Fairview Health Services

Continuing Disclosure Statement
for the Three Months Ended March 31, 2018

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Note: The attached information is provided for the benefit of registered or beneficial bondholders and other issuers of credit and credit enhancement to Fairview Health Services and the Fairview Obligated Group. Questions and/or requests for additional information should be directed to Kimberly Faust, Vice President and Treasurer at: kfaust1@fairview.org. Additional information about Fairview can be found at: www.fairview.org.

Section One – Overview of Fairview Health Services

GENERAL

Fairview Health Services ("Fairview") an integrated health system located in Minneapolis, Minnesota, along with its affiliates and subsidiaries (collectively the "Fairview System") is one of the leading health care providers in Minnesota with $5.3 billion in operating revenue for 2017. The Fairview System offers a broad continuum of health care services through its hospitals, clinics, ambulatory care centers, senior and long-term care facilities, retail and specialty pharmacies, pharmacy benefit management ("PBM") services, rehabilitation centers, counseling and home health care programs, physician network and health insurance products. Fairview is a Minnesota non-profit corporation and is exempt from federal income taxation under Section 501(c)(3) of the Internal Revenue Code (the "IRC").

On June 1, 2017, Fairview became the sole member of HealthEast Care System, a St. Paul, Minnesota non-profit corporation ("HealthEast") that is exempt from federal income taxation under Section 501(c)(3) of the IRC, which together with its subsidiaries and affiliates operates a diversified health care system (collectively, the "HealthEast System"). The HealthEast System provides a continuum of health services including short-term acute care and long-term acute care hospitals, primary and specialty care, hospice, home care and medical transportation.

The Fairview System and the HealthEast System (collectively, the "System") serve the entire Metro Area, as well as communities throughout greater Minnesota and the upper Midwest and is one of the most comprehensive and geographically accessible systems in Minnesota. The System owns and operates eleven hospitals, including the University of Minnesota Medical Center, Fairview, a part of which is the University of Minnesota Masonic Children's Hospital (collectively, "UMMC"), which is the adult and pediatric teaching hospital of the University of Minnesota (the "University"). UMMC and eight of the System's other hospitals, including a long-term acute care hospital, are located in the Twin Cities of Minneapolis and Saint Paul, Minnesota Metro Area ("Metro Area"). The System's other two hospitals are located in northern Minnesota. Together, the System also operates over 100 primary and specialty care clinics, six ambulatory care centers, over 40 retail and specialty pharmacies, as well as senior care housing and long-term care facilities, hospice and home care, medical transportation and a health plan.

The System is in the process of combining the best of both organizations to create a world-class health system committed to serving the communities and the region. The Fairview System and the HealthEast System provide care in complementary service areas with very little geographic overlap. The System, through its integrated care model, serves the entire Metro Area as well as northern Minnesota while aiming to deliver the benefits of academic medicine to more patients and families across the Metro Area by expanding care, research and education through access to a greater pool of physicians and patients, while reducing the total cost of care for patients. The System is led by Fairview Chief Executive Officer, James Hereford, and governed by the existing Fairview Board of Directors with the addition of three former HealthEast System board members.

Based on full year 2017 inpatient discharge statistics compiled by the Minnesota Hospital Association, the System is the second largest health care delivery system in the Metro Area with a combined 28.7% market share.

HEALTH CARE SERVICES

HOSPITALS

The System owns and operates the following hospitals: (i) UMMC, (ii) Fairview Southdale Hospital, (iii) Fairview Ridges Hospital, (iv) Fairview Lakes Medical Center, (v) Fairview Northland Medical Center, (vi) Fairview Range Medical Center, (vii) Grand Itasca Clinic and Hospital, (viii) HealthEast St. Joseph's Hospital, (ix) HealthEast St. John's Hospital, (x) HealthEast Woodwinds Hospital and (xi) Bethesda Long Term Acute Care Hospital (collectively the "System Hospitals"). As of March 31, 2018, the System Hospitals had a total of 3,519 licensed beds and 2,140 staffed beds.

Fairview also holds a twenty-five percent membership interest in Maple Grove Hospital Corporation ("MGHC"), which operates a 130-staffed bed community hospital in Maple Grove, Minnesota. North Memorial Health Care ("NMHC") holds the remaining seventy five percent membership interest in MGHC. Fairview guarantees twenty-five percent or about $29.8 million of the debt service payable with respect to a series of tax exempt bonds with an aggregate principal amount outstanding of $119.4 million as of March 31, 2018 for the benefit of MGHC. The guaranty terminates if MGHC achieves a stand-alone credit rating equal to the rating of "Baa1" or better from Moody's Investors Service.

CLINICS, AMBULATORY CARE, PHARMACY AND OTHER SERVICES

Clinic Services. The System operates more than 100 primary and specialty care clinics throughout the Metro Area and greater Minnesota. These clinics offer services in over 70 medical specialties, including family medicine, pediatrics, obstetrics, gynecology, heart care, cancer care, otolaryngology, pre- and post-transplant care, and orthopedics.

Ambulatory Surgery Centers. The System owns all or a portion of six ambulatory surgery centers located in the Metro Area and northern Minnesota, described below:

- Fairview owns and operates Fairview Maple Grove Surgery Center, an ambulatory surgery center located in Maple Grove, Minnesota that provides multi-specialty adult and pediatric outpatient surgical care, including colonoscopy, otolaryngology, eye, gastroenterology, obstetrics and gynecology, orthopedics, plastic and reconstructive surgery, podiatry, endoscopy, urology and vascular services.

- Fairview is a 50% owner of Crosstown Surgery Center LLC, an ambulatory surgery center located in Edina, Minnesota that specializes in orthopedic surgery using advanced technology.

- Fairview is a 51% owner of Ridges Surgery Center LLC, an ambulatory surgery center located in Burnsville, Minnesota that provides multi-specialty outpatient surgical care, including gynecology, orthopedics, podiatry, otolaryngology, ophthalmology, spine, anesthesia and general surgery services.

- Range Regional Health Services, of which Fairview is the sole member, is a 51% owner of Northwoods Surgery Center LLC, an ambulatory surgery center located in Virginia, Minnesota that provides multi-specialty outpatient surgical care, including ophthalmology, orthopedics, otolaryngology and general surgery services.

- Fairview, through a joint venture with UMPhysicians, has a 50% membership interest in the University of Minnesota Health Clinics and Surgery Center (the "M Health CSC joint venture") that provides outpatient clinic and surgical care for thirty-seven medical specialties including primary care, neurology, cardiology, dermatology, orthopedics, hepatology, solid organ transplant, ear, nose and throat, endoscopy, urology and vascular services. The M Health CSC joint venture outpatient specialty care and surgical services leases space within the new University of Minnesota Clinics and Surgery Center facility ("CSC"), which opened in February of 2016. Fairview also operates provider based clinics within the CSC building.

- HealthEast is a 51.1% owner of HealthEast Surgery Center – Maplewood, LLC (with Surgical Care Associated ("SCA") and independent physician partners owning the remaining) which is a Minnesota limited liability company that owns a freestanding surgery center located in Maplewood, Minnesota (the "Maplewood Surgery Center"). The Maplewood Surgery Center is managed by SCA.

Pharmacy Services. As of March 31, 2018, both Fairview and Fairview Pharmacy Services ("FPS"), owned and operated pharmacies at more than 40 locations, including a network of retail pharmacies, oncology pharmacies, a home infusion pharmacy, a remote dispensing pharmacy and a specialty pharmacy. The specialty pharmacy provides drugs and a variety of clinical management services for specialty diseases and chronic conditions including: cancer, cystic fibrosis, fertility treatment, growth hormone deficiency, hemophilia, hepatitis C, HIV, inflammatory conditions (Crohn's disease, psoriasis, psoriatic arthritis, and rheumatoid arthritis), multiple sclerosis, pulmonary hypertension, metabolic disorders, and respiratory syncytial virus. The specialty pharmacy is affiliated with both the University Transplant Center and University Hemophilia Center, and separately provides home infusion therapy services. In addition to operating retail and specialty pharmacies, Fairview also provides mail order pharmacy, respiratory therapy, pharmaceutical care, pharmacy benefits management, retail merchandising, clinical trial services, medication therapy management, prison pharmacy, long term care pharmacy services, and physician office drug and supply services.

Fairview Rehabilitation Services. Fairview's Rehabilitation Services ("FRS") provides a range of rehabilitation services for pediatric and adult patients: including an inpatient rehabilitation facility, a hospital based skilled nursing facility and an adult day program. Rehab services are provided in NICUs at four hospitals in addition to providing inpatient services at ten hospitals, FRS has a wide range of both hospital and clinic based outpatient sites providing cardiac rehab, cancer rehab, concussion rehab, neuro rehab, vestibular and audiology. Fairview also provides rehabilitation services through the Institute for Athletic Medicine ("IAM"), as well as Fairview's seven orthotics and prosthetics clinics and six hand centers. A joint venture between Fairview (which owns 63%) and North Memorial Health, IAM provides outpatient physical therapy, hand therapy, and chiropractic services for the treatment of musculoskeletal and orthopedic conditions, including sports related injuries. There are 28 clinic facilities operating under the IAM name, making IAM one of the largest providers of sports medicine services in the Upper Midwest.

HealthEast Medical Transportation. HealthEast Medical Transportation ("HEMT") offers emergency medical services for a changing, technology-driven world. HEMT provides emergency and scheduled transportation across the Metro Area and supports the community by providing more than 40,000 calls annually. Additionally, HEMT offers emergency vehicle services that specialize in the build and modifications required for vehicles used in public service for local, state and federal agencies.

SENIOR HOUSING, LONG TERM CARE FACILITIES AND SENIOR SERVICES

The System provides a wide range of senior care facilities and services through Ebenezer, a non-profit subsidiary of Fairview. Ebenezer provides long-term senior care facilities, senior housing, adult day services, home care and hospice and rehabilitation services. Ebenezer's Mission: Ebenezer is driven to heal, discover, and educate for longer, healthier, meaningful lives.

Through Ebenezer, the System owns and operates four long-term senior care facilities. Ebenezer also operates over 85 senior housing facilities (10 of which are owned and managed) in the Metro Area and greater Minnesota and Iowa.

In addition to Ebenezer, the HealthEast System has a 45% non-consolidated minority ownership interest in Cerenity Care Center, which provides senior living care facilities and services in the Metro Area.

HEALTH PLAN SERVICES

PreferredOne is a health services organization, founded in 1984, that provides a comprehensive range of health benefit services, including insurance products and third party administrative ("TPA") services, to employers and individuals throughout Minnesota and the upper Midwest, in addition to a national network for employers with employees throughout the United States. These services are provided through PreferredOne's three companies – PreferredOne Community Health Plan, PreferredOne Administrative Services and its wholly owned subsidiary, PreferredOne Insurance Company ("PIC"). Collectively, the PreferredOne companies serve approximately 343,000 members, of which approximately 40,000 are fully insured at-risk members. The remaining membership composition includes approximately 104,000 network rental members and 199,000 in TPA employer sponsored self-funded plans. PIC also provides stop loss insurance policies for approximately 96,000 of the 199,000 TPA members. PreferredOne's capital exceeds its regulatory requirements and planned 2018 growth.

PHYSICIAN NETWORK

Employed and Staffed Physicians, The System has a large physician network which includes both employed and affiliated physicians. As of March 31, 2018, Fairview employed approximately 1,285 physicians. Approximately 671 of these physicians practice in the Fairview System's clinics with the remaining physicians practicing at the System hospitals in various medical specialties. HealthEast employed 377 physicians with an additional 500 affiliated physicians on staff, each as of March 31, 2018. Approximately 176 of these HealthEast employed physicians practice within primary care clinics.

Fairview Physician Associates Network. Fairview Physician Associates Network ("FPA"), a Minnesota nonprofit tax-exempt corporation of which Fairview is the sole corporate member, was incorporated in 1993. FPA is an integrated practice network of 3,420 providers, of which 2,450 are physicians, including the majority of Fairview employed physicians. FPA recently expanded the network to include independent physicians practicing in the East metro area as part of the integration with HealthEast hospitals and clinics. As a physician led non-profit organization, FPA works to advance community health by improving the quality, patient experience and total cost of care of services delivered to patients. FPA, as a large, multi-specialty group, contracts with health plans. By helping its providers reach quality goals, FPA manages clinical risk for patient populations to enhance excellence of care. FPA also offers services to support clinical care, patient safety and to enhance clinical integration. In conjunction with Fairview, the FPA network provides a full range of primary care and specialty services.

