CERTIFICATE OF HENRY FORD HEALTH SYSTEM

Name of Bond Issue:	Michigan Finance Authority Hospital Revenue Refunding Bonds (Henry Ford Health System), Series 2016
CUSIP Number:	59447TLT8, 59447TLU5, 59447TLV3, 59447TLW1, 59447TLX9, 59447TLY7, 59447TLZ4, 59447TMA8, 59447TMB6, 59447TMC4, 59447TMD2, 59447TME0, 59447TMF7, 59447TMG5, 59447TMH3, 59447TMJ9, 59447TMK6, 59447TML4, 59447TMM2, 59447TMR1, 59447TMP5, 59447TMN0 and 59447TMQ3.

The undersigned hereby certifies that:

1. I am the Executive Vice President and Chief Financial Officer of Henry Ford Health System (the "Corporation") and as such, am the Disclosure Representative under that certain Continuing Disclosure Agreement, dated September 28, 2016 ("Disclosure Agreement"), executed and delivered by the Corporation and Digital Assurance Certification, L.L.C., as Dissemination Agent.

2. The quarterly unaudited Credit Group Financial Statements for the period ending June 30, 2018 attached and delivered to the Dissemination Agent, is the Quarterly Report required to be submitted to the MSRB. Also attached is the Management Discussion and Analysis for the quarter ended June 30, 2018.

Capitalized terms used herein and not otherwise defined shall have the meanings defined in the Disclosure Agreement.

Dated: August 14, 2018

HENRY FORD HEATH SYSTEM,
as Disclosure Representative

By: ______________________
Robin S. Damschroder
Executive Vice President
and Chief Financial Officer

UNAUDITED

Consolidated Financial Statements

As of and for the Six Months Ended June 30, 2018 and 2017

UNAUDITED
CONSOLIDATED BALANCE SHEETS
AS OF JUNE 30, 2018 AND DECEMBER 31, 2017
(In thousands)

	2018	2017
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 610,754	$ 774,534
Short-term investments	4,710	546
Patient care receivables—net of allowances of $95,521 in 2017	363,257	334,926
Health care premium receivables	27,548	41,485
Due from third-party payors	43,023	55,815
Other current assets	260,209	217,338
Current portion of assets limited as to use	42,601	45,509
Total current assets	1,352,102	1,470,153
LONG-TERM INVESTMENTS	649,972	445,500
ASSETS LIMITED AS TO USE	955,442	1,009,027
JOINT VENTURE INVESTMENTS	27,205	24,854
INTANGIBLE AND OTHER ASSETS—Net	50,513	46,810
GOODWILL—Net of accumulated amortization of $28,577 in 2018 and 2017	14,029	14,029
PROPERTY, PLANT, AND EQUIPMENT—Net	1,473,056	1,448,566
TOTAL ASSETS	$4,522,319	$4,458,939

(Continued)

UNAUDITED
CONSOLIDATED BALANCE SHEETS
AS OF JUNE 30, 2018 AND DECEMBER 31, 2017
(In thousands)

	2018	2017
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable	$ 277,127	$ 267,163
Due to third-party payors	28,741	37,523
Medical claims liability	170,026	197,124
Other liabilities and accrued expenses	387,602	345,456
Current portion of capital lease payable	180	175
Current portion of long-term obligations	17,469	17,383
Current portion of malpractice and general liability	37,465	37,465
Total current liabilities	918,610	902,289
MALPRACTICE AND GENERAL LIABILITY	95,526	88,049
DEFERRED COMPENSATION, POSTRETIREMENT, AND OTHER LIABILITIES	411,488	408,885
LONG-TERM OBLIGATIONS	998,631	1,006,805
LONG-TERM CAPITAL LEASE PAYABLE	5,476	9,517
Total liabilities	2,429,731	2,415,545
NET ASSETS:		
Unrestricted		
Henry Ford Health System	1,823,307	1,785,322
Noncontrolling interests	3,623	3,331
Total unrestricted net assets	1,826,930	1,788,653
Temporarily restricted	142,531	140,618
Permanently restricted	123,127	114,123
Total net assets	2,092,588	2,043,394
TOTAL LIABILITIES AND NET ASSETS	$ 4,522,319	$ 4,458,939

See notes to consolidated financial statements.

(Concluded)

UNAUDITED
CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS
FOR THE SIX MONTHS ENDED JUNE 30, 2018 AND 2017
(In thousands)

	2018	2017
UNRESTRICTED REVENUE:		
Patient service revenue		$ 1,658,691
Less provision for bad debts		(38,464)
Net patient service revenue (Note 1)	$ 1,760,872	1,620,227
Health care premiums	973,029	1,165,940
Investment income	763	47,137
Other income	174,069	145,632
Total unrestricted revenue	2,908,733	2,978,936
EXPENSES:		
Salaries, wages, and employee benefits	1,253,450	1,197,627
Health care provider expense	545,583	700,664
Supplies	492,566	473,201
Depreciation and amortization	100,594	91,697
General and other administrative	196,422	177,169
Other contracted services	158,492	147,926
Malpractice	18,759	18,586
Plant operations	29,422	27,890
Interest expense	15,647	16,773
Repairs and maintenance	34,793	34,595
Rent and lease	26,614	26,683
Total expenses	2,872,342	2,912,811
EXCESS OF REVENUE OVER EXPENSES FROM CONSOLIDATED OPERATIONS	36,391	66,125
LESS EXCESS OF REVENUE OVER EXPENSES ATTRIBUTABLE TO NONCONTROLLING INTERESTS	1,066	1,063
EXCESS OF REVENUE OVER EXPENSES ATTRIBUTABLE TO HENRY FORD HEALTH SYSTEM	35,325	65,062

