August 10, 2018

Financial Highlights for the Six Months Ending June 30, 2018

Revenues and Expenses

For the six months ending June 30, 2018, total revenues grew $62.0 million, or 6%, to $1.122 billion. This increase was due to the growth of net patient service revenue of $62.3 million, or 6%, over the same period in 2017. When compared to the first six months of 2017, inpatient admissions declined 215, or less than 1%, while hospital and total outpatient volumes improved 3%, and provider office visits improved 8%.

Please note: In May 2014, the Financial Accounting Standards Board issued Accounting Standards Update 2014-09, *Revenue from Contracts with Customers (Topic 606)* (ASU 2014-09), to clarify the principles for recognizing revenue and to improve financial reporting by creating common revenue recognition guidance for U.S. GAAP and International Financial Reporting Standards. The core principle of the new guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. We adopted the provisions of ASU 2014-09 on January 1, 2018. The adoption of ASU 2014-09 was not material.

The increase in patient service revenue for 2018 compared to 2017 was due to:

- Increased volumes (4,324, or 5%) at Norton Cancer Institute (NCI),
- Norton Medical Group (NMG) hired additional providers and their provider office visits have increased 8%,
- Increased admissions (160, or 3%), outpatient visits (2,124, or 7%), Emergency Department visits (682, or 4%), and outpatient surgeries (50, or 3%) at Norton Brownsboro Hospital (NBH),
- Increased outpatient visits (3,702, or 10%), Emergency Department visits (2,328, or 8%), and outpatient surgeries (489, or 10%) at Norton Women's and Children's Hospital (NWCH), and
- Increased admissions (213 or 3%) and inpatient surgeries (169, or 8%) at Norton Audubon Hospital (Audubon).

Direct expenses increased $60.8 million, or 6%, compared to the same period in 2017. Major components of this expense growth were:

1. Labor and benefits rose by $16.2 million, or 3%, broken down as follows:

(in millions)	2018	2017	% Change
Salary and Wages	$480.6	$465.6	3%
Contract Labor	4.2	5.0	(16%)
Benefits	103.8	101.8	2%
Total	$588.6	$572.4	3%

   Salary and wages increased due to system wide pay increases and market adjustments that were given in the second and third quarters of 2017 and January 2018. Also, accruals were made during the first six months of 2018 for the new Managers Success Sharing Program. This program was introduced in the fourth quarter of 2017. Lastly, NMG opened new practice offices since the first half of 2017, Hospitalists salaries increased due to volumes in the hospitals, and they continued hiring new providers.

   Benefit costs increased due to higher health insurance expense ($2.0 million), parental leave expense ($1.2 million), and FICA expense ($950,000) partially offset by lower contributions for the discretionary funding of the 403(b)/401(k) benefit plans ($2.1 million).

2. The increase in professional fees of $2.5 million, or 7%, occurred at the System Office ($2.8 million) and NWCH ($982,000) partially offset by declines at Norton Hospital (Norton) ($799,000) and NHB ($475,000). The System Office established a reserve for additional pediatric academic support. NWCH

incurred increased costs with their anesthesia contract renewal. Norton and NBH paid additional startup costs for their new anesthesia contracts in 2017 that did not reoccur this year.

3. Drug and supply costs increased $27.7 million, or 12%; $23.5 million in drug expense and $4.2 million in supply expense. The increase in drug expense occurred at NCI ($18.1 million), Norton Children's Hospital (NCH) ($2.5 million), and NMG ($1.4 million). The NCI variance was volume related particularly in their Specialty Pharmacy and infusion centers. NCH began using a new drug product in the second quarter of 2017 for the treatment of spinal muscular atrophy. This new drug costs $96,000 per dose and requires two doses per treatment. Also, the usage of expensive oncology drugs has increased for treatment of pediatric patients. NMG purchased vaccine for the recent Hepatitis A outbreak. The increase in supply expense occurred at NBH ($1.9 million), Audubon ($1.2 million), NCH ($376,000), CPA Lab ($367,000), and the System Office ($317,000). NBH's increase occurred in Surgery and the Cardiac Catheterization Labs where they incurred costs for orthopedic implant items, chargeable supplies, nonchargeable supplies, neurologic implant items, spine implant items, and cardiovascular implant items; Audubon's was in Surgery for cardiovascular implant items, orthopedic implant items, and nonchargeable supplies; NCH's was in Surgery, Sterile Processing, Laboratory, and Respiratory Therapy for chargeable supplies, neurologic implant items, medical gases, and blood products; CPA Lab's was for reagents/chemicals and other laboratory supplies; and the System Office's was for postage.

4. The increase in fees and special services of $11.8 million, or 24%, occurred at the System Office ($8.1 million), NMG ($1.8 million), and NCH ($1.4 million). The System Office and NMG incurred costs for a productivity and operational efficiency review engagement. Also, Patient Financial Services incurred increased expense for collection costs and other related fees. In addition, costs were incurred for a new early out receivable collection program. In 2016, NCH had estimated costs for the re-naming of the hospital. The actual expenses were less than originally estimated and this favorable adjustment was recorded in the first quarter of 2017 and did not re-occur in 2018. This was partially offset by new contracts for nurse clinicians and endoscopy services, increased collection fees, and a patient information system that provides patients and their families education and general information.

5. Repairs and maintenance increased $1.6 million, or 6%, primarily at the System Office ($857,000), Norton ($298,000), and NCH ($241,000). Information Services incurred costs for software licensing and maintenance contracts. The Norton and NCH increases were caused by equipment repairs in their Cardiac Catheterization Labs, Surgery and Radiology departments.

6. All other direct expenses increased by $951,000, or 2%. We experienced increases for rents and leases, utilities, and equipment rent partially offset by a decline in travel, sponsorships, recruitment, and insurance.

As a result of greater total revenue growth than direct expense growth, EBITDA improved from $87.3 million in 2017 to $88.5 million in 2018.

Fixed expenses, which include depreciation and amortization and interest expense, increased $3.5 million or 5%, with $3.4 million of this increase in depreciation and amortization expense. This increase occurred primarily at Audubon ($1.6 million), NMG ($768,000), NWCH ($431,000), and Norton ($376,000). Audubon's increase was due to new construction, renovations, and energy initiatives; NMG's was due to radiology upgrades at various provider locations, NWCH's was for construction projects, and Norton's was due to energy initiatives. These projects were placed in service in the latter part of 2017 so little if any depreciation expense was recorded during the first six months of 2017 but was recorded in the same time frame of 2018.

Patient service margin decreased from $22.4 million in 2017 to $20.2 million in 2018, or a decline of $2.2 million. Increases in drugs, salary and wages, fees and special services, supplies, depreciation and amortization, professional fees, employee benefits, and repairs and maintenance were partially offset by increased net patient service revenue and other revenue.

Investment income was $26.5 million and $22.4 million for the first six months of 2018 and 2017, respectively. This improvement was caused by increased realized gains and interest and dividend income partially offset by lower unrealized gains on the alternative investment segment of our investment portfolio and increased investment manager fees.

Operating income was $46.7 million in 2018 compared to $44.8 million in 2017. This represents an increase of $1.9 million and was the result of improved investment results partially offset by lower patient service margin.

For the first half of 2018 other non-operating revenues and expenses show a loss of $20.2 million, which is a deterioration of $56.1 million from the same period in 2017. Unrealized investment losses totaled $13.1 million for the first six months of 2018 compared to unrealized gains of $39.8 million for the same period in 2017. When comparing our total investment results (investment income plus the change in unrealized losses or gains), our results have improved at a slower pace in 2018 than compared to 2017. The change in mark to market on the swap agreements deteriorated $932,000 for the first six months of 2018 compared to an improvement of $1.1 million for the same period in 2017. Net periodic pension cost was $5.9 million and $4.8 million for the first six months of 2018 and 2017, respectively.

Other equity transactions show a gain of $5.8 million and $13.3 million for the first six months of 2018 and 2017, respectively. In 2018 and 2017, we recorded favorable adjustments ($4.9 million and $1.8 million, respectively) to match the pension assets to the funded status of the plan as of March 31, 2018 and 2017, respectively. In 2018, restricted contributions were used at NCH for the purchase of: an imaging system, transport equipment, and telemetry monitoring equipment. In 2017, restricted contributions were used for office renovations at NMG and at NCH for the purchase of an ambulance and other equipment. In 2017, we received a payment from Kosair Charities Committee (KCC) for $10.0 million. This payment was a condition of the Settlement Agreement reached between Norton Healthcare, Inc. and KCC in 2016. This money is to be used for the Imaging Center at NCH.

Net assets increased by $32.3 million and $93.9 million for the first six months of 2018 and 2017, respectively, a decline of $61.6 million.

Balance Sheet – June 30, 2018 compared to December 31, 2017

Working capital increased $29.4 million compared to the prior year end primarily due to the change in cash partially offset by increases in accrued expenses and other and due to third party payors. Cash from operations was favorable in the first six months of 2018. Also, another item significantly improving cash was the reimbursement to our cash balance for monies previously spent for eligible capital projects funded by 2016 bond proceeds. Other activities impacting cash but not working capital were funds used to pay: the employer contribution to the 403(b)/401(k) saving plans, other accrued payroll items, account payable items, and prepaid expenses partially offset by the reduction in patient receivables. The liability for the savings plans is recorded in accrued payroll items.