University of Minnesota Physicians. In 1997, Fairview entered into affiliation agreements with the University of Minnesota and the University of Minnesota Physicians ("Affiliation Agreements"). University of Minnesota Physicians ("UMPhysicians") is a non-profit organization of approximately 1,100 physicians, that operates as the clinical group practice of the University of Minnesota Medical School, who primarily practice within UMMC and other Fairview facilities and the University of Minnesota. The Affiliation Agreements provide that the principal site for the University's health related research, education, and clinical practice will be UMMC and the clinics located at UMMC. In addition, UMPhysicians has agreed to use UMMC as the principal venue for educational and new research opportunities. Fairview has agreed to support UMMC as the flagship teaching hospital in accordance with the Affiliation Agreements.

Fairview and UMPhysicians also entered into a management services agreement pursuant to which UMPhysicians agrees to manage Fairview's outpatient specialty clinics located at UMMC and later, the Maple Grove Ambulatory Care Center. Fairview and UMPhysicians have additional professional service agreements for medical directorships, and various other clinical services including oncology and cardiology service line arrangements, hospitalist services, laboratory and pathology services, perfusion services, and information services.

In 2013, Fairview and UMPhysicians entered into an agreement (the "M Health Agreement") to create University of Minnesota Health ("M Health"), a virtual integration of services provided by UMMC and UMPhysicians to bring innovative, high quality health care to more people throughout Minnesota. This partnership adds to the existing long-term affiliation agreement with the University of Minnesota and UMPhysicians and represents a closer integration of the organizations and their commitment to deliver the best care to patients in the way that best suits the patient's individual need. The M Health Agreement provides for variable financial support based on the financial performance of M Health. M Health also participates with Fairview in making capital funding decisions at UMMC.

Fairview, the University and UMPhysicians continue to operate under the Affiliation Agreements and while the M Health Agreement nears the end of its term, the organizations are actively discussing the opportunity to further integrate operations across the clinical delivery system and further enhance research and education as well as simplify, clarify and improve the partnership between the organizations.

Fairview Partners. Fairview Partners is an integrated health care network, providing medical care for nursing home residents and other seniors through risk sharing insurance products. As of March 31, 2018, Fairview Partners had 4,270 members enrolled in three different health plans, including 2,744 members with UCare, 1,135 members with Medica, and 391 members with Blue Cross Blue Shield. Fairview Partners currently serves both nursing home residents and seniors living in their own homes under the Minnesota Senior Health Options project. There are 28 community nursing homes (including two Ebenezer owned facilities) in the Metro Area participating in Fairview Partners.

STRATEGIC ALLIANCES

Fairview Health Network. The System is committed to delivering on the Triple Aim goals of improving the patient experience, improving the health of populations and reducing the cost of healthcare. In order to accomplish this objective, Fairview has entered into various agreements with payers to manage quality, risk and cost across the full continuum of reimbursement models. For total cost of care contracts, Fairview uses a hybrid payment model that incorporates at risk elements based on quality, patient satisfaction and management of the total cost of care of a population, with health plan members attributed to the primary care clinics within Fairview based on utilization. These products create a mechanism in which Fairview is rewarded for reductions in total cost of care and improved quality through enhanced relationships with patients served. In 2017, Fairview's average cost of care was below the Metro Area average for its commercial contracts.

Fairview has also entered into limited network products with select health plans. In these products, the members enroll in a product which has lower premiums or member costs, but carry a significant out of pocket penalty for out of network utilization. Because the members are enrolled, the provider network is able to identify each member upon enrollment and as a result, can proactively design plans of care. In these limited network products, Fairview shares both in the margin and loss of the product.

In 2013 Fairview established a clinically integrated network comprised of Fairview, North Memorial and HealthEast, named the Relevant Network ("Relevant"). The goal of Relevant is to share best practices, improve outcomes, enhance patient satisfaction and advance total cost of care savings by establishing product offerings that are differentiated in the market. Relevant's member organizations align under an accountable care model and share governance responsibilities.

Fairview also has a long history of entering into at risk contracts for its government populations, including a risk sharing contract between FPA and UCare for seniors. Fairview participated in the Medicare Pioneer Accountable Care Organization ("Pioneer") program. In 2017, Fairview and FPA entered into the Next Generation Accountable Care Organization ("Next Generation") program for the Medicare population, which is the replacement for the Pioneer program. The rules and methodology for the program are similar to Pioneer and as a result of participation in this Alternative Payment Methodology with Medicare, Fairview and FPA's primary care providers will be exempt from the Medicare Incentive Payment System (MIPS) and the risk of decreased payment rates associated with the MIPS system.

Through preliminary reporting in the Next Gen program, it appears that the medical costs associated with Fairview's attributed population in this program greatly exceed the targeted cost for the population. Because of this variance, Fairview projects a payment required to CMS of $6 million. This variance is driven largely because of the cap on risk adjustment in the program for 2017. The acuity of the population increased by over 8% but was capped at a 3% increase. If the acuity adjustment had not been capped there would have been no loss in the program. The Next Generation ACO Model is designed to improve clinical quality and patient experience, while reducing the total cost of care for Medicare beneficiaries. Management has determined that the model design penalizes ACOs that already deliver high quality and low-cost care. As a result, Fairview cannot be successful in the current model design and has elected to exit the Next Gen program effective December 31, 2017.

In 2017, Fairview and FPA entered into the State's Medicaid Integrated Health Partnership program ("MIHP"). This program is similar to Next Generation, but is focused on Fairview attributed members of the State's Medicaid and Medicaid Managed Care programs. Early indication is that Fairview will beat the target and earn a small shared savings payment.

As noted above, HealthEast participated in several risk based products with Fairview through the Relevant Health Network products. Also, HealthEast joined with other independent physician groups to create Community Health Network (CHN). Starting in 2013, CHN joined the Medicare shared savings program. In 2017, CHN also enrolled in the state's MIHP program.

In total, these agreements have established quality outcomes and/or shared savings incentives or limited risk contracts with commercial and governmental payers that now cover over 375,000 lives. With the proliferation of both public and private insurance exchanges, a continued increase in this financial model is anticipated and Fairview is well positioned to take advantage of that market shift.

ExceleraRx. Fairview, along with several other health systems from across the United States, formed the Excelera Specialty Pharmacy Network, a national network of specialty pharmacies owned by integrated delivery systems and academic medical centers. This network brings together like minded health systems and academic medical centers to work together around specialty drugs and caring for complex and chronic patients. ExceleraRx Corp ("Excelera") was formed as a vehicle to facilitate and support the network. As of March 31, 2018, the network consisted of 21 integrated delivery systems and academic medical centers.

The Excelera network provides members nationally scaled infrastructure, technology and support to develop best practices for specialty pharmacy capabilities and gain access to limited distribution drugs and biologics and restrictive payer agreements, which allows members to provide continuity of care for patients with complex and chronic conditions, leading to improved health outcomes and decreased healthcare costs. Members pay Excelera fees in exchange for such services. This integrated coordinated care model is intended to drive higher quality while reducing the total cost of care.

Excelera's current owners are FPS, Catholic Health Initiatives of Englewood, Colorado; Intermountain Healthcare of Salt Lake City, Utah; Banner Health of Phoenix, Arizona; Henry Ford Health System of Detroit, Michigan; Avera McKenna of Sioux Falls, South Dakota; and Regional Health of Rapid City, South Dakota.

Other Strategic Alliances. The System has many other strategic alliances in place with other health care providers and payers and is periodically engaged in discussions with both existing partners about the expansion of current relationships and various other parties regarding possible new alliances. These alliances are expanded or established to provide more comprehensive patient care and services. Future alliances could take the form of affiliations, partnerships, joint ventures, acquisitions, mergers or other arrangements.

INFORMATION TECHNOLOGY

The System's Hospitals and clinics are utilizing the EPIC electronic health record system. The EPIC system assists care givers in providing care to all patients at the System Hospital and clinic care locations by improving patient safety, enhancing care coordination between medical professionals and ensuring the timeliness and accuracy of the revenue cycle processes.

Fairview has also invested in virtual care throughout the entire Fairview System—from hospitals, emergency departments and clinics to home care and hospice, pharmacy, senior living community and home-based settings. Many virtual care initiatives expand access in rural communities to specialty care, providing video appointments and consultations with a wide range of specialists in areas such as maternal-fetal medicine, cardiology, psychiatry, infectious disease and dermatology. Fairview's tele-ICU offers remote monitoring by intensivists and registered nurses certified in critical care. Fairview offers remote behavioral health crisis assessments in six emergency departments, as well as remote interpreter services capabilities. Video consultation with Medication Therapy Management pharmacists brings their expertise to a variety of clinic, assisted living and home-based settings. Fairview also has several programs to monitor patient health status in their homes. In addition, Fairview's partnership with Zipnosis, through its OnCare brand, provides online diagnosis and treatment for patients with select conditions that generally do not require a trip to the doctor. The System also offers convenient remote diagnosis and treatment capabilities via EPIC's MyChart (patient portal) for many conditions that do not require a clinic office visit. Additionally, the System has developed advanced video-visit capabilities within EPIC to support expanded virtual care offerings.

RECENT ACQUISITIONS, EXPANSION PROJECTS, AND OTHER UPDATES

Organizational realignment. Recognizing that historically the burden often fell on patients to own the complexity of care and experience, Fairview has adopted a new operating model to more fully realize the potential of our integrated health care system to serve our communities. Specifically, Fairview transitioned from a regional model to a service line operating model in which we take on more of the complexity for our patients to drive a more seamless and consistent experience for them wherever they receive care within the health system. The model is supported by a new organizational structure that was implemented in the first quarter of 2018. Realignment of programs and services to the new model will continue throughout 2018.

UMMC Campus Plan. In October 2017 the Fairview Board of Directors approved a capital investment on the UMMC campus to support current and future patient volumes and other strategic initiatives. The project will add capacity in the Emergency Department and Observation Unit, Operating Rooms and inpatient units. The total cost of this project is expected to be $111.6 million and will be completed over a three-year time period.

Fairview Employer Solutions Offering. Fairview recently announced a portfolio of direct-to-employer services developed in partnership with a number of leading Minnesota employers. Services within the portfolio include enhanced employee assistance programs, executive health, onsite clinics, sleep health, and virtual web-based care. These services are specifically designed to help employers accomplish their goals for employee satisfaction, lower medical costs, lower absenteeism, higher productivity and ultimately, better health outcomes for their employees.

Neurological Associates of St. Paul Acquisition. Fairview acquired Neurological Associates of St. Paul ("NASP") effective January 1, 2018. NASP is a five-physician neurology practice with clinics in Maplewood and St. Paul Minnesota. NASP offers a full spectrum of adult and young adult neurology services, including general neurology, vascular neurology, movement disorders, sleep disorders and clinical neurophysiology. In addition, NASP participates in a collaborative stroke program as well as Parkinson's disease and movement disorder clinics at Bethesda Hospital.

Senior Services Expansion. Ebenezer has entered into contracts to manage several new senior living communities currently being constructed by various third-party developers. A highlighted selection of the managed developments is described below:

- Stonehaven Senior Living, located in Eagan, Minnesota, will include 75 independent/assisted living, 15 memory care apartments, in addition to guest suites and entertainment facilities. The development will open in July 2018.

- Crest Ridge Senior Living, located in Minnetonka, Minnesota, will include 127 independent/assisted living, 20 memory care apartments, in addition to guest suites and entertainment facilities. The development will open in the summer of 2019.

- Pillars of Mankato Senior Living, located in Mankato, Minnesota, will include 84 independent/assisted living, 21 memory care apartments, in addition to guest suites and entertainment facilities. The development will open in the spring of 2019.

- Mission Hills Senior Living in Chanhassen, Minnesota is a senior living campus that will include 101 apartments for assisted and independent living, along with 18 units in nine villa-like buildings, and a closed, 14 suite memory care wing. The facility is expected to open in the summer of 2019, and will feature a commercial kitchen, theater, salon, dining area, clinic, fitness area and chapel.

HealthEast Ambulatory Surgery Care Joint Venture. On May 1, 2017, HealthEast entered into an agreement with Summit Orthopedics Ltd. to take a minority non-controlling joint venture interest (20.0%) in the Vadnais Heights Surgery Center ("VHSC"). VHSC is focused exclusively on providing orthopedic surgical care. This transaction is expected to close in the June 2018.

Grand Itasca Clinic and Hospital-Cancer Center. In response to expected growth in demand for cancer care services in the Grand Rapids service area due to the aging population, Grand Itasca Hospital renovated and expanded its clinical space for specialty services, including an approximately 6,500 square-foot space dedicated to its growing oncology program. The renovation added 10 private, semi-private, and shared infusion bays, a private entrance for patient safety and windows to the outdoors to create a peaceful environment. The expansion project also creates pharmacy capacity for chemotherapy medication. The Cancer Center opened in February 2018.