(Continued)

UNAUDITED
CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS
FOR THE SIX MONTHS ENDED JUNE 30, 2018 AND 2017
(In thousands)

	2018	2017
UNRESTRICTED NET ASSETS:		
Excess of revenue over expenses from consolidated operations	$ 36,391	$ 66,125
Change in net unrealized gains and losses on investments (Note 1)	-	15,046
Net assets released from restrictions for capital	2,660	5,899
Distributions to noncontrolling interests	(774)	(737)
Increase in unrestricted net assets	38,277	86,333
TEMPORARILY RESTRICTED NET ASSETS:		
(Loss) income on restricted investments	(6,207)	628
Contributions and grants	27,875	18,058
Change in net unrealized gains and losses on investments (Note 1)	-	4,307
Net assets released from restrictions for operations	(22,138)	(19,381)
Net assets released from restrictions for capital	(2,660)	(5,899)
Annual spending appropriation	5,043	4,766
Increase in temporarily restricted net assets	1,913	2,479
PERMANENTLY RESTRICTED NET ASSETS:		
Income on restricted investments	5,260	4,253
Contributions and other	8,787	622
Annual spending appropriation	(5,043)	(4,766)
Increase in permanently restricted net assets	9,004	109
TOTAL INCREASE IN NET ASSETS	49,194	88,921
TOTAL NET ASSETS—Beginning of year	2,043,394	1,840,382
TOTAL NET ASSETS—End of period	$ 2,092,588	$ 1,929,303

See notes to consolidated financial statements.

(Concluded)

UNAUDITED
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE SIX MONTHS ENDED JUNE 30, 2018 AND 2017
(In thousands)

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Increase in net assets	$ 49,194	$ 88,921
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Provision for bad debts	-	38,464
Depreciation and amortization	100,594	91,697
Amortization of bond premium and deferred debt issue costs	(2,429)	(2,390)
Gain on sale or disposal of assets	(107)	(577)
Income on restricted investments	947	(4,881)
Restricted contributions and grants	(36,662)	(18,680)
Net realized and unrealized gains on investments—other than trading	-	(24,319)
Net realized and unrealized losses (gains) on investments—trading	12,342	(12,898)
Distributions to noncontrolling interests	774	737
Curtailment gain	-	(8,408)
Change in assets and liabilities:		
Patient and health care premium receivables	(14,394)	(42,535)
Other current assets	(42,871)	(17,646)
Trading securities	-	(12,101)
Assets limited as to use	10,740	-
Joint venture investments	(2,351)	154
Other assets	(5,242)	1,470
Accounts payable	9,406	(109)
Other liabilities	43,584	63,691
Due to/from third-party payors	4,010	13,327
Medical claims liability	(27,098)	(6,103)
Malpractice and general liability	7,477	123
Net cash provided by operating activities	107,914	147,937

(Continued)

UNAUDITED
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE SIX MONTHS ENDED JUNE 30, 2018 AND 2017
(In thousands)

	2018	2017
CASH FLOWS FROM INVESTING ACTIVITIES:		
Additions to property	$ (126,763)	$ (105,959)
Proceeds from the sale or maturity of available-for-sale investments	-	130,862
Purchase of available-for-sale investments	-	(138,814)
Proceeds from the sale or maturity of trading securities	579,932	41,104
Purchase of trading securities	(753,992)	(22,166)
Net cash used in investing activities	(300,823)	(94,973)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments on short-term borrowings	-	(24,167)
Payments of long-term obligations	(5,659)	(5,655)
Payments of capital lease payable	(153)	(37)
Distributions to noncontrolling interests	(774)	(737)
Income on restricted investments	(947)	4,881
Restricted contributions and grants	36,662	18,680
Net cash provided by (used in) financing activities	29,129	(7,035)
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(163,780)	45,929
CASH AND CASH EQUIVALENTS—Beginning of year	774,534	828,444
CASH AND CASH EQUIVALENTS—End of period	$ 610,754	$ 874,373

See notes to consolidated financial statements. (Concluded)

UNAUDITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
AS OF AND FOR THE SIX MONTHS ENDED JUNE 30, 2018 AND 2017

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Organization—Henry Ford Health System (the "Corporation") and its affiliates (collectively, the "System") constitute a comprehensive health care system offering health care to the people of southeastern and southcentral Michigan. The System provides medical, surgical, psychiatric, and rehabilitative services in inpatient and outpatient settings; conducts research activities; and engages in the education and training of residents, nurses, and allied health professionals. The System includes one of the nation's largest employed physician group practices. A significant portion of the System's revenues are derived through its health maintenance organization (HMO) and its subsidiaries.

The Corporation is a Michigan not-for-profit corporation that operates Henry Ford Hospital, Henry Ford Medical Group, Henry Ford West Bloomfield Hospital, Henry Ford Kingswood Hospital, and Community Care Services, each of which is an operating division of the Corporation that is not separately incorporated.

The Corporation is the parent and sole member or shareholder of Henry Ford Wyandotte Hospital ("Wyandotte"); Henry Ford Macomb Hospital Corporation ("Macomb"); Henry Ford Allegiance Health Group and Affiliates ("Allegiance Health Group and Affiliates"); Health Alliance Plan of Michigan (HAP); Henry Ford Health System Foundation (the "Foundation"); Henry Ford OptimEyes; Henry Ford Physician Network (HFPN); Henry Ford Physicians Accountable Care Organization, L.L.C.; HFHS-SCA Holdings, L.L.C.; Henry Ford Innovation Institute; Henry Ford Health System Government Affairs Services (HFGA); Onika Insurance Company Ltd. ("Onika"); Sha Realty; and Neighborhood Development, L.L.C.