Significant items impacting cash were:

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

which were partially offset by:

- Payments made for trade payables, payroll and related taxes, and provider taxes,
- Purchase of capital assets,
- Employer contributions to the 403(b)/401(k) savings plans,
- Funding the semi-annual interest payments on our debt,
- Software licensing fees, and
- Malpractice liability settlements and annual funding.

The decline in net patient receivables was caused by improved cash collections and we began a new early out receivable collection program in June 2018. Prepaid expenses increased due to payments made for software maintenance contracts. The decrease in accounts payable is due to timing of the invoice processing. Accrued expenses and other increased due to increased health insurance, accrued other, and professional fee accruals partially offset by a reduction in accrued physician reimbursement. The decline in accrued payroll items was due to payments made to the 403(b)/401(k) savings plans, net of accruals, payments made for physician bonuses, net of accruals, payments made on the variable compensation plan, net of accruals, and the timing of our payroll cycle compared to the monthly calendar partially offset by an increase in accrued vacation. The increase in due to third party payors was caused by reserves being established for the current year Medicare and Medicaid cost report filings partially offset by the settlement of a managed care provider overpayment issue.

Cash and investments available for debt service increased $23.5 million, as follows:

(in millions)	6/30/2018	12/31/2017	Change
Operating Cash	$ 137.7	$ 122.7	$15.0
Marketable Securities	126.0	124.8	1.2
Board Designated Funds	1,148.2	1,140.8	7.4
Bond Trustee Funds	21.5	21.6	(0.1)
Total	$1,433.4	$1,409.9	$23.5

This increase was caused by an improved cash position, discussed above, and earnings on our investments, partially offset by unfavorable investment results. Although the cash and investments available for debt service increased during the first six months of 2018, our average daily expenses increased from $5.5 million at December 31, 2017 to $5.7 million at June 30, 2018. As a result, our consolidated days cash on hand declined from 254 at December 31, 2017 to 251 at June 30, 2018.

Accounts receivable days outstanding decreased from 42.8 as of December 31, 2017 to 36.5 as of June 30, 2018. This decline was attributable to improved cash collections and a new early out receivable collection program that began in the June 2018.

The increase in assets limited by Board of Trustees was due to earnings on the investments, partially offset by unfavorable investment results. The decrease in assets limited by Bond Indenture Trust was the result of reimbursement of capital projects from bond proceeds. The decline in assets limited by Self Insurance Trust was caused by claims payments and unfavorable investment results. Restricted Funds decreased due to expenditures made by the NHC Project Fund for the Imaging Center at NCH, discussed in the other equity transaction section above, and the transfer of the current year estimate of the uncompensated cost of charity from non-current assets to current assets.

Property and equipment increased $45.7 million to $924.0 million. This was the result of capital spending, primarily for: construction at Audubon, a new medical office building, NCH design fees, equipment purchases at the hospitals and NCI, energy savings initiative at Audubon and downtown facilities, and digital radiology equipment at NMG practice locations, partially offset by depreciation.

The increase in other assets of $6.2 million was caused by an increase in the vendor incentive with Premier, recording investment results for beneficial interest in outside trusts, and pledges receivable, net of discounts, partially offset by the change in the mark to market on the swap agreements from a receivable position at December 31, 2017 to a loss position at June 30, 2018.

Other non-current liabilities increased $2.7 million due to accounting for construction costs on a new medical office building, accruals made to the pension plan to record net periodic pension cost, and the change in the mark to market on the swap agreements from a receivable position at December 31, 2017 to a loss position at June 30, 2018, partially offset by an adjustment to match the pension asset to the funded status of the plan, distributions made from the deferred compensation plan, and malpractice claim payments made, net of accruals.

Total debt increased $365,000 due to amortization of bond discounts and bond issue costs less payments made on the debt.

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

Sincerely,

Adam D. Kempf
Senior Vice President and Chief Financial Officer

BOND HOLDER PACKET

NORTON HEALTHCARE, INC.

UNAUDITED

FINANCIAL STATEMENTS

June 30, 2018

Norton Healthcare, Inc.
Financial Statements

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NORTON HEALTHCARE, INC.
Combined Income Statement vs Prior Year - Quarterly - Dollars in Thousands
for ** Consolidated Level Range **
June 30, 2018

08/03/18
11:23
IS-C-QTRROUN

	Quarter Ending			Year to Date		
	06/30/18	06/30/17	Variance	06/30/18	06/30/17	Variance
Net Patient Service Revenu	555,101	513,112	41,989	1,098,711	1,036,399	62,312
Other Revenue	9,131	9,634	(503)	19,189	18,115	1,074
Donations & Contributions	2,846	2,802	44	4,960	5,373	(413)
Joint Venture Results	(577)	(82)	(495)	(1,046)	(109)	(937)
Total Net Revenue	566,501	525,466	41,035	1,121,814	1,059,778	62,036
Expenses						
Salary and Wages	239,813	231,772	(8,041)	480,570	465,557	(15,013)
Contract Labor	2,239	2,925	686	4,198	5,008	810
Employee Benefits	51,124	47,969	(3,155)	103,843	101,835	(2,008)
Professional Fees	20,412	17,401	(3,011)	37,835	35,312	(2,523)
Drugs	58,265	45,297	(12,968)	110,384	86,887	(23,497)
Supplies	70,736	68,939	(1,797)	146,517	142,306	(4,211)
Fees, Special Services	34,103	26,059	(8,044)	61,134	49,320	(11,814)
Repairs and Maintenance	14,247	12,786	(1,461)	28,475	26,918	(1,557)
Equipment Rent	1,832	1,847	15	3,659	3,572	(87)
Rents and Leases	7,678	7,117	(561)	15,195	14,123	(1,072)
Utilities	5,643	5,669	26	11,599	11,083	(516)
Insurance	5,708	5,870	162	11,420	11,744	324
Provider Tax	5,032	5,032	0	10,065	10,065	0
Other	4,398	4,630	232	8,395	8,794	399
Subtotal Direct Expenses	521,230	483,313	(37,917)	1,033,289	972,524	(60,765)
EBITDA	45,271	42,153	3,118	88,525	87,254	1,271
Fixed Expenses						
Depreciation & Amortizat	23,897	22,092	(1,805)	48,138	44,743	(3,395)
Interest Expense	10,290	10,169	(121)	20,209	20,109	(100)
Patient Service Margin	11,084	9,892	1,192	20,178	22,402	(2,224)

NORTON HEALTHCARE, INC. 08/03/18
Combined Income Statement vs Prior Year - Quarterly - Dollars in Thousands 11:23
for ** Consolidated Level Range ** IS-C-QTRROUN
June 30, 2018

	Quarter Ending			Year to Date		
	06/30/18	06/30/17	Variance	06/30/18	06/30/17	Variance
Investment Income (Loss)	16,193	9,142	7,051	26,493	22,354	4,139
Operating Income (Loss	27,277	19,034	8,243	46,671	44,756	1,915
Non-Operating Rev (Exp)						
Chg in Unreal G/(L) in I	(422)	13,734	(14,156)	(13,077)	39,798	(52,875)
Other Non-Operating Reve	(88)	(2)	(86)	(85)	(1)	(84)
Chg in Fair Value of Swa	2,817	4,341	(1,524)	(932)	1,096	(2,028)
Net Periodic Pension Cos	(2,965)	(2,389)	(576)	(5,929)	(4,779)	(1,150)
James R. Petersdorf Fund	(150)	(130)	(20)	(220)	(300)	80
Total Non-Operating Rev (	(808)	15,554	(16,362)	(20,243)	35,814	(56,057)
Excess Rev Over Exp	26,469	34,588	(8,119)	26,428	80,570	(54,142)
Other Equity Transactions	5,755	12,308	(6,553)	5,822	13,326	(7,504)
Inc(Decr) in Net Assets	32,224	46,896	(14,672)	32,250	93,896	(61,646)
STATISTICS:						
Admissions	17,585	17,714	(129)	35,652	35,867	(215)
Adjusted Admissions	41,220	38,991	2,229	82,037	78,019	4,018
Patient Days	87,947	90,263	(2,316)	179,828	184,381	(4,553)
Adjusted Patient Days	206,154	198,681	7,473	413,793	401,073	12,720
O/P Visits (Excl ER & OP S	140,904	133,816	7,088	275,797	266,380	9,417
E/R Visits	59,965	59,544	421	123,217	122,484	733
Outpatient Surgery	8,962	8,807	155	17,785	17,641	144
Inpatient Surgery	5,191	5,216	(25)	10,371	10,467	(96)
Deliveries	1,874	1,885	(11)	3,661	3,711	(50)
Clinic/Phys Visits	548,799	508,561	40,238	1,121,104	1,042,983	78,121
Acute LOS	5.00	5.10	(0.10)	5.04	5.14	(0.10)
FTE	12,170.2	12,148.9	(21.3)	12,201.9	12,055.5	(146.4)
FTE/AOB	5.37	5.56	0.19	5.34	5.44	0.10
wRVUs	1,171,124	998,655	172,469	2,356,699	2,061,580	295,119
Observation Cases	6,856	6,313	543	13,404	12,882	522