Rating Agencies Update. In July 2017, Standard & Poor's affirmed Fairview's outstanding revenue bonds at an A+ bond rating with a stable rating.

In August 2017, Moody's Investors Service affirmed Fairview's outstanding revenue bonds at an A2 bond rating with a stable outlook.

Debt Refunding. In late August 2017, the System closed on the issuance of $202.1 million of tax-exempt Series 2017A bonds to refund existing HealthEast and Grand Itasca debt. At the same time, Fairview also entered taxable term loans of $190.8 million with two banks to refund existing HealthEast taxable direct placement debt. The System successfully issued the new debt at lower interest rates than the original debt acquired. These issuances resulted in a $9.5 million loss on early extinguishment of debt, but the System is expected to experience annual interest cost savings on this debt going forward.

Concurrent with the issuance of the Series 2017A tax-exempt Bonds and 2017 taxable term loans, HealthEast, HealthEast St. Joseph's Hospital, HealthEast St. John's Hospital, HealthEast Woodwinds Hospital and Grand Itasca Clinic and Hospital joined Fairview's obligated group.

AWARDS AND RECOGNITION.

Becker's Healthcare-100 Great Hospitals in America. In May 2018, UMMC was named as one of the great hospitals in America by Becker's Healthcare. Hospitals were recognized nationally for excellence in clinical care, patient outcomes, and staff and physician satisfaction. These institutions are industry leaders that have achieved advanced accreditation and certification in several specialties. The list also includes industry innovators that have sparked trends in healthcare technology, hospital management and patient satisfaction.

Becker's Healthcare selected the hospitals for inclusion based on analysis of ranking and award agencies, including U.S. News & World Report's 2017-18 rankings, CMS star ratings, Leapfrog grades and Truven Health Analytics.

Centers for Medicare and Medicaid Services – Hospital Ratings. In the Fall of 2017, Six Fairview hospitals received four stars or higher in overall hospital quality from the Centers for Medicare & Medicaid Services (CMS) in December 2017. CMS evaluates more than 4,000 hospitals nationwide and assigns them one to five stars, with five being the best possible rating. Designed to help patients compare hospitals, the CMS rating system is based on 57 publicly reported quality measures across performance areas, such as patient experience, safety of care, readmission and effectiveness of care. The overall rating summarizes up to 57 quality measures reflecting common conditions that hospitals treat, such as heart attacks or pneumonia. The overall rating shows how well each hospital performed, on average, compared to other hospitals in the U.S.

Fairview's top-rated hospitals are:

- Fairview Southdale Hospital (Edina): 5 stars
- Fairview Ridges Hospital (Burnsville): 4 stars
- Fairview Northland Medical Center (Princeton): 4 stars
- Fairview Lakes Medical Center (Wyoming): 4 stars
- Grand Itasca Clinic & Hospital (Grand Rapids): 4 stars
- Woodwinds Health Campus (Woodbury): 4 stars

Fairview Southdale was one of only eight hospitals in Minnesota—and 337 nationwide—to receive a five-star rating.

U.S News & World Report – Best Hospitals. In August 2017, U.S. News & World Report recognized six of our hospitals for providing world-class patient care and named two to its 2017-18 "Best Hospitals" list. Each year, U.S. News & World Report evaluates more than 4,500 hospitals across the nation, assessing objective measures such as survival and readmission rates, volume, patient experience, patient safety and quality of nursing, among other care related indicators.

Hospitals are ranked nationally in 25 adult care specialties—from cancer to urology—and rated in common procedures and conditions such as heart bypass surgery, hip and knee replacement and colon cancer surgery. The rankings are the result of the System's shared commitment to better clinical outcomes, clinical research and a multi-disciplinary approach to cancer care is improving care for our patients every day.

Our rankings:

<u>Fairview Ridges Hospital</u>

High-performing rating in knee replacement

<u>Fairview Southdale Hospital</u>

- Named a 2017-18 Best Regional Hospital
- High-performing rating in abdominal aortic aneurysm repair, colon cancer surgery, heart failure, hip replacement, knee replacement and lung cancer surgery
- Top 5 <u>Best Hospitals in Minneapolis-St. Paul</u>
- Top 10 <u>Best Hospitals in Minnesota</u>

<u>St. John's Hospital</u>

- High-performing rating in colon cancer surgery

<u>St. Joseph's Hospital</u>

- High-performing rating in heart failure

<u>University of Minnesota Medical Center</u>

- High-performance rating in seven specialties: Gastroenterology and GI surgery, geriatrics, nephrology, neurology and neurosurgery, orthopedics, pulmonology, urology
- High-performing rating in four procedures: heart failure, hip replacement, knee replacement and lung cancer surgery
- Top 5 Best Hospitals in Minneapolis-St. Paul
- Top 5 Best Hospitals in Minnesota
- Top 50 nationally in cancer care

<u>Woodwinds Health Campus</u>

- High-performing rating in hip replacement and knee replacement

Healthcare Purchasing News – Supply Chain. In July 2017, Healthcare Purchasing News (HPN), a health care business news magazine, has named Fairview Supply Chain the 2017 Supply Chain Department of the Year. The award recognizes the department's collaboration, innovation and "center of excellence" approach to managing all aspects of supply chain activities.

American Heart Association certifications:

Heart Failure – University of Minnesota Medical Center, Fairview Southdale Hospital, Fairview Ridges Hospital, St. Joseph's Hospital, St. John's Hospital, and Woodwinds Hospital each received "gold" certification, while Fairview Northland Medical Center and Fairview Range Medical Center both received "silver" status.

Stroke – Fairview Southdale Hospital received "silver" certification status. To achieve the award, a hospital must be dedicated to developing, assessing and delivering evidence-based treatments and consistent adherence to the latest scientific treatment guidelines for heart failure care.

To achieve both awards, a hospital must be dedicated to developing, assessing and delivering evidence-based treatments and consistent adherence to the latest scientific treatment guidelines for heart failure care.

Healthgrades – Distinguished Hospital Award for Clinic Excellence. In January 2018, Fairview Ridges Hospital, Fairview Southdale Hospital, and HealthEast St. John's Hospital were recognized for hospitals rated in the top 5% in the nation with the lowest risk-adjusted mortality and complication rates across at least 21 of 32 common conditions and procedures.

Women's Choice Awards. Five Fairview hospitals have been honored with 2018 Women's Choice Awards® recognizing the country's best health care organizations based on women's perspectives on patient satisfaction, clinical excellence and hospital preferences.

2018 Women's Choice Awards went to:

- Fairview Southdale Hospital for bariatric surgery, cancer care and heart care.
- St. John's Hospital for cancer care and patient safety.
- St. Joseph's Hospital for bariatric surgery, heart care and patient safety.
- University of Minnesota Medical Center for bariatric surgery, cancer care and stroke care.
- Woodwinds Health Campus for obstetrics and stroke care.

OBLIGATED GROUP AND OTHER FAIRVIEW SUBSIDIARIES

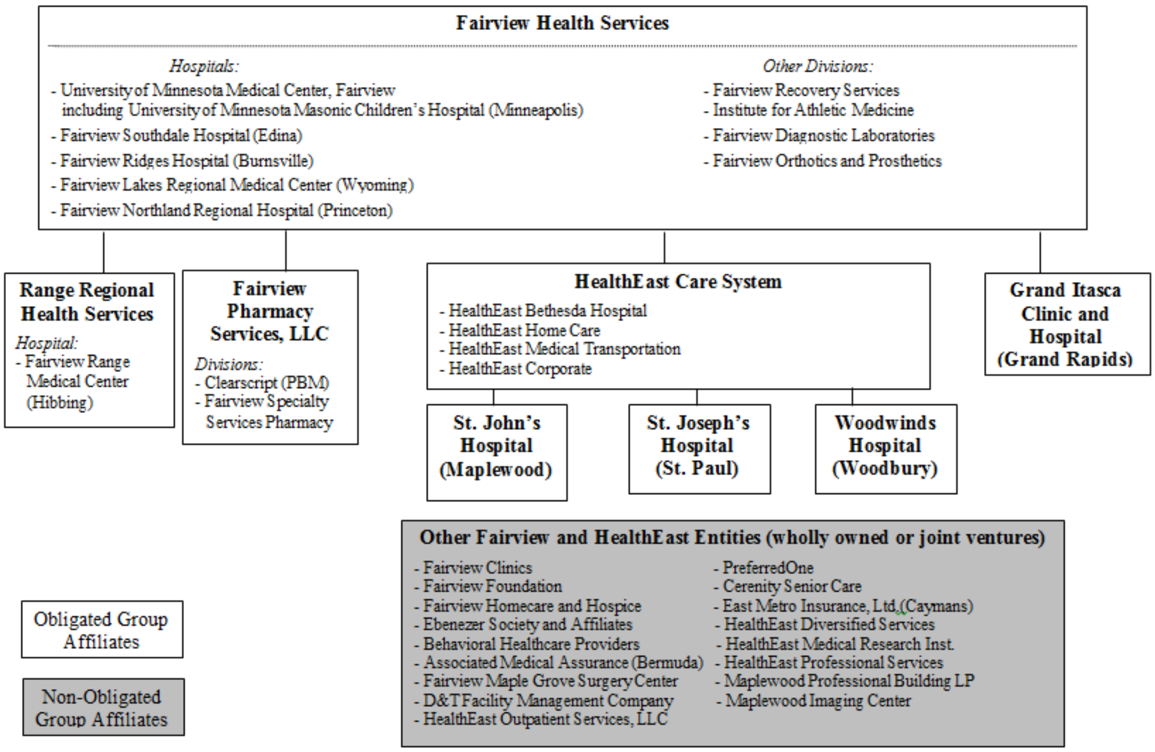
Fairview Health Services, Range Regional Health Services and Fairview Pharmacy Services, LLC (collectively, "Obligated Affiliates") are members of an Obligated Group under a master trust indenture dated September 1, 2015, as supplemented and amended. The master trust was amended in August 2017 to include HealthEast Care System, HealthEast, St. Joseph's Hospital, HealthEast St. John's Hospital, HealthEast Woodwinds Hospital and Grand Itasca Clinic and Hospital. The master trust indenture states that the Obligated Affiliates are jointly and severally liable for certain debt obligations and subject to certain covenants.

The Obligated Group accounted for approximately 88% of Fairview's consolidated total operating revenue for the three months ended March 31, 2018, and approximately 90% of Fairview's total consolidated assets at March 31, 2018.

None of the other Fairview subsidiaries, joint ventures, or partnerships in which Fairview has an interest are members of the Obligated Group (collectively these excluded entities are referred to as the "Non-Obligated Group").

The following exhibit illustrates the significant entities comprising the System and indicates whether each entity is a member of the Obligated Group.

FAIRVIEW AND FAIRVIEW SUBSIDIARIES



GOVERNANCE AND MANAGEMENT

Executive Management. The names, titles, ages and professional backgrounds of the executive officers of Fairview are set forth below.

James Hereford (58), Fairview President and Chief Executive Officer. Mr. Hereford was appointed President and Chief Executive Officer on October 27, 2016 with an effective date of December 12, 2016. Mr. Hereford joined Fairview after serving as Chief Operations Officer at Stanford Health Care from 2013 to 2016 where he was responsible for all inpatient and ambulatory operations as well as various administrative functions. Prior to his role at Stanford, he was Chief Operations Officer at the Palo Alto Medical Foundation where he was responsible for operations serving more than 800,000 people in the San Francisco Bay area. Mr. Hereford holds bachelor's and master's degrees in mathematics from Montana State University. He has taught courses with Stanford University's Graduate School of Business, University of Washington's Master of Health Administration program and The Ohio State University's Masters of Business Operations Excellence Program.

M. Osman Akhtar (42), Chief Operating Officer. Mr. Akhtar was named Chief Operating Officer in July 2017. Prior to joining Fairview, Mr. Akhtar was the Bay Area vice president of operational integration for Sutter Health from 2015 to 2017. He also was Chief Administrative Officer of the Palo Alto Foundation Medical Group from 2010 to 2014 and Vice President for clinical services and strategic development for the Palo Alto Medical Foundation from 2014 to 2015, an affiliate of Sutter Health. Before joining Sutter Health, Mr. Akhtar worked at two academic medical centers: Stanford University School of Medicine and Washington University's School of Medicine. He holds a master's degree in health administration and a Bachelor of Arts degree in psychology, both from St. Louis University.

Bob Beacher (62), Chief of Shared Clinical Services. Mr. Beacher has administrative responsibility for the System's laboratory, radiology, rehabilitation, and pharmacy teams. In addition, he serves as president of Fairview Pharmacy Services. Mr. Beacher is a registered pharmacist and earned his bachelor's degree from the University of Minnesota. Mr. Beacher, with more than 30 years of health care experience, is a member of several state and national pharmacy associations and serves on Fairview's Ethics Committee.

