Catholic Health Initiatives

Imagine better health.®

Annual Report

As of and for the fiscal year ended June 30, 2018

Information Concerning Catholic Health Initiatives

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Certain of the discussions included in this Annual Report may include forward-looking statements. Such statements are generally identifiable by the terminology used such as "believes," "anticipates," "intends," "scheduled," "plans," "expects," "estimates," "budget" or other similar words. Such forward-looking statements are primarily included in PARTS II, III, IV and VII. These statements reflect the current views of management with respect to future events based on certain assumptions, and are subject to risks and uncertainties. Catholic Health Initiatives, a Colorado non-profit corporation (the "Corporation"), undertakes no obligation to publicly update or review any forward-looking statement as a result of new information or future events.

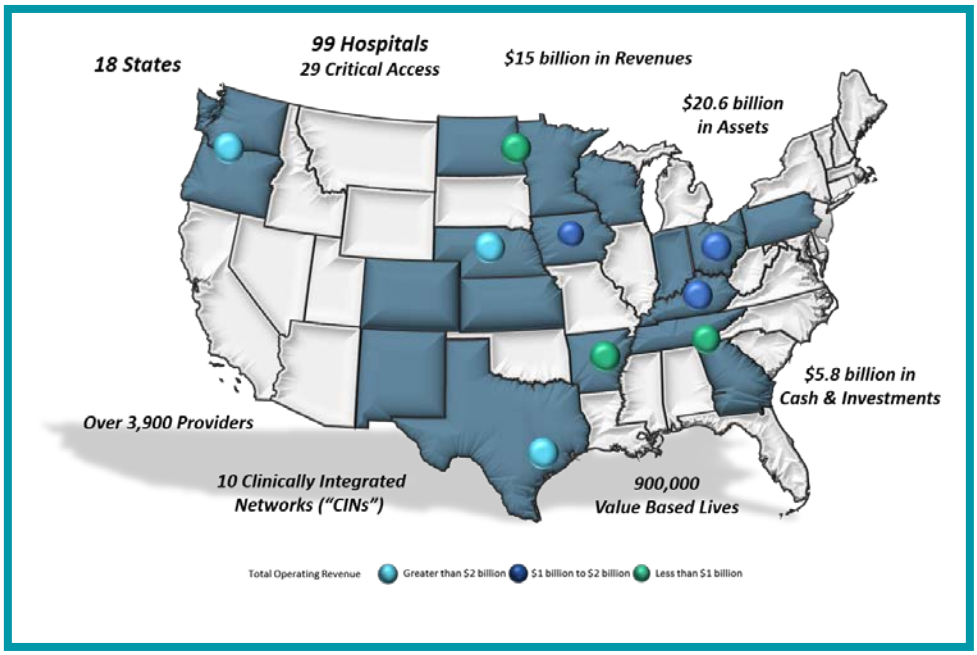
References to "CHI" in this Annual Report are to the Corporation and all of the affiliates and subsidiaries ("Participants") consolidated with it pursuant to generally accepted accounting principles ("GAAP"). References to the Corporation are references only to the parent corporation, and should not be read to include any of the Participants.

Unless otherwise noted, all financial information in this Annual Report, for both fiscal year 2017 and 2018, refers to continuing operations only.

PART I: OVERVIEW

Catholic Health Initiatives ("CHI") is a group of non-profit and for profit organizations that comprise one of the nation's largest Catholic health care systems, serving more than four million people each year through operations and facilities that span the continuum of care, including acute care hospitals; physician practices; long-term care facilities; assisted-living and residential-living facilities; community-based health services; home care; research and development; medical and nursing education; reference laboratory services; virtual health services; managed care programs; and clinically integrated networks. Today, CHI has operations in 18 states, with a service area that covers approximately 54 million people, or approximately 17% of the U.S. population.

CHI is currently comprised of ten regions that are operated as integrated health systems including several joint operating agreements ("JOAs"), joint operating companies ("JOCs") or joint ventures. The geographic diversity and total operating revenues by region for the fiscal year ended June 30, 2018 are depicted in the accompanying map.



PART II: FISCAL YEAR 2018 HIGHLIGHTS & SUMMARY

Fiscal year 2018 performance continued to see positive trends on a consolidated basis and within most of the regions across CHI. CHI experienced significant growth in revenue per adjusted admissions as a result of several revenue cycle improvement initiatives, as well as overall reductions in total labor expense and restructuring, impairment and other losses. After adjusting for transactional gains and other items (as further outlined on pages 28 and 29), operating EBIDA and operating losses improved $477.6 million and $442.9 million, respectively for the fiscal year ended June 30, 2018, compared to the fiscal year ended June 30, 2017.

