

**MUNICIPAL SECONDARY MARKET DISCLOSURE  
INFORMATION COVER SHEET**

This cover sheet should be sent with all submissions made to the Municipal Securities Rulemaking Board and Nationally Recognized Municipal Securities Information Repositories (NRMSIRS) pursuant to Securities and Exchange Commission rule 15c2-12 or any analogous state statute.

**Issuers' and/or Other Obligated Person's Names:** California Health Facilities Financing Authority, California Adventist Health System/West (CHFFA)  
California Statewide Communities Development Authority  
Adventist Health System/West (CSCDA)  
Multnomah County Hospital Facilities Authority  
Roseville Finance Authority

**CUSIP Numbers:**

CSCDA AHS/W 2007	CHFFA AHS/W 2013 Series A	CSCDA 2015A – cont.	Roseville Finance Authority
Series A      1307957C5	13033LQ91    13033LS73	13080SJB1    13080S JL9	<b>2017 Series B</b>
	13033LR25    13033LR90	13080SJC9    13080SJP0	77781PDC8    77781PDX2
<b>CHFFA AHS/W 2009</b>	13033LR33    13033LS24	13080SJD7    13080SJM7	77781PDD6    77781PDN4
Series B      13033LBC0	13033LR41    13033LS32	13080SJE5	77781PDE4    77781PDP9
	13033LR58    13033LS40	<b>CHFFA AHS/W 2016 Series A</b>	77781PDF1    77781PDQ7
<b>CHFFA AHS/W 2009 Series C</b>	13033LR66    13033LS65	13032UFR4    13032UGB8	77781PDG9    77781PDR5
13033F7Y0    13033F8A1	13033LR74    13033LS57	13032UFS2    13032UGC6	77781PDH7    77781PDS3
13033F7Z7    13033F8B9	13033LR82	13032UFT0    13032UGD4	77781PDJ3    77781PDT1
	<b>CSCDA AHS/W 2015 Series A</b>	13032UFU7    13032UGE2	77781PDK0    77781PDU8
<b>Multnomah County, OR 2009A</b>	13080SHV9    13080SJF2	13032UFV5    13032UGF9	77781PDL8    77781PDV6
62551PBQ9    62551PBS5	13080SHW7    13080SJG0	13032UFW3    13032UGG7	77781PDM6    77781PDW4
62551PBR7	13080SHX5    13080SJH8	13032UFX1    13032UGH5	
	13080SHY3    13080SJJ4	13032UFY9    13032UGJ1	
<b>AHS/W Taxable 2013</b>	13080SHZ0    13080SJK1	13032UFZ6    13032UGK8	
07944AC5	13080SJA3    13080S JN5	13032UGA0    13032UGL6	

Description of Material Event Notice/Financial Information (Check One):

1. \_\_\_\_\_ Principal and interest payment delinquencies
2. \_\_\_\_\_ Non-payment related defaults
3. \_\_\_\_\_ Unscheduled draws on debt service reserves reflecting financial difficulties
4. \_\_\_\_\_ Unscheduled draws on credit enhancements reflecting financial difficulties
5. \_\_\_\_\_ Substitution of credit or liquidity providers, or their failure to perform
6. \_\_\_\_\_ Adverse tax opinions or events affecting the tax-exempt status of the security
7. \_\_\_\_\_ Modifications to rights of security holders
8. \_\_\_\_\_ Bond calls
9. \_\_\_\_\_ Defeasances
10. \_\_\_\_\_ Release, substitution or sale of property securing repayment of the securities
11. \_\_\_\_\_ Rating changes
12. \_\_\_\_\_ Failure to provide annual financial information as required
13. \_\_\_\_\_ Other material event notice
14.   X   Financial information (not to be filed with the MSRB): Please check all appropriate boxes

CAFR <sup>1</sup>: a.   X   includes Annual Financial Information    \_\_\_ does not include Annual Information

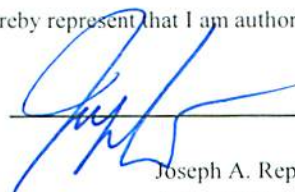
b. Audited?    Yes   X      No \_\_\_

Operating Data

Period Covered:   12   months ended December 31, 2017

I hereby represent that I am authorized by the Obligated Person to distribute this information publicly:

Signature: \_\_\_\_\_



Name: Joseph A. Reppert

Title: Senior Vice President and CFO

Employer: Adventist Health System/West

Address: 2100 Douglas Blvd.

City, State, and Zip Code: Roseville, CA 95661

Voice Telephone Number: 916.781.4757

Adventist Health System/West  
Annual Report: December 31, 2017  
Per Continuing Disclosure Certificates:  
CSCDA 2007 Series A  
CHFFA 2009 Series B and C  
Multnomah County, OR HFA 2009 Series A  
CHFFA 2013 Series A  
Adventist Health System/West Taxable Bonds 2013  
CSCDA 2015 Series A  
CHFFA 2016 Series A  
Roseville Finance Authority 2017 Series B

<b><u>Certificate Reference</u></b>	<b><u>Requirement</u></b>	<b><u>Location</u></b>
Section 3(c)(2)*	Long-term debt disclosure	Tab "Financial Ratios"
Section 3(c)(3)*	Statement regarding accounts receivable liens	Tab "Financial Ratios"
Section 4(a)	Audited combined financial statement	Tab "AH 2017 Audited Financials"
Section 4(b)(1)	Summary Listing of Hospitals	Tab "Operating/Utilization Statistics"
(2)	Combined Summary of Revenues & Expenses <b>Note that 6.2% of Revenues are from entities outside of the Obligated Group</b>	Tab "AH 2017 Audited Financials"
(3)	Combined Balance Sheet <b>Note that 3.5% of Assets are from entities outside of the Obligated Group</b>	Tab "AH 2017 Audited Financials"
(4)	Debt Service Coverage and Capitalization	Tab "Financial Ratios"
(5)	Payor Mix – Obligated Group	Tab "Operating/Utilization Statistics"
(6)	Utilization Statistics – Obligated Group	Tab "Operating/Utilization Statistics"
(7)	Operating Statistics – Obligated Group	Tab "Operating/Utilization Statistics"
Section 4(c)	Combining financial statements	Tab "AH 2017 Audited Financials"

\*Does not apply for CSCDA 2015A and CHFFA 2016A



Consolidated Financial Statements  
and Supplementary Information

*Adventist Health System/West*

Year Ended December 31, 2017  
with Report of Independent Auditors

Audited Consolidated Financial Statements

Adventist Health

December 31, 2017

Audited Consolidated Financial Statements

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Supplementary Information

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## Report of Independent Auditors

The Board of Directors  
Adventist Health System/West

We have audited the accompanying consolidated financial statements of Adventist Health System/West, 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 Financial Statements**

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

### **Auditor's Responsibility**

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity'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 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 financial statements referred to above present fairly, in all material respects, the consolidated financial position of Adventist Health System/West at December 31, 2017 and 2016, and the consolidated results of their operations and changes in net assets, and their cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

*Ernst & Young LLP*

April 20, 2018

**Adventist Health**  
**Consolidated Balance Sheets**  
*(In thousands of dollars)*

	<b>December 31</b>	
	<b>2017</b>	<b>2016</b>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 728,269	\$ 579,659
Marketable securities	137,423	293,802
Assets whose use is limited	46,871	34,800
Patient accounts receivable, net of allowance for uncollectible accounts of approximately \$126,208 and \$117,000 at December 31, 2017 and 2016, respectively	467,210	513,516
Receivables from third-party payors	349,110	206,161
Other receivables	95,286	103,848
Inventories	56,758	53,989
Prepaid expenses and other current assets	34,734	34,834
Assets held for sale	15,846	15,769
Total current assets	1,931,507	1,836,378
Other assets:		
Notes receivable	7,229	21,114
Marketable securities	782,006	623,925
Assets whose use is limited	309,040	311,570
Long-term investments	113,821	91,920
Other long-term assets	59,595	56,611
Total other assets	1,271,691	1,105,140
Property and equipment, net	1,853,850	1,807,776
Total assets	\$ 5,057,048	\$ 4,749,294

**Adventist Health**

**Consolidated Balance Sheets (continued)**

*(In thousands of dollars)*

	<b>December 31</b>	
	<u>2017</u>	<u>2016</u>
<b>Liabilities and net assets</b>		
Current liabilities:		
Accounts payable	\$ 254,056	\$ 244,832
Accrued compensation and related payables	247,642	221,326
Accrued interest	14,439	14,349
Liabilities to third-party payors	52,914	60,580
Other current liabilities	59,137	44,741
Current maturities of long-term debt	<u>37,570</u>	<u>34,073</u>
Total current liabilities	665,758	619,901
Long-term debt, net of current maturities	1,749,655	1,659,348
Other noncurrent liabilities	<u>314,179</u>	<u>342,547</u>
Total liabilities	2,729,592	2,621,796
Net assets:		
Unrestricted	2,251,420	2,042,647
Temporarily restricted	66,678	77,454
Permanently restricted	<u>9,358</u>	<u>7,397</u>
Total net assets	<u>2,327,456</u>	<u>2,127,498</u>
Total liabilities and net assets	<u><u>\$ 5,057,048</u></u>	<u><u>\$ 4,749,294</u></u>

## Adventist Health

### Consolidated Statements of Operations and Changes in Net Assets (In thousands of dollars)

	<b>Year Ended December 31</b>	
	<b>2017</b>	<b>2016</b>
<b>Unrestricted revenues and support:</b>		
Net patient service revenue	<b>\$ 3,809,674</b>	\$ 3,642,451
Less provision for bad debts	<b>85,269</b>	92,271
Net patient service revenue less provision for bad debts	<b>3,724,405</b>	3,550,180
Premium revenue	<b>199,423</b>	161,231
Other revenue	<b>178,670</b>	164,473
Net assets released from restrictions for operations	<b>12,024</b>	13,311
Total unrestricted revenues and support	<b>4,114,522</b>	3,889,195
<b>Expenses:</b>		
Employee compensation	<b>1,888,093</b>	1,823,168
Professional fees	<b>431,327</b>	398,309
Supplies	<b>506,232</b>	498,070
Purchased services and other	<b>874,746</b>	775,673
Interest	<b>45,151</b>	45,585
Depreciation and amortization	<b>165,024</b>	165,604
Total expenses	<b>3,910,573</b>	3,706,409
Income from operations	<b>203,949</b>	182,786
<b>Nonoperating income (loss):</b>		
Investment income	<b>25,516</b>	17,732
Loss on early extinguishment of debt	-	(31,459)
Other nonoperating gains	<b>319</b>	-
Total nonoperating income (loss)	<b>25,835</b>	(13,727)
Excess of revenues over expenses from continuing operations	<b>\$ 229,784</b>	\$ 169,059