Kathryn Correia (60), Chief Administrative Officer. Ms. Correia joined Fairview on June 1, 2017 as Chief Administrative Officer to lead Fairview's marketing, communications, customer and patient relations, community health, foundations and government relations efforts. Prior to her new role, Ms. Correia served as President and Chief Executive Officer of HealthEast from 2012 to 2017. Ms. Correia also previously served as president of Appleton Medical Center (from 2003 to 2011) and Senior Vice President of ThedaCare Physician Group (from 1993 to 2002). Prior to joining ThedaCare, she was Vice President for ambulatory care centers and Administrative Director for clinic operations at Geisinger Health System in Danville, Pennsylvania. Ms. Correia received her bachelor's degree from Denison University in Granville, Ohio, and her master's degree in Health Administration from The Ohio State University. [1]

Daniel Fromm (53), Senior Vice President and Chief Financial Officer. Mr. Fromm leads the effort to shape Fairview's financial performance, with responsibility for revenue cycle, treasury,

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[1] Ms. Correia resigned from Fairview effective May 4. A transition plan for Ms. Correia's areas of accountability, which include marketing and communications, customer and patient relations, community health, foundations and government relations, has been developed.

financial planning, accounting, tax, government reimbursement, pricing, real estate, data and health informatics, acquisitions, product development, and operations finance. In addition to his financial responsibilities, he is responsible for managing purchaser and payer relationships, as well as negotiation of managed care contracts. Mr. Fromm was Fairview's vice president of finance prior to being named to his current role in 2011. Prior to joining Fairview in 2000, he was controller at Children's Hospital and Clinics of Minnesota and held various financial management positions at the former University of Minnesota Hospital and Clinics (now UMMC). Mr. Fromm is a certified public accountant (inactive), holds a bachelor's degree in business administration from Bethel University, and has attained Six Sigma Green Belt certification.

Carolyn Jacobson (57), Chief Human Resources Officer. Ms. Jacobson is responsible for all aspects of human resources, including talent recruitment and performance management, compensation and benefits, employee and labor relations, training and development and human resources administration. Ms. Jacobson joined Fairview in 2008 from Honeywell where she was global organizational effectiveness leader. She has worked in organizational development and leadership training for more than 20 years and earned a bachelor's degree from the University of Minnesota.

Alistair Jacques (56), Senior Vice President and Chief Information Officer. Mr. Jacques oversees the management of electronic health record, business and other information systems. Mr. Jacques joined Fairview in 2014 with more than 30 years of information technology experience in the United States and the United Kingdom. Prior to joining Fairview, he held a variety of information technology leadership roles at UnitedHealth Group, where he worked for more than 10 years. Before that, he was with Cargill, Northwest Airlines, Ernst & Young, Shearson Lehman and Barclays Bank. Mr. Jacques holds an undergraduate degree in business studies from Manchester University, England.

Laura Reed, RN, DNP (56), Chief Nursing Executive. Ms. Reed rejoined Fairview in July 2017 as Chief Nursing Executive. Prior to her new role, Ms. Reed was with ThedaCare where she served as their Chief Nurse Executive from 2015 to 2016 and as their Chief Operating Officer from 2016 to 2017. Previously Ms. Reed held several leadership positions including Chief Nurse Executive for the University of Minnesota Health (from 2013 to 2015). She also had a prior position of Senior Vice President patient care services and Chief Nursing Officer for Mercy Medical Center in Cedar Rapids, Iowa from 2011 to 2013. She holds an executive master's degree in business administration and a master's degree in nursing from the University of Iowa. She received her bachelor's degree in nursing from Coe College and a diploma in nursing from the Finley Hospital School of Nursing.

Trudi Noel Trysla (51), Chief Legal Officer and General Counsel. Ms. Trysla develops Fairview's overall legal strategy, leads Fairview's legal and ethical adherence to federal and state law and health care public policy, and oversees the Fairview's legal and risk management functions. Ms. Trysla was named general counsel in February 2014 and has more than 20 years of legal experience in health care. She joined Fairview in 2008 as associate general counsel. Prior to joining Fairview, Ms. Trysla served as senior legal counsel at Medtronic, Inc.; as legal counsel for Mayo Foundation in Rochester, Minnesota; and as an attorney in private practice. Ms. Trysla earned her law degree from the University of Minnesota and her bachelor's degree from the University of Nebraska.

Mark Welton, MD (61), Chief Medical Officer. Dr. Welton became Chief Medical Officer of Fairview in July 2017. Prior to joining Fairview, Dr. Welton was the Harry A. Oberhelman Jr. Professor of Surgery and Chief of Colon and Rectal Surgery in the Stanford University School of Medicine and Chief of Staff for Stanford Hospital and Clinics from 2007 to 2017. He is board certified in general surgery and colon and rectal surgery. He serves on the American Board of Surgery, the American Board of Colon and Rectal Surgeons and the American Society of Colon and Rectal Surgeons Research Foundation. He received his MD and completed his surgical residency at University of California, Los Angeles before completing a fellowship in Colon and Rectal Surgery at Washington University.

Genevieve Melton-Meaux, MD, PhD (46) Chief Data & Health Informatics Officer. Genevieve joined University of Minnesota Physicians in 2008 as a colon and rectal surgeon and currently has over twelve years of experience as an informatics researcher, data scientist, and informatics leader. She holds undergraduate degrees in mathematics, electrical engineering, and computer science. Dr. Melton-Meaux earned her medical degree followed by surgical residency at Johns Hopkins University. She also completed a postdoctoral fellowship in biomedical informatics at Columbia University, a PhD in Health Informatics at University of Minnesota, and clinical fellowship in colon and rectal surgery at the Cleveland Clinic.

Beth Thomas, DO (57) Chief Quality & Patient Safety Officer. Dr. Thomas earned her medical degree from the Chicago College of Osteopathic Medicine and completed her residency at New Britain General Hospital, University of Connecticut. She serves on the board of Grand Itasca Clinic & Hospital.

BOARD OF DIRECTORS. The Board of Directors of Fairview (the "Board") governs Fairview and HealthEast and is responsible for, among other matters, the assets of the System, quality, patient care, compliance and its overall business and financial performance. The System's bylaws authorize up to 21 directors: nine elected directors, not less than three and not more than nine appointed directors and three ex-officio directors. The three ex officio directors are the President and CEO of Fairview, the Dean of the University of Minnesota Medical School and the Vice President for Health Sciences or the actual or acting chief executive of health sciences colleges of the University of Minnesota Medical School or of the University of Minnesota ("University"). The remaining members of the Board are determined by the Board based on skill sets identified by the Board to best lead and serve the organization, its mission and its communities, with one of the directors elected by the Regents of the University. The President and CEO of the System is the only System employee who may serve on the Board.

CORPORATE GOVERNANCE POLICIES. The Board is committed to sound and effective corporate governance practices. The Governance Committee regularly reviews and adopts "best practices" in corporate governance and recommends changes to Fairview's corporate governance policies or processes as appropriate.

Fairview has a conflict-of-interest policy that applies to all members of the Board and requires disclosure of any conflict of interest or potential conflict of interest and includes a process for review and decision making relative to such disclosures.

Section Two – Year-to-Date Financial Statements

Fairview Health Services

Consolidated Balance Sheets
(Dollars in Thousands)
(Unaudited)

	March 31, 2018	December 31, 2017
Assets		
Current assets:		
Cash and cash equivalents	$ 52,849	$ 51,503
Short-term investments	426,949	616,727
Accounts receivable for medical services, less allowance for doubtful accounts of $78,194 in 2018 and $77,684 in 2017	668,867	583,239
Receivable under third-party payor contracts	10,761	4,002
Current portion of contributions receivable	9,767	9,032
Inventories	100,028	102,996
Other current assets	152,428	148,551
Total current assets	1,421,649	1,516,050
Investments	1,700,404	1,709,040
Assets limited as to use:		
Held by insurance subsidiaries	68,684	68,622
Restricted fund investments	37,576	35,570
Other assets limited as to use	2,510	3,059
Total assets limited as to use	108,770	107,251
Other long-term assets:		
Contributions receivable	12,211	11,771
Investments in related parties	82,833	84,722
Goodwill and intangible assets	80,151	80,553
Other long-term assets	63,660	63,523
Total other long-term assets	238,855	240,569
Land, buildings and equipment, net	1,366,447	1,383,402
Total assets	$ 4,836,125	$ 4,956,312

See accompanying notes.

Fairview Health Services

Consolidated Balance Sheets (continued)

(Dollars in Thousands)

(Unaudited)

	March 31, 2018	December 31, 2017
Liabilities and net assets		
Current liabilities:		
Accounts payable	$ 257,326	$ 299,364
Accrued compensation and benefits	245,045	348,542
Payable under third-party payor contracts	14,348	10,849
Current maturities of long-term debt	23,583	23,692
Other current liabilities	143,462	131,406
Total current liabilities	683,764	813,853
Other liabilities:		
Captive insurance subsidiaries claims reserves	43,607	49,070
Workers' compensation claims reserves	45,295	43,812
Derivative financial instruments	56,858	67,086
Other long-term liabilities	76,677	77,173
Total other liabilities	222,437	237,141
Long-term debt	1,388,711	1,387,402
Total liabilities	2,294,912	2,438,396
Net assets:		
Unrestricted:		
Fairview Health Services	2,434,365	2,412,555
Noncontrolling interests	50,609	50,843
Total unrestricted	2,484,974	2,463,398
Temporarily restricted	56,239	54,518
Total net assets	2,541,213	2,517,916
Total liabilities and net assets	$ 4,836,125	$ 4,956,312

See accompanying notes.

Fairview Health Services

Consolidated Statements of Operations and Changes in Net Assets

(Dollars in Thousands)

(Unaudited)

	Three Months Ended March 31, 2018	2017
Unrestricted revenues:		
Net patient service revenue	1,238,548	991,327
Other operating revenue	148,023	153,840
Net assets released from restrictions	400	453
Total unrestricted revenues	1,386,971	1,145,620
Expenses:		
Salaries and benefits	686,481	524,905
Supplies	335,855	307,368
Purchased services	180,568	171,888
Utilities and maintenance	44,655	29,968
Insurance and rent	21,726	16,212
State and local taxes	27,852	18,214
Other operating expenses	13,968	12,062
Depreciation and amortization	37,507	29,196
Interest	13,885	11,931
Total expenses	1,362,497	1,121,744
Operating income	24,474	23,876
Nonoperating gains (losses):		
Investment (loss) return	(9,016)	57,308
Gains on interest and basis rate swaps, net	8,973	333
Other nonoperating (losses) gains, net	(1,053)	-
Total nonoperating gains (losses)	(1,096)	57,641
Excess of revenues over expenses	23,378	81,517
Less amounts attributable to noncontrolling interests	(1,448)	(1,799)
Excess of revenues over expenses attributable to Fairview Health Services	$ 21,930	$ 79,718

See accompanying notes.

Fairview Health Services

Consolidated Statements of Operations and Changes in Net Assets (continued)
(Dollars in Thousands)
(Unaudited)

	Three Months Ended March 31, 2018	2017
Unrestricted net assets, Fairview Health Services		
Excess of revenues over expenses	$ 21,930	$ 79,718
Pension and post-retirement liability adjustments	953	-
Contributions for long-lived assets and other changes	(1,073)	15,181
Increase in unrestricted net assets, Fairview Health Services	21,810	94,899
Unrestricted net assets, noncontrolling interests:		
Excess of revenues over expenses	1,448	1,799
Contributions from noncontrolling interests	219	642
Contribution from business combinations	-	
Distributions to noncontrolling interests and other changes	(1,901)	(3,092)
(Decrease) in unrestricted net assets, noncontrolling interests	(234)	(651)
Temporarily restricted net assets:		
Contributions and other changes, net	2,321	23,153
Net assets released from restrictions	(600)	(8,778)
Increase in temporarily restricted net assets	1,721	14,375
Total increase in net assets	23,297	108,623
Net assets at beginning of period	2,517,916	2,006,455
Net assets at end of period	$ 2,541,213	$ 2,115,078

See accompanying notes.