HAP has the following wholly owned subsidiaries: HAP Preferred Incorporated (HPI); Alliance Health and Life Insurance Company (AHLIC); HAP Midwest Health Plan, Inc. (MHP); and Administration Systems Research Corporation (ASR).

Allegiance Health Group and Affiliates has the following wholly owned subsidiaries: W.A. Foote Memorial Hospital d.b.a. Henry Ford Allegiance Health ("Allegiance Health"); CareLink of Jackson, a Community-Owned Specialty Hospital d.b.a. Henry Ford Allegiance Specialty Hospital; Allegiance Health Foundation d.b.a. Henry Ford Allegiance Health Foundation; and Healthlink, Inc. and its subsidiary, Hospice of Jackson d.b.a. Henry Ford Allegiance Hospice. Allegiance Health has the following wholly owned subsidiaries: Jackson Community Medical Record, L3C; Physicians Choice Network, L.L.C.; and Jackson Health Network, L3C.

Joint ventures include Foote Health Center Associates (62% ownership), Northwest Detroit Dialysis Centers (56.25% ownership), and Macomb Regional Dialysis Centers, L.L.C. (60% ownership), which are consolidated.

Basis of Presentation—The consolidated financial statements include the accounts of the System members as described above. The accounting and reporting policies of the System conform to accounting principles generally accepted in the United States of America (GAAP). All intercompany transactions have been eliminated. The preparation of the consolidated financial statements in conformity with GAAP requires that management make estimates and assumptions that affect the reported amounts. Actual results could differ from those estimates.

Revenue Recognition—On January 1, 2018, the System adopted the Financial Accounting Standards Board ("FASB") Accounting Standards Update ("ASU") 2014-09, "Revenue from Contracts with Customers (Topic 606)" ("ASU 2014-09") using the modified retrospective method of application to all contracts that were not completed as of January 1, 2018. This ASU does not apply to health care premiums. This ASU outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance, and requires significantly expanded disclosures about revenue recognition. The core principal of the revenue model is that an entity recognizes 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. The primary change was a change in the presentation of the provision for bad debts, which relates to self-pay patients and amounts due from patients with insurance for co-pays and deductibles. Under the ASU, the majority of what was previously classified as provision for bad debts is now reflected as implicit price concessions and therefore a direct deduction to patient service revenue. In addition, amounts related to services provided to patients which have not been billed and that do not meet the conditions of unconditional right to payment at the end of the reporting period are reported as contract assets in other current assets in the consolidated balance sheets. Other than these changes in presentation, the adoption of this ASU did not have a significant impact to revenue recognized for the six months ended June 30, 2018, and the System does not expect it to have a significant impact to revenue for the remainder of 2018.

2018 Net Patient Service Revenue, Patient Care Receivables, and Contract Assets—Net patient service revenue is reported at the amount that reflects the consideration to which the System expects to be entitled in exchange for providing patient care. These amounts are primarily due from patients and third-party payors, and include variable consideration for retroactive revenue adjustments due to a subsequent audit or review process. Revenue is recognized as performance obligations are satisfied.

Performance obligations are determined based on the nature of the services provided by the System. Revenue for performance obligations satisfied over time are recognized based on actual charges incurred in relation to total expected charges. Generally, performance obligations satisfied over time relate to patients receiving inpatient acute care services. The System measures the performance obligation from admission into the hospital to the time of discharge. Revenue for performance obligations satisfied at a point in time is recognized when goods or services are provided and the System does not believe it is required to provide additional goods or services to the patient.

The System determines the transaction price based on standard charges for goods and services provided, reduced by contractual adjustments provided to third-party payors, discounts provided to uninsured patients in accordance with the System's policy, and/or implicit price concessions provided to uninsured patients. The System determines its estimates of contractual adjustments and discounts based on contractual agreements, its discount policies, and historical experience. The System determines its estimate of implicit price concessions based on its historical collection experience with each class of patients.

Net patient service revenue associated with services provided to patients who have third-party payor coverage is reported on the basis of contractual rates for the services rendered. Reimbursement from most payors for acute inpatient and outpatient services vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Reimbursements for services to certain patients include prospectively determined per diem rates, fee schedules, and discounts from established charges. Medicare, Medicaid, and Blue Cross have tentative rates, and Medicare has cost reimbursed items, with final settlement determined after submission of annual cost reports and a subsequent audit or review process, and represent the major payors included in patient care receivables at June 30, 2018. Revenues associated with health care services provided by the System to members of its HMO are included in health care premiums in the consolidated statements of operations and changes in net assets.

Settlements with third-party payors for retroactive adjustments are considered variable consideration and are included in the determination of the estimated transaction price for providing patient care. These settlements are estimated based on the terms of the payment agreement with the payor, correspondence from the payor, and the System's historical settlement activity, including an assessment to ensure that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the retroactive adjustment is subsequently resolved. Estimated settlements are adjusted in future periods as new information becomes available or as years are settled. Net patient service revenue of $11,572,000 related to prior year settlements was recorded during the six months ended June 30, 2018.

Generally patients who are covered by third-party payors are responsible for related deductibles and coinsurance, which vary in amount. The System also provides services to uninsured patients, and offers those uninsured patients a discount from standard charges. The System estimates the transaction price for patients with deductibles and coinsurance and from those who are uninsured based on historical experience and current market conditions. The initial estimate of the transaction price is determined by reducing the standard charge by any contractual adjustments, discounts, and implicit price concessions. Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to patient service revenue in the period of the change. Subsequent changes that are determined to be the result of an adverse change in the patient's ability to pay are recorded as bad debt expense. Bad debt expense for the six months ended June 30, 2018 was not material to the financial statements.