**Adventist Health**

**Consolidated Statements of Operations and Changes in Net Assets (continued)**  
*(In thousands of dollars)*

	<b>Year Ended December 31</b>	
	<b>2017</b>	<b>2016</b>
<b>Unrestricted net assets:</b>		
Excess of revenues over expenses from continuing operations (from page 4)	\$ 229,784	\$ 169,059
Net unrealized (losses) gains on other-than-trading securities	(16,047)	5,925
Donated property and equipment	1,887	2,910
Net assets released from restrictions for capital additions	15,228	3,659
Increase in unrestricted net assets before discontinued operations	230,852	181,553
Net loss from discontinued operations	(22,079)	(3,893)
Increase in unrestricted net assets	208,773	177,660
<b>Temporarily restricted net assets:</b>		
Restricted gifts and grants	14,612	24,379
Net realized and unrealized gains on investments	732	61
Change in value of split-interest agreements	1,132	79
Net assets released from restrictions	(27,252)	(16,970)
(Decrease) increase in temporarily restricted net assets	(10,776)	7,549
<b>Permanently restricted net assets:</b>		
Restricted gifts and grants	1,891	169
Net realized and unrealized gains on investments	70	23
Increase in permanently restricted net assets	1,961	192
Increase in net assets	199,958	185,401
Net assets, beginning of year	2,127,498	1,942,097
Net assets, end of year	\$ 2,327,456	\$ 2,127,498

## Adventist Health

### Consolidated Statements of Cash Flows (In thousands of dollars)

	<b>Year Ended December 31</b>	
	<u>2017</u>	<u>2016</u>
<b>Operating activities</b>		
Change in net assets	<b>\$ 199,958</b>	\$ 185,401
Adjustments to reconcile increase in net assets to net cash provided by operating activities of continuing operations:		
Loss from discontinued operations	22,079	3,893
Depreciation and amortization	165,024	165,604
Loss on early extinguishment of debt	-	31,459
Amortization of bond issuance costs and discount/premium	(2,792)	(1,366)
Provision for bad debts	85,269	92,271
Provision for loss on notes receivable	26	3,030
Net realized and unrealized loss (gain) on investments	18,011	(6,112)
Net (gain) loss on sale of property and equipment	(688)	261
Net changes in operating assets and liabilities:		
Patient accounts receivable	(44,266)	(77,652)
Other assets	687	(67,908)
Net receivables to third-party payors	(150,106)	(90,351)
Other liabilities	21,383	124,447
Net cash provided by operating activities of continuing operations	<b>314,585</b>	362,977
<b>Investing activities</b>		
Purchases of property and equipment	(211,900)	(210,309)
Proceeds from sale of property and equipment	4,995	1,277
Issuance of notes receivable	(1,474)	(7,863)
Collections on notes receivable	10,144	9,422
Purchase of investments	(501,071)	(271,799)
Proceeds from sale of investments	449,919	212,161
Net cash used in investing activities of continuing operations	<b>(249,387)</b>	(267,111)
<b>Financing activities</b>		
Proceeds from lines of credit	640,469	164,000
Payments on lines of credit	(662,386)	(150,000)
Proceeds from issuance of long-term debt	150,000	507,706
Payments on long-term debt	(31,486)	(340,847)
Net cash provided by financing activities of continuing operations	<b>96,597</b>	180,859
Cash used in discontinued operations	<b>(13,185)</b>	(4,139)
Increase in cash and cash equivalents	<b>148,610</b>	272,586
Cash and cash equivalents, beginning of year	<u>579,659</u>	<u>307,073</u>
Cash and cash equivalents, end of year	<u><b>\$ 728,269</b></u>	<u><b>\$ 579,659</b></u>

See notes to consolidated financial statements. -6-

## Adventist Health

### Notes to Consolidated Financial Statements (In thousands of dollars)

#### Note A – Summary of Significant Accounting Policies

Reporting Entity and Principles of Consolidation: Adventist Health System/West (“Adventist Health” or the “System”) is a California not-for-profit religious corporation that controls and operates hospitals and other health care facilities in the Western United States. Many of the hospitals now controlled and operated by Adventist Health were formerly operated by various conferences of the Seventh-day Adventist Church (the “Church”). The obligations and liabilities of Adventist Health and its hospitals and other health care facilities are neither obligations nor liabilities of the Church or any of its other affiliated organizations.

The consolidated financial statements include the accounts of the following entities:

- Adventist Health (System Office) - Roseville, California
- Adventist Health Bakersfield - Bakersfield, California
- Adventist Health Castle - Kailua, Hawaii
- Adventist Health Clear Lake - Clearlake, California
- Adventist Health Feather River - Paradise, California
- Adventist Health Glendale - Glendale, California
- Adventist Health Hanford - Hanford, California
- Adventist Health Howard Memorial - Willits, California
- Adventist Health Lodi Memorial - Lodi, California
- Adventist Health Physicians Network - Roseville, California
- Adventist Health Reedley - Reedley, California
- Adventist Health Simi Valley - Simi Valley, California
- Adventist Health Sonora - Sonora, California
- Adventist Health St. Helena - St. Helena, California
- Adventist Health Tehachapi Valley - Tehachapi, California
- Adventist Health Ukiah Valley - Ukiah, California
- Adventist Health White Memorial - Los Angeles, California
- Adventist Medical Center-Portland - Portland, Oregon
- South Coast Medical Center - Roseville, California (discontinued operations)
- Tillamook Regional Medical Center - Tillamook, Oregon
- Walla Walla General Hospital - Roseville, California (discontinued operations)
- Western Health Resources - Roseville, California

## Adventist Health

### Notes to Consolidated Financial Statements – Continued (In thousands of dollars)

#### Note A – Summary of Significant Accounting Policies (continued)

The entities included in the consolidated financial statements are organized as not-for-profit corporations under the laws of the state in which they operate and most are tax-exempt organizations under §501(c)(3) of the Internal Revenue Code. The Board of Directors (the “Board”) of Adventist Health and/or Adventist Health management constitutes the membership and/or serves as the legal board of the individual hospital corporations. All material inter-company transactions have been eliminated in consolidation.

Basis of Accounting: The financial statements are prepared in conformity with U.S. generally accepted accounting principles.

Cash and Cash Equivalents: Cash and cash equivalents consist primarily of unrestricted readily marketable securities with original maturities not in excess of three months when purchased and net deposits in demand accounts. Cash deposits are federally insured in limited amounts.

Inventories: Inventories, which consist principally of medical and other supplies, are stated at the lower of cost or market as determined on a first-in, first-out basis.

Marketable Securities: Marketable securities, stated at fair value, consist primarily of United States (US) government treasury and agency securities and corporate notes, which are readily marketable and are designated as other-than-trading. Investment income or loss (including interest, dividends, and realized gains and losses on investments) is included in the excess of revenues over expenses from continuing operations unless the income or loss is restricted by donor or law. Unrealized gains and losses, calculated using the specific identification method, are excluded from the excess of revenues over expenses from continued operations. Securities with remaining maturity dates of one year or less as of the balance sheet date are classified as current.

Assets Whose Use Is Limited: Certain System investments are limited as to use through Board resolution, provisions of contractual arrangements with third parties, terms of indentures, self-insurance trust arrangements, or donors who restrict the use of specific assets. The Board and certain hospital boards have resolved to fund the replacement and expansion of depreciable capital assets but may, at their discretion, use these funds for other purposes. Assets that are expected to be expended within one year are classified as current, including board-designated assets that are available and periodically borrowed for working capital needs.

Split-interest Agreements: The System is the trustee and beneficiary of various split-interest agreements. The carrying amounts of the System’s split-interest assets are included with investments held by trustee and donor-restricted investments and include marketable securities and real estate. Trust assets are carried at fair value. Assets under split-interest agreements were \$24,876 and \$22,907 at December 31, 2017 and 2016, respectively. Trust obligations are reported in other noncurrent liabilities at their discounted estimated present value using actuarially-determined life expectancy tables. Discount rates range between approximately 6% to 12%. Liabilities under split-interest agreements were \$2,567 and \$2,301 at December 31, 2017 and 2016, respectively.

Goodwill: The System records goodwill as the excess of purchase price and related costs over the fair value of net assets acquired. These amounts are evaluated for impairment annually or when there is an indicator of impairment. If it is determined that goodwill is impaired, the carrying value is reduced. The System recorded goodwill of \$21,505 and \$21,617 at December 31, 2017 and 2016, respectively, which is included in other long-term assets with additions of \$688 and \$535 in 2017 and 2016, respectively.

## Adventist Health

### Notes to Consolidated Financial Statements – Continued (In thousands of dollars)

#### Note A – Summary of Significant Accounting Policies (continued)

Property and Equipment: Property and equipment are reported on the basis of cost, except for donated items, which are recorded as an increase in unrestricted net assets based on fair market value at the date of the donation. During the period of construction, the System capitalizes expenditures and interest costs, net of earnings on invested bond proceeds that materially increase values, change capacities and extend useful lives. The System accrued obligations for property and equipment of \$5,097 and \$1,597 at December 31, 2017 and 2016, respectively.

Management periodically evaluates the carrying amounts of long-lived assets for possible impairment. The System estimates that it will recover the carrying value of long-lived assets from future operations; however, considering the regulatory environment, competition, and other factors affecting the industry, there is at least a reasonable possibility this estimate might change in the near term. The effect of any change could be material.

Depreciation is computed using the straight-line method over the expected useful lives of the assets, which range from 3 to 40 years. Amortization of equipment under capital leases is included in depreciation expense.

Debt Issuance Costs: Debt issuance costs are reported as a reduction of long-term debt and deferred and amortized over the life of the financings using the effective-interest method.

Bond Discounts/Premiums: Bonds payable are included in long-term debt, net of unamortized original issue discounts or premiums. Such discounts or premiums are amortized using the effective interest method based on outstanding principal over the life of the bonds.

Other Noncurrent Liabilities: Other noncurrent liabilities are comprised primarily of accruals for workers' compensation claims, professional and general liability claims, deferred revenue, and long-term charitable gift annuity obligations.

Net Assets: All resources not restricted by donors are included in unrestricted net assets. Resources temporarily restricted by donors for specific operating purposes, or for a period of time greater than one year, are reported as temporarily restricted net assets. When the restrictions have been met, the temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statements of operations and changes in net assets under unrestricted revenues and support. Resources restricted by donors for additions to property and equipment are initially reported as temporarily restricted net assets and are transferred to unrestricted net assets when expended. Resources restricted by donors for nonexpendable endowments are reported as permanently restricted net assets. Investment income from restricted net assets is classified as unrestricted, temporarily restricted, or permanently restricted based on the intent of the donor. Gifts of future interests are reported as temporarily restricted net assets. Gifts, grants, and bequests not restricted by donors are reported as other revenue.

## Adventist Health

### Notes to Consolidated Financial Statements – Continued (In thousands of dollars)

#### Note A – Summary of Significant Accounting Policies (continued)

Net Patient Service Revenue: Net patient service revenue is recognized when services are provided and reported at the estimated net realizable amounts from patients, third-party payors, and others, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered.

Charity Care: The System provides care without charge or at amounts less than its established rates to patients who meet certain criteria under its charity care policy. In assessing a patient's ability to pay, the System uses federal poverty income levels and evaluates the relationship between the charges and the patient's income. The System did not materially change its charity care policy during 2017. The estimated cost of charity care was \$28,764 and \$31,993 in 2017 and 2016, respectively. The costs were determined using cost-to-charge ratios.