Fairview Health Services

Consolidated Statements of Cash Flows

(Dollars in Thousands)

(Unaudited)

	Three Months Ended March 31, 2018	2017
Operating activities		
Increase in net assets	$ 23,297	$ 108,623
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation and amortization	37,507	29,196
Net realized and unrealized gains on trading investments	16,595	-
Change in fair value of interest and basis rate swaps, net	(10,212)	(52,154)
Loss on early extinguishment of debt	-	(1,896)
Other, net	607	(30,578)
Changes in assets and liabilities:		
Accounts receivable for medical services	(85,627)	(50,687)
Other current assets	(7,672)	36,918
Current liabilities	(129,979)	(139,280)
Other assets and liabilities, net	(3,424)	2,184
Net cash provided by operating activities before changes in trading investments	(158,908)	(97,674)
Change in trading investments	180,301	99,780
Net cash provided by (used for) operating activities	21,393	2,106
Investing activities		
Purchases of land, buildings and equipment, net	(19,936)	(11,015)
Business acquisitions	-	5,838
Net cash used in investing activities	(19,936)	(5,177)
Financing activities		
Issuance of long-term debt	4,461	31,650
Principal payments on long-term debt	(2,688)	(2,388)
Early extinguishment of long-term debt	-	(30,323)
Other financing activities, net	(1,883)	9,220
Net cash provided by (used in) financing activities	(110)	8,159
Increase (decrease) in cash and cash equivalents	1,347	5,088
Cash and cash equivalents at beginning of period	51,502	37,300
Cash and cash equivalents at end of period	$ 52,849	$ 42,388
Supplemental disclosure of noncash investing and financing activities		
Assets acquired through capital leases	$ -	$ -

See accompanying notes.

Fairview Health Services

Consolidating Balance Sheets
March 31, 2018
(Dollars in Thousands)
(Unaudited)

	Obligated Group	Non-Obligated Group	Eliminations and Reclasses	Consolidated Totals
Assets				
Current assets:				
Cash and cash equivalents	$ 19,291	$ 33,558	$ -	$ 52,849
Short-term investments	387,892	39,057	-	426,949
Accounts receivable for medical services, less allowance for doubtful accounts	620,532	48,643	(308)	668,867
Receivable under third-party payor contracts	10,760	1	-	10,761
Current portion of contributions receivable	8,442	1,325	-	9,767
Inventories	97,537	2,491	-	100,028
Other current assets	123,492	31,812	(2,876)	152,428
Total current assets	1,267,946	156,887	(3,184)	1,421,649
Investments	1,634,240	66,164	-	1,700,404
Assets limited as to use:				
Held by insurance subsidiaries	-	68,684	-	68,684
Restricted fund investments	12,728	24,848	-	37,576
Other assets limited as to use	(290)	2,800	-	2,510
Total assets limited as to use	12,438	96,332	-	108,770
Other long-term assets:				
Contributions receivable	11,908	303	-	12,211
Investments in related parties	81,956	877	-	82,833
Goodwill and intangible assets	45,422	34,729	-	80,151
Other long-term assets	79,984	4,655	(20,979)	63,660
Total other long-term assets	219,270	40,564	(20,979)	238,855
Land, buildings and equipment, net	1,218,811	147,636	-	1,366,447
Total assets	$ 4,352,705	$ 507,583	$ (24,163)	$ 4,836,125

See accompanying notes.

Fairview Health Services

Consolidating Balance Sheets (continued)
March 31, 2018
(Dollars in Thousands)
(Unaudited)

	Obligated Group	Non-Obligated Group	Eliminations and Reclasses	Consolidated Totals
Liabilities and net assets				
Current liabilities:				
Accounts payable	$ 247,358	$ 10,443	$ (475)	$ 257,326
Accrued compensation and benefits	209,773	35,272	-	245,045
Payable under third-party payor contracts	14,303	45	-	14,348
Current maturities of long-term debt	20,649	2,934	-	23,583
Other current liabilities	82,807	61,563	(908)	143,462
Total current liabilities	574,890	110,257	(1,383)	683,764
Other liabilities:				
Insurance subsidiaries claims reserves	24,623	18,984	-	43,607
Workers' compensation claims reserves	45,215	80	-	45,295
Derivative financial instruments	56,858	-	-	56,858
Other long-term liabilities	64,926	34,531	(22,780)	76,677
Total other liabilities	191,622	53,595	(22,780)	222,437
Long-term debt	1,318,872	69,839	-	1,388,711
Total liabilities	2,085,384	233,691	(24,163)	2,294,912
Net assets:				
Unrestricted:				
Fairview Health Services	2,191,165	243,200	-	2,434,365
Noncontrolling interests	42,238	8,371	-	50,609
Total unrestricted	2,233,403	251,571	-	2,484,974
Temporarily restricted	33,918	22,321	-	56,239
Total net assets	2,267,321	273,892	-	2,541,213
Total liabilities and net assets	$ 4,352,705	$ 507,583	$ (24,163)	$ 4,836,125

See accompanying notes.

Fairview Health Services

Statement of Operations and Changes in Net Assets
Three Months Ended March 31, 2018
(Dollars in Thousands)
(Unaudited)

	Obligated Group	Non-Obligated Group	Eliminations and Reclasses	Consolidated Totals
Unrestricted revenues:				
Net patient service revenue	1,140,616	106,969	(9,037)	1,238,548
Other operating revenue	80,976	93,379	(26,332)	148,023
Net assets released from restrictions	323	386	(309)	400
Total unrestricted revenues	1,221,915	200,734	(35,678)	1,386,971
Expenses:				
Salaries and benefits	595,383	93,279	(2,181)	686,481
Supplies	327,184	10,988	(2,317)	335,855
Purchased services	127,090	62,608	(9,130)	180,568
Utilities and maintenance	41,752	2,903	-	44,655
Insurance and rent	14,972	13,067	(6,313)	21,726
State and local taxes	22,958	4,894	-	27,852
Other operating expenses	11,502	18,203	(15,737)	13,968
Depreciation and amortization	34,040	3,467	-	37,507
Interest	12,782	1,103	-	13,885
Total expenses	1,187,663	210,512	(35,678)	1,362,497
Operating income/(loss)	34,252	(9,778)	-	24,474
Nonoperating gains (losses):				
Investment return	(8,265)	(751)	-	(9,016)
Gains (losses) on interest and basis rate swaps, net	8,973	-	-	8,973
Gains (losses) on business acquisitions				-
Other nonoperating gains (losses), net	(1,062)	9	-	(1,053)
Total nonoperating gains (losses)	(354)	(742)	-	(1,096)
Excess of revenues over expenses	33,898	(10,520)	-	23,378
Less amounts attributable to noncontrolling interests	(1,241)	(207)	-	(1,448)
Excess (deficit) of revenues over expenses attributable to Fairview Health Services	$ 32,657	$ (10,727)	$ -	$ 21,930

See accompanying notes.

Fairview Health Services

Statement of Operations and Changes in Net Assets (continued)
Three Months Ended March 31, 2018
(Dollars in Thousands)
(Unaudited)

	Obligated Group	Non-Obligated Group	Eliminations and Reclasses	Consolidated Totals
Unrestricted net assets, Fairview Health Services:				
Excess (deficit) of revenues over expenses	$ 32,657	$ (10,727)	$ -	$ 21,930
Capital contribution	(24,521)	27,426	(2,905)	-
Acquisition of outside organization	-	-	-	-
Pension and post-retirement liability adjustments	953	-	-	953
Contributions for long-lived assets and other changes	498	(1,571)	-	(1,073)
Increase in unrestricted net assets, Fairview Health Services	9,587	15,128	(2,905)	21,810
Unrestricted net assets, noncontrolling interests:				
Excess of revenues over expenses	1,241	207	-	1,448
Contributions from noncontrolling interests	-	219	-	219
Contribution from business combinations	-	-	-	-
Distributions to noncontrolling interests and other changes	(1,563)	(338)	-	(1,901)
Increase/(decrease) in unrestricted net assets, noncontrolling interests	(322)	88	-	(234)
Temporarily restricted net assets:				
Contributions and other changes, net	1,084	1,237	-	2,321
Contribution from business combinations	-	-		-
Net assets released from restrictions	(155)	(445)	-	(600)
Increase (decrease) in temporarily restricted net assets	929	792	-	1,721
Total increase in net assets	10,194	16,008	(2,905)	23,297
Net assets at beginning of period	2,257,127	257,884	2,905	2,517,916
Net assets at end of period	$ 2,267,321	$ 273,892	$ -	$ 2,541,213

See accompanying notes.

Fairview Health Services

Notes to Consolidated Financial Statements (Unaudited)

(Dollars in Thousands)

1. Organization and Basis of Presentation

Fairview Health Services, an integrated health system, along with its affiliates and subsidiaries is a non-profit corporation headquartered in Minnesota. Fairview is exempt from federal income taxation under Section 501(c)(3) of the Internal Revenue Code (the "IRC"). Fairview offers a broad continuum of health care services through its hospitals, clinics, senior and long-term care facilities, retail and specialty pharmacies, pharmacy benefit management ("PBM") services, rehabilitation centers, counseling and home health care programs, physician network and health insurance products.

The consolidated financial statements include the accounts of the System, which includes both tax-exempt and taxable entities. All significant inter-affiliate and inter-company balances and transactions have been eliminated in consolidation.

The System has prepared the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America ("GAAP"). Although the consolidated financial statements are unaudited, the System believes all normal and recurring adjustments considered necessary for the fair presentation of our financial position and operating results have been included.

This quarterly report supplements our annual financial statements for the year ended December 31, 2017. Certain notes and disclosures that are required in annual financial statements prepared in accordance with GAAP have been omitted as they substantially duplicate the disclosures contained in our annual financial statements. The information included in this quarterly disclosure should be read in conjunction with the most recent audited consolidated financial statements and accompanying notes.

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in these consolidated financial statements and accompanying notes. The System management regularly evaluates the accounting policies and estimates used. Although estimates are considered to be fairly stated at the time the estimates are made, actual results could differ from those estimates.

Fairview Health Services

Notes to Consolidated Financial Statements (Unaudited)

(Dollars in Thousands)

2. Investments

The composition of the System's investments, including those with limited uses, is summarized below:

	March 31, 2018	December 31, 2017
Cash and cash equivalents	$ 220,621	$ 410,226
Certificate of deposits	6,026	6,022
Asset-backed securities	69,231	65,165
Collateralized mortgage obligation securities	7,081	6,973
Commercial mortgage-backed securities	29,474	29,546
Commercial paper	2,986	2,410
Corporate debt securities	329,090	329,110
Equity mutual funds	629,216	633,464
Equity securities	59,995	61,748
Fixed income mutual funds	128,259	126,734
Municipal debt securities	51,903	52,310
U.S. government agency and mortgage-backed securities	143,405	138,415
U.S. Treasury debt securities	174,024	188,693
Equity commingled funds	84,293	83,788
Fund of hedge funds	160,439	158,489
Hedge funds	135,833	135,845
Private capital funds	3,255	3,105
Real estate investment trusts	992	975
	$ 2,236,123	$ 2,433,018

Alternative investments accounted for using the equity method of accounting and investments in certain entities that calculate net asset value (NAV) per share (or its equivalent), including restricted and unrestricted assets are as follows:

	Balance reported at March 31, 2018	Balance reported at December 31, 2017	Unfunded commitments	Redemption frequency	Redemption notice period
Equity commingled funds	$ 84,293	$ 83,788	$ –	Monthly	5 days
Equity long/short hedge funds	82,018	82,690	–	Monthly/ quarterly	30-90 days
Opportunistic fixed income hedge fund	24,219	24,026	–	Quarterly	60 days
Strategic fixed income hedge fund	29,596	29,129	–	Annually	120 days
Fund of hedge funds	160,439	158,489	–	Semi-annually	95 days
Real estate investment trust	992	975	–	Monthly/ quarterly	0-20 days
Private capital fund	3,255	3,105	17,000	7-9 years	N/A
Total	$ 384,812	$ 382,202	$ 17,000		

(Dollars in Thousands)

2. Investments (continued)

Investment return is summarized and reported in the consolidated statements of operations and changes in net assets as follows:

	Three Months Ended March 31, 2018	Three Months Ended March 31, 2017
Dividends and interest	$ 8,301	$ 6,154
Investment expenses, net	(547)	(640)
Net realized gains (losses)	1,079	4,945
Changes in unrealized gains and losses on trading investments	(17,674)	47,752
	$ (8,841)	$ 58,211
Included in other operating revenue	$ 159	$ 299
Included in nonoperating gains (losses)	(9,016)	57,308
Included in changes in temporarily restricted net assets	16	604
	$ (8,841)	$ 58,211

Through the System's investments in fund of hedge funds, the System is indirectly involved in investment activities such as securities lending, trading in futures and forward contracts and other derivative products. Derivatives are used to adjust portfolio risk exposure. While these financial instruments may contain varying degrees of risk, the System's risk with respect to such transactions is limited to its capital balance in each investment.