Amounts related to services provided to patients which have not been billed and that do not meet the conditions of unconditional right to payment at the end of the reporting period are contract assets. The System's contract assets consist primarily of services that have been provided to patients who are still receiving inpatient care at the end of the reporting period. Contract assets are included in other current assets in the consolidated balance sheets. The balance of contract assets as of June 30, 2018 was $23,572,000. Prior to January 1, 2018, amounts related to services provided to patients for which we had not billed were included in patient care receivables in the consolidated balance sheets.

The System administers a patient financial assistance policy designed to provide financial assistance for uninsured patients as well as for insured patients with limited resources. For uninsured patients who meet the qualifications stipulated in the System's patient financial assistance policy, emergency and other medically necessary inpatient and outpatient services are provided at no cost. For uninsured patients that do not qualify for financial assistance, the System offers a discount off standard rates for services provided that result in net charges that do not exceed 115% of Medicare payment rates. Insured patients with limited financial resources may qualify for a discount on self pay balances.

The composition of net patient service revenue by payor for the six months ended June 30, 2018 is as follows (in thousands):

	2018
Medicare	$ 750,916
Medicaid	304,954
Blue Cross	458,402
Self-pay	14,642
Commercial and other	231,958
Total	$ 1,760,872

2017 Net Patient Service Revenue, Patient Care Receivables, and Allowance for Doubtful Accounts—Net patient service revenue is reported at the estimated net realizable amounts. Net patient service revenue associated with services provided to patients who have third-party payor coverage is reported on the basis of contractual rates for the services rendered. Reimbursement from most payors for acute inpatient and outpatient services vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Reimbursements for services to certain patients include prospectively determined per diem rates, fee schedules, and discounts from established charges. Medicare, Medicaid, and Blue Cross have tentative rates, and Medicare has cost-reimbursed items, with final settlement determined after submission of annual cost reports and a subsequent audit or review process, and represent the major payors included in patient care receivables at December 31, 2017. Revenues associated with health care services provided by the System to members of its HMO are included in health care premiums in the consolidated statements of operations and changes in net assets.

In evaluating the collectability of accounts receivable, the System analyzes its past history and identifies trends for each of its major payor sources of revenue to estimate the appropriate allowance for doubtful accounts and provision for bad debts. Management regularly reviews data about these major payor sources of revenue in evaluating the sufficiency of the allowance for doubtful accounts. For receivables associated with services provided to patients who have third-party coverage, the System analyzes contractually due amounts and provides an allowance for doubtful accounts and a provision for bad debts. For receivables associated with self-pay patients (which include both patients without insurance and patients with deductible and co-payment balances due for which third-party coverage exists for a portion of the bill), the System records a provision for bad debts in the period of service on the basis of its past experience. At such point in time that a billed service is believed to be uncollectible, the related receivable is written off against the allowance for doubtful accounts. Estimates of retroactive adjustments under reimbursement agreements with third-party payors are accrued in the period the related services are rendered and adjusted in future periods as final settlements are received.

The System administers a patient financial assistance policy designed to provide financial assistance for uninsured patients as well as for insured patients with limited resources. For uninsured patients who meet the qualifications stipulated in the System's patient financial assistance policy, emergency and other medically necessary inpatient and outpatient services are provided at no cost. For uninsured patients that do not qualify for financial assistance, the System offers a discount off standard rates for services provided that result in net charges that do not exceed 115% of Medicare payment rates. Insured patients with limited financial resources may qualify for a discount on self-pay balances. The System's allowances, which are primarily related to self-pay patients, were $95,521,000 at December 31, 2017. This allowance includes estimates related to both presumptive eligibility for charity of $15,993,000 and bad debts of $79,528,000 at December 31, 2017.

A substantial portion of net patient service revenue was paid primarily by Medicare, Medicaid, and Blue Cross based upon contracted rates or under cost-reimbursement agreements in 2017. Provisions for estimated retroactive adjustments under these agreements for current and prior years have been reflected in the accounts based upon the most-current information available. Net patient service revenue of $1,424,000 related to prior-year settlements was recorded during the six months ended June 30, 2017.

The composition of patient service revenue (before the provision for bad debts) by payor for the six months ended June 30, 2017 is as follows (in thousands):

	2017
Medicare	$ 677,110
Medicaid	278,016
Blue Cross	402,873
Self-pay	82,198
Commercial and other	218,494
Total	$ 1,658,691

Uncompensated Care and Community Benefit—The System provided health care services without charge or at amounts less than its established rates to patients who met the criteria of its charity care policy. Charity care is reported on the basis of cost, as computed using a cost-to-charge ratio methodology. In addition to charity care, the System provided services to Medicare, Medicaid, and other public programs for which the payments received were less than the cost of providing services. The unpaid costs attributed to providing services under these programs are considered a community benefit. The System also provided research and community health services, such as community education and outreach in the form of free or low-cost clinics; health education; donations for the community; multiple health promotion and wellness programs, such as health screening; and various community projects and support groups.

Additionally, the System demonstrates its exempt purpose to benefit the community by operating emergency rooms and other clinical services open to the public 24 hours a day, seven days a week; providing facilities for the education and training of health care professionals; and maintaining research facilities for the study of new drugs and medical devices that offer the promise of improving health care.

The quantifiable costs of the System’s uncompensated care for the six months ended June 30, 2018 and 2017, were as follows (in thousands):

	2018	2017
Charity care at cost	$ 14,247	$ 21,582
Unpaid cost of Medicare, Medicaid, and other public programs	164,312	154,119
Implicit price concessions at estimated cost	49,445	-
Bad debt at estimated cost	-	30,028
Total cost of uncompensated care	$ 228,004	$ 205,729

As a result of the adoption of ASU 2014-09 bad debt at estimated cost is now reflected as implicit price concessions at estimated cost.