Premium Revenue: The System has agreements with various Health Maintenance Organizations (HMOs) to provide medical services to subscribing participants. Under these agreements, the System receives monthly capitation payments based on the number of each HMO's covered participants, regardless of the services actually performed by the System.

Other Revenue: Other revenue is comprised primarily of rental income, retail pharmacy, investment income, electronic health record revenue, and other miscellaneous income.

Functional Expenses: Approximately 86% of total expenses reported in the accompanying consolidated financial statements relate to the provision of health care services in 2017 and 2016. The remaining expenses represent general and administrative support.

Advertising: The System expenses advertising costs as incurred. Advertising expense, included in purchased services and other expenses, was \$17,476 and \$13,452 in 2017 and 2016, respectively.

Income Tax: The Tax Cuts and Jobs Act (Tax Act) was enacted on December 22, 2017. The Tax Act provides for a new excise tax on certain compensation of exempt organizations over \$1,000 and requires the separate calculation of unrelated business taxable income for each trade or business carried on. As of December 31, 2017, the System has not completed its accounting for the tax effects of enacting the Tax Act; therefore, the System continues to account for those items based on existing accounting under Accounting Standards Codification 740, *Income Taxes*, and the provisions of the tax laws that were in effect immediately prior to enactment. The System will continue to make and refine its calculations as additional analysis is completed. In addition, the System estimates may also be affected as the System gains a more thorough understanding of the tax law, as well as receiving guidance from the Internal Revenue Service (IRS) on how these provisions apply to tax-exempt organizations and taxable affiliates.

Income from Operations: The System's consolidated statements of operations and changes in net assets include an intermediate measure of operations, labeled "Income from operations." Items that are considered nonoperating are excluded from income from operations and include investment income and losses, gains and losses on acquisitions and divestitures, and gains and losses on debt refinancings.

## Adventist Health

### Notes to Consolidated Financial Statements – Continued (In thousands of dollars)

#### Note A – Summary of Significant Accounting Policies (continued)

Excess of Revenues Over Expenses: The consolidated statements of operations and changes in net assets include excess of revenues over expenses from continuing operations as a performance indicator. Changes in unrestricted net assets that are excluded from excess of revenues over expenses from continuing operations include unrealized gains and losses on investments in other-than-trading securities, contributions of long-lived assets, use of restricted funds for capital additions, and gains and losses from discontinued operations.

Use of Estimates: The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the US requires management to make estimates and assumptions that affect the reported amounts in the consolidated financial statements and the accompanying notes. Actual results could differ from these estimates.

Reclassifications: Certain 2016 amounts have been reclassified to conform to the 2017 presentation as a result of Walla Walla General Hospital (WWGH) discontinued operations.

#### Note B – Fair Value of Financial Instruments

The System accounts for certain assets at fair value. A fair value hierarchy for valuation inputs has been established to prioritize the valuation inputs into three levels based on the extent to which inputs used in measuring fair value are observable in the market. Each fair value measurement is reported in one of the three levels determined by the lowest level input considered significant to the fair value measurement in its entirety. These levels are defined as:

Level 1: Quoted prices are available in active markets for identical assets as of the measurement date. Financial assets in Level 1 include US treasury securities, domestic and foreign equities, and exchange-traded mutual funds.

Level 2: Pricing inputs are based on quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of the assets. Financial assets in this category generally include government agencies and municipal bonds, asset-backed securities, and corporate bonds.

Level 3: Pricing inputs are generally unobservable for the assets and include situations where there is little, if any, market activity for the investment. The System had no Level 3 investments at December 31, 2017 and 2016.

There were no transfers of financial assets between Level 1 and Level 2 of the fair value hierarchy.

**Adventist Health**

**Notes to Consolidated Financial Statements – Continued**  
*(In thousands of dollars)*

**Note B – Fair Value of Financial Instruments (continued)**

The fair value of the System’s financial assets, measured on a recurring basis at December 31, 2017, consists of the following:

	<b>Quoted Prices in Active Markets for Identical Instruments (Level 1)</b>	<b>Significant Observable Inputs (Level 2)</b>	<b>Totals</b>
	<u>          </u>	<u>          </u>	<u>          </u>
Cash and cash equivalents	\$ 795,838	\$ -	\$ 795,838
US government treasury obligations	335,251	-	335,251
US corporation and agency debentures	-	16,819	16,819
US agency mortgage-backed securities	-	7,623	7,623
Corporate debt securities	-	392,035	392,035
Municipal bonds	-	23,041	23,041
Mutual funds - fixed income	328,382	-	328,382
Mutual funds - equity	67,249	-	67,249
Total financial assets stated at fair value	<u>\$ 1,526,720</u>	<u>\$ 439,518</u>	<u>1,966,238</u>
Commercial real estate			33,857
Other investments			117,335
Total cash and investments			<u><u>\$ 2,117,430</u></u>

Commercial real estate investments are recorded at cost or fair market value if donated. These investments are periodically reviewed for impairment and written down if necessary. Other investments include retirement plan assets, joint ventures, and partnerships.



## Adventist Health

### Notes to Consolidated Financial Statements – Continued (In thousands of dollars)

#### Note B – Fair Value of Financial Instruments (continued)

The fair value of the System’s financial assets, measured on a recurring basis at December 31, 2016, consists of the following:

	<b>Quoted Prices in Active Markets for Identical Instruments (Level 1)</b>	<b>Significant Observable Inputs (Level 2)</b>	<b>Totals</b>
Cash and cash equivalents	\$ 747,986	\$ -	\$ 747,986
US government treasury obligations	322,717	-	322,717
US corporation and agency debentures	-	26,708	26,708
US agency mortgage-backed securities	-	13,448	13,448
Corporate debt securities	-	356,619	356,619
Municipal bonds	-	26,650	26,650
Mutual funds - fixed income	183,877	-	183,877
Mutual funds - equity	117,289	-	117,289
Total financial assets stated at fair value	\$ 1,371,869	\$ 423,425	1,795,294
Commercial real estate			35,954
Other investments			104,428
Total cash and investments			\$ 1,935,676

As of December 31, 2017 and 2016, the Level 2 instruments listed in the fair value hierarchy tables above use the following valuation techniques and inputs:

**US corporation and agency debentures:** The fair value of investments in US corporation and agency debentures classified as Level 2 is primarily determined using consensus pricing methods of observable market-based data. Significant observable inputs include quotes, spreads, and data points for yield curves.

**US agency mortgage-backed securities:** The fair value of US agency mortgage-backed securities classified as Level 2 is primarily determined using matrices. These matrices utilize observable market data of bonds with similar features, prepayment speeds, credit ratings, and discounted cash flows. Additionally, observed market movements, tranche cash flows, and benchmark yields are incorporated in the pricing models.

**Corporate debt securities:** The fair value of investments in corporate debt securities classified as Level 2 is primarily determined using techniques that are consistent with the market approach. Significant observable inputs include reported trades, dealer quotes, security-specific characteristics, and multiple sources of spread data points in developing yield curves.

**Municipal bonds:** The fair value of municipal bonds classified as Level 2 is determined using a market approach. The inputs include yield benchmark curves, prepayment speeds, and observable market data, such as institutional bids, dealer quotes, and two-sided markets.

**Adventist Health**

**Notes to Consolidated Financial Statements – Continued**  
*(In thousands of dollars)*

**Note C – Patient Accounts Receivable**

The System’s primary concentration of credit risk is patient accounts receivable, which consists of amounts owed by various governmental agencies, insurance companies, and self-pay patients. The System manages its receivables by regularly reviewing its patient accounts and contracts and by providing an appropriate allowance for contractual reimbursement, policy discounts, charity, and uncollectible amounts. These allowances are estimated based upon an evaluation of governmental reimbursements, negotiated contracts, and historical payments. The System’s reserve for self-pay patients, including the allowance for uncollectible accounts, charity care, and self-pay discounts, was approximately 95% and 94% of self-pay accounts receivable at December 31, 2017 and 2016, respectively.

The following is a summary of significant concentrations of gross patient accounts receivable:

	<b>December 31</b>	
	<b>2017</b>	<b>2016</b>
Medicare	<u>37.0%</u>	34.9%
Medicaid	<b>31.6</b>	33.0
Other third-party payors	<b>29.1</b>	29.6
Self-pay	<u>2.3</u>	<u>2.5</u>
	<b>100%</b>	<b>100%</b>

**Note D – Assets Whose Use is Limited**

The following is a summary of assets whose use is limited:

	<b>December 31</b>	
	<b>2017</b>	<b>2016</b>
Assets designated by the Board, primarily for property and equipment	<u>\$ 122,248</u>	\$ 119,506
Less portion reported as current	-	(72)
	<b>\$ 122,248</b>	<b>\$ 119,434</b>
Investments held by trustees for:		
Debt service	\$ 13,135	\$ 15,026
Future capital projects	10,815	18,458
Self-insurance programs	176,616	160,677
Charitable annuities and other	<u>6,813</u>	<u>8,145</u>
Total investments held by trustees	<b>207,379</b>	<b>202,306</b>
Less portion reported as current	<u>(46,871)</u>	<u>(31,804)</u>
	<b>\$ 160,508</b>	<b>\$ 170,502</b>
Donor-restricted investments for:		
Charitable trusts and life estate tenancies	\$ 18,120	\$ 16,552
Other purposes	<u>8,164</u>	<u>8,006</u>
Total donor-restricted investments	<b>26,284</b>	<b>24,558</b>
Less portion reported as current	-	(2,924)
	<b>\$ 26,284</b>	<b>\$ 21,634</b>

**Adventist Health**

**Notes to Consolidated Financial Statements – Continued**  
*(In thousands of dollars)*

**Note E – Investment Income**

Net realized investment income, including capital gains, interest, and dividend income, includes the following:

	<b>Year Ended December 31</b>	
	<b>2017</b>	<b>2016</b>
Investment earnings:		
Unrestricted and board-designated funds	\$ 25,516	\$ 17,732
Trustee-held funds:		
Bonds	223	2,514
Self-insurance programs	<u>31,428</u>	<u>2,454</u>
	<u>\$ 57,167</u>	<u>\$ 22,700</u>

For purposes of performance evaluation, management considers investment earnings on bond and self-insurance trustee-held funds to be components of operating income. These earnings are used to pay the operating expenses of interest and insurance and are reported in other revenue. Investment earnings on unrestricted and board-designated funds are components of nonoperating income and are reported on a separate line on the accompanying consolidated financial statements.

Changes in net unrealized gains and losses on other-than-trading securities, reported at fair value, are separately disclosed in the consolidated statements of operations and changes in net assets. Unrealized gains and losses associated with these securities relate principally to market changes in interest rates for similar types of securities. Since the System has the intent and ability to hold these securities for the foreseeable future, and it is more likely than not that the System will not be required to sell the investments before their recovery, the declines are not reported as realized unless they are deemed to be other-than-temporary. In determining whether the losses are other-than-temporary, the System considers the length of time and extent to which the fair value has been less than cost or carrying value, the financial strength of the issuer, and the intent and ability of the System to retain the security for a period of time sufficient to allow for anticipated recovery or maturity.