(Dollars in Thousands)

3. Long-Term Debt

Fairview's long-term debt is summarized below:

	Annual Interest Rates	Final Scheduled Maturity	Amount Outstanding at March 31, 2018	Amount Outstanding at December 31, 2017
Health Care System Revenue Bonds:				
Series 2017 Tax-Exempt Bond	2.00-5.00%	2047	$ 202,100	$ 202,100
Series 2017B Taxable Loan	3.13%	2047	95,415	95,415
Series 2017C Taxable Loan	2.79%	2047	95,410	95,410
Series 2015A Tax-Exempt Bond	2.00-5.00%	2044	106,945	106,945
Series 2015 Taxable Bond	4.16%	2043	345,315	345,315
Series 2008B Tax-Exempt Bond	6.50%	2038	177,165	177,165
Series 2008C Tax-Exempt Bond	Variable	2047	84,375	84,375
Series 2008D Tax-Exempt Bond	Variable	2047	28,125	28,125
Series 2008E Tax-Exempt Bond	Variable	2047	110,000	110,000
Senior housing revenue bonds and notes	Various fixed rate	Various	55,823	55,663
Capital lease obligations	Various fixed rate	Various	76,404	77,873
Other	Various fixed rate	Various	18,991	16,375
			1,396,068	1,394,761
Net unamortized premium (discount)			28,026	28,259
Unamortized debt issuance costs			(11,800)	(11,926)
Less current maturities of long-term debt			(23,583)	(23,692)
			$ 1,388,711	$ 1,387,402

4. Derivative Financial Instruments

The System uses derivative financial instruments, including interest rate swaps, as part of its risk management strategy to manage exposure to fluctuation in interest rates and to manage the overall cost of its debt. Derivatives are used to manage identified and approved exposures and are not used for speculative purposes.

Interest rate swaps between the System and a third party (counterparty) provide for the periodic exchange of payments between the parties based on changes in a defined index (either the London Interbank Offered Rate (LIBOR) and a fixed rate and include counterparty credit risk. Counterparty credit risk is the risk that contractual obligations of the counterparties will not be fulfilled. Concentrations of credit risk relate to groups of counterparties that have similar economic or industry characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions. Counterparty credit risk is managed by requiring high credit standards for the System's counterparties. The counterparties to these contracts are financial institutions that carry investment-grade credit ratings. The interest rate swap contracts contain collateral provisions applicable to both parties to mitigate credit risk. The System does not anticipate non-performance by its counterparties.

(Dollars in Thousands)

4. Derivative Financial Instruments (continued)

The following is a summary of the outstanding positions under these interest rate swaps and basis rate swaps at March 31, 2018:

Instrument Type	Notional Amount	Maturity Date	Rate Paid	Rate Received
Floating to fixed rate swap	$ 147,620	November 15, 2047	3.4965%	62.4% of 1-month LIBOR and 0.29%
Floating to fixed rate swap	$ 74,880	November 15, 2047	3.6015%	62.4% of 1-month LIBOR and 0.29%

The fair value of derivative instruments is recorded in the consolidated balance sheets as follows:

	March 31, 2018	December 31, 2017
Floating to fixed rate swaps	$ (56,858)	$ (67,086)

None of the derivative financial instruments are designated as hedging instruments. Therefore, the gain is recorded in gain on interest and basis rate swaps in the consolidated statements of operations and changes in net assets:

	Three Months Ended March 31, 2018	Three Months Ended March 31, 2017
Variable basis rate swaps	$ –	$ (118)
Floating to fixed rate swaps	8,973	451
	$ 8,973	$ 333

The System offsets fair value amounts recognized for the derivative instruments and fair value amounts recognized for the right to reclaim cash collateral (a receivable) based on the terms of the master netting agreement with the counterparty. The System's master netting agreements contain provisions that require the System to post collateral with the counterparty when the net liability of the derivative instruments is greater than the predetermined threshold. No collateral was required as of March 31, 2018 or December 31, 2017.

5. Fair Value Measurements

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Fair Value Measurements and Disclosures Section of the Financial Accounting Standards Board's Accounting Standards Codification establish a framework for measuring fair value. The framework consists of a three-level hierarchy for fair value measurements based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

The fair values for Level 1 assets in the fair value measurements tables were based upon quoted market prices. Fair value for Level 2 is 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.

Inputs are obtained from various sources, including market participants, dealers and brokers. The System utilizes a discounted cash flow methodology for valuing derivative financial instruments. The valuations reflect a credit spread adjustment to the LIBOR discount curve in order to reflect the credit value adjustment for "nonperformance" risk. The credit spread adjustment is derived from other comparably rated entities' bonds priced in the market. Fair value for Level 3 is based on unobservable market data. There were no financial instruments recorded at fair value classified as Level 3 for the three months ended March 31, 2018 or the year ended December 31, 2017.

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 the System believes its valuation 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.

The carrying values of cash and cash equivalents, accounts receivable for medical services, accounts payable and receivables and payables under third-party reimbursement contracts are reasonable estimates of their fair value due to the short-term nature of these financial instruments.

(Dollars in Thousands)

5. Fair Value Measurements (continued)

The following table represents the financial instruments carried at fair value on a recurring basis as of March 31, 2018, based on the definition of the fair value hierarchy:

	Level 1	Level 2	Level 3	Total
Assets				
Short-term investments:				
Cash and cash equivalents	$ 176,293	$ –	$ –	$ 176,293
Asset-backed securities	–	29,831	–	29,831
Collateralized mortgage obligation securities	–	1,755	–	1,755
Commercial mortgage-backed securities	–	5,166	–	5,166
Commercial Paper	–	1,594	–	1,594
Corporate debt securities	–	83,893	–	83,893
Equity securities	9,255	–	–	9,255
Fixed income mutual funds	10,663	–	–	10,663
Municipal debt securities	–	5,625	–	5,625
U.S. government agency and mortgage-backed securities	–	11,691	–	11,691
U.S. Treasury debt securities	91,184	–	–	91,184
Investments, excluding investments at NAV or accounted for using the equity method:				
Cash and cash equivalents	20,784	–	–	20,784
Certificates of deposit	–	6,026	–	6,026
Asset-backed securities	–	35,118	–	35,118
Collateralized mortgage obligation securities	–	4,975	–	4,975
Commercial mortgage-backed securities	–	22,738	–	22,738
Corporate debt securities	–	202,412	–	202,412
Equity mutual funds	618,312	–	–	618,312
Equity securities	41,850	–	–	41,850
Fixed income mutual funds	116,821	–	–	116,821
Municipal debt securities	–	44,830	–	44,830
U.S. government agency and mortgage-backed securities	–	129,739	–	129,739
U.S. Treasury debt securities	74,398	–	–	74,398
Assets limited as to use:				
Cash and cash equivalents	23,580	–	–	23,580
Asset-backed securities	–	4,282	–	4,282
Collateralized mortgage obligation securities	–	351	–	351
Commercial mortgage-backed securities	–	1,570	–	1,570
Commercial paper	–	1,392	–	1,392
Corporate debt securities	–	42,785	–	42,785
Equity mutual funds	10,904	–	–	10,904
Equity securities	8,890	–	–	8,890
Fixed income mutual funds	775	–	–	775
Municipal debt securities	–	1,448	–	1,448
U.S. government agency and mortgage-backed securities	–	1,975	–	1,975
U.S. treasury debt securities	8,442	–	–	8,442
Total investments at fair value	1,212,115	639,196	–	1,851,311
Investments not at fair value				384,812
Total investments				2,236,123
Liabilities				
Derivative financial instruments	$ –	$ (56,858)	$ –	$ (56,858)

(Dollars in Thousands)

5. Fair Value Measurements (continued)

The following table represents the financial instruments carried at fair value on a recurring basis as of December 31, 2017, based on the definition of the fair value hierarchy:

	Level 1	Level 2	Level 3	Total
Assets				
Short-term investments:				
Cash and cash equivalents	$ 365,548	$ –	$ –	$ 365,548
Asset-backed securities	–	26,309	–	26,309
Collateralized mortgage obligation securities	–	1,868	–	1,868
Commercial mortgage-backed securities	–	4,952	–	4,952
Commercial paper	–	1,494	–	1,494
Corporate debt securities	–	87,327	–	87,327
Equity securities	10,064	–	–	10,064
Fixed income mutual funds	9,213	–	–	9,213
Municipal debt securities	–	6,033	–	6,033
U.S. government agency and mortgage-backed securities	–	10,447	–	10,447
U.S. Treasury debt securities	93,472	–	–	93,472
Investments, excluding investments at NAV or accounted for using the equity method:				
Cash and cash equivalents	22,426	–	–	22,426
Certificates of deposit	–	6,022	–	6,022
Asset-backed securities	–	35,556	–	35,556
Collateralized mortgage obligation securities	–	4,738	–	4,738
Commercial mortgage-backed securities	–	23,179	–	23,179
Corporate debt securities	–	198,225	–	198,225
Equity mutual funds	622,712	–	–	622,712
Equity securities	42,710	–	–	42,710
Fixed income mutual funds	116,747	–	–	116,747
Municipal debt securities	–	44,562	–	44,562
U.S. government agency and mortgage-backed securities	–	126,391	–	126,391
U.S. Treasury debt securities	85,860	–	–	85,860
Assets limited as to use:				
Cash and cash equivalents	22,252	–	–	22,252
Asset-backed securities	–	3,300	–	3,300
Collateralized mortgage obligation securities	–	367	–	367
Commercial paper	–	916	–	916
Commercial mortgage-backed securities	–	1,415	–	1,415
Corporate debt securities	–	43,558	–	43,558
Equity mutual funds	10,752	–	–	10,752
Equity securities	8,974	–	–	8,974
Fixed income mutual funds	774	–	–	774
Municipal debt securities	–	1,715	–	1,715
U.S. government agency and mortgage-backed securities	–	1,577	–	1,577
U.S. treasury debt securities	9,361	–	–	9,361
Total investments at fair value	1,420,865	629,951	$ –	$ 2,050,816
Investments not at fair value				382,202
Total investments				$ 2,433,018
Liabilities				
Derivative financial instruments	$ –	$ (67,086)	$ –	$ (67,086)

6. Subsequent Events

The System evaluated events and transactions occurring subsequent to March 31, 2018 through the date of issuance of the consolidated financial statements. During this period there were no additional subsequent events requiring recognition in the consolidated financial statements.

Section Three – Key Performance Indicators

	Three Months Ended March 31, 2018[1]	2017
Hospitals and Surgery Centers		
Medical/Surgical staffed beds	2,026	1,568
Long-term acute care staffed beds	114	-
Total Staffed beds	2,140	1,568
Medical/surgical inpatient admissions	23,171	14,988
Long-term acute care inpatient admissions	247	-
Behavioral inpatient admissions	3,041	2,411
Skilled nursing inpatient admissions	100	85
Total Inpatient admissions	26,559	17,484
Outpatient registrations	278,089	211,668
Emergency room visits	80,200	57,080
Observation days	6,372	4,347
Deliveries	3,770	2,198
Inpatient surgeries	7,437	5,488
Hospital outpatient surgeries	10,870	9,258
Ambulatory care centers surgeries	3,198	4,259
Total Surgeries	21,505	19,005
Medical/surgical patient days	103,176	78,223
Long-term acute care patient days	7,685	-
Behavioral patient days	25,606	18,407
Skilled nursing patient days	1,620	1,435
Total Patient Days	138,087	98,065

[1] HealthEast acquired in Q2 2017 therefore not included in Q1 2017 data

	Three Months Ended March 31,	
	2018[2]	2017
Occupancy %	67.5%	66.7%
Case mix index	1.64	1.61
Medical/surgical average length of stay	4.5	5.2
Long-term acute care length of stay	31.1	-
Behavioral average length of stay	8.4	7.6
Skilled Nursing length of stay	16.2	16.9
Total Average Length of Stay	5.2	5.6
Clinics and Other Ambulatory Care		
Clinic work RVUs	1,208,033	802,353
Clinic visits	455,300	388,593
Institute for Athletic Medicine visits	48,523	50,305
Home Care visits	318,583	112,564
Orthotics & Prosthetics procedures	2,675	2,422
Long-Term Senior Care Facilities		
Beds in service	542	508
Skilled nursing patient days	45,565	42,481
Skilled nursing admissions	666	483
Occupancy %	93.4%	93.0%
Other Statistics		
Total provider FTEs	1,478	998
Pharmacy unit sales	569,426	582,132
Health Plan Services		
Membership	343,350	328,581

[2] HealthEast acquired in Q2 2017 therefore not included in Q1 2017 data

	Three Months Ended March 31,	
	2018	2017
Profitability Ratios:		
EBIDA Margin	5.5%	5.7%
Operating Margin	1.8%	2.1%
Total Margin	1.7%	7.1%

	March 31, 2018	December 31, 2017
Liquidity Ratios:		
Days Cash on Hand	148.1	159.2
Days Cash on Hand (Obligated Group)	159.3	166.8
Debt Service Coverage Ratio (Ob. Group)	5.1	5.3
Days in Accounts Receivable – Hospitals	57.1	51.4
Days in Accounts Receivable – Clinics	49.4	45.7
Cash to Debt	154.4%	168.5%
Capital Structure Ratios:		
Debt to Capitalization	36.2%	36.4%

Section Four – Management's Discussion and Analysis of Financial Condition and Results of Operations

Management's Discussion and Analysis
of Financial Condition and Results of Operations
for the Three Months Ended March 31, 2018

This section is to provide a narrative explanation of the System's financial statements, thereby providing readers a more comprehensive understanding of the organization. In turn, this will enhance overall financial disclosure, provide a more informed context within which the System's financial information may be analyzed and highlight information about the quality and potential variability of our financial condition, results of operations and cash flows.