Health Care Premiums—Premiums received in advance of the respective period of coverage are credited to income ratably over the period of coverage. A significant portion of HAP's customer base is concentrated in companies that are part of the automotive manufacturing industry. HAP also has a significant portion of its customer base concentrated in Medicare beneficiaries.

Contributions—Unrestricted contributions are included in the consolidated statements of operations and changes in net assets when received. Gifts of cash and other assets are reported as restricted contributions if they are received with donor stipulations that limit the use of the assets. When the restrictions expire or the purpose of the restriction is accomplished, temporarily restricted assets are reclassified to unrestricted net assets and reported in the consolidated statements of operations and changes in net assets as other income or net assets released from restrictions for capital.

Other Income—Other income consists of assets released from restrictions, income from grants, income from contract pharmacy arrangements, administrative fees earned from HAP self-insured products, joint venture income, gift shop and cafeteria sales, parking garage fees, and other miscellaneous sources.

Performance Indicator—The consolidated statements of operations and changes in net assets include the excess of revenue over expenses from consolidated operations. Changes in unrestricted net assets, which are excluded from the excess of revenue over expenses from consolidated operations, consistent with industry practice, include change in net unrealized gains and losses on investments, net assets released from restrictions for capital, and distributions to noncontrolling interests.

Cash and Cash Equivalents—Cash and cash equivalents consist of cash and highly liquid short-term investments (e.g., money market funds) with an original maturity of 90 days or less. Cash equivalents are stated at fair value, which approximates cost.

Short-Term Investments—Short-term investments consist primarily of fixed-income instruments with original maturities greater than 90 days and less than one year. Short-term investments are stated at fair value, which approximates cost.

Other Current Assets—Other current assets consist primarily of inventories, which are stated at the lower of cost (first-in, first-out) or market, prepaid expenses, and miscellaneous receivables.

Assets Limited as to Use—Assets limited as to use are reported at their estimated fair value or cost and include resources for which the board of trustees of the System has designated specific future uses; donor-restricted funds that arise through specific contributions to the System; loan funds held by a trustee; and statutory reserve requirements. The dollar amount of these assets, which are to be used to satisfy current liabilities, has been classified as a current asset.

Investments and Investment Income—Investments, inclusive of invested assets limited as to use, include marketable debt and equity securities. Investments in debt securities and investments in equity securities with readily determinable fair values are measured at fair value in the consolidated balance sheets. The System has classified all investments as trading. Hedge funds, commingled funds, and other investments structured as limited liability corporations and partnerships are valued at net asset value (NAV), which is calculated using the most recent financial statements. Private equities are accounted for on the cost basis (except for pension assets, which are recorded at fair value).

Investment income includes interest, dividends, realized gains and losses, and unrealized gains and losses. Realized gains and losses on sales of investments are computed on the specific-identification method and the average cost method and are included in investment income or income on restricted investments. Unrealized gains and losses on investments are included in investment income or income on restricted investments.

During 2016, the System acquired Allegiance Health whose investments were classified as trading securities and the System initiated an asset liability management (ALM) analysis to determine its optimal investment allocation. The ALM analysis, completed in 2017, resulted in the System shifting its investment allocation strategy away from minimally traded cash or similar safe-harbor investments toward a broadly diverse, actively managed investment structure with reasonable risk parameters. As a result of this change, effective October 1, 2017, the System elected to transfer its investments previously accounted for as available-for-sale securities to trading securities. The System determined that the trading securities category is more appropriate based on its new investment strategies and policies and all System assets will now be accounted for as trading securities. As a result, all unrealized gains and losses will be included in the excess of revenue over expenses from consolidated operations.

Investment income for the six months ended June 30, 2018 and 2017, consisted of the following (in thousands):

	2018	2017
The Foundation	$ 203	$ 14,141
Funds designated for malpractice and general liability	(349)	1,499
Funds designated for deferred compensation	(550)	8,256
Funds held under bond indenture agreements	631	845
Interest, dividends, and realized and unrealized gains from other unrestricted assets	828	22,396
Total investment income	$ 763	$ 47,137

Investment Risks—Investment securities are exposed to various risks, such as interest rate, market, and credit. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the value of investment securities, it is at least reasonably possible that changes in values in the near term could materially affect the amounts reported in the accompanying consolidated financial statements.

Fair Value of Financial Instruments—Fair value of financial instruments has been determined using available information and appropriate valuation methodologies. The fair value of assets is based on quoted market prices, dealer quotes, and prices obtained from independent sources. The fair value of liabilities is based on a discounted cash flows analysis, using interest rates currently available for the issuance of debt with similar terms and remaining maturities. Considerable judgment is required in certain circumstances to develop the estimates of fair value, and they may not be indicative of the amounts, which could be realized in a current market exchange.

Derivative Financial Instruments—The System periodically utilizes various financial instruments (e.g., options and swaps) to limit interest rate risk and guarantee income. The System's policies generally prohibit trading in derivative financial instruments on a leveraged basis.