**Adventist Health**

**Notes to Consolidated Financial Statements – Continued**  
*(In thousands of dollars)*

**Note F – Property and Equipment**

The following is a summary of property and equipment:

	<b>December 31</b>	
	<u>2017</u>	<u>2016</u>
Land and improvements	\$ 221,925	\$ 221,111
Buildings and improvements	2,233,815	2,202,895
Equipment	<u>1,055,760</u>	<u>1,008,268</u>
	3,511,500	3,432,274
Less accumulated depreciation	<u>(1,917,573)</u>	<u>(1,770,231)</u>
	1,593,927	1,662,043
Construction in progress	<u>259,923</u>	<u>145,733</u>
	<u>\$ 1,853,850</u>	<u>\$ 1,807,776</u>

The System has commitments to complete certain construction projects approximating \$186,698 (unaudited) at December 31, 2017.

The System is in the process of developing internal use software for clinical and financial operations. Depreciation expense for the software totaled \$15,408 and \$15,479 in 2017 and 2016, respectively. Amounts capitalized are included in property and equipment as follows:

	<b>December 31</b>	
	<u>2017</u>	<u>2016</u>
Equipment	\$ 208,577	\$ 195,322
Less accumulated depreciation	<u>(124,582)</u>	<u>(109,382)</u>
	83,995	85,940
Construction in progress	<u>44,717</u>	<u>31,503</u>
	<u>\$ 128,712</u>	<u>\$ 117,443</u>

## Adventist Health

### Notes to Consolidated Financial Statements – Continued (In thousands of dollars)

#### Note G – Long-Term Debt

A master note under the master bond indenture provides security for substantially all long-term debt. Under the terms of the master bond indenture, substantially all System consolidated entities are jointly and severally obligated for the payments to be made under the master note. In addition, security is provided by a combination of bond insurance, funds held in trust of \$13,135, and bank letters of credit aggregating to \$82,026 at December 31, 2017. Bonds are not secured by any property of the System.

The System is obligated under variable rate demand instruments, which are subject to certain market risks. The letters of credit, which the System intends to renew on a long-term basis, expire between 2019 and 2022 with the arrangements converting any unpaid amounts to term loans due within three years after conversion. The term loans would bear interest based on prime or the London Interbank Offered Rate (LIBOR). Long-term debt has been issued primarily on a tax-exempt basis.

The fair value of the System's long-term debt, including current maturities, is estimated based on quoted market prices for the same or similar issues or on the current rates offered to the System for debt of the same remaining maturities. The fair value of long-term debt was \$1,851,137 and \$1,678,380 at December 31, 2017 and 2016, respectively. Based on the inputs and valuation techniques, the fair value of long-term debt is classified as Level 2 within the fair value hierarchy.

Certain financing agreements impose limitations on the issuance of new debt by the System and require it to maintain specified financial ratios.

Interest paid, net of amounts capitalized, totaled \$49,380 and \$44,747 in 2017 and 2016, respectively. Interest capitalized totaled \$3,810 and \$3,211 in 2017 and 2016, respectively.

The System recorded operating lease expense amounting to \$51,137 and \$48,921 in 2017 and 2016, respectively.

The System was in compliance with its debt covenants at December 31, 2017.

In December 2017, the System entered into taxable term loan agreements for variable direct placement debt in the amount of \$150,000.

In September 2016, the System issued \$280,010 of new bonds through the California Health Facilities Financing Authority (CHFFA) for the purpose of refinancing its 1998 CHFFA Series A, 2007 California Statewide Communities Development Authority (CSCDA) Series B, and 2009 CHFFA Series A bonds, as well as the 2007 CSCDA Series A bonds issued by Lodi Memorial Hospital. These bond issues were refinanced with proceeds from the 2016 CHFFA Series A bonds, assets in trustee-held reserve accounts of the refinanced bonds, and a cash contribution. The 1998 CHFFA Series A bonds were called and redeemed on October 8, 2016. The other three bond series were legally defeased with assets placed in an irrevocable trust and derecognized at the date of refunding. The extinguishment and defeasance of these bond issues resulted in a loss on refinancing of \$31,459.

**Adventist Health**

**Notes to Consolidated Financial Statements – Continued**  
*(In thousands of dollars)*

**Note G – Long-Term Debt (continued)**

The following is a summary of long-term debt and capital lease obligations:

	<b>Year Ended December 31</b>	
	<b>2017</b>	<b>2016</b>
Long-term bonds payable, with fixed rates currently ranging from 2.00% to 5.25%, payable in installments through 2045	<b>\$ 849,720</b>	\$ 866,785
Long-term bonds payable, with rates that vary with market conditions, payable in installments through 2041	<b>252,040</b>	258,085
Long-term notes payable, with fixed rates primarily ranging from 2.45% to 7.50%, payable in installments through 2046	<b>360,471</b>	365,742
Long-term notes payable, with rates that vary with market conditions, payable in installments through 2047	<b>280,883</b>	155,394
Net unamortized debt issuance costs and original issue premium	<b>43,966</b>	47,102
	<b>1,787,080</b>	1,693,108
Capital lease obligations	<b>145</b>	313
	<b>1,787,225</b>	1,693,421
Less current maturities	<b>(37,570)</b>	(34,073)
	<b>\$ 1,749,655</b>	\$ 1,659,348

Scheduled maturities of long-term debt, capital lease obligations, and minimum lease payments on noncancelable operating leases with initial terms in excess of one year are as follows for the year ended December 31, 2017:

	<b>Long-term Debt and Capital Leases</b>	<b>Operating Leases</b>
2018	\$ 34,874	\$ 24,185
2019	34,937	15,000
2020	42,581	10,872
2021	76,453	8,742
2022	142,782	7,040
Thereafter	1,411,632	35,052
	<b>\$ 1,743,259</b>	<b>\$ 100,891</b>

**Adventist Health**

**Notes to Consolidated Financial Statements – Continued**  
*(In thousands of dollars)*

**Note H – Restricted Net Assets**

Net assets are restricted for the following purposes:

	<b>Year Ended December 31</b>	
	<b>2017</b>	<b>2016</b>
Temporarily restricted:		
Equipment and buildings	\$ 35,779	\$ 39,934
Patient care, education, research, and other	25,537	34,447
Time-restricted trusts held for unrestricted purposes	5,362	3,073
	\$ 66,678	\$ 77,454
Permanently restricted endowments	\$ 9,358	\$ 7,397

**Note I – Patient Service Revenue**

Patient service revenue after contractual allowances and discounts and before provisions for bad debts, by major payor sources, was as follows:

	<b>Year Ended December 31</b>	
	<b>2017</b>	<b>2016</b>
Medicare	\$ 1,352,244	\$ 1,320,100
Medicaid	1,256,042	1,149,042
Others	1,201,388	1,173,309
Net patient service revenue	\$ 3,809,674	\$ 3,642,451

The System has agreements with third-party payors that provide for payments to the System at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, fee schedules, and per diem payments. The health care industry is subject to complex laws and regulations of federal, state, and local governments. Compliance with such laws and regulations can be subject to future government review and interpretation, as well as regulatory actions unknown or unasserted at this time. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government health care program participation requirements, reimbursement laws and regulations, anti-kickback and anti-referral laws and false claims prohibitions, and in the case of tax-exempt hospitals, the requirements of tax-exemption. In recent years, government activity has increased with respect to investigations and allegations concerning possible violations of reimbursement, false claims, anti-kickback, and anti-referral statutes and regulations by health care providers. The System operates a compliance program, which reviews compliance with government health care program requirements and investigates allegations of non-compliance received from internal and external sources. From time to time, findings may result in repayment of monies previously received from government payors and/or commercial payors and payment of penalties. As a result, there is at least a reasonable possibility that the recorded estimates may change by a material amount in the near term.

**Adventist Health**

**Notes to Consolidated Financial Statements – Continued**  
*(In thousands of dollars)*

**Note I – Patient Service Revenue (continued)**

Differences between original estimates and subsequent revisions are recognized in the period in which the revisions are made. Subsequent revisions compared favorably to original estimates by approximately \$23,301 and \$29,866 for the years ended December 31, 2017 and 2016, respectively.

The System recorded revenue from state programs for serving a disproportionate share of Medicaid and low-income patients in the amount of \$42,920 and \$52,917 in 2017 and 2016, respectively, including final settlements on prior years.

The State of California enacted legislation for a hospital fee program to fund certain Medi-Cal coverage expansions. The program charges hospitals a quality assurance fee that is used to obtain federal matching funds for Medi-Cal with the proceeds redistributed as supplemental payments to California hospitals that treat Medi-Cal patients. There are two hospital fee programs that had activity in 2016 and 2017: a 36-month hospital fee program covering the period from January 1, 2014 through December 31, 2016, and a 30-month hospital fee program covering the period from January 1, 2017 through June 30, 2019. Historically, the System’s policy was to record revenue and expense upon approval of the program. During 2017, the System determined that, for all hospital fee programs through 2017, the supplemental payments met all criteria related to revenue recognition and the quality assurance fees are both probable and estimatable. Accordingly, all related supplemental payments have been recognized as revenue and related quality assurance fees have been recognized as expense as of December 31, 2017. The System recorded a net benefit of \$168,559 during the fourth quarter of 2017, with \$70,818 from the 36-month program, and \$97,741 from the 30-month program. Federal and state payments received from these programs are included in net patient revenue, and fees paid or payable to the state and California Health Foundation and Trust (CHFT) are included in purchased services and other expenses, as follows:

	<b>Year Ended December 31</b>	
	<b>2017</b>	<b>2016</b>
Net patient service revenue	<b>\$ 508,307</b>	\$ 346,116
Purchased services and other expenses:		
Quality assurance fees	<b>193,783</b>	165,785
CHFT fees (net refund)	<b>3,114</b>	(60)
Total purchased services and other expenses	<b>196,897</b>	165,725
Income from operations	<b>\$ 311,410</b>	\$ 180,391

Accrued net receivables related to the quality assurance programs are included in receivables from third-party payors, and amounted to \$285,484 and \$132,882 as of December 31, 2017 and 2016, respectively.



## Adventist Health

### Notes to Consolidated Financial Statements – Continued (In thousands of dollars)

#### Note J – Retirement Plan

Most of the System’s operating entities participate in a single defined contribution plan (the “Plan”). The Plan is exempt from the Employee Retirement Income Security Act of 1974. The Plan provides, among other things, that the employer will contribute 3% of wages plus additional amounts for employees earning more than the Social Security wage base capped by the IRS compensation limit for the Plan year. Additionally, the Plan provides that the employer will match 50% of the employee’s contributions up to 4% of the contributing employee’s wages. Substantially all full-time employees who are at least 18 years of age are eligible for coverage in the Plan. The cost to the System for the Plan is included in employee compensation in the amount of \$57,763 and \$48,603 for the years ended December 31, 2017 and 2016, respectively.