NORTON HEALTHCARE, INC.
Combined Balance Sheets
In Thousands

08/03/18
11:23
BS-CMB-BRD

	June 2018	December 2017	Increase (Decrease)	%
Assets				
Current Assets				
Cash and Cash Equivalents	137,727	122,747	14,980	12
Mkt Securities & Other Inv	125,968	124,792	1,176	1
Net A/R	223,665	263,745	(40,080)	(15)
Miscellaneous Receivables	18,526	20,528	(2,002)	(10)
CP Assets Limited to Use	24,058	23,704	354	1
Inventories	50,245	50,417	(172)	
Prepaid Expenses	41,459	36,648	4,811	13
Total Current Assets	621,649	642,581	(20,932)	(3)
Assets Limited as to Use				
By Board of Directors	1,148,183	1,140,784	7,399	1
By Bond Indenture Trust	99,966	135,580	(35,614)	(26)
By Self Insurance Trust	80,666	91,392	(10,726)	(12)
Restricted Funds	84,384	86,538	(2,154)	(2)
Total Assets Limited as to Use	1,413,199	1,454,294	(41,094)	(3)
Net Property Plant & Equipmt	923,960	878,268	45,692	5
Other Assets:				
Investments in Joint Ventur	67,328	63,705	3,623	6
Beneficial Int. in Outsd Tr	24,785	23,125	1,660	7
Goodwill & Net Intang Assets	20,571	20,626	(55)	
Other	48,956	47,997	959	2
Total Other Assets	161,641	155,453	6,189	4
Total Assets	3,120,449	3,130,595	(10,146)	

NORTON HEALTHCARE, INC.
Combined Balance Sheets
In Thousands

08/03/18
11:23
BS-CMB-BRD

	June 2018	December 2017	Increase (Decrease)	%
Liabilities and Net Assets				
Current Liabilities:				
Accounts Payable	72,018	78,284	(6,266)	(8)
Grants Payable	931	1,031	(100)	(10)
Accrued Expense & Other	78,885	74,487	4,398	6
Accrued Payroll Items	107,537	159,882	(52,345)	(33)
Due to Third-Party Payors	35,856	32,107	3,749	12
Accrued Interest	8,642	8,587	55	1
Current Portion LT Debt	37,444	37,266	178	
Total Current Liabilities	341,313	391,644	(50,331)	(13)
Other Noncurrent Liabilities:				
Pension	67,775	66,702	1,073	2
Insurance Liability	84,182	87,018	(2,836)	(3)
Fair Value of SWAP	221		221	
Other	84,643	80,374	4,269	5
Total Other Noncurrent liabil	236,821	234,094	2,727	1
Total Long-term Debt	1,099,400	1,099,213	187	
Net Assets:				
Unrestricted	1,318,432	1,286,182	32,250	3
With Donor Restrictions	124,484	119,463	5,021	4
Total Net Assets	1,442,916	1,405,645	37,271	3
Total Liablities & Net Assets	3,120,449	3,130,595	(10,146)	

Report Generation

Norton Healthcare, Inc. and Affiliates 08/03/18
Statement of Changes in Net Assets 11:23
In Thousands BS-CMB-BRD

	June 2018	December 2017
Net Assets:		
UNRESTRICTED		
Fund Balance	1,286,182	1,073,028
Excess Revenues over Expenses	32,250	213,153
Total Unrestricted	1,318,432	1,286,182
WITH DONOR RESTRICTIONS		
Fund Balance	119,463	114,323
Contributions & Grants	7,076	5,785
Bequests		434
Raffle Fundraising	23	22
Special Event Costs	(179)	(550)
Investment Income	1,093	3,254
Inc Dist fr Trust/Change in BI	1,347	3,065
Assets Released-Programs/Asst.	(2,349)	(5,941)
Assets Relsd-PP&E/Time Restr	(1,066)	(2,818)
Unrealized Gain/Loss	(587)	2,554
Fdtn OH Expense Alloc	(336)	(666)
Total With Donor Restrictions	124,484	119,463
TOTAL NET ASSETS	1,442,916	1,405,645

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

	Six Months Ended June 30, 2018	Year Ended December 31, 2017
Operating Activities		
Change in net assets	$37,271	$218,292
Adjustments to reconcile change in net assets to net cash provided by operating activities and nonoperating gains and lossses - net:		
Depreciation and amortization	48,138	90,890
Discount accretion	1,573	3,277
Change in net unrealized gains and losses on investments	13,665	(62,569)
Change in interest rate swap value	932	(466)
Change in pension plan assets and obligation	(4,856)	(1,769)
Restricted contributions and investment income	(9,360)	(12,014)
Capital project settlement proceeds	-	(10,000)
Changes in operating assets and liabilities:		
Change in patient accounts receivable	40,080	(16,060)
Change in assets limited as to use, net	27,076	61,972
Change in amounts due to third-party payors	3,749	(1,363)
Change in marketable securities	(1,176)	(105,948)
Change in other current and noncurrent assets and liabilities	(52,348)	1,696
Net cash from operating activities	104,743	165,938
Investing Activities		
Purchase of property and equipment, net	(93,830)	(171,731)
Change in joint ventures and other	(3,623)	(9,146)
Net cash from investing activities	(97,453)	(180,877)
Financing Activities		
Principal payments on long-term debt	(1,670)	(36,288)
Restricted contributions and investment income	9,360	12,014
Net cash from financing activities	7,690	(24,274)
Change in cash and cash equivalents	14,980	(39,213)
Cash and cash equivalents at beginning of year	122,746	161,959
Cash and cash equivalents at end of month	$137,726	$122,746

NORTON HEALTHCARE, INC. 08/03/18
Combining Balance Sheet By Legal Entity Dollars in Thousands 11:23
To Date Ending June 30, 2018 B-COMBINGROU

	Norton System Office	Norton Hospitals Inc.	CMA	Norton Properties Inc.	Norton Enterprises Inc.	Chidren's Hospital Foundation	Norton Healthcare Foundation	Eliminations	Combined Total
Assets									
Current Assets									
Cash and Cash Equivalents	137,309	9	190		(11)	208	22		137,727
Mkt Securities & Other Inv	125,968								125,968
Net A/R		194,137	22,332		7,196				223,665
Miscellaneous Receivables	9,424	584	172			2,882	5,465		18,527
CP Assets Limited to Use	24,058								24,058
Inventories	849	48,129	304		854	39	70		50,245
Prepaid Expenses	37,152	1,400		2,813	35	58			41,458
Total Current Assets	334,760	244,258	22,999	2,813	8,075	3,187	5,557		621,649
Assets Limited as to Use									
By Board of Directors	1,110,081					34,498	3,603		1,148,182
By Bond Indenture Trust	99,966								99,966
By Self Insurance Trust	80,666								80,666
Restricted Funds	29,760					28,531	26,093		84,384
Total Assets Limited as to Use	1,320,474					63,029	29,697		1,413,199
Net Property Plant & Equipmt	93,114	707,229	31,661	91,510	401	46			923,960
Other Assets:									
Other Receivables from Affi	(801,068)	1,403,358	(525,190)	(40,171)	(36,017)	(134)	(778)		
Investments in Joint Ventur	291	53,458			26,421			(12,842)	67,328
Beneficial Int. in Outsd Tr						17,133	7,652		24,785
Goodwill & Net Intang Assets		7,446	3,448		9,677				20,571
Other	24,188			4		17,274	7,490		48,956
Total Other Assets	(776,588)	1,464,262	(521,741)	(40,167)	81	34,273	14,364	(12,842)	161,641
Total Assets	971,759	2,415,749	(467,082)	54,156	8,556	100,535	49,617	(12,842)	3,120,449

NORTON HEALTHCARE, INC. 08/03/18
Combining Balance Sheet By Legal Entity Dollars in Thousands 11:23
To Date Ending June 30, 2018 B-COMBINGROU

	Norton System Office	Norton Hospitals Inc.	CMA	Norton Properties Inc.	Norton Enterprises Inc.	Chidren's Hospital Foundation	Norton Healthcare Foundation	Eliminations	Combined Total
Liabilities and Net Assets									
Current Liabilities:									
Accounts Payable	21,286	48,651	575	515	927	60	6		72,020
Grants Payable	931								931
Accrued Expense & Other	38,815	33,902	5,114	239	777	31	7		78,885
Accrued Payroll Items	87,593	1,789	17,969		186				107,537
Due to Third-Party Payors		35,856							35,856
Accrued Interest	8,642								8,642
Current Portion LT Debt	33,835			3,609					37,444
Total Current Liabilities	191,102	120,197	23,657	4,362	1,890	91	13		341,313
Other Noncurrent Liabilities:									
Pension	67,775								67,775
Insurance Liability	84,182								84,182
Fair Value of SWAP	221								221
Other	51,214	7,589		21,432		2,212	2,197		84,644
Total Other Noncurrent liabil	203,392	7,589		21,432		2,212	2,197		236,821
Total Long-term Debt	1,063,967			35,433					1,099,400
Net Assets:									
Unrestricted	(487,165)	2,279,946	(491,034)	(7,076)	6,666	28,065	1,870	(12,842)	1,318,430
With Donor Restrictions	464	8,018	295	4		70,167	45,537		124,485
Total Net Assets	(486,701)	2,287,964	(490,739)	(7,071)	6,666	98,232	47,407	(12,842)	1,442,916
Total Liablities & Net Assets	971,759	2,415,749	(467,082)	54,156	8,556	100,535	49,617	(12,842)	3,120,449

Report Generation

NORTON HEALTHCARE, INC. 08/03/18
Combining Balance Sheet By Legal Entity 11:23
Changes in Net Assets B-COMBINGROU
To Date Ending June 30, 2018