Quarter-to-Date Financial Results

For the three months ended March 31, 2018, the System's total operating revenue of $1,387.0 million grew by $241.3 million or 21.1% over the comparable period in 2017, while net patient service revenue increased by $247.2 million or 24.9% primarily due to the acquisition of the HealthEast System in the second quarter of 2017, which contributed $244.8 million to total operating revenue.

Net operating income for the quarter was $24.5 million, compared to $23.9 million in the same quarter of 2017 driving an operating margin of 1.8% for the first quarter 2018 compared to a net operating margin of 2.1% in in the same quarter 2017. The increase in net operating income was largely attributable to the performance drivers below.

- Higher inpatient and outpatient volumes across hospitals and clinics primarily driven by the acquisition of HealthEast as well as increased patient demand from a higher than normal infectious disease season.
- Lower pharmacy supply costs, as a percent of revenue compared to the same period in the prior year driven by increased home infusion volumes which carries a lower drug cost component than other pharmacy segments such as specialty drugs.
- The above favorable activity partially offset by continued operating losses related to the M Health Clinics and Surgery Center joint venture.

Combined with results of operations, the System's consolidated excess of revenues over expenses was $23.4 million compared to favorable return of $81.5 million in the same period from 2017.

The decrease from the prior year was due to the higher flow through of net operating income combined with negative investment income of $9.0 million driven by overall financial market performance compared to the same period in the prior year with reported investment income of $57.3 million.

Further discussion of contributing factors follows below.

Total Operating Revenues

Total operating revenue of $1,387.0 million includes inpatient and outpatient hospital revenues, clinic patient revenue, pharmacy services, and other aspects of our diverse care continuum, as well as non-patient revenues including, PBM fees, rental income, management fees, health plan member premiums, joint venture earnings and income from cafeterias, transportation fees, gift shops and parking which are components of other operating revenue.

$ in millions	Year-to-date March 2018	Year-to-date March 2017	Variance	% Variance
Net patient revenue	$1,238.5	$991.3	$247.2	24.9%
Other operating revenue	$148.4	$154.3	($5.9)	(3.8%)
Total operating revenue	**$1,387.0**	**$1,145.7**	**$241.3**	**21.1%**

Net Patient Service Revenue

Net patient service revenue was $1,238.5 million, an increase of $247.2 million or 24.9% over the comparable period in 2017 largely driven by the addition of HealthEast. Patient services revenue is generated from a variety of sources that include managed care and indemnity-based health insurance companies, the federal Medicare program, as well as state Medicaid programs and uninsured patients (i.e. patients who do not have health insurance and are not covered by other forms of third-party arrangements). The composition of net patient service revenue was as follows:

	Year-to-date March 2018	Year-to-date March 2017	Variance	% Variance
Net inpatient revenue %	46.4%	45.6%	0.8%	1.7%
Net outpatient revenue %	53.6%	54.4%	(0.8%)	(1.4%)

The percentage of gross System patient charges by payment source was as follows:

	Year-to-date March 2018	Year-to-date March 2017	Variance	% Variance
Governmental:				
Medicare	38.4%	35.1%	3.3%	9.4%
Medicaid	19.0%	19.2%	(0.2%)	(1.0%)
Other	1.2%	1.1%	0.1%	9.1%
	58.6%	55.4%	3.2%	5.8%
Negotiated contracts and other:				
Blue Cross Blue Shield	13.2%	13.3%	(0.1%)	(0.8%)
Medica	6.0%	9.5%	(3.5%)	(36.8%)
HealthPartners	8.3%	8.3%	0.0%	0.0%
PreferredOne	5.0%	4.8%	0.2%	4.2%
Other	7.6%	7.5%	0.1%	1.3%
	40.1%	43.4%	(3.3%)	(7.6%)
Self-pay	1.3%	1.2%	0.1%	8.3%
Total	100.0%	100.0%	0.0%	0.0%

Through March 2018, the System experienced a higher proportion of gross patient revenue from Medicare, Medicaid, and self-pay patients compared to the prior year primarily driven by the acquisition of HealthEast which historically has had a higher government payer component in addition to the shift to self-pay categories due to the predominance of high-deductible insurance plans.

	Year-to-date March 2018	Year-to-date March 2017	Variance	% Variance
Unit Pricing Metrics: (1)				
Net inpatient rev per admission	$18,861	$21,961	($3,101)	(14.1%)
Net inpatient rev per patient day	$3,601	$3,741	($140)	(3.7%)
Net outpatient rev per registration	$1,120	$1,124	($4)	(0.3%)
Clinic net patient rev per wRVU	$160	$174	($14)	(7.8%)
Other Key Revenue Elements:				
Prior period revenue (in millions)	$3.1	$4.9	($1.8)	(37.8%)
Quality/TCOC revenue (in millions)	$0.4	$1.1	($0.7)	(65.9%)

(1) Excludes quality incentives and total-cost-of-care ("TCOC") shared savings revenue

Unit pricing trends are lower when compared to the prior year primarily due to the combining of unit pricing at HealthEast. Partially offsetting this were improvements were made across most legacy Fairview operating units including revenue cycle enhancements through denial avoidance and improved documentation in addition to an overall trend toward higher acuity within our hospitals which has increased overall yield.

Net inpatient revenue per admission was $18,861 which was 14.1% lower than the prior year and largely attributable to change in payer mix and the addition of HealthEast hospitals. Net outpatient revenue per registration was $1,120, which is 0.3% lower than the prior year due to the mix of services performed including lower ambulatory surgery, lab and cardiology volumes. Clinic net patient revenue per provider work RVU was $160 which was lower than the prior year of $174 driven primarily by lower HealthEast rates.

Patient Activity

The following table provides details on quarter to date 2018 patient activity levels compared to the prior year:

	Year-to-date March 2018	Year-to-date March 2017	Variance	% Variance
Inpatient admissions	26,559	17,484	9,075	51.9%
Hospital patient days	138,087	98,065	40,020	40.8%
Average length of stay	5.2	5.6	(0.4)	(7.3%)
Outpatient registrations	278,089	211,668	66,421	31.4%
Total surgeries	21,505	19,005	2,500	13.2%
Observation days	6,372	4,347	2,026	46.6%
Emergency room registrations	80,200	57,080	23,120	40.5%
Hospital case mix index	1.64	1.61	0.03	1.8%
Clinic wRVUs	1,208,033	802,353	405,679	50.6%

Inpatient admissions were 9,075 or 51.9% higher compared to the same period last year due mainly to the addition of newly acquired HealthEast hospitals contributing 8,074 admissions as well as increased patient demand across nearly all existing hospitals partially due to increased infectious disease cases. Inpatient service mix changes contributed to higher patient acuity levels, reflected in a 1.8% increase in our overall hospital case mix index.

Outpatient registrations increased 66,421 or 31.4% compared to the same period in 2017 due mainly to HealthEast contributing 58,675 registrations along with increased volumes at other Fairview facilities.

Physician clinic work RVUs increased 405,679 or 50.6% over 2017, due largely to the addition of HealthEast employed physician group, which contributed 393,015 of the increased activity. Through comprehensive initiatives such as membership in accountable care products, expansion of retail clinics, and innovative virtual care investments, the System continues to emphasize growth through care model innovation, increasing access to existing and new providers, and increasing patient awareness within the market.

Volumes within our non-hospital and physician clinic operating units were mixed year-over-year. Patient visits to the Institute for Athletic Medicine were 3.5% lower than the prior year due to intense competitive pressures in the marketplace while orthotics and prosthetic procedures were up 10.4% from 2017 due to the resolution of physician transitions experienced in the prior year and expansion of services to the east metro areas. Home care visits were 183% greater than the prior year due to HealthEast home care services, expanded services, increased patient demand and expanded coordination of care within the Fairview System hospitals and clinics. Pharmacy unit sales decreased 2.2% compared to the prior year, driven primarily by the loss of a vendor contract partially offset by demand and growth within specialty pharmaceuticals, including the continued availability of new medications, in addition to PBM membership growth within existing clients year over year. Finally, Ebenezer resident days were 1.1% higher when compared to the prior year due to resolution of patient turnover and open beds reserved for patients awaiting county waivers experienced in the prior year.

Uncompensated Care

Overall uncompensated care for year-to-date March 2018 totaled $28.7 million which was $9.9 million higher than 2017, as follows:

$ in millions	**Year-to-date March 2018**	**Year-to-date March 2017**	**Variance**	**% Variance**
Total uncompensated care	**$28.7**	**$18.8**	**$9.9**	**52.6%**
% of total operating revenue	*2.1%*	*1.6%*	*0.4%*	*26.0%*

Uncompensated care was higher than the prior year primarily due to the addition of HealthEast which accounted for $3.7 million. In addition, the System experienced higher uncompensated care stemming from an increase in self-pay activity, as more individuals chose to forgo individual coverage due to higher premiums, growth in high-deductible insurance plans, increased deductibles within insurance plans, and higher patient need. Charity care has increased from the prior year due to the addition of HealthEast which accounted for $3.2 million of the increase.

Collections are impacted by the economic ability of patients to pay and the effectiveness of our collection efforts. The System continues to focus on collection initiatives that promote coverage opportunities for our patients and enhance process efficiencies to reduce collection costs for these account categories. The System is dedicated to implementing best practices, enhancing the use of technology to improve the accuracy and timeliness of billing and payment processing, and investing in staff training throughout the revenue cycle to provide market-leading customer service. We believe that in doing so we will increase patient satisfaction, improve collections and reduce outstanding accounts receivable.

The average collection rate on hospital-based patient-liable accounts, excluding HealthEast, which is the blended collection rate for uninsured and self-pay after insurance accounts receivable, was approximately 62.9% for the quarter ended March 31, 2018 versus 63.6%, or a 0.7% decrease, compared to the full year 2017.

Patient advocates from our financial counseling program assist patients to determine whether those patients meet eligibility requirements for various financial assistance programs, including charity care. They also expedite the process of applying for acceptance into certain government programs. Receivables from patients who are potentially eligible for Medicaid are classified as such, pending resolution of the associated application with appropriate estimated allowances recorded.

While the uncompensated care level increased from 2017, it continues to be lower than historical trends as a percent of revenue, in part, due to the impact of the Affordable Care Act expanding Medicaid coverage to patients that were previously uninsured. Hospital charity care write-offs as a percent of gross patient revenue has declined from 0.42% in 2013 prior to the Act's inception, to 0.29% for the quarter ended March 31, 2018.

The process of estimating the allowance for doubtful accounts requires us to estimate the collectability of self-pay accounts receivable, which is primarily based on our collection history for that category of receivable, adjusted for expected recoveries and anticipated changes in collection trends. We continually review our overall reserve adequacy by monitoring historical cash collections as a percentage of trailing net revenue, as well as by analyzing current period net revenue and patient activity by payer classification, aged accounts receivable and various other factors.

Efficiency and Effectiveness of Operations

A summary of key performance metrics is provided in the table below:

	Year-to-date March 2018	**Year-to-date March 2017**	**Variance**	**% Variance**
Salaries and benefits % TOR	49.5%	45.8%	(3.7%)	(8.0%)
Hospital FTE per 100 CMI-adj admissions(1)	5.07	5.06	(0.1)	(0.2%)
Total FTEs	26,203	20,140	6,063	30.1%
Salaries and benefits per adjusted patient day(1)	$1,815	$1,899	($84)	(4.4%)
Clinic staff to provider ratio (1)	3.14	3.27	0.13	4.1%
Purchased services ($ in millions)	$180.6	$171.9	$8.7	5.0%
Supplies % of TOR	24.2%	26.8%	2.6%	9.7%

(1) Excludes Range Hospital and Clinics and Grand Itasca

Salaries and benefits expense as a percentage of total operating revenue was 49.5%, which was 8.0% higher than the prior year ratio of 45.8% due to the addition of HealthEast which carries a higher salary and benefit cost structure due to its composition of services, in addition to expansion of legacy Fairview hospital and clinic services including new provider FTEs, and a higher FTE count within Ebenezer associated with growth in managed senior care facilities, partially offset by efficiencies gained through premium pay management and benefit changes.