Effective September 2016, the System implemented new deferred compensation agreements (the “Agreements”) with ten executives. The Agreements are structured such that the System will have no future obligation to fund any additional amounts beyond an initial \$34,500 that was set aside to fund the premium payments on various split-dollar life insurance policies. The cash flows received by the executives following their retirement will be funded with loans taken against the life insurance contracts, which can be drawn by the executives post-retirement. Related to this transaction, the System has recorded \$14,300 and \$14,700 as prepaid insurance contracts at December 31, 2017 and 2016, respectively, and \$15,500 and \$14,800 of cash surrender value in other assets at December 31, 2017 and 2016, respectively. The System recorded \$5,000 of investment expense in the 2016 consolidated financial statements. The compensation expense in 2017 and 2016 related to the Agreements was not material.

#### Note K – Self-Insurance Liability Programs

The System has established a separate self-insured revocable trust (the “System Trust”) that covers the System’s entities for professional and general liability claims up to \$7,500 per occurrence and \$22,500 in aggregate. The System contracts with Adhealth, Limited (Adhealth), a Bermuda company, to provide excess coverage for professional and general liability claims that exceed the self-insured revocable trust limits. Adhealth provided excess coverage with aggregate and per claim limits of \$132,500 for professional and general liability claims for the year ended December 31, 2017, and \$107,500 for professional liability claims and \$132,500 for general liability claims for the year ended December 31, 2016. Adhealth has purchased reinsurance through commercial insurers for 100% of the excess limits of coverage.

Claim liabilities (reserves) for future losses and related loss adjustment expenses for professional liability claims have been determined by an actuary at the present value of future claim payments using a 2% discount rate for program years 2017 and 2016. Such claim reserves are based on the best data available to the System; however, these estimates are subject to a significant degree of inherent variability. Accordingly, there is at least a reasonable possibility that a material change to the estimated reserves will occur in the near term. The System Trust’s accrued liability for professional and general liability claims is included in the consolidated balance sheets in the amount of \$139,682 and \$143,029 at December 31, 2017 and 2016, respectively.

The System has a 50% ownership position in Adhealth at December 31, 2017 and 2016, and accounts for its investment using the equity method of accounting. The cost of acquiring commercial insurance by Adhealth is reflected as an expense in the consolidated statements of operations and changes in net assets.

## Adventist Health

### Notes to Consolidated Financial Statements – Continued (In thousands of dollars)

#### Note K – Self-Insurance Liability Programs (continued)

The System maintains a self-insured workers' compensation plan to pay for the cost of workers' compensation claims. The System has entered into an excess insurance agreement with an insurance company to limit its losses on claims. The cost of workers' compensation claims is accrued using actuarially determined estimates that are based on historical factors. Such claim reserves are based on the best data available to the System; however, these estimates are subject to a significant degree of inherent variability. Accordingly, there is at least a reasonable possibility that a material change to the estimated reserves will occur in the near term.

Workers' compensation claim liabilities have been determined by an actuary at the present value of future claim payments using a 2% discount rate for program years 2017 and 2016. The System's accrued liability for workers' compensation claims is recorded in the consolidated balance sheets in the amount of \$68,019 and \$72,910 at December 31, 2017 and 2016, respectively.

#### Note L – Related-Party Transactions

The System had transactions with organizations that are considered related parties. The amounts receivable from related parties are reported in the accompanying consolidated financial statements as other receivables of \$10,266 and \$7,902 and notes receivable of \$6,294 and \$17,341 at December 31, 2017 and 2016, respectively.

#### Note M – Commitments and Contingencies

Certain member organizations are involved in litigation and investigations arising in the ordinary course of business. In addition, certain member organizations in the ordinary course of business identified matters that they have reported to the Centers for Medicare & Medicaid Services (CMS), CMS contractors, or Medicaid/Medi-Cal contractors. Such disclosures typically involve simple repayment of affected claims; however, federal and state contractors may refer these matters to the Department of Health and Human Services' Office of Inspector General to investigate whether certain member organizations have submitted false claims to the Medicare and Medicaid programs or have violated other laws. Submission of false claims or violation of other laws can result in substantial civil and/or criminal penalties and fines, including treble damages and/or possible debarment from future participation in such programs. The System is committed to cooperating in such investigations as they arise. Although management does not believe these matters will have a material adverse effect on the System's consolidated financial position, there can be no assurance that this will be the case.

In November of 2017, the System began an internal investigation of an issue that may have affected the quality of patient admissions documentation. Once identified, measures were taken to ensure that, on a go forward basis, the issue does not affect the quality of such documentation. The System is currently undertaking a detailed review to assess the number and kinds of claims that have been paid as a result of this issue that may require disclosure to the related payors. At this time, the System cannot quantify whether there is a need for any repayment or the amount of any such repayment. The System is continuing its investigation and will take all steps necessary to ensure it is compliant with claims processing and compliance reporting requirements. There can be no assurance that the resolution of this matter will not have a material adverse effect on the consolidated financial position or results of operations.

## Adventist Health

### Notes to Consolidated Financial Statements – Continued (In thousands of dollars)

#### Note N – FEMA Financial Grants

Several of the System’s hospitals are located in areas of frequent earthquake activity and have sustained damage from earthquakes in the past. Three System hospitals received \$156,150 of grant funds from the Federal Emergency Management Agency (FEMA) for repair of damage and seismic structural upgrades, and all of these funds were recorded in the accompanying consolidated financial statements in years prior to 2017.

FEMA grant funds received for capitalized expenditures are accounted for as an exchange transaction and are reported as deferred revenue. Deferred revenue of \$83,821 and \$88,542 at December 31, 2017 and 2016, respectively, is recorded as other noncurrent liabilities. After completion of a project, the related deferred revenue is amortized over the expected useful life of the asset and recorded as other revenue. Amortization of deferred revenue totaled \$4,721 and \$4,842 for the years ended December 31, 2017 and 2016, respectively.

#### Note O – Discontinued Operations

In April 2017, management committed to a plan to either transfer the assets of WWGH to another healthcare entity or to discontinue operating the hospital and sell its non-financial assets. As a result of this plan, operations ceased and WWGH was removed from the Obligated Group in July 2017. Accordingly, all WWGH activity is reflected in the consolidated statements of operations and changes in net assets as a component of net loss from discontinued operations, and the applicable assets, primarily property and equipment, are reported in the consolidated balance sheets as assets held for sale. No further depreciation was recorded subsequent to the commitment date. All assets held for sale as of December 31, 2017, were subsequently sold in March 2018.

#### Note P – Lease of Adventist Health Medical Center Tehachapi Valley

In 2016, the System entered into an agreement with Tehachapi Valley Healthcare District (the “District”) to take over the operations of the hospital for a period of 30 years, beginning November 1, 2016. A new hospital is currently under construction, and is expected to be completed by the summer of 2018. The terms of the agreement specify that the System will pay the District the remaining construction costs of the new hospital. As a result of the investment during the construction period, the System was considered to be the owner of the building during the construction period under Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 840, *Leases*. As of December 31, 2017, the System had paid \$28,309, which is included in property and equipment on the accompanying consolidated financial statements. The System estimates that the remaining cost to complete the hospital is \$13,020 (unaudited).

#### Note Q – New Accounting Pronouncements

In August 2016, the FASB issued ASU No. 2016-14, *Not-for-Profit Entities* (Topic 958): *Presentation of Financial Statements of Not-for-Profit Entities*. The new guidance simplifies and improves the face of the financial statements and enhances the disclosures in the footnotes of not-for-profit entities (NFPs). The most significant change is that net assets will now be reported in two classes: net assets without donor restrictions and net assets with donor restrictions. Other simplifications and improvements will be made on how NFPs present information about liquidity, financial performance, and cash flows. The System is evaluating the potential impact of this guidance, which will be effective in 2018.

## Adventist Health

### Notes to Consolidated Financial Statements – Continued (In thousands of dollars)

#### Note Q – New Accounting Pronouncements (continued)

In February 2016, the FASB issued ASU No. 2016-02, *Leases* (Topic 842). The amendments in this update require lessees to put most leases onto the balance sheet. This guidance aims to increase transparency and comparability among organizations by recognizing lease assets and liabilities and increasing disclosure requirements about leasing arrangements. The System is evaluating the potential impact of this guidance, which will be effective in 2019.

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers* (Topic 606), which will supersede virtually all revenue recognition guidance in U.S. GAAP. The new standard provides accounting guidance for all revenue arising from contracts with customers and affects all entities that enter into contracts to provide goods or services to their customers (unless the contracts are in the scope of other U.S. GAAP requirements). The guidance also provides a model for the measurement and recognition of gains and losses on the sale of certain non-financial assets, such as property and equipment, including real estate. The effective date for this standard was delayed with the issuance of ASU No. 2015-14, *Revenue from Contracts with Customers* (Topic 606), and will be effective in 2018. The System adopted this guidance as of the January 1, 2018, effective date, using the full retrospective method of transition. The System primarily used a portfolio approach to apply the new model to classes of customers with similar characteristics. The impact of adopting the new standard on the System's 2017 and 2016 total revenues and results of operations is not material, as the analysis of its contracts under the new guidance supports the recognition of revenue consistent with its current revenue recognition model.

#### Note R – Subsequent Events

In 2017, the System entered into an Affiliation Agreement with The Fremont-Rideout Health Group, located in Marysville, California, to become the sole member of The Fremont-Rideout Health Group. This agreement was approved by the State's Attorney General in March 2018. The affiliation was effective April 1, 2018. This acquisition will expand the System's mission in the Northern California Region.

Adventist Health Center-Portland and Oregon Health and Science University (OHSU) entered into a Health System Agreement, an Operating Agreement, and an Academic Affiliation Agreement, effective January 1, 2018. This agreement makes OHSU and the System a unified clinical system in the Portland metropolitan market with a shared certain financial metrics. The affiliation applies to OHSU's Portland-area clinical services and activities and Adventist Medical Center-Portland. The agreements do not include OHSU's non-metro area clinical activities and services or the other System hospitals. Under the agreement, each organization will retain its existing hospital licenses, employees, and ownership of assets.

The System has evaluated subsequent events and disclosed all material events through April 20, 2018, the date the accompanying consolidated financial statements were issued.