	Norton System Office	Norton Hospitals Inc.	CMA	Norton Properties Inc.	Norton Enterprises Inc.	Children's Hospital Foundation	Norton Healthcare Foundation	Eliminations	Combined Totals
Net Assets:									
UNRESTRICTED									
Fund Balance	(413,519)	2,133,570	(454,769)	(5,414)	8,579	28,609	1,966	(12,841)	1,286,181
Excess Revenues over Expenses	(73,646)	146,376	(36,265)	(1,662)	(1,914)	(544)	(95)		32,250
Total Unrestricted	(487,165)	2,279,946	(491,034)	(7,076)	6,665	28,065	1,870	(12,841)	1,318,432
WITH DONOR RESTRICTIONS									
Fund Balance	287	6,926	394	4		65,869	45,983		119,463
Contributions & Grants	498	3,670	276			5,362	1,733	(4,464)	7,075
Raffle Fundraising						9	14		23
Special Event Costs						(145)	(34)		(179)
Investment Income						561	532		1,093
Inc Dist fr Trust/Change in BI						1,200	147		1,347
Assets Released-Programs/Asst.	(292)	(1,668)	(239)			(1,710)	(1,240)	2,799	(2,350)
Assets Relsd-PP&E/Time Restr	(11)	(821)	(135)			(474)	(1,290)	1,665	(1,066)
Unrealized Gain/Loss						(300)	(288)		(588)
Fdtn OH Expense Alloc						(229)	(107)		(336)
Transfer to/from Affiliates	(19)	(90)	(1)			23	87		
Total With Donor Restrictions	464	8,018	295	4		70,167	45,537		124,484
TOTAL NET ASSETS	(486,701)	2,287,964	(490,739)	(7,071)	6,665	98,232	47,407	(12,841)	1,442,916

NORTON HEALTHCARE, INC. 08/03/18
Combining Income Statement By Legal Entity Dollars in Thousands 11:23
June 30, 2018 YEAR TO DATE ISCMBYTDROUN

	Norton System Office	Norton Hospitals Inc.	CMA	Norton Properties Inc.	Norton Enterprises Inc.	Children's Hospital Foundation	Norton Healthcare Foundation	Eliminations	Combined Total
Net Patient Service Revenue	(13)	921,235	169,808		13,583			(5,903)	1,098,710
Other Revenue	5,046	5,870	13,430	21,638	4,080	153	396	(31,425)	19,188
Donations & Contributions	416	2,445	289			4,140	2,970	(5,301)	4,959
Joint Venture Results	(499)	1,148			(1,695)				(1,046)
Total Net Revenue	4,950	930,698	183,527	21,638	15,968	4,293	3,366	(42,629)	1,121,811
Expenses									
Salary and Wages	71,527	247,643	152,250	301	7,874	725	250		480,570
Contract Labor	1,091	2,468	267	115	257				4,198
Employee Benefits	21,492	58,032	22,593	253	1,296	143	34		103,843
Professional Fees	3,069	35,998	986			32		(2,250)	37,835
Drugs	84	103,939	6,317		44				110,384
Supplies	182	136,936	5,959	43	3,164	87	146		146,517
Fees, Special Services	29,482	29,592	7,671	591	4,049	393	83	(10,727)	61,134
Repairs and Maintenance	21,033	6,529	353	552	7				28,474
Equipment Rent	1,531	2,120	7		1				3,659
Rents and Leases	4,762	8,026	11,118	15,103	290	47	16	(24,166)	15,196
Utilities	1,166	7,474	1,938	877	139	4			11,598
Insurance	111	6,108	4,877	55	88	152	30		11,421
Provider Tax		10,065							10,065
Other	2,205	2,590	1,960	268	269	3,739	2,848	(5,484)	8,395
Management Fee	(77,727)	76,451	770	195	312				1
Subtotal Direct Expenses	80,008	733,971	217,066	18,353	17,790	5,322	3,407	(42,627)	1,033,290
EBITDA	(75,058)	196,727	(33,539)	3,285	(1,822)	(1,029)	(41)	(2)	88,521
Fixed Expenses									
Depreciation & Amortization	9,867	31,701	2,948	3,546	70	4	1		48,137
Interest Expense	(605)	19,393		1,420					20,208
Patient Service Margin	(84,320)	145,633	(36,487)	(1,681)	(1,892)	(1,033)	(42)	(2)	20,176

NORTON HEALTHCARE, INC. 08/03/18
Combining Income Statement By Legal Entity Dollars in Thousands 11:23
June 30, 2018 YEAR TO DATE ISCMBYTDROUN

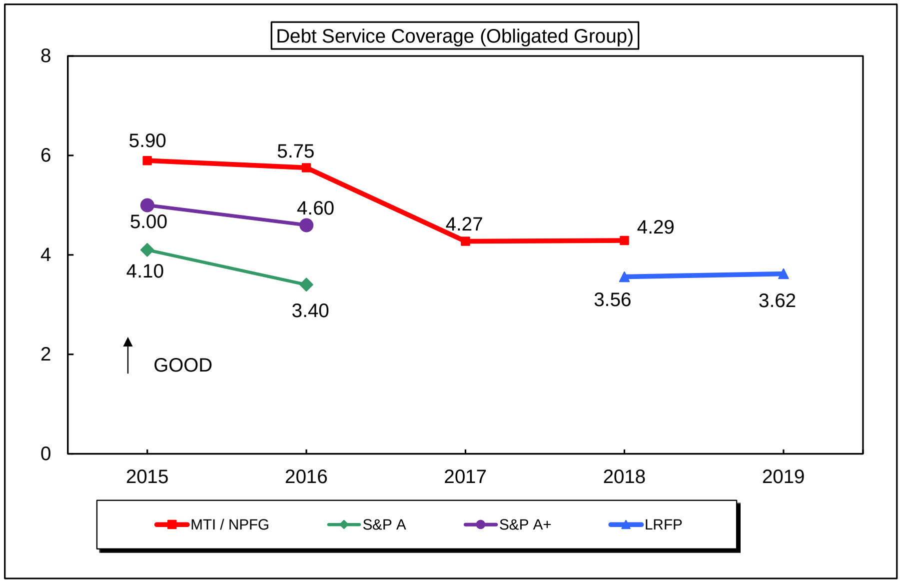
	Norton System Office	Norton Hospitals Inc.	CMA	Norton Properties Inc.	Norton Enterprises Inc.	Children's Hospital Foundation	Norton Healthcare Foundation	Eliminations	Combined Total
Investment Income (Loss)	25,634					785	74		26,493
Operating Income (Loss)	(58,686)	145,633	(36,487)	(1,681)	(1,892)	(248)	32	(2)	46,669
Non-Operating Rev (Exp)									
Change in Unreal G/(L) Inv	(12,650)					(387)	(40)		(13,077)
Other Non-Operating Revenue	(1)	(72)	(8)	20	(24)				(85)
Chg in Fair Value of Swap	(932)								(932)
Net Periodic Pension Cost	(5,929)								(5,929)
James R. Petersdorf Fund	(316)		96						(220)
Total Non-Operating Rev (Exp)	(19,828)	(72)	88	20	(24)	(387)	(40)		(20,243)
Excess Rev Over Exp	(78,514)	145,561	(36,399)	(1,661)	(1,916)	(635)	(8)	(2)	26,426
Other Equity Transactions	4,867	816	135			92	(87)		5,823
Inc(Decr) in Net Assets	(73,647)	146,377	(36,264)	(1,661)	(1,916)	(543)	(95)	(2)	32,249
STATISTICS:									
Admissions - Acute		35,652							35,652
Patient Days - Acute		179,828							179,828
O/P Visits (Excl ER & OP Surg)		275,797							275,797
E/R Visits		123,217							123,217
Outpatient Surgery		17,785							17,785
Inpatient Surgery		10,371							10,371
Deliveries		3,661							3,661
Clinic/Phys Visits		55,604	1,060,480		5,020				1,121,104
wRVUs		107,754	1,907,104		2,628				2,017,486
Observation Cases		13,404							13,404

