<u>4,337,046</u>	<u>301,385</u>	<u>(20,775)</u>	<u>4,617,656</u>
NET ASSETS:				
Unrestricted:				
Noncontrolling interest in subsidiaries	151,418	3,639	-	155,057
SSMH unrestricted net assets	<u>1,709,547</u>	<u>261,997</u>	<u>(97,757)</u>	<u>1,873,787</u>
Total unrestricted net assets	1,860,965	265,636	(97,757)	2,028,844
Temporarily restricted	42,626	48,068	(41,940)	48,754
Permanently restricted	<u>28,254</u>	<u>19,043</u>	<u>(19,043)</u>	<u>28,254</u>
Total net assets	<u>1,931,845</u>	<u>332,747</u>	<u>(158,740)</u>	<u>2,105,852</u>
TOTAL	<u>\$ 6,268,891</u>	<u>\$ 634,132</u>	<u>\$ (179,515)</u>	<u>\$ 6,723,508</u>

See notes to consolidating schedules.

SSM HEALTH

CONSOLIDATING SCHEDULE—STATEMENT OF OPERATIONS INFORMATION FOR THE YEAR ENDED DECEMBER 31, 2017

(In thousands)

	Credit Group	Other Entities	Eliminations	Total
OPERATING REVENUES AND OTHER SUPPORT:				
Net patient service revenues before provision for uncollectible accounts	\$ 4,909,068	\$ 229,378	(481,919)	\$ 4,656,527
Less provision for uncollectible accounts	<u>(287,100)</u>	<u>(10,678)</u>	<u>-</u>	<u>(297,778)</u>
Net patient service revenues	4,621,968	218,700	(481,919)	4,358,749
Premiums earned	99,077	1,291,375	(71,178)	1,319,274
Investment income	45,650	29,064	-	74,714
Income from unconsolidated entities—net	15,224	3	-	15,227
Other revenue	776,733	296,735	(354,545)	718,923
Net assets released from restrictions	<u>113</u>	<u>10,006</u>	<u>-</u>	<u>10,119</u>
Total operating revenues and other support	<u>5,558,765</u>	<u>1,845,883</u>	<u>(907,642)</u>	<u>6,497,006</u>
OPERATING EXPENSES:				
Salaries and benefits	2,612,302	508,268	(259,282)	2,861,288
Medical claims	-	1,118,606	(534,094)	584,512
Supplies	1,315,753	25,755	-	1,341,508
Professional fees and other	1,203,104	236,527	(94,493)	1,345,138
Interest	65,983	1,744	-	67,727
Depreciation and amortization	<u>263,035</u>	<u>18,802</u>	<u>-</u>	<u>281,837</u>
Total operating expenses	<u>5,460,177</u>	<u>1,909,702</u>	<u>(887,869)</u>	<u>6,482,010</u>
INCOME (LOSS) FROM OPERATIONS BEFORE OTHER ITEMS	98,588	(63,819)	(19,773)	14,996
OTHER ITEMS—Nonrecurring items	<u>9,272</u>	<u>-</u>	<u>-</u>	<u>9,272</u>
OPERATING INCOME AFTER OTHER ITEMS	89,316	(63,819)	(19,773)	5,724
NONOPERATING GAINS (LOSSES):				
Investment income	242,580	16	-	242,596
Loss from early extinguishment of debt	(8,318)	-	-	(8,318)
Change in fair value of interest rate swaps	7,744	-	-	7,744
Other—net	<u>(3,087)</u>	<u>6</u>	<u>-</u>	<u>(3,081)</u>
Total nonoperating gains (losses)—net	<u>238,919</u>	<u>22</u>	<u>-</u>	<u>238,941</u>
EXCESS OF REVENUES OVER EXPENSES BEFORE INCOME TAXES	328,235	(63,797)	(19,773)	244,665
INCOME TAX (BENEFIT) EXPENSE	<u>(1,418)</u>	<u>3,109</u>	<u>-</u>	<u>1,691</u>
EXCESS (DEFICIT) OF REVENUES OVER EXPENSES	329,653	(66,906)	(19,773)	242,974
EXCESS OF REVENUES OVER EXPENSES ATTRIBUTABLE TO NONCONTROLLING INTEREST	<u>(3,705)</u>	<u>619</u>	<u>-</u>	<u>(3,086)</u>
EXCESS (DEFICIT) OF REVENUE OVER EXPENSES—Net of noncontrolling interest	<u>\$ 333,358</u>	<u>\$ (67,525)</u>	<u>\$ (19,773)</u>	<u>\$ 246,060</u>

See notes to consolidating information.