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## Report of Independent Auditors on Supplementary Information

The Board of Directors  
Adventist Health System/West

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying consolidating financial statement schedules for Adventist Health System/West is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the 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 financial statements or to the financial statements themselves, and other additional procedures in accordance with the auditing standards generally accepted in the United States. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

*Ernst & Young LLP*

April 20, 2018

**Adventist Health**  
**Consolidating Balance Sheets**  
(In thousands of dollars)  
**December 31, 2017**

	<b>Consolidated Balances</b>	<b>Adjustments and Eliminations</b>	<b>Adventist Health System Office</b>	<b>Adventist Health Bakersfield</b>	<b>Adventist Health Castle</b>	<b>Adventist Health Clear Lake</b>	<b>Adventist Health Feather River</b>	<b>Adventist Health Glendale</b>	<b>Adventist Health Hanford</b>	<b>Adventist Health Howard Memorial</b>	<b>Adventist Health Lodi Memorial</b>
<b>Assets</b>											
Current assets:											
Cash and cash equivalents	\$ 728,269	\$ (599,503)	\$ -	\$ 116,275	\$ 98,838	\$ 8,567	\$ 17,999	\$ 69,729	\$ 224,075	\$ 16,256	\$ 35,753
Marketable securities	137,423	-	136,456	-	409	-	-	558	-	-	-
Assets whose use is limited	46,871	5,476	28,887	952	772	240	373	2,293	1,666	137	-
Patient accounts receivable, net of allowance for uncollectible accounts	467,210	(547)	1	49,671	24,147	7,581	23,319	58,709	29,221	8,037	32,407
Receivables from third-party payors	349,110	-	-	-	1,413	23,671	44,382	27,562	62,894	8,247	14,975
Other receivables	95,286	5,586	59,635	1,297	842	1,613	1,129	712	692	-	901
Intra-system financing receivables	-	(248,049)	21,184	19,081	24,039	2,346	3,853	13,355	46,155	3,834	21,191
Inventories	56,758	-	-	5,899	3,320	1,076	3,619	5,817	4,240	1,096	4,568
Prepaid expenses and other current assets	34,734	-	21,901	910	748	243	471	1,761	1,319	241	1,134
Assets held for sale	15,846	-	-	-	-	-	-	-	-	-	-
<b>Total current assets</b>	<b>1,931,507</b>	<b>(837,037)</b>	<b>268,064</b>	<b>194,085</b>	<b>154,528</b>	<b>45,337</b>	<b>95,145</b>	<b>180,496</b>	<b>370,262</b>	<b>37,848</b>	<b>110,929</b>
Other assets:											
Intra-system financing receivables	-	(22,259)	-	53	-	-	473	701	12,372	-	-
Notes receivable	7,229	-	6,494	-	-	4	200	-	-	-	129
Marketable securities	782,006	-	782,006	-	-	-	-	-	-	-	-
Assets whose use is limited	309,040	(32,189)	154,006	691	10,634	1,281	5,778	4,750	8,199	848	600
Long-term investments	113,821	-	93,696	-	7,374	-	77	201	2,137	-	-
Other long-term assets	59,595	21,554	10,469	287	13	36	-	6,533	318	-	3,143
<b>Total other assets</b>	<b>1,271,691</b>	<b>(32,894)</b>	<b>1,046,671</b>	<b>1,031</b>	<b>18,021</b>	<b>1,321</b>	<b>6,528</b>	<b>12,185</b>	<b>23,026</b>	<b>848</b>	<b>3,872</b>
Property and equipment:											
Land and improvements	221,925	-	34,938	12,812	32,097	10,665	14,345	7,790	12,198	1,784	16,063
Buildings and improvements	2,233,815	-	10,985	169,735	135,200	32,808	92,586	406,564	238,002	59,962	134,178
Equipment	1,055,760	-	271,709	94,359	34,842	16,896	41,845	81,473	79,705	20,455	24,789
	3,511,500	-	317,632	276,906	202,139	60,369	148,776	495,827	329,905	82,201	175,030
Less: accumulated depreciation	(1,917,573)	-	(178,394)	(144,726)	(109,151)	(32,629)	(96,076)	(297,008)	(162,170)	(21,111)	(32,454)
	1,593,927	-	139,238	132,180	92,988	27,740	52,700	198,819	167,735	61,090	142,576
Construction in progress	259,923	-	81,811	5,044	22,256	4,103	2,796	6,300	23,380	47	1,715
<b>Property and equipment, net</b>	<b>1,853,850</b>	<b>-</b>	<b>221,049</b>	<b>137,224</b>	<b>115,244</b>	<b>31,843</b>	<b>55,496</b>	<b>205,119</b>	<b>191,115</b>	<b>61,137</b>	<b>144,291</b>
<b>Total assets</b>	<b>\$ 5,057,048</b>	<b>\$ (869,931)</b>	<b>\$ 1,535,784</b>	<b>\$ 332,340</b>	<b>\$ 287,793</b>	<b>\$ 78,501</b>	<b>\$ 157,169</b>	<b>\$ 397,800</b>	<b>\$ 584,403</b>	<b>\$ 99,833</b>	<b>\$ 259,092</b>

See accompanying auditors' report on supplementary information.

<b>Adventist Health Physicians Network</b>	<b>Adventist Health Reedley</b>	<b>Adventist Health Simi Valley</b>	<b>Adventist Health Sonora</b>	<b>Adventist Health St. Helena</b>	<b>Adventist Health Tehachapi Valley</b>	<b>Adventist Health Ukiah Valley</b>	<b>Adventist Health White Memorial</b>	<b>Adventist Medical Center Portland</b>	<b>South Coast Medical Center</b>	<b>Tillamook Regional Medical Center</b>	<b>Walla Walla General Hospital</b>	<b>Western Health Resources</b>
\$ 7,684	\$ 25,645	\$ 12,707	\$ 108,525	\$ 32,939	\$ 1,790	\$ 73,545	\$ 315,729	\$ 131,066	\$ 829	\$ 25,206	\$ (469)	\$ 5,084
-	-	-	-	-	-	-	-	-	-	-	-	-
-	224	515	997	1,120	-	674	1,070	380	13	293	-	789
3,623	23,440	20,125	28,653	25,580	5,310	15,268	49,697	35,409	-	16,245	1,683	9,631
-	20,082	-	19,539	11,812	2,400	19,031	88,055	3,950	-	326	771	-
245	1,162	284	2,345	7,734	3,811	134	4,141	2,554	-	-	314	155
22,147	2,355	8,083	4,751	13,988	312	6,732	12,867	13,895	-	5,796	1,438	647
315	501	2,671	4,077	4,666	240	2,673	5,599	4,664	-	1,717	-	-
-	198	1,130	359	920	127	343	1,380	1,405	-	116	-	28
-	-	-	-	-	-	-	-	-	-	-	15,846	-
34,014	73,607	45,515	169,246	98,759	13,990	118,400	478,538	193,323	842	49,699	19,583	16,334
-	-	1,266	-	1,293	-	-	-	6,101	-	-	-	-
-	-	-	-	-	-	-	-	-	-	402	-	-
-	-	-	-	-	-	-	-	-	-	-	-	-
-	-	1,530	5,194	21,976	886	3,088	115,578	5,779	-	411	-	-
-	-	2,327	-	-	-	500	7,509	-	-	-	-	-
48	9,949	2,267	434	-	-	173	350	3,171	-	-	-	850
48	9,949	7,390	5,628	23,269	886	3,761	123,437	15,051	-	813	-	850
-	400	12,683	12,095	20,382	-	2,352	9,586	18,998	-	2,737	-	-
-	14,081	167,432	72,403	145,910	-	39,305	293,348	193,396	-	27,675	-	245
-	16,637	38,477	40,507	61,889	1,212	22,330	91,961	101,708	-	14,656	-	310
-	31,118	218,592	125,005	228,181	1,212	63,987	394,895	314,102	-	45,068	-	555
-	(13,641)	(90,225)	(70,019)	(146,903)	(81)	(38,158)	(238,871)	(211,945)	-	(33,575)	-	(436)
-	17,477	128,367	54,986	81,278	1,131	25,829	156,024	102,157	-	11,493	-	119
-	3,415	4,395	29,558	6,580	29,531	33,579	2,742	2,360	-	311	-	-
-	20,892	132,762	84,544	87,858	30,662	59,408	158,766	104,517	-	11,804	-	119
\$ 34,062	\$ 104,448	\$ 185,667	\$ 259,418	\$ 209,886	\$ 45,538	\$ 181,569	\$ 760,741	\$ 312,891	\$ 842	\$ 62,316	\$ 19,583	\$ 17,303

**Adventist Health**  
**Consolidating Balance Sheets – Continued**  
(In thousands of dollars)  
**December 31, 2017**

	<b>Consolidated Balances</b>	<b>Adjustments and Eliminations</b>	<b>Adventist Health System Office</b>	<b>Adventist Health Bakersfield</b>	<b>Adventist Health Castle</b>	<b>Adventist Health Clear Lake</b>	<b>Adventist Health Feather River</b>	<b>Adventist Health Glendale</b>	<b>Adventist Health Hanford</b>	<b>Adventist Health Howard Memorial</b>	<b>Adventist Health Lodi Memorial</b>
<b>Liabilities and net assets</b>											
Current liabilities:											
Accounts payable	\$ 254,056	\$ 16,039	\$ 98,962	\$ 15,836	\$ 6,833	\$ 2,418	\$ 2,097	\$ 23,056	\$ 10,171	\$ 3,138	\$ 7,032
Accrued compensation and related payables	247,642	(16,584)	116,528	14,172	10,337	3,702	6,590	18,313	11,969	2,740	8,941
Accrued interest	14,439	(591)	14,870	-	-	-	-	-	-	-	9
Liabilities to third-party payors	52,914	-	-	4,621	2,119	1,557	-	10,678	3,368	1,640	5,246
Other current liabilities	59,137	(265,262)	118,969	13,806	25,205	(221)	1,428	4,908	24,686	671	24,763
Other short-term financing	-	(593,918)	593,918	-	-	-	-	-	-	-	-
Current maturities of long-term debt	37,570	-	6,866	2,120	1,408	1,480	1,732	4,605	4,588	487	4,660
Total current liabilities	665,758	(860,316)	950,113	50,555	45,902	8,936	11,847	61,560	54,782	8,676	50,651
Long-term debt, net of current maturities	1,749,655	(22,261)	481,584	82,127	62,128	57,600	72,961	173,552	220,246	26,358	135,682
Other noncurrent liabilities	314,179	12,646	152,479	3,970	3,263	1,268	2,696	33,834	7,718	469	4,463
Total liabilities	2,729,592	(869,931)	1,584,176	136,652	111,293	67,804	87,504	268,946	282,746	35,503	190,796
Net assets:											
Unrestricted	2,251,420	-	(48,467)	191,889	170,434	10,747	67,223	120,567	300,074	63,885	67,649
Temporarily restricted	66,678	-	75	3,799	5,420	(50)	2,442	8,006	1,583	445	647
Permanently restricted	9,358	-	-	-	646	-	-	281	-	-	-
Total net assets	2,327,456	-	(48,392)	195,688	176,500	10,697	69,665	128,854	301,657	64,330	68,296
Total liabilities and net assets	\$ 5,057,048	\$ (869,931)	\$ 1,535,784	\$ 332,340	\$ 287,793	\$ 78,501	\$ 157,169	\$ 397,800	\$ 584,403	\$ 99,833	\$ 259,092