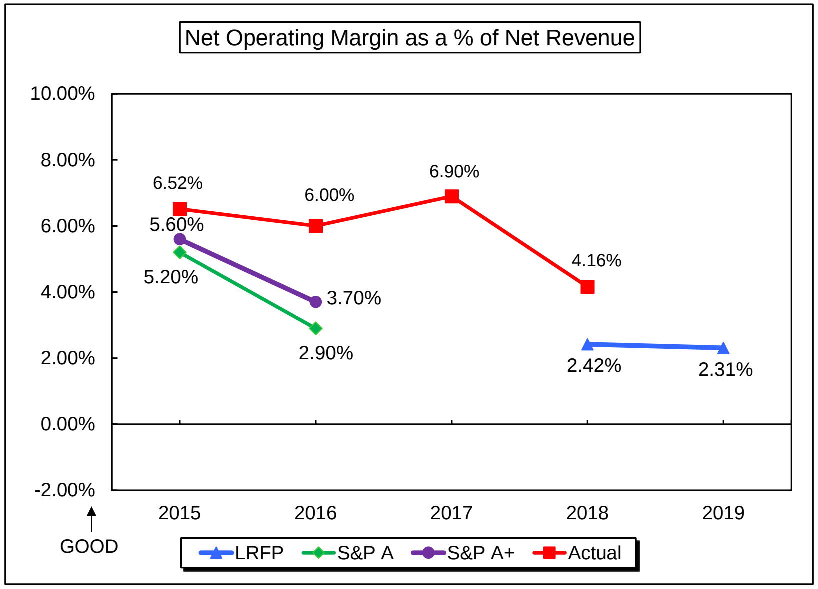
NORTON HEALTHCARE

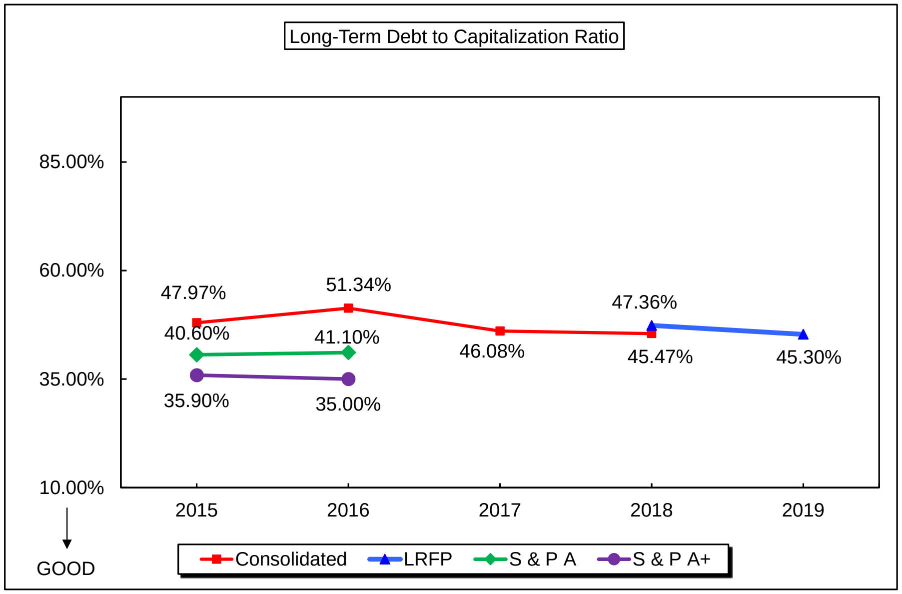
Key Long-Term Financial Indicators

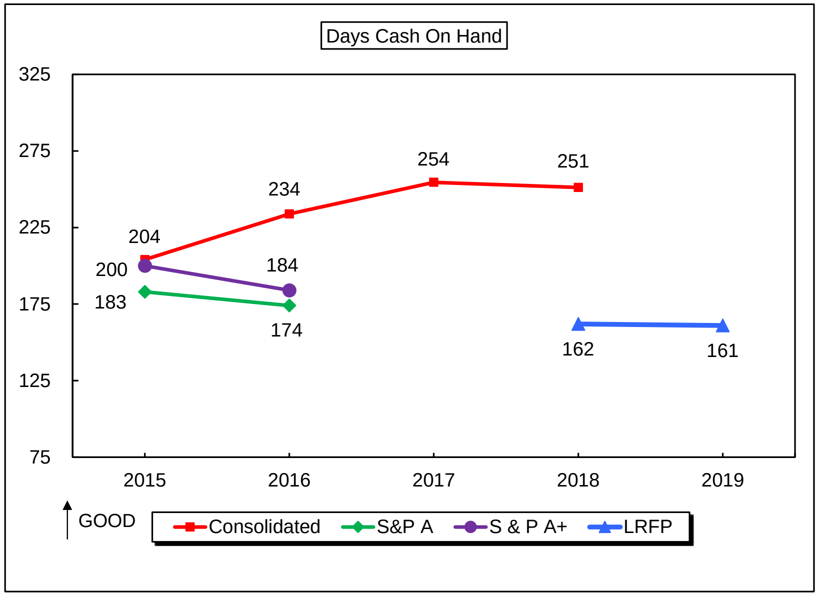
June 30, 2018

NOTE: All actual 2018 amounts are year-to-date, while LRFP projections, S&P A, and S&P A+ amounts are for the entire year. LRFP per 2017 Board approval.