Intangible and Other Assets—Intangible and other assets as of June 30, 2018 and December 31, 2017, consisted of the following (dollars in thousands):

June 30, 2018	Carrying Amount	Accumulated Amortization	Net Book Value	Useful Life (Years)
Definite-lived intangible assets:				
Customer relationships	$ 15,660	$ 5,876	$ 9,784	8–22
Provider relations	22,164	4,685	17,479	10–25
Reinsurance escrow	18,329	-	18,329	
Other	7,273	2,352	4,921	
Total	$ 63,426	$ 12,913	$ 50,513	

December 31, 2017	Carrying Amount	Accumulated Amortization	Net Book Value	Useful Life (Years)
Definite-lived intangible assets:				
Customer relationships	$ 15,660	$ 5,073	$ 10,587	8–22
Provider relations	22,164	4,115	18,049	10–25
Reinsurance escrow	13,063	-	13,063	
Other	7,298	2,187	5,111	
Total	$ 58,185	$ 11,375	$ 46,810	

Goodwill—The System evaluates goodwill for impairment as of September 30 of each year, unless conditions arise that would require a more frequent evaluation. In assessing the recoverability of goodwill, management performs a qualitative or quantitative assessment to test for impairment annually. If it is determined, on the basis of qualitative factors, that a quantitative impairment test is required, estimated future cash flows and other factors are made to determine the fair value of the respective reporting unit. If these estimates or related projections change in the future, the System may be required to record impairment charges for goodwill at that time. Impairments, if any, are charged to earnings.

Impairment—The System periodically evaluates the carrying value of its long-lived assets for impairment. This evaluation is based principally on the projected, undiscounted cash flows generated by the related assets.

Property, Plant, and Equipment—Property, plant, and equipment, which includes capitalized internal-use software, is recorded at cost or fair value at the date of acquisition. Depreciation is provided on the straight-line method over the estimated useful lives of the assets. Estimated useful lives used in computing depreciation are generally 10 years for land improvements, 15 to 40 years for buildings and building improvements, and six to 15 years for equipment.

Expenditures for maintenance and repairs are charged against operations. Expenditures for betterment and major renewals that extend the useful life of an asset are capitalized and depreciated.

Medical Claims Liability—Medical claims liability consists of unpaid medical claims and other obligations resulting from the provision of health care services. It includes claims reported as of the consolidated balance sheets date and estimates, based upon historical claims experience, for claims incurred but not reported.

Contingencies—The System is party to lawsuits incidental to its operations and management believes that the ultimate outcome of these contingencies will not have a material effect on the accompanying consolidated financial statements.

In connection with HAP's acquisition of ASR, ASR initially entered into an employment and stock transfer and redemption agreement (the "Agreement") with a 33% non-controlling interest (NCI) holder. Under the terms of the Agreement, the NCI holder had the right to require ASR to purchase the NCI holder's interest based upon a methodology measuring the growth in ASR related business over a three-year look back period (the "Put Option"). In connection with the ASR Put Option, HAP has obtained independent third-party evaluations of both the fair value of the ASR business and its calculation of the value of the Put Option to aid in supporting its position. The NCI holder disputes HAP's position and is pursuing litigation to resolve this matter. The case is currently in the preliminary deposition stage from which the ultimate resolution of this matter cannot be assessed at this time. HAP has recognized a liability in this matter based upon its calculated value of the Put Option.

Deferred Compensation—Certain employees of the System participate in deferred compensation plans. The System has chosen to fund this liability using mutual funds and annuity or insurance contracts solely owned by the System, but accruing to vested employees. These amounts are subject to the claims of the System's general creditors. Earnings related to the deferred compensation assets, including unrealized appreciation or depreciation, are included in investment income and changes in the corresponding liability are included in salaries, wages, and employee benefits in the consolidated statements of operations and changes in net assets. The asset and liability are recorded at fair market value. The System recorded a (reduction) charge to salaries, wages, and employee benefits expense of ($550,000) and $8,256,000 during the six months ended June 30, 2018 and 2017, respectively, related to earnings from the deferred compensation assets.

Temporarily and Permanently Restricted Net Assets—Temporarily restricted net assets are those whose use by the System has been limited by donors to a specific time or purpose. Permanently restricted net assets have been restricted by donors to be maintained by the System in perpetuity.

Tax Status—The System, except for HAP and its subsidiaries, HFPN, HFGA, and Onika, consists of entities described under Internal Revenue Service Code Section 501(c)(3) and, as such, are exempt from federal income taxes under Internal Revenue Code Section 501(a) and do not have private foundation status under Internal Revenue Code Sections 509(a)(1), 509(a)(2), or 509(a)(3). HAP and HFGA are entities described under Internal Revenue Code Section 501(c)(4) and, as such, are exempt from federal income taxes. HFPN and the HAP subsidiaries are taxable entities. The System's wholly owned insurance captive, Onika, operates in the Cayman Islands and is currently not subject to income taxes. The System does not have any material uncertain tax positions as of June 30, 2018 and December 31, 2017.

Forthcoming Accounting Standards— In June 2018, the FASB issued ASU No. 2018-08, *Not-for-Profit Entities (Topic 958)*, which clarifies the scope and accounting guidance for contributions received and contributions made. This update clarifies and improves current guidance to assist in evaluating whether transactions should be accounted for as contributions or exchange transactions and determining whether a contribution is conditional. This guidance is effective for the System for annual periods beginning after June 15, 2018. The System is evaluating the impact this guidance may have on the consolidated financial statements.

In March 2017, the FASB issued ASU No. 2017-07, *Compensation—Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*. This ASU requires the service cost component of net periodic benefit cost related to defined benefit pension and postretirement benefit plans to be reported in the same financial statement line as other compensation costs arising from services rendered during the period. The other components of net periodic benefit cost are required to be presented separately from service costs and outside of operating income in the consolidated statements of operations. Only the service cost component of net periodic benefit cost will be eligible for capitalization in assets. This guidance is effective for the System for periods beginning after December 15, 2018. The System is evaluating the impact this guidance may have on the consolidated financial statements.

In November 2016, the FASB issued ASU No. 2016-18, *Restricted Cash*, which adds and clarifies guidance in the presentation of changes in restricted cash on the statement of cash flows requiring restricted cash to be included with cash and cash equivalents in the consolidated statements of cash flows. This guidance does not provide a definition of restricted cash. This guidance is effective for the System for periods beginning after December 15, 2018 . The System is evaluating the impact this guidance may have on the consolidated financial statements.