SSM HEALTH

CONSOLIDATING SCHEDULE—STATEMENT OF OPERATIONS INFORMATION FOR THE YEAR ENDED DECEMBER 31, 2016 (In thousands)

	Credit Group	Other Entities	Eliminations	Total
OPERATING REVENUES AND OTHER SUPPORT:				
Net patient service revenues before provision for uncollectible accounts	\$ 4,766,114	\$ 203,464	\$ (462,626)	\$ 4,506,952
Less provision for uncollectible accounts	<u>(277,176)</u>	<u>(9,534)</u>	<u>-</u>	<u>(286,710)</u>
Net patient service revenues	4,488,938	193,930	(462,626)	4,220,242
Premiums earned	92,277	1,284,782	(68,192)	1,308,867
Investment income	17,082	19,485	-	36,567
Income from unconsolidated entities—net	16,076	740	-	16,816
Other revenue	551,668	282,575	(314,599)	519,644
Net assets released from restrictions	<u>168</u>	<u>6,867</u>	<u>-</u>	<u>7,035</u>
Total operating revenues and other support	<u>5,166,209</u>	<u>1,788,379</u>	<u>(845,417)</u>	<u>6,109,171</u>
OPERATING EXPENSES:				
Salaries and benefits	2,483,100	488,496	(248,934)	2,722,662
Medical claims	-	1,074,117	(509,569)	564,548
Supplies	1,134,326	22,862	-	1,157,188
Professional fees and other	1,163,742	240,965	(79,542)	1,325,165
Interest	56,140	1,406	(758)	56,788
Depreciation and amortization	<u>252,794</u>	<u>20,014</u>	<u>-</u>	<u>272,808</u>
Total operating expenses	<u>5,090,102</u>	<u>1,847,860</u>	<u>(838,803)</u>	<u>6,099,159</u>
INCOME (LOSS) FROM OPERATIONS	<u>76,107</u>	<u>(59,481)</u>	<u>(6,614)</u>	<u>10,012</u>
NONOPERATING GAINS (LOSSES):				
Investment income	87,570	(78)	-	87,492
Change in fair value of interest rate swaps	1,766	-	-	1,766
Other—net	<u>1,190</u>	<u>24</u>	<u>-</u>	<u>1,214</u>
Total nonoperating gains (losses)—net	<u>90,526</u>	<u>(54)</u>	<u>-</u>	<u>90,472</u>
EXCESS OF REVENUES OVER EXPENSES BEFORE INCOME TAXES	166,633	(59,535)	(6,614)	100,484
INCOME TAX (BENEFIT) EXPENSE	<u>(17,372)</u>	<u>18,490</u>	<u>-</u>	<u>1,118</u>
EXCESS (DEFICIT) OF REVENUES OVER EXPENSES	184,005	(78,025)	(6,614)	99,366
EXCESS OF REVENUES OVER EXPENSES ATTRIBUTABLE TO NONCONTROLLING INTEREST	<u>5,610</u>	<u>231</u>	<u>-</u>	<u>5,841</u>
EXCESS (DEFICIT) OF REVENUE OVER EXPENSES—Net of noncontrolling interest	<u>\$ 178,395</u>	<u>\$ (78,256)</u>	<u>\$ (6,614)</u>	<u>\$ 93,525</u>

See notes to consolidating information.

SSM HEALTH

NOTES TO CONSOLIDATING SCHEDULES AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

1. PRINCIPLES OF INCLUSION

The Credit Group is made up of SSMHCC and its wholly owned Designated Affiliates as defined in the Master Trust Indenture, including the activities, assets, and liabilities of wholly owned and partially owned subsidiaries that are consolidated under generally accepted accounting principles. The list of Credit Group members includes most DHS entities, but excludes DHP and DHI. The Credit Group does not include SSMH's physician group practices, charitable foundations, SSM-SLUH, and the interests of SSMH in various other minor subsidiaries and ancillary joint ventures that are referred to herein as "Other Entities". In 2017 and 2016, the assets of the Credit Group represented 91% of the consolidated total, and the total operating revenues represented 75% and 74% of the consolidated total, respectively. As of January 1, 2016, SSM-SLUH became part of the Credit Group.

2. PRESENTATION

Entities included in the Credit Group do not reflect their equity interest in Other Entities on their balance sheets, except for beneficial interest in foundations.

3. OBLIGATIONS

Included in Other Entities are certain entities with negative net assets totaling \$63,828 and \$68,036 at December 31, 2017 and 2016, respectively. The Credit Group may be required to provide operating capital to these entities to ensure their solvency.

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