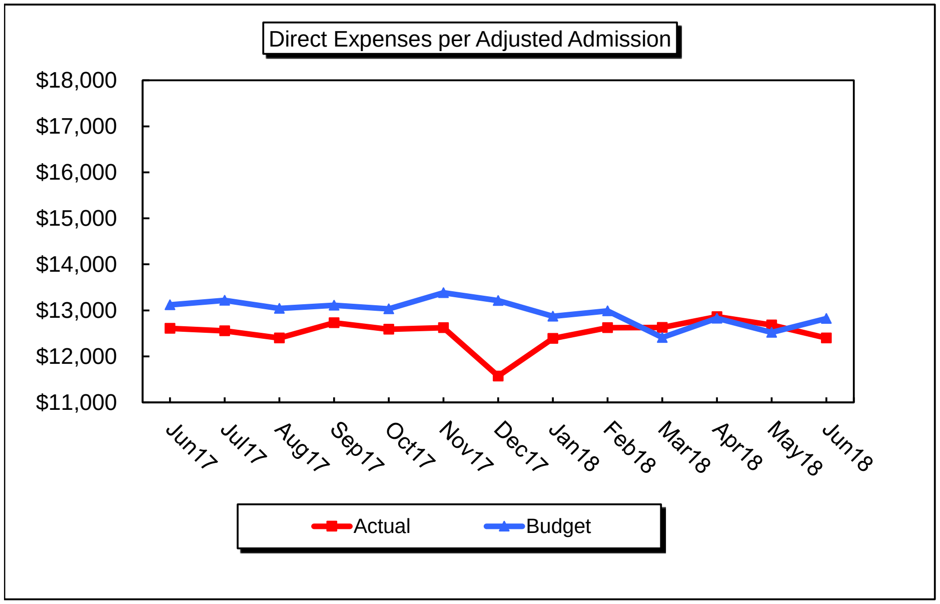


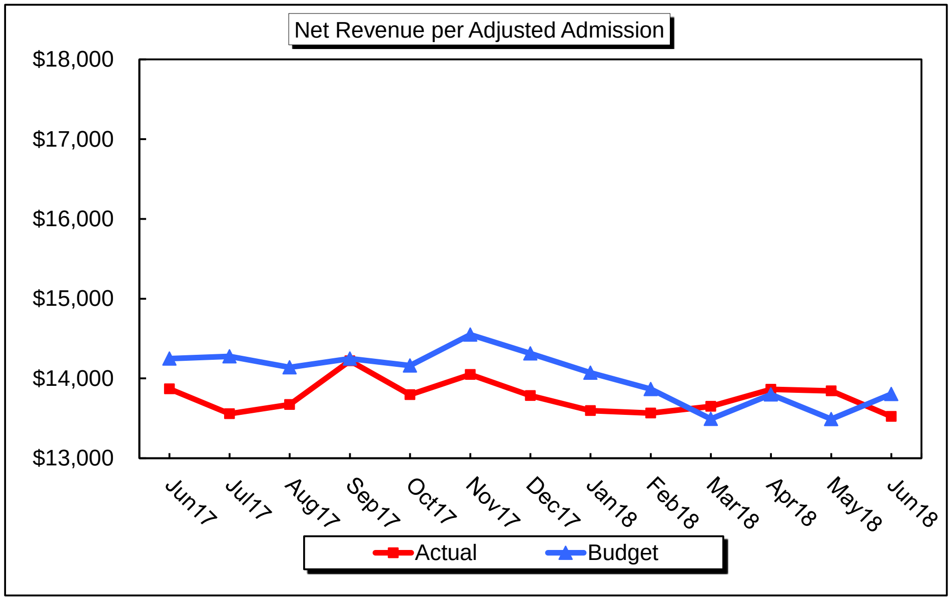


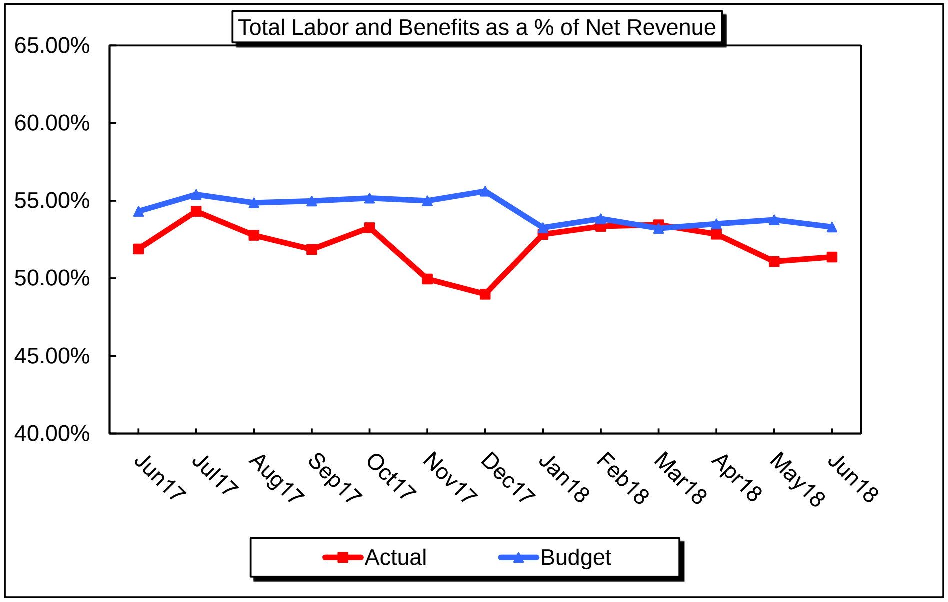
NORTON HEALTHCARE

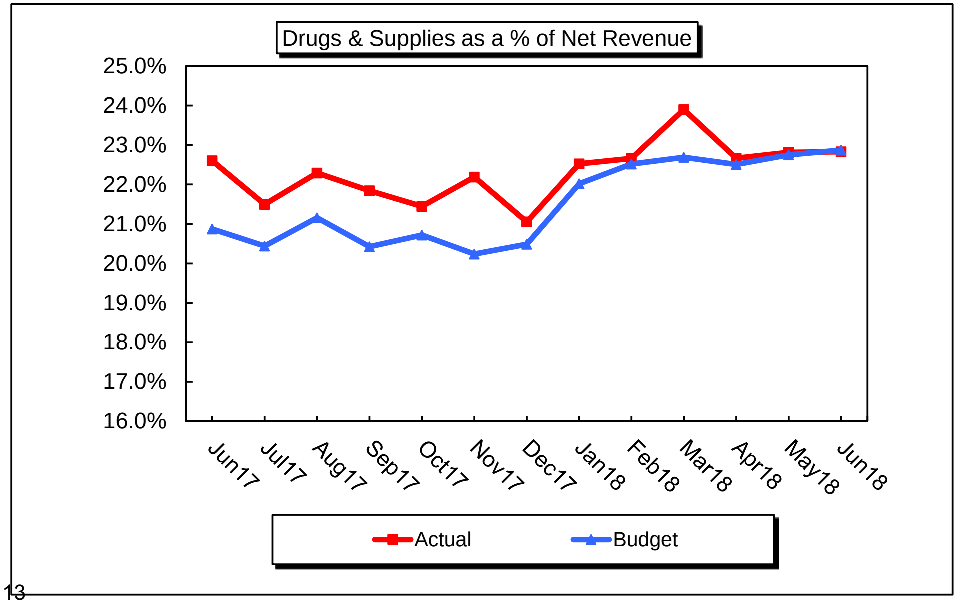
Key Statistical Financial Indicators

June 30, 2018







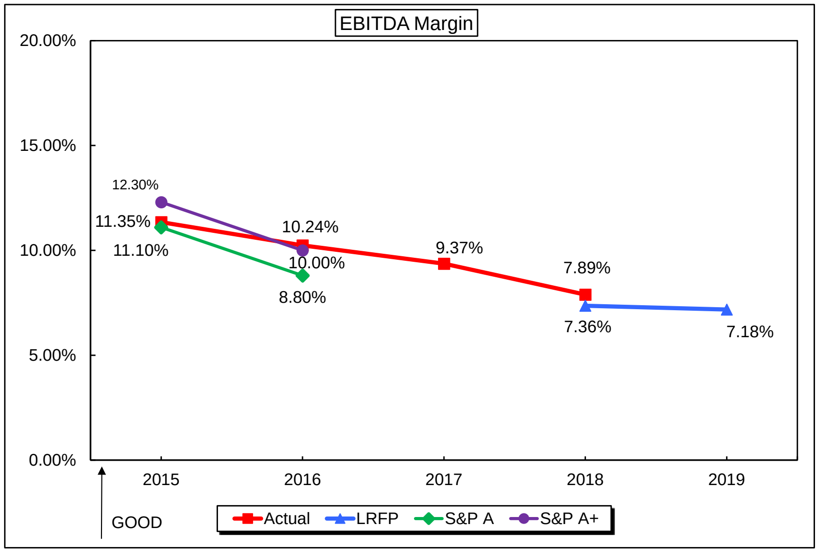


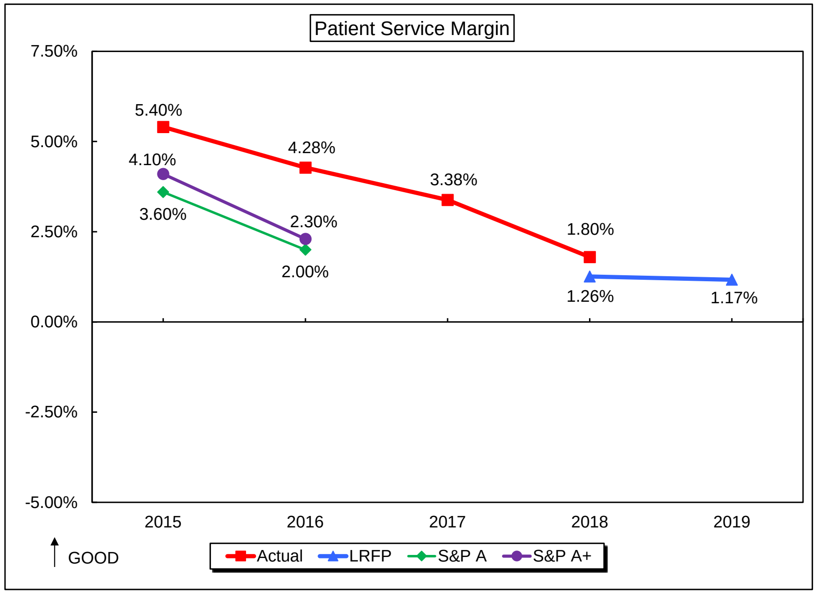
NORTON HEALTHCARE

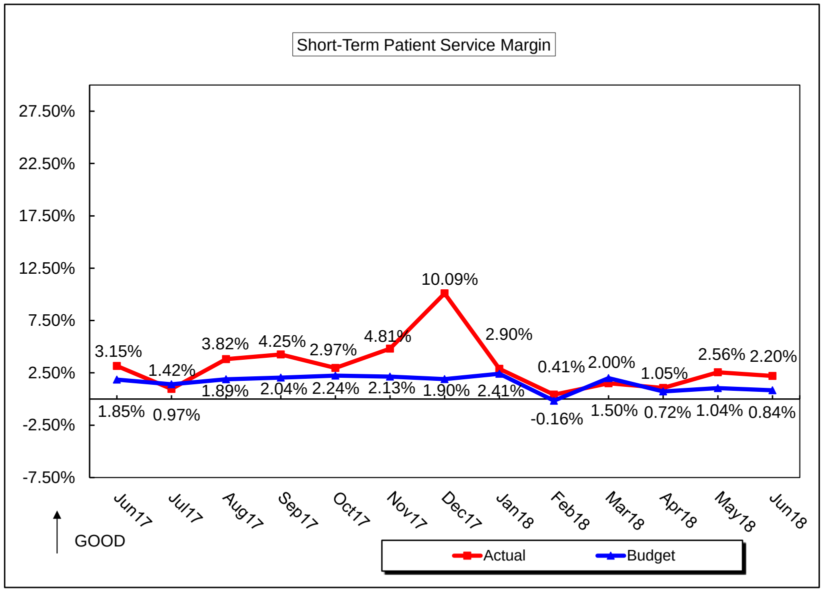
Key Operating Margin Financial Indicators

June 30, 2018

NOTE: All actual 2018 amounts are year-to-date, while LRFP projections, S&P A, and S&P A+ amounts are for the entire year. LRFP per 2017 Board approval.