In August 2016, the FASB issued ASU No. 2016-15, *Classification of Certain Cash Receipts and Cash Payments.* This guidance adds or clarifies guidance on the classification of certain cash receipts and payments in the consolidated statements of cash flows. This guidance is effective for the System for periods beginning after December 15, 2018. The System is evaluating the impact this guidance may have on the consolidated financial statements.

In August 2016, the FASB issued ASU No. 2016-14, *Presentation of Financial Statements of Not-For-Profit Entities.* This guidance simplifies and improves how not-for-profit entities classify net assets as well as the information presented in financial statements and notes about liquidity, financial performance, and cash flows. This guidance is effective for the System for fiscal periods beginning after December 15, 2017 and interim periods beginning after December 15, 2018. The System is evaluating the impact this guidance may have on the consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842),* to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. This guidance retains a distinction between operating leases and financing leases and the classification criteria is substantially similar to previous lease guidance. The main change in the new guidance is the requirement for all leases to be recognized on the balance sheet at the present value of lease payments. This guidance is effective for the System in periods beginning after December 15, 2018. The System is evaluating the impact this guidance may have on the consolidated financial statements.

In January 2016, the FASB issued ASU No. 2016-01, *Recognition and Measurement of Financial Assets and Financial Liabilities*. This guidance revises accounting related to (1) the classification and measurement of investments in equity securities and (2) the presentation of certain fair value changes for financial liabilities measured at fair value. It also amends certain disclosure requirement associated with the fair value of financial instruments. This guidance is effective for the System in periods beginning after December 15, 2018. The System is evaluating the impact this guidance may have on the consolidated financial statements.

2. ASSETS LIMITED AS TO USE

Assets limited as to use as of June 30, 2018 and December 31, 2017, consisted of the following (in thousands):

	2018	2017
Unrestricted assets limited as to use:		
The Foundation	$ 328,211	$ 336,193
Loan funds held by trustee	4,526	4,512
Funds designated for malpractice and general liability	68,028	85,581
Funds designated for deferred compensation	155,357	154,078
HAP statutory funds	14,305	14,336
Funds board designated for research, education, and other	161,958	205,095
Total unrestricted assets limited as to use	732,385	799,795
Temporarily restricted assets:		
Grants and other funds	125,223	128,642
Grants and pledges receivable	17,308	11,976
Total temporarily restricted assets	142,531	140,618
Permanently restricted assets:		
Grants and other funds	117,614	113,456
Grants and pledges receivable	5,513	667
Total permanently restricted assets	123,127	114,123
Total assets limited as to use	998,043	1,054,536
Less requirements for current liabilities	42,601	45,509
Noncurrent assets limited as to use	$ 955,442	$ 1,009,027

Onika had reserve deposits of $11,175,000 and $11,292,000 as of June 30, 2018 and December 31, 2017, respectively, under a reinsurance trust agreement and an agency agreement. These amounts are included above in funds designated for malpractice and general liability. The HAP statutory funds are required by insurance regulations.

3. PROPERTY, PLANT, AND EQUIPMENT

Property, plant, and equipment as of June 30, 2018 and December 31, 2017, consisted of the following (in thousands):

	2018	2017
Land and improvements	$ 88,578	$ 86,832
Building and improvements	1,535,202	1,529,649
Equipment	1,488,202	1,439,682
Construction in progress	147,098	91,828
Total	3,259,080	3,147,991
Less accumulated depreciation	1,786,024	1,699,425
Property, plant, and equipment—net	$ 1,473,056	$ 1,448,566

Internal use software is included above in equipment and construction in progress. The net book value was $196,793,000 and $201,858,000 at June 30, 2018 and December 31, 2017, respectively.

4. LONG-TERM OBLIGATIONS

Long-term obligations as of June 30, 2018 and December 31, 2017, consisted of the following (in thousands):

	2018	2017
Revenue and refunding bonds Series 2016, fixed rate, maturing serially through 2042, interest rates of 3.00% to 5.00%; term due 2041, interest rate of 5.00%; term due 2046, interest rate of 4.00%	$ 849,225	$ 849,225
Taxable term loan, maturing 2021, variable interest rate, 2.79% at June 30, 2018	37,235	37,235
Tax-exempt loan, fixed interest rate of 2.07%, maturing 2020	28,043	33,479
Other obligations (interest rates from 3.35% to 4.80%)	4,200	4,423
Deferred issuance costs on bonds, net	(6,068)	(6,242)
Unamortized premium on bonds	103,465	106,068
Total	1,016,100	1,024,188
Less current portion	17,469	17,383
Total long-term obligations	$ 998,631	$ 1,006,805

In connection with the Series 2016 bond issuance, the System amended and restated its 2006 Master Indenture. The Amended and Restated Master Trust Indenture (the “2016 Master Indenture”) contains financial covenants relating to permitted debt, permitted encumbrances, permitted dispositions of cash and other assets, permitted guarantees, and permitted mergers and reorganizations. The System has no knowledge of any default in the performance of the terms, covenants, provisions, or conditions of the 2016 Master Indenture.