<b>Adventist Health Physicians Network</b>	<b>Adventist Health Reedley</b>	<b>Adventist Health Simi Valley</b>	<b>Adventist Health Sonora</b>	<b>Adventist Health St. Helena</b>	<b>Adventist Health Tehachapi Valley</b>	<b>Adventist Health Ukiah Valley</b>	<b>Adventist Health White Memorial</b>	<b>Adventist Medical Center Portland</b>	<b>South Coast Medical Center</b>	<b>Tillamook Regional Medical Center</b>	<b>Walla Walla General Hospital</b>	<b>Western Health Resources</b>
\$ 2,529	\$ 3,395	\$ 3,052	\$ 8,813	\$ 8,718	\$ 608	\$ 8,965	\$ 18,319	\$ 10,163	\$ -	\$ 2,120	\$ 221	\$ 1,571
2,591	3,978	6,385	8,985	8,220	1,184	5,091	16,154	10,778	84	3,285	979	3,220
-	56	9	-	4	-	-	-	-	-	-	78	4
-	1,389	5,239	711	988	777	300	10,542	3,739	-	-	-	-
28,160	11,959	4,035	5,134	10,278	1,242	11,471	20,259	14,748	46	1,004	871	977
-	-	-	-	-	-	-	-	-	-	-	-	-
-	249	3,238	2,492	2,047	377	884	190	80	-	67	-	-
33,280	21,026	21,958	26,135	30,255	4,188	26,711	65,464	39,508	130	6,476	2,149	5,772
-	19,302	108,350	77,123	54,025	42,395	44,689	29,229	80,271	-	3,444	-	850
341	1,285	14,600	5,598	3,257	119	1,410	55,550	2,199	4,138	459	-	2,417
33,621	41,613	144,908	108,856	87,537	46,702	72,810	150,243	121,978	4,268	10,379	2,149	9,039
441	62,785	40,316	145,087	90,724	(1,389)	103,348	606,576	186,269	(3,426)	51,873	16,691	8,124
-	50	443	5,475	25,791	225	5,405	3,912	2,063	-	64	743	140
-	-	-	-	5,834	-	6	10	2,581	-	-	-	-
441	62,835	40,759	150,562	122,349	(1,164)	108,759	610,498	190,913	(3,426)	51,937	17,434	8,264
\$ 34,062	\$ 104,448	\$ 185,667	\$ 259,418	\$ 209,886	\$ 45,538	\$ 181,569	\$ 760,741	\$ 312,891	\$ 842	\$ 62,316	\$ 19,583	\$ 17,303

**Adventist Health**  
**Consolidating Statement of Operations and Changes in Net Assets**  
(In thousands of dollars)  
**December 31, 2017**

	<b>Consolidated Balances</b>	<b>Adjustments and Eliminations</b>	<b>Adventist Health System Office</b>	<b>Adventist Health Bakersfield</b>	<b>Adventist Health Castle</b>	<b>Adventist Health Clear Lake</b>	<b>Adventist Health Feather River</b>	<b>Adventist Health Glendale</b>	<b>Adventist Health Hanford</b>	<b>Adventist Health Howard Memorial</b>	<b>Adventist Health Lodi Memorial</b>
<b>Unrestricted revenues and support:</b>											
Net patient service revenue	\$ 3,809,674	\$ (120,046)	\$ -	\$ 423,586	\$ 173,622	\$ 91,582	\$ 215,872	\$ 461,127	\$ 328,784	\$ 60,464	\$ 243,303
Less provision for bad debts	85,269	-	-	8,388	6,534	2,842	5,689	10,102	8,327	2,326	11,709
Net patient service revenue less provision for bad debts	3,724,405	(120,046)	-	415,198	167,088	88,740	210,183	451,025	320,457	58,138	231,594
Premium revenue	199,423	-	-	-	1,742	10,828	-	-	15,151	5,292	2,474
Other revenue	178,670	(464,026)	493,379	5,256	12,230	3,879	19,754	16,772	5,247	1,907	4,004
Net assets released from restrictions for operations	12,024	-	-	387	628	326	314	1,301	262	13	49
Total unrestricted revenues and support	4,114,522	(584,072)	493,379	420,841	181,688	103,773	230,251	469,098	341,117	65,350	238,121
<b>Expenses:</b>											
Employee compensation	1,888,093	(136,148)	321,446	162,367	84,031	43,423	94,684	203,604	125,728	28,681	101,409
Professional fees	431,327	-	48,953	27,823	8,221	15,754	26,862	21,173	22,641	6,334	28,610
Supplies	506,232	-	(16,929)	68,308	29,595	6,136	33,640	62,894	36,205	8,866	26,972
Purchased services and other	874,746	(447,924)	174,860	120,097	41,834	20,109	54,987	165,656	80,612	11,831	64,995
Interest	45,151	(6,289)	16,252	2,310	(211)	1,685	1,935	5,547	5,465	754	4,176
Depreciation and amortization	165,024	-	22,691	13,688	7,480	3,280	6,592	18,502	13,816	5,584	11,814
Total expenses	3,910,573	(590,361)	567,273	394,593	170,950	90,387	218,700	477,376	284,467	62,050	237,976
Income (loss) from operations	203,949	6,289	(73,894)	26,248	10,738	13,386	11,551	(8,278)	56,650	3,300	145
<b>Nonoperating income (loss):</b>											
Investment income (loss)	25,516	(6,289)	7,015	1,867	973	105	322	791	3,748	341	604
Other nonoperating gains	319	-	131	-	-	-	-	-	-	-	-
Total nonoperating income (loss)	25,835	(6,289)	7,146	1,867	973	105	322	791	3,748	341	604
Excess (deficiency) of revenues over expenses from continuing operations	\$ 229,784	\$ -	\$ (66,748)	\$ 28,115	\$ 11,711	\$ 13,491	\$ 11,873	\$ (7,487)	\$ 60,398	\$ 3,641	\$ 749

See accompanying auditors' report on supplementary information.

<b>Adventist Health Physicians Network</b>	<b>Adventist Health Reedley</b>	<b>Adventist Health Simi Valley</b>	<b>Adventist Health Sonora</b>	<b>Adventist Health St. Helena</b>	<b>Adventist Health Tehachapi Valley</b>	<b>Adventist Health Ukiah Valley</b>	<b>Adventist Health White Memorial</b>	<b>Adventist Medical Center Portland</b>	<b>South Coast Medical Center</b>	<b>Tillamook Regional Medical Center</b>	<b>Walla Walla General Hospital</b>	<b>Western Health Resources</b>
\$ 62,930	\$ 193,877	\$ 150,934	\$ 251,721	\$ 228,642	\$ 23,197	\$ 129,157	\$ 462,408	\$ 305,056	\$ -	\$ 84,914	\$ -	\$ 38,544
-	2,455	2,838	2,621	1,986	653	2,713	5,026	8,703	-	2,357	-	-
62,930	191,422	148,096	249,100	226,656	22,544	126,444	457,382	296,353	-	82,557	-	38,544
3,805	666	-	-	28,521	17	46,133	33,666	51,128	-	-	-	-
20,583	4,473	2,547	9,795	7,008	61	2,579	15,394	14,968	-	1,104	-	1,756
-	22	170	582	2,837	-	16	4,914	137	-	56	-	10
87,318	196,583	150,813	259,477	265,022	22,622	175,172	511,356	362,586	-	83,717	-	40,310
28,996	66,642	73,168	111,746	94,604	14,683	57,534	166,481	171,978	-	42,106	-	30,930
51,989	33,601	5,363	29,551	26,186	3,681	24,601	27,039	12,150	-	8,055	-	2,740
13,051	10,023	18,510	41,006	41,306	1,365	18,776	54,130	42,407	-	8,648	-	1,323
(7,000)	37,914	47,382	51,118	89,975	2,971	50,044	169,656	125,580	-	15,904	-	4,145
-	826	4,171	741	4,129	901	500	5	2,064	-	(3)	-	193
342	4,038	7,761	5,811	9,088	94	2,768	18,395	11,396	-	1,948	-	(64)
87,378	153,044	156,355	239,973	265,288	23,695	154,223	435,706	365,575	-	76,658	-	39,267
(60)	43,539	(5,542)	19,504	(266)	(1,073)	20,949	75,650	(2,989)	-	7,059	-	1,043
66	188	4	1,728	277	38	1,440	9,425	2,383	-	488	-	2
-	-	-	-	1	-	-	-	2	-	-	-	185
66	188	4	1,728	278	38	1,440	9,425	2,385	-	488	-	187
\$ 6	\$ 43,727	\$ (5,538)	\$ 21,232	\$ 12	\$ (1,035)	\$ 22,389	\$ 85,075	\$ (604)	\$ -	\$ 7,547	\$ -	\$ 1,230

**Adventist Health**  
**Consolidating Statement of Operations and Changes in Net Assets – Continued**  
(In thousands of dollars)  
**December 31, 2017**

	<u>Consolidated Balances</u>	<u>Adjustments and Eliminations</u>	<u>Adventist Health System Office</u>	<u>Adventist Health Bakersfield</u>	<u>Adventist Health Castle</u>	<u>Adventist Health Clear Lake</u>	<u>Adventist Health Feather River</u>	<u>Adventist Health Glendale</u>	<u>Adventist Health Hanford</u>	<u>Adventist Health Howard Memorial</u>	<u>Adventist Health Lodi Memorial</u>
<b>Unrestricted net assets:</b>											
Excess (deficiency) of revenues over expenses											
from continuing operations	\$ 229,784	\$ -	\$ (66,748)	\$ 28,115	\$ 11,711	\$ 13,491	\$ 11,873	\$ (7,487)	\$ 60,398	\$ 3,641	\$ 749
Net unrealized (losses) on other-than-trading securities	(16,047)	-	(16,047)	-	-	-	-	-	-	-	-
Donated property and equipment	1,887	-	-	283	-	1,242	-	-	-	-	-
Net assets released from restrictions for capital additions	15,228	-	94	45	605	17	62	151	5	10	-
Transfers from (to) related parties	-	-	(25,930)	(23,301)	(21,363)	(1,137)	2,629	(10,072)	(45,818)	(3,234)	(7,700)
Increase (decrease) in unrestricted net assets before discontinued operations	230,852	-	(108,631)	5,142	(9,047)	13,613	14,564	(17,408)	14,585	417	(6,951)
Net loss from discontinued operations	(22,079)	-	(3,269)	-	-	-	-	-	-	-	-
Increase (decrease) in unrestricted net assets	208,773	-	(111,900)	5,142	(9,047)	13,613	14,564	(17,408)	14,585	417	(6,951)
<b>Temporarily restricted net assets:</b>											
Restricted gifts and grants	14,612	-	97	397	859	-	(405)	1,752	507	49	134
Net realized and unrealized gains on investments	732	-	-	-	-	-	137	37	-	-	-
Change in value of split-interest agreements	1,132	-	-	-	159	-	953	20	-	-	-
Net assets released from restrictions	(27,252)	-	(94)	(432)	(1,233)	(343)	(376)	(1,452)	(267)	(23)	(49)
Increase (decrease) in temporarily restricted net assets	(10,776)	-	3	(35)	(215)	(343)	309	357	240	26	85
<b>Permanently restricted net assets:</b>											
Restricted gifts and grants	1,891	-	-	-	-	-	-	-	-	-	-
Net realized and unrealized (losses) gains on investments	70	-	-	-	-	-	-	(32)	-	-	-
Increase (decrease) in permanently restricted net assets	1,961	-	-	-	-	-	-	(32)	-	-	-
Increase (decrease) in net assets	199,958	-	(111,897)	5,107	(9,262)	13,270	14,873	(17,083)	14,825	443	(6,866)
Net assets, beginning of year	2,127,498	-	63,505	190,581	185,762	(2,573)	54,792	145,937	286,832	63,887	75,162
Net assets, end of year	<u>\$ 2,327,456</u>	<u>\$ -</u>	<u>\$ (48,392)</u>	<u>\$ 195,688</u>	<u>\$ 176,500</u>	<u>\$ 10,697</u>	<u>\$ 69,665</u>	<u>\$ 128,854</u>	<u>\$ 301,657</u>	<u>\$ 64,330</u>	<u>\$ 68,296</u>

See accompanying auditors' report on supplementary information.