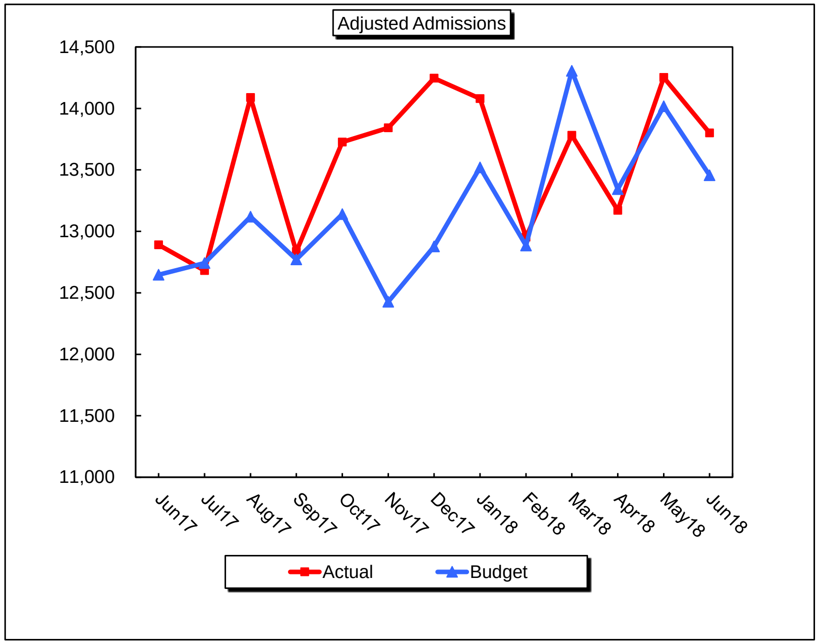


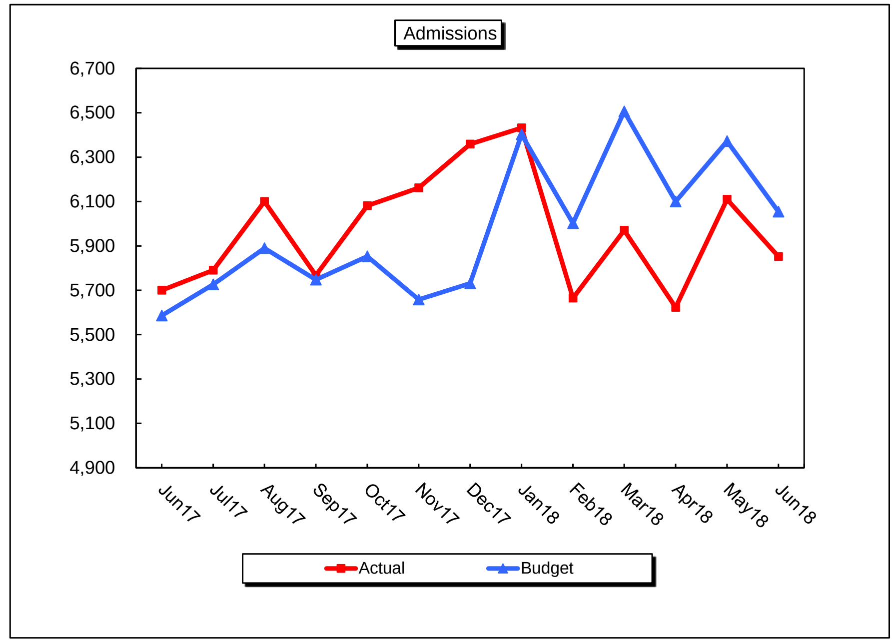


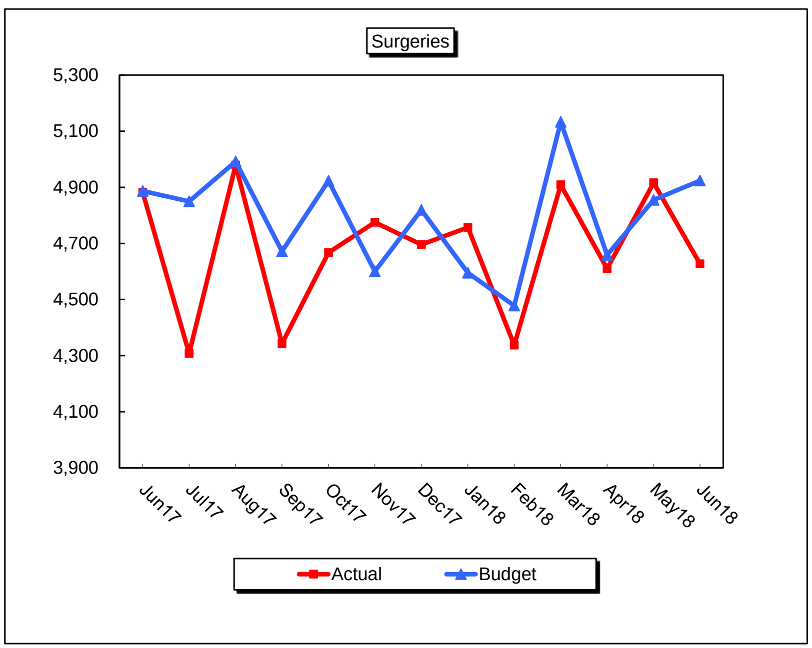
NORTON® HEALTHCARE

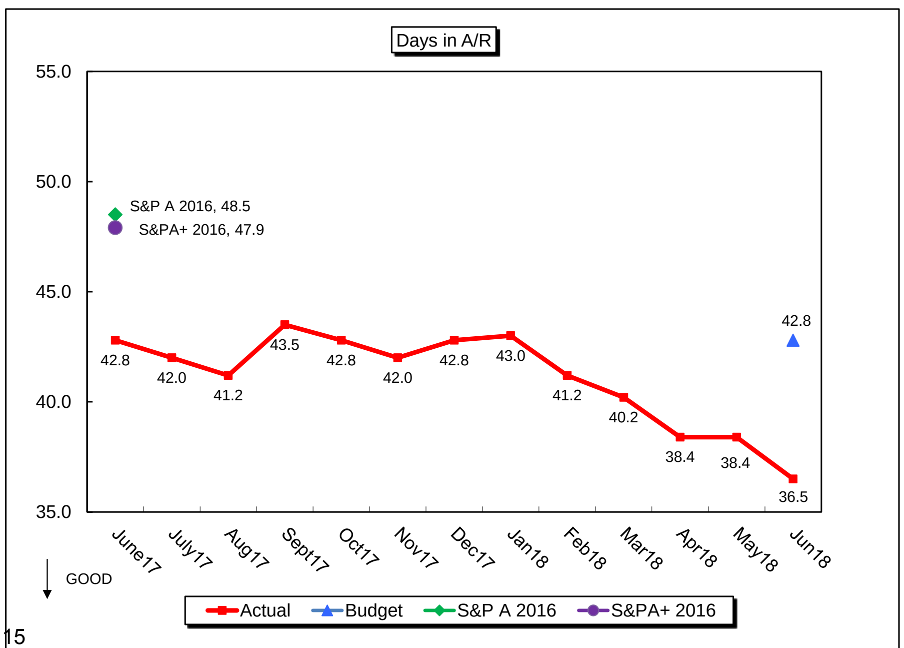
Key Volume Financial Indicators

June 30, 2018









1. Description of Organization and Reclassifications

Organization

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

Reclassifications

Certain reclassifications were made to the 2017 combined financial statement presentation to conform to the 2018 combined financial statement presentation, which had no impact on previously reported excess of revenue over expenses or net assets.

2. Commitments and Contingency

The Corporation is in the process of improving and expanding its facilities. Commitments related to renovation of existing facilities or construction of new facilities total $87.7 million at June 30, 2018. This will be funded through bond proceeds and cash flows generated from operations.

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

3. Employee Benefit Plans

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

In March 2017, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2017-07, *Compensation – Retirements Benefits (Topic 715): Improving Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*

3. Employee Benefit Plans (continued)

(ASU 2017-07), which changes how employers that sponsor defined benefit pension plans present the net periodic pension cost in the statement of operations. ASU 2017-07 requires employers to present the service cost component of net periodic pension cost in the same statement of operations line item as other employee compensation costs from services rendered during the period. Employers are to present the other components of net periodic pension cost separately from the line item that includes service cost and outside of operating income. The Corporation adopted the provisions of ASU 2017-07 in the first quarter of 2017. The defined benefit pension plan was frozen effective January 1, 2010. As a result, in future years, no service cost will be incurred. The other components of net periodic pension cost were $5.9 million and $4.8 million for the first six months of 2017 and 2016, respectively, and are presented in the line item "Net periodic pension cost" included in Non-operating gains (losses) section in the combined income statement.

A summary of the components of net periodic benefit cost for the defined benefit pension plan for the six months ending June 30, 2018 and 2017 is as follows:

	Six Months Ending June 30,	
($ in thousands)	**2018**	**2017**
Interest cost	**$4,076**	$4,416
Expected return on plan assets	**(1,785)**	(2,208)
Amortization net loss	**1,888**	2,186
Settlement cost	**1,750**	385
Net periodic benefit cost	**$5,929**	$4,799

The Plan has been named as a defendant in a class action suit brought on behalf of certain former participants who elected early retirement (the Plaintiff Class), alleging that lump-sum payments made by the Plan upon their retirement were incorrectly calculated. In early 2016, the United States District Court (the Court) issued its final, appealable order, indicating that the Plan owes additional lump-sum benefits to the Plaintiff Class. The Court ordered the Plan to recalculate benefits using a court determined formula, which is different than the formula as interpreted by the Plan, and provide additional data to allow for recalculation of the benefits. As of June 30, 2018 and December 31, 2017, management has estimated potential exposure to the Plan of approximately $60.2 million, respectively, which has been recorded by the Plan as part of the Plan's projected benefit obligation. Both the Plaintiff Class and the Plan appealed the court order and an appeals court hearing was held in June 2017. In May 2018, the United States Court of Appeals (Appeals Court) issued a ruling that the litigation be vacated in part and remanded to the lower Court for further evaluation. However, based on the timing of the Appeals Court ruling and nature of the ongoing litigation, management believes the estimated potential exposure recorded by the Plan is still our best estimate at the date of issuance of these financial statements. As the final outcome of this litigation is still uncertain and given the nature of the Plaintiff Class's allegation, if the outcome is found to be solely in favor of

3. Employee Benefit Plans (continued)

the Plaintiff Class, the exposure to the Plan may exceed the amount recorded, which may be material to the Plan. The Company will continue to evaluate the status of the litigation and potential outcome on the Plan. At this time the Corporation is not currently required to fund the Plan as a result of this litigation.

4. Fair Value Measurements

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

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

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

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

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

In instances where the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls is based on the lowest level input that is

4. Fair Value Measurements (continued)

significant to the fair value measurement in its entirety. The Corporation's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the asset or liability.

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

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

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

Valuation - Beneficial interests in outside trusts

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

Valuation - Interest rate swap asset(liability)

The fair value is calculated based on a discounted cash flow model taking into consideration the terms of each interest rate swap and the credit rating of the Corporation or counterparty, as applicable. Based on the observable inputs, typically published interest rates

4. Fair Value Measurements (continued)

and credit spreads, the Corporation has determined its interest rate swaps fall in level 2 of the fair value hierarchy. This technique is consistent with the income or discounted cash flow approach.