5. UNRESTRICTED NET ASSETS

Changes in consolidated unrestricted net assets attributable to the System and the noncontrolling interests for the six months ended June 30, 2018 and 2017, are as follows (in thousands):

	Henry Ford Health System	Noncontrolling Interests	Total
Unrestricted net assets—December 31, 2016	$1,593,299	$ 3,135	$1,596,434
Excess of revenue over expenses from consolidated operations	65,062	1,063	66,125
Change in net unrealized gains and losses on investments	15,046	-	15,046
Net assets released from restrictions for capital	5,899	-	5,899
Distributions to noncontrolling interests	-	(737)	(737)
Increase in unrestricted net assets	86,007	326	86,333
Unrestricted net assets—June 30, 2017	$1,679,306	$ 3,461	$1,682,767
Unrestricted net assets—December 31, 2017	$1,785,322	$ 3,331	$1,788,653
Excess of revenue over expenses from consolidated operations	35,325	1,066	36,391
Net assets released from restrictions for capital	2,660	-	2,660
Distributions to noncontrolling interests	-	(774)	(774)
Increase in unrestricted net assets	37,985	292	38,277
Unrestricted net assets—June 30, 2018	$1,823,307	$ 3,623	$1,826,930

6. SUBSEQUENT EVENTS

Pursuant to FASB Accounting Standards Codification Topic 855-10, *Subsequent Events — Overall*, the System has evaluated subsequent events through August 15, 2018, the date the condensed consolidated interim financial statements were issued. As a result of this evaluation, the System has no subsequent events to disclose.

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Henry Ford

HEALTH SYSTEM

Other Information

As of and for the Six Months Ended June 30, 2018 and 2017

UNAUDITED
OTHER INFORMATION
AS OF AND FOR THE SIX MONTHS ENDED JUNE 30, 2018 AND 2017

The following is additional information required by Section 4(2) of the Continuing Disclosure Agreement dated September 28, 2016. Please note the Henry Ford Health System Credit Group (the "Credit Group") represented in excess of 85% of total revenue and total unrestricted net assets of Henry Ford Health System (the "Corporation") and its affiliates (the "System"). Therefore, the following results reflected are System results, which include the Credit Group. The Credit Group is comprised of the Henry Ford Health System Obligated Group (the "Obligated Group"), Henry Ford Health System Designated Affiliates (the "Designated Affiliates"), and Henry Ford Health System Limited Designated Affiliates (the "Limited Designated Affiliates"). The Corporation, Henry Ford Wyandotte Hospital, Henry Ford Macomb Hospital Corporation, and W.A. Foote Memorial Hospital d.b.a. Henry Ford Allegiance Health are members of the Obligated Group. Health Alliance Plan of Michigan (excluding its subsidiaries HAP Preferred Incorporated, Alliance Health and Life Insurance Company, HAP Midwest Health Plan, Inc., and Administration Systems Research Corporation) and the Henry Ford Health System Foundation are Designated Affiliates. There are currently no Limited Designated Affiliates.

UNAUDITED
OTHER INFORMATION
AS OF AND FOR THE SIX MONTHS ENDED JUNE 30, 2018 AND 2017

	2018	2017
UTILIZATION		
Licensed beds	2,468	2,468
Available beds	2,066	2,056
Discharges (excluding newborns)	55,869	57,143
Patient days (excluding newborns)	272,018	276,921
Length of stay	4.87	4.85
All payor case mix index	1.74	1.68
Inpatient emergency room visits	28,223	29,493
Outpatient emergency room visits	204,474	208,531
Inpatient surgeries	11,933	12,445
Outpatient surgeries	25,941	25,032
Observation cases	17,338	16,204
Total outpatient visits (including emergency room and surgeries)	3,621,011	3,059,023
HAP COVERED LIVES		
HAP	186,746	268,325
HPI	113,393	112,900
Alliance	125,632	131,597
ASR	120,218	119,946
MHP	8,048	8,314
Total	554,037	641,082
SYSTEM REVENUES (In thousands)		
Health care premiums	$ 973,029	$ 1,165,940
Net patient service revenue:		
Gross net patient service revenue	2,126,409	2,014,677
Intercompany transactions eliminated	(365,537)	(394,450)
Total net patient service revenue and health care premiums	2,733,901	2,786,167
Other income	174,832	192,769
Total unrestricted revenue	$ 2,908,733	$ 2,978,936

(Continued)

UNAUDITED
OTHER INFORMATION
AS OF AND FOR THE SIX MONTHS ENDED JUNE 30, 2018 AND 2017

	2018	2017
THIRD PARTY PAYORS [1]		
Medicare	43 %	41 %
Medicaid	17 %	17 %
Blue Cross	26 %	24 %
Self-pay	1 %	5 %
Commercial and other	13 %	13 %
Total	100 %	100 %
SYSTEM CAPITALIZATION ($ in thousands)		
Revenue refunding bonds Series 2016	$ 849,225	$ 853,030
Taxable term loan	37,235	38,035
Tax exempt loan	28,043	38,859
Other obligations	4,200	4,757
Capital lease payable	5,656	9,824
Total debt	$ 924,359	$ 944,505
Total unrestricted net assets	$ 1,826,930	$ 1,682,767
Total capitalization	$ 2,751,289	$ 2,627,272
Net long-term / debt capitalization	33.6 %	36.0 %
DAYS CASH ON HAND ($ in thousands)		
Cash and cash equivalents	$ 610,754	$ 874,373
Short-term investments	4,710	5,635
Long-term investments	649,972	335,300
Assets limited as to use:		
The Foundation	328,211	295,270
Funds designated for deferred compensation	155,357	142,092
Funds board-designated for research, education, and other	161,764	245,369
Total cash	$ 1,910,768	$ 1,898,039
Total operating expenses (excluding depreciation)	$ 2,771,750	$ 2,821,114
Days cash on hand (total cash / (total operating expenses (excluding depreciation) / 181))	124.8	121.8
Total cash to long-term debt	206.7 %	201.0 %

[1] The 2018 calculation used net patient revenue net of the provision for bad debts due to the adoption of FASB ASU 2014-09

(Concluded)