<b>Adventist Health Physicians Network</b>	<b>Adventist Health Reedley</b>	<b>Adventist Health Simi Valley</b>	<b>Adventist Health Sonora</b>	<b>Adventist Health St. Helena</b>	<b>Adventist Health Tehachapi Valley</b>	<b>Adventist Health Ukiah Valley</b>	<b>Adventist Health White Memorial</b>	<b>Adventist Medical Center Portland</b>	<b>South Coast Medical Center</b>	<b>Tillamook Regional Medical Center</b>	<b>Walla Walla General Hospital</b>	<b>Western Health Resources</b>
\$ 6	\$ 43,727	\$ (5,538)	\$ 21,232	\$ 12	\$ (1,035)	\$ 22,389	\$ 85,075	\$ (604)	\$ -	\$ 7,547	\$ -	\$ 1,230
-	-	-	-	-	-	-	-	-	-	-	-	-
-	-	347	15	-	-	-	-	-	-	-	-	-
-	-	1,264	-	10,854	-	834	746	400	-	17	124	-
54	(5,088)	90,103	(22,016)	81,159	-	(13,749)	(90,409)	(23,971)	36,692	(5,082)	80,183	8,050
60	38,639	86,176	(769)	92,025	(1,035)	9,474	(4,588)	(24,175)	36,692	2,482	80,307	9,280
-	-	-	-	-	-	-	-	-	(247)	-	(18,476)	(87)
60	38,639	86,176	(769)	92,025	(1,035)	9,474	(4,588)	(24,175)	36,445	2,482	61,831	9,193
-	31	80	1,334	3,834	125	799	4,410	382	-	96	128	3
-	-	-	-	518	-	3	-	37	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-	-	-
-	(22)	(1,434)	(582)	(13,691)	-	(850)	(5,660)	(537)	-	(73)	(124)	(10)
-	9	(1,354)	752	(9,339)	125	(48)	(1,250)	(118)	-	23	4	(7)
-	-	-	-	1,881	-	-	10	-	-	-	-	-
-	-	-	-	102	-	-	-	-	-	-	-	-
-	-	-	-	1,983	-	-	10	-	-	-	-	-
60	38,648	84,822	(17)	84,669	(910)	9,426	(5,828)	(24,293)	36,445	2,505	61,835	9,186
381	24,187	(44,063)	150,579	37,680	(254)	99,333	616,326	215,206	(39,871)	49,432	(44,401)	(922)
\$ 441	\$ 62,835	\$ 40,759	\$ 150,562	\$ 122,349	\$ (1,164)	\$ 108,759	\$ 610,498	\$ 190,913	\$ (3,426)	\$ 51,937	\$ 17,434	\$ 8,264

Section 4(b)(4)

<b>Debt Service Coverage</b>	<b><u>2017</u></b>
Excess of Revenues over Expenses from Continuing Operations	\$ 229,784
Depreciation, amortization, interest expense and non-cash charges	<u>210,175</u>
Income available for debt service	439,959
Maximum annual debt service	94,225
Debt service coverage ratio	<u><u>4.67</u></u>

<b>Capitalization</b>	<b><u>2017</u></b>
Long-term Debt (including current maturities)	\$ 1,787,225
Unrestricted Net Assets	<u>2,251,420</u>
Total Capitalization	4,038,645
Total Long-term Debt as a Percentage of Total Capitalization	<u><u>44.3%</u></u>

Adventist Health System/West  
Municipal Secondary Market Disclosure  
December 31, 2017  
(In thousands of dollars)

The following information is provided pursuant to Section 3(c) of the Continuing Disclosure Certificate executed by the System in connection with the issuance of \$57,500 California Statewide Communities Development Authority Insured Revenue Bonds, 2007 Series A, \$84,495 California Health Facilities Financing Authority Revenue Bonds, 2009 Series B and C, \$66,535 The Hospital Facilities Authority of Multnomah County, Oregon Bonds, 2009 Series A, \$290,365 California Health Facilities Financing Authority Revenue Bonds and 2013 Series A, \$50,000 Adventist Health System/West Taxable Bonds, Series 2013.

Section 3(c)(2) Long-term debt disclosure:

On December 31, 2017, the long-term debt of the Members of the Obligated Group (including current maturities) totaled \$1,768,325. Of that amount \$530,864 was variable interest rate debt, with the remaining \$1,237,461 being fixed interest rate debt.

Section 3(c)(3) Statement regarding accounts receivable liens:

During the quarter ended December 31, 2017 no Member of the Obligated Group has granted a Lien on accounts receivable nor sold any accounts receivable as permitted under the Master Indenture.

Section 4(b)(1). Below is a listing of the System's hospital facilities, grouped by state, and sorted within each state alphabetically.

**Summary Listing of the System's Hospitals**

<b>Obligated Group Hospital Name</b>	<b>Location</b>	<b>Number of Licensed Beds at December 31, 2017</b>	<b>2017 Total Revenue (in thousands)</b>
Adventist Health Hanford	Hanford, CA	199	\$341,117
Adventist Health Reedley	Reedley, CA	49	196,583
Adventist Health Feather River	Paradise, CA	100	230,251
Adventist Health Glendale	Glendale, CA	515	469,098
Adventist Health Howard Memorial <sup>(1)</sup>	Willits, CA	25	65,350
Adventist Health Lodi Memorial <sup>(2)</sup>	Lodi, CA	190	238,121
Adventist Health St Helena	Deer Park, CA	213	265,022
Adventist Health Bakersfield	Bakersfield, CA	254	420,841
Adventist Health Sonora	Sonora, CA	152	259,477
Adventist Health Simi Valley	Simi Valley, CA	144	150,813
Adventist Health Ukiah Valley	Ukiah, CA	68	175,172
Adventist Health White Memorial	Los Angeles, CA	353	511,356
Adventist Health Castle	Kailua, HI	160	181,688
Adventist Health Portland	Portland, OR	302	362,586
Tillamook Regional Medical Center <sup>(1)</sup>	Tillamook, OR	25	83,717
<b>Non-Obligated Group Hospital Name</b>			
Adventist Health Clear Lake <sup>(1)</sup>	Clearlake, CA	25	103,773
Adventist Health Tehachapi Valley <sup>(1)</sup>	Tehachapi, CA	25	22,622

<sup>(1)</sup> Critical Access Hospital.

<sup>(2)</sup> Lodi Memorial Hospital entered the Obligated Group effective 9/8/2016. (Supplemental Indenture No. 63)

Source: The Corporation.



Adventist Health System/West  
Obligated Group Operating Statistics

Section 4(b)(5)

	Payor Mix		
	2015	2016	2017
Medicare	43.9%	44.0%	45.2%
Medicaid	29.8%	29.9%	30.4%
HMO/PPO	21.4%	22.0%	21.0%
Commercial	1.7%	1.8%	1.6%
Self-Pay and Other	3.2%	2.3%	1.8%

Adventist Health System/West  
Obligated Group Operating Statistics

Section 4(b)(6)

Hospital

Patient Days (Including Sub-Acute)			
2015	2016	2017	
Adventist Health Hanford	46,060	46,118	45,333
Adventist Health Portland	41,277	41,525	30,503
Adventist Health Reedley	4,928	4,392	4,272
Adventist Health Castle	34,222	32,310	32,574
Adventist Health Feather River	16,665	15,764	17,906
Adventist Health Glendale	100,958	104,053	97,382
Adventist Health Howard Memorial	5,615	6,048	6,568
Adventist Health Lodi Memorial	16,995	33,246	35,366
Adventist Health St Helena	42,501	48,380	48,140
Adventist Health Bakersfield	67,778	68,092	70,023
Adventist Health Sonora	44,981	43,926	42,280
Adventist Health Simi Valley	27,858	28,451	26,769
Tillamook Regional Medical Center	4,119	4,577	4,652
Adventist Health Ukiah Valley	11,831	11,685	11,414
Adventist Health White Memorial	87,007	87,347	84,852
	<u>552,795</u>	<u>575,914</u>	<u>558,034</u>

Hospital

Average Length of Stay			
2015	2016	2017	
Adventist Health Hanford	3.90	4.00	4.08
Adventist Health Portland	4.00	4.10	3.23
Adventist Health Reedley	2.40	2.30	2.30
Adventist Health Castle	4.60	4.40	4.25
Adventist Health Feather River	3.70	3.30	3.71
Adventist Health Glendale	5.10	4.90	4.64
Adventist Health Howard Memorial	4.00	4.10	4.05
Adventist Health Lodi Memorial	3.80	4.40	3.92
Adventist Health St Helena	5.80	5.90	6.20
Adventist Health Bakersfield	3.80	3.80	3.90
Adventist Health Sonora	9.30	9.30	7.55
Adventist Health Simi Valley	4.40	4.00	3.82
Tillamook Regional Medical Center	3.20	3.50	3.28
Adventist Health Ukiah Valley	3.20	3.50	3.22
Adventist Health White Memorial	4.50	4.50	4.34
	<u>4.48</u>	<u>4.50</u>	<u>4.30</u>

Hospital

Discharges (Including Sub-Acute)			
2015	2016	2017	
Adventist Health Hanford	11,945	11,598	11,101
Adventist Health Portland	10,313	10,216	9,441
Adventist Health Reedley	2,027	1,943	1,859
Adventist Health Castle	7,487	7,291	7,663
Adventist Health Feather River	4,481	4,723	4,822
Adventist Health Glendale	19,986	21,140	20,973
Adventist Health Howard Memorial	1,402	1,477	1,622
Adventist Health Lodi Memorial	4,526	7,589	9,029
Adventist Health St Helena	7,340	8,245	7,769
Adventist Health Bakersfield	17,949	18,097	17,972
Adventist Health Sonora	4,853	4,716	5,597
Adventist Health Simi Valley	6,312	7,145	6,999
Tillamook Regional Medical Center	1,285	1,302	1,419
Adventist Health Ukiah Valley	3,643	3,385	3,552
Adventist Health White Memorial	19,437	19,611	19,531
	<u>122,986</u>	<u>128,478</u>	<u>129,349</u>

Adventist Health System/West  
Obligated Group Operating Statistics

Section 4(b)(7)

	Other Key Volume Indicators		
	2015	2016	2017
Number of Licensed Beds	2,678	2,819	2,749
Discharges	124,395	129,752	129,349
Patient Days	556,980	579,444	558,034
Occupancy - Licensed Beds	55.6%	55.7%	55.6%
Average Length of Stay	4.48	4.50	4.30
Outpatient Revenues as % of Gross Pt. Revenues	44.9%	45.1%	44.7%