The following tables present the financial instruments carried at fair value as of June 30, 2018 and December 31, 2017 using the valuation hierarchy defined above:

($ in thousands)	**June 30, 2018**	**December 31, 2017**	**Level**
Marketable securities and other investments at fair value			
Total Marketable debt securities [(A)]	**$125,968**	$124,792	2
Assets limited as to use at fair value			
By Board of Trustees and Donors:			
Cash	**587**	138	1
Mutual funds:			
Templeton Global Equity Fund [(B)]	**87,215**	95,802	1
PIMCO Real Return Fund [(C)]	**45,550**	46,170	1
Capital World Growth and Income Fund [(D)]	**84,637**	88,032	
Dodge & Cox Global Stock Fund [(E)]	**74,946**	82,280	1
Dreyfus Global Equity Fund [(F)]	**90,467**	91,315	1
Wells Capital Management Core Fixed Income [(G)]	**52,763**	53,673	1
Vanguard Emerging Market Stock Fund [(H)]	**21,262**	22,913	1
MetWest Total Return Bond Fund [(I)]	**51,233**	51,951	1
Other publicly traded mutual funds [(J)]	**38,509**	41,560	1
Total Mutual Funds	**546,582**	573,696	1
Common and collective trust funds [(K)]	**63,753**	50,172	N/A

4. Fair Value Measurements (continued)

($ in thousands)	June 30, 2018	December 31, 2017	Level
Separate accounts:			
PNC (Marketable Debt Securities) (L)	**-**	15	2
Sterling Capital (M)	**62,747**	64,211	2
EPOCH All Cap US Equity (N)	**35,094**	37,589	1
Baron (Domestic Equity Growth)(O)	**9**	5	1
Disciplined Growth Investors (P)	**38,864**	37,892	1
Other (Q)	**1,153**	1,680	1
Total Separate Accounts	**137,867**	141,392	
Total by Board of Trustees and donors at fair value	**748,789**	765,398	
By contractual agreements:			
Cash	**30,585**	32,369	1
Total assets limited as to use by contractual agreements	**30,585**	32,369	
By Self Insurance Trust Agreements:			
Sterling Behavioral Small Cap Value (R)	**4,727**	5,717	1
Total Mutual Funds	**4,727**	5,717	
Separate Accounts:			
Cash	**5,247**	5,957	1
Marketable debt securities (S)	**75,447**	81,742	2
Sterling Special Opportunities Equity (T)	**18,454**	21,184	1
Total Separate Accounts	**99,148**	108,883	
Total assets limited as to use by self-insurance trust agreements	**103,875**	114,600	

4. Fair Value Measurements (continued)

($ in thousands)	June 30, 2018	December 31, 2017	Level	
By Bond Indenture Trust Agreements:				
Cash	**25**	21	1	
Marketable debt securities (U)	**99,966**	135,580	2	
Total assets limited as to use by Bond Indenture	**99,991**	135,601		
Total Assets Limited as to Use at Fair Value	**983,240**	1,047,968		
Assets limited as to use at net asset value:				
Hedge funds (V)	**322,802**	306,855	N/A	
Real estate funds (W)	**99,725**	96,699	N/A	
Private Equity (X)	**31,490**	26,476	N/A	
Total assets limited as to use at net asset value	**454,017**	430,030		
Less current portion of self-insurance trust and bond indenture and assets limited as to use in escrow	**(24,058)**	(23,704)		
Total assets limited as to use	**$1,413,199**	$ 1,454,294		
Other assets at fair value:				
Beneficial interest in outside trusts	**$24,785**	$ 23,125	2	
Interest rate swap (Note 5)	**$9(221)317**	$107,5134,348	2	2

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

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

4. Fair Value Measurements (continued)

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

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

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

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

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

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

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

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

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

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

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

4. Fair Value Measurements (continued)

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

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

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

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

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

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

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

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

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

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

4. Fair Value Measurements (continued)

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

5. Swap Agreements

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

At June 30, 2018 the Corporation holds the following interest rate swaps:

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

All of the Corporation’s interest rate swaps are with Citigroup and were issued pursuant to a single International Swaps and Derivatives Association, Inc. agreement with that counterparty. All of the Corporation’s swaps are viewed under a master netting arrangement to determine the aggregate amount of collateral to be posted or received by the Corporation, and, consistent with industry practice require posting of collateral should either party’s cumulative mark to market liability exceed certain thresholds based upon the credit rating of the counterparty. At June 30, 2018 and December 31, 2017, based upon the agreements with Citigroup, the Corporation had a contract value which was a liability of $.2 million and an asset of $0.1 million and respectively. Based upon the Corporation’s lowest credit rating (A-), collateral must be posted for liabilities in excess of $25 million. At the end of the most current period the Corporation had

5. Swap Agreements (continued)

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

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

The fair value at June 30, 2018 is a liability and is shown in the balance sheet under other non-current liabilities in the line "Fair value of swap" while at December 31, 2017 was an asset and is included in the combined balance sheet under other assets in the line "Other". The cash flow for these swaps is settled semi-annually on April 1st and October 1st. In the interim periods a receivable or payable is recorded, currently the cash flows are in a receivable position and this receivable is included in the line "Miscellaneous receivables" under current assets in the combined balance sheet.

	Balance Sheet Impact		
($ in thousands)	**Miscellaneous Receivables**	**Fair Value of Swap**	**Balance Sheet Impact Total**
December 31, 2017	**$ 441**	**$ 711**	**$ 1,152**
Decrease to interest expense	**835**	**-**	**835**
SWAP cash settlements received	**(904)**		**(904)**
Change in fair value of swap		**(932)**	**(932)**
June 30, 2018	**$ 372**	**$ (221)**	**$ 151**

6. Net Patient Service Revenue

On January 1, 2018, the Corporation adopted FASB Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers (Topic 606)* (ASU 2014-09) using the cumulative catch-up transition method. As a result, what was previously classified as the provision for bad debt in the combined income statement is now reflected as implicit price concessions (as defined in ASU 606) and therefore included as a reduction to net patient service revenue. Additionally, upon adoption of ASU 606 the allowance for doubtful accounts has been reclassified as a component of net accounts receivable. Other than these changes in presentation in the combined income statement and combined balance sheet, the adoption of ASU 606 did not have a material impact on the combined income statement for the six months ended June 30, 2018 and the Corporation does not expect the impact of adoption to have a material impact on its combined income statement in future periods.

ASU 2014-09 is applied using the following five-step model to recognize revenue:

Step 1: Identify the contract with the customer.
Step 2: Identify the performance obligations in the contract.
Step 3: Determine the transaction price.
Step 4: Allocate the transaction price to the performance obligations in the contract.
Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation.

The Corporation reports net patient service revenue at the amounts that reflect the consideration in which it expects to be entitled in exchange for providing patient care. These amounts are due primarily from patients and third-party payors (including government programs and commercial health insurers) and includes variable consideration for retroactive revenue adjustments due to the settlement of audits, reviews, and investigations. The majority of the Corporation's performance obligations are satisfied for the delivery of inpatient care, outpatient care, and emergency department care. The performance obligations for these patients are typically satisfied when the patients are discharged, which generally occurs within a matter of days of admission. Patients are generally billed after discharge, although they may be billed on an interim basis for longer stays. For the periods presented, billed amounts (per the Corporation's revenue cycle system) are reduced to expected payment amounts based on the Corporation's discount policies, historical collection experience, and industry trends using the Crowe Revenue Cycle Analytics (RCA) tool. The amount of performance obligations with contracts greater than one year in duration are immaterial. As of the end of any reporting period, it is the Corporation's policy to record revenue on a daily basis using the revenue cycle system and adjust this revenue based on contractual estimates and implicit price concessions using RCA and historical collection experience.

The Corporation's most significant revenue stream is net patient service revenue. ASU 2014-09 allows the application of the portfolio approach as a practical expedient to group patient contracts with similar characteristics if the Corporation reasonably expects the

6. Net Patient Service Revenue (continued)

effects on the financial statements of applying this guidance to the portfolio would not differ materially from applying this guidance to individual contracts within that portfolio. The Corporation's major third-party payors are:

- Medicare – inpatient acute care services are reimbursed based on the patient's diagnosis related group (DRG). Outpatient services are reimbursed based on the services provided using ambulatory payment classifications (APCs). Medicare payments include Disproportionate Share Hospital and Medical Education add-ons. These add-ons are subject to annual retrospective review by the Medicare program and are considered variable consideration in determining the transaction price.
- Medicaid – the Commonwealth of Kentucky has contracted with various managed care plans to provide coverage for Medicaid eligible residents. Under these plans, inpatient acute care services are reimbursed based on a prospective DRG system similar to the Medicare acute reimbursement methodology. Outpatient services rendered to beneficiaries are reimbursed under a mixed methodology consisting of prospectively set rates (similar to the Medicare APC methodology), fee schedules, and cost reimbursement. Components of Medicaid reimbursement are subject to annual retrospective review by the Medicaid program.
- Commercial – The Corporation has entered into payment agreements with certain commercial insurance carriers, health maintenance organization, and preferred provider organizations. The payment arrangements under these agreements include prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

Consistent with the Corporation's mission, care is provided to patients regardless of their ability to pay. As such, the Corporation has provided implicit price concessions to uninsured patients and patients with balances after insurance. The implicit price concessions represent the difference between amounts billed to patients and the amount we expect to collect from these patients.

Net patient service revenue recognized from our major payor sources, is as follows:

	Six Months Ended June 30,			
($ in thousands)	**2018**	**% of Total**	2017	% of Total
Medicare	**$376,760**	**34%**	$363,821	34%
Medicaid	**200,091**	**18%**	217,842	21%
Commercial/Self-Pay/Other	**544,962**	**48%**	478,114	45%
Total	**$1,121,813**	**100%**	$1,059,777	100%

Revenues from patient's deductibles and coinsurance are included in the categories presented above based on the primary payor.

7. Subsequent Events

Management has evaluated all events and transactions that occurred after June 30, 2018 through August 10, 2018 and determined there are no subsequent events to report.

CERTIFICATION

Bondholder - Quarterly

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

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

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

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

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

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

Dated this August 10, 2018.

Adam D. Kempf
Senior VP & Chief Financial Officer