Although volume declines were experienced in most regions and are reflective of industry trends, the revenue cycle improvements and cost reductions more than mitigated this impact. The Texas region continued to improve throughout the fiscal year after producing lower results in the first quarter of the fiscal year ended June 30, 2018 due to the impact of Hurricane Harvey. The Nebraska region's performance rebounded substantially with an Operating EBIDA before restructuring, impairment and other losses of $238.3 million and $106.7 million at June 30, 2018 and 2017, respectively. The Kentucky region's continuing operations sustained its strong improvement trend, reporting an operating EBIDA before restructuring, impairment and other losses of $89.1 million for the fiscal year ended June 30, 2018, compared to $68.8 million for the fiscal year ended June 30, 2017. For a more detailed discussion on CHI's regions, see *Parts III, IV, V and VII.*

Total Corporate services and other business lines also improved $107.0 million for fiscal year ended 2018, compared to fiscal year ended June 30, 2017, due primarily to decreased expenses in information technology, improvements in other support services functional costs and reduced claims expense in the self-insured welfare benefits program.

Total restructuring, impairment and other losses declined $221.9 million for the fiscal year ended June 30, 2018, compared to the fiscal year ended June 30, 2017.

Non-operating income for the fiscal year ended June 30, 2018 declined $205.5 million compared to the fiscal year ended June 30, 2017, due primarily to lower investment income and changes in the market value of interest rate swaps below prior year levels.

($ in millions)	Key Operating Indicators for Continuing Operations Twelve months ended June 30,		
Unaudited	2018	2017	Increase
Operating EBIDA	$ 892.2	$ 520.7	$ 371.5
Operating EBIDA margin	*6.0%*	*3.5%*	
Loss from operations	$ (276.7)	$ (593.4)	$ 316.7
Operating loss margin	*(1.8%)*	*(3.9%)*	
Net Income[1]	$ 222.1	$ 110.9	$ 111.2
Net income margin	*1.4%*	*0.7%*	

[1] Excess (deficit) of revenues over expenses.

In June 2018, the Corporation entered into an asset purchase agreement for the sale of its Medicare Advantage health insurance operations in the State of Washington to be effective in January 2019. In addition, the Corporation entered into a non-binding letter of intent for the sale of the QualChoice commercial operations in the State of Arkansas. Those negotiations related to the QualChoice commercial operations are ongoing with the expectation that a purchase agreement will be executed during fiscal year 2019. While seeking a buyer for its health plan operations, the Corporation has continued to actively manage QualChoice, and has focused on improving operating results of the assets held for sale, moving from an operating EBIDA loss before restructuring, impairment, and other

losses of $(85.4) million in fiscal year 2016 to a positive operating EBIDA before restructuring, impairment and other losses of $8.6 million in fiscal year 2018 - a $94 million improvement over the two fiscal year periods.

PART III: COMPETITIVE STRENGTHS

CHI's size and geographic diversity enable greater economies of scale and efficiencies, as well as provide a level of insulation from unfavorable performance in specific regions. CHI continues to develop a greater market presence in certain legacy regions and to further expand into newer regions as described below in *Part V: Strategic Affiliations & Acquisitions.* CHI's operations in the Colorado, Pacific Northwest, Nebraska, and Texas regions each generated approximately $2 billion or more in total revenues in fiscal year 2018. CHI's key strengths include:

- Strong geographic diversification, with a mix of facilities located in both rural and urban settings, helping to mitigate the effect of changes in reimbursement
- Diversification of operating revenue, with no single region representing more than 18.4% of total operating revenue in fiscal year 2018
- Experienced corporate and clinical management team

Various improvement initiatives over the past several years have been successful in driving changes to operations. However, changes in the health care industry have resulted in additional challenges that have led to decreased volumes and reimbursement shifts between inpatient and outpatient/ambulatory care and payer mix.

CHI REGIONS

CHI's operations are located primarily within ten regions: Colorado, Pacific Northwest, Nebraska, Kentucky, Texas, Iowa, Ohio, Arkansas, Tennessee and North Dakota/Minnesota. A brief description of these regions is below. These descriptions provide a broad overview of each region. Additional detail regarding certain financial and operating information for five of CHI's largest regions, Colorado, Pacific Northwest, Nebraska, Texas and Kentucky is included later in this Annual Report.

Colorado - CHI's Colorado region includes ten acute care hospitals located in Colorado and two in western Kansas. All of these hospitals are operated by Centura Health, the joint operating company created in 1996 by CHI and Adventist Health System (Adventist Health System is based in Altamonte Springs, Florida).

Pacific Northwest - CHI's Pacific Northwest region includes CHI Franciscan Health, which operates seven acute care hospitals in Washington, two in Oregon, as well as Franciscan Medical Group, a regional network of primary-care and specialty-care clinics, physicians and other professional providers. CHI Franciscan Rehabilitation Hospital opened June 2018 and is operated under a joint venture.

Nebraska - CHI's Nebraska region consists of 14 acute care hospitals, two stand-alone behavioral health facilities, and more than 150 clinics throughout Nebraska and southwest Iowa. Creighton University Medical Center - Bergan Mercy is the primary teaching partner of Creighton University's health sciences schools.

Kentucky - Prior to 2012, CHI's Kentucky region consisted primarily of the Saint Joseph Health System, which is based in