Hospital productivity levels were lower period over period as FTEs per Case Mix Index (“CMI”) adjusted admissions were 0.2% higher than the prior year primarily due to the addition of HealthEast. Physician clinic staff-to-provider ratio was lower at 3.14 compared to 3.27 for the same period last year due to increased provider FTEs with the same level of support FTEs.

Supplies expense was 24.2% as a percentage of total operating revenue, which is lower than the prior year ratio of 26.8%. This was attributable to combination of (1) the addition of HealthEast, which has a lower proportion of revenue in supply intensive service lines, and (2) lower Pharmacy supplies expense, as a percent of revenue, from the increased home infusion volumes which carry a lower supply cost component than other pharmacy segments.

Purchased services expense of $180.6 million increased $8.7 million or 5.0% compared to the same period in 2017. This is primarily driven by the addition of HealthEast which contributed $15.9 million of the increase in addition to increased PBM cost of sales associated with Pharmacy revenue growth.

Depreciation and amortization expense totaled $37.5 million, which was $8.3 million or 28.5% higher than the prior year of $29.2 million due to the addition of HealthEast which contributed $8.9 million of the variance.

State and local taxes totaled $27.9 million which was $9.6 million higher than the prior year associated with increased net patient service revenues over the same period

Utilities, maintenance, insurance and rent expenses were $20.2 million higher than the same period in 2017 due primarily to the addition of HealthEast which contributed $16.9 million of costs in addition to the increased number of software maintenance programs entered during 2018 associated with a newly opened secondary data center and an enhanced clinical staff scheduling software implementation and facilities maintenance project costs in addition to higher energy costs associated with mild weather during the first quarter 2017 that did not reoccur in the current period and rising energy costs associated with inflation.

Year-to-date interest expense was $13.9 million compared to the prior year total of $11.9 million. The increase was due to the addition of HealthEast debt combined with lower capitalized interest in the current year associated with changes in the composition of capital spending plans. The System was able to reduce the cost of acquired HealthEast debt by refunding at lower interest rates. The year-to-date, all-in effective interest rate, including swap-related cash flows was 4.3% compared to last year’s average year-to-date rate of 4.6%.

Investment and Interest Rate Swap Results

For the three months ended March 31, 2018, investment losses were ($9.0) million, which was $66.3 million unfavorable to last year. Investment performance was in line with market conditions for both time periods. The System’s long-term and short-term portfolios returned (0.5%) and 0.1%, respectively. This investment activity does not include earnings on restricted investments, which are returned directly to temporarily and permanently-restricted funds.

$ in thousands	Year-to-date March 2018 Cash Flow Income	Year-to-date March 2018 Market Value	Net Swap Change	Mark to Market Valuation
Fixed payer swaps	($1,239)	$10,212	$8,973	$56,858

The total liability of swap contracts decreased from $67.1 million to $56.9 million through March 31, 2018 due to an increase in short-term rates coupled with a flattening of the yield curve. Interest rate swaps have generated a total gain of $9.0 million through that same period which was comprised of negative cash interest expense of $1.2 million offset by non-cash, mark-to-market gains of $10.2 million. Although the fixed payer swaps generated negative cash flows, they are structured to synthetically fix the 2008 CDE bond interest expense to minimize interest expense volatility. The total notional value of outstanding swaps is $222.5 million. The System did not have any collateral posted against the swap liability at March 31, 2018 or December 31,2017.

Balance Sheet and Cash Flow

$ in millions	March 2018	Year Ended December 2017	Variance
Total Unrestricted Liquidity Reserves	$2,180.2	$2,377.3	$197.1
Average Daily Operating Expense	$14.7	$14.9	($0.2)
Days Cash on Hand	148.1	159.2	(11.1)
Total Debt Outstanding	$1,412.3	$1,411.1	$1.2
Unrestricted Net Assets	$2,485.0	$2,464.4	$20.6
Cash to Debt Ratio	154.4%	168.5%	(14.1%)
Debt to Capitalization Ratio	36.2%	36.4%	0.2%

Days Cash on Hand Roll-Forward

	Cash and Investments	Days Cash On Hand
Beginning Cash and Investments - December 31, 2017	**$ 2,377.3**	**159.2**
Earnings before interest, depreciation, and amortization	75.9	5.2
Decrease in operating costs per day	-	2.3
Investment activity	(9.0)	(0.6)
Capital expenditures	(19.9)	(1.4)
Debt activity, net	0.1	0.0
Working capital and other changes	(244.1)	(16.6)
Ending Cash and Investments - March 31, 2018	**$ 2,180.2**	**148.1**

Fairview historically has higher cash usage requirements in the first quarter due to timing of certain benefit payments that depress days cash on hand given the annual nature of these benefits. Primary drivers of the change in working capital include payment of year-end payroll accruals, timing of payments for accounts payable, an increase in self-pay patient accounts receivable, and payment holds on patient accounts with certain payers that have temporarily increased accounts receivable.

Net patient accounts receivable totaled $668.9 million at March 31, 2018, an increase of $85.6 million from December 31, 2017. Corresponding patient accounts receivable days outstanding were 51.7 at March 31, 2018 compared to 45.6 days at December 31, 2017 due to payment holds on certain payers as contracts are being updated for 2018 rates.

Accounts payable totaled $257.3 million at March 31, 2018, a decrease of $42.0 million due to timing of payments at year-end 2017 compared to quarter-end. Accrued salaries and benefits totaled $145.0 million at March 31, 2018, a decrease of $103.5 million due to payment of various prior year-end accruals during the first quarter of 2018.

The decrease in operating costs per day is primarily due to lower supply costs per day due to a combination of the addition of HealthEast which has a lower drug supply component compared to other Fairview hospitals and increased home infusion volumes which carry a lower drug cost component than other pharmacy service lines in addition to lower health plan medical costs. The higher operating costs relative to the overall system associated with pharmacy revenue, most notably from specialty pharmacy drugs, lowered days cash on hand by 3.1 days. Without Pharmacy and PreferredOne expenses, days cash on hand would increase from the current 148.1 to 188.1. It is important to note that while both PreferredOne and Pharmacy have a dilutive impact on days cash on hand levels due to the associated operating costs, the costs are variable expenses that are covered by revenue.

Capital and Joint Venture Investments

Capital expenditures funded through March 31, 2018 total $19.9 million. The Fairview System analyzes and manages capital needs under a formal review process for the authorization of capital expenditures. The System expects to continue to invest in information systems, modern technologies and the reconfiguration of facilities to more effectively provide patient care services, and to provide for a greater variety of clinical services consistent with demand throughout the communities we serve.

Investments in related parties totaled $82.8 million at December 31, 2017 a decrease from the December 2017 balance of $85.7 million primarily due to losses incurred in the M Health CSC joint venture.

Reserves and Debt

The System maintains reserves for self-insured liabilities, including workers' compensation, professional and general liability and employee health insurance. The System continually monitors these reserves, including projected activity and market dynamics, to ensure proper recognition of liabilities and expense throughout the year. The total amount of reserves related to self-insured activity recorded as of March 31, 2018 was $145.4 million, which is $8.4 million higher than December 31, 2017 due to the impact of cost inflation, and higher health insurance and workers compensation reserves needed as a function of employee growth.

The System's debt totaled $1,412.3 million, a $1.3 million increase from December 31, 2017 primarily due to the addition of debt within a consolidated joint venture.

The debt to capitalization ratio at March 31, 2018 was 36.2% compared to 36.4% as of December 31, 2017. The decrease in leverage and debt is due to the consolidated excess of revenues over expenses of $23.4 million in the current period.

Financial Summary

The System management team expects to drive improved combined financial performance by pursuing growth opportunities across service lines and shared service opportunities, including specialty pharmacy, driving efficiencies by eliminating redundant costs and rationalizing capital across the System to avoid duplicate spend. Management anticipates deriving synergies over the next several years from the HealthEast System merger and expects to achieve the full value of these synergy efforts in 2020-2021. Management has already identified savings and growth opportunities that are currently being implemented, with synergies starting to take place in 2018.

Section Five – Investment and Debt Schedule

FAIRVIEW HEALTH SERVICES

INVESTMENT SCHEDULE

(000's OMITTED)

Investment Asset Allocation

The composition of the System's unrestricted cash and investments includes cash, money market funds, short-term fixed income and various long-term investments. The System's primary investment objectives are to ensure preservation of capital, sufficient operating liquidity and growth. For accounting purposes, the System's investment portfolio is considered "trading".

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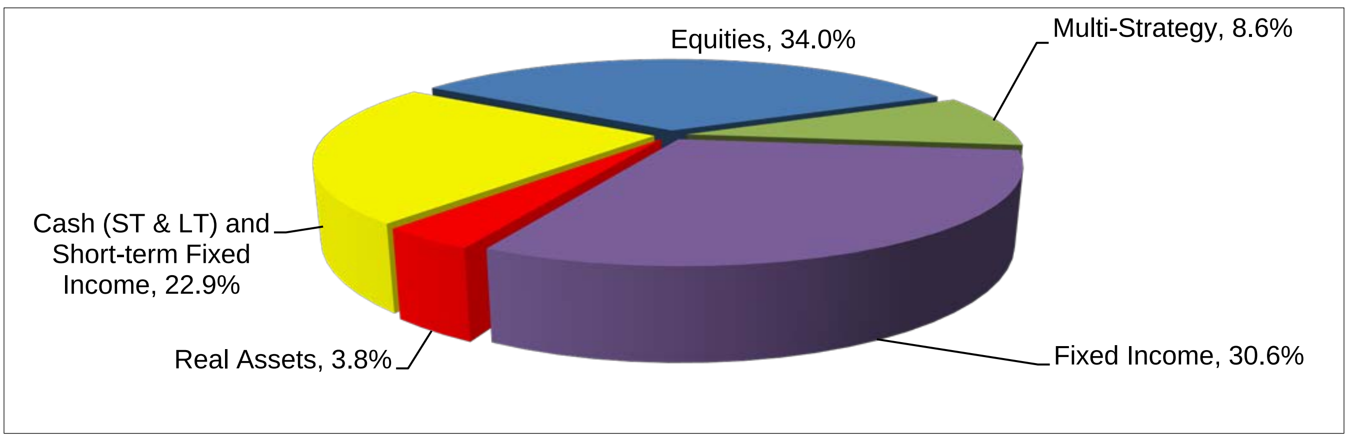
Unrestricted Cash and Investments	3/31/2018		12/31/2017	
Cash and cash equivalents	$ 52,849	2.4%	$ 51,503	2.2%
Short-term investments	426,949	19.6%	616,727	25.9%
Total short-term cash and investments	**479,798**	**22.0%**	**668,230**	**28.1%**
Long-term Investments	1,700,404	78.0%	1,709,040	71.9%
Total unrestricted cash and investments	**$ 2,180,202**	**100.0%**	**$2,377,270**	**100.0%**

Asset Class as a % of Total Unrestricted Investments



The total unrestricted investment allocation by asset class for the System's long-term investments is summarized as follows:

Unrestricted Long-term Investments	Target Allocation	3/31/2018	12/31/2017
Cash and Money Market	0.0%	1.2%	1.3%
Equities	45.0%	43.6%	43.7%
Multi-Strategy	15.0%	11.0%	10.9%
Fixed Income	35.0%	39.3%	39.2%
Real Assets	5.0%	4.9%	4.9%
Total Unrestricted Long-Term Investments	**100.0%**	**100.0%**	**100.0%**

Debt Structure

The composition of Fairview's current debt structure, as of March 31, 2018, is summarized below.

Series		Amount Outstanding	Structure	Final Term	Credit Enhancement	YTD Average Int. Rate*
2008B	$	177,165	Fixed Rate	2038	Assured Guaranty Insured	6.50%
2008C**	$	84,375	Variable Rate	2047	None	1.56%
2008D**	$	28,125	Variable Rate	2047	None	1.56%
2008E**	$	110,000	Variable Rate	2047	None	1.57%
2015A	$	106,945	Fixed Rate	2044	None	4.84%
2015 Taxable	$	345,315	Fixed Rate	2043	None	4.06%
2017A	$	202,100	Fixed Rate	2047	None	4.44%
2017B	$	95,415	Fixed Rate	2047	None	3.13%
2017C	$	95,410	Fixed Rate	2047	None	2.79%
Fairview Bonds	**$**	**1,244,850**			FV Weighted Average YTD Interest Rate	**4.32%**
Other***	$	167,444				
	$	**1,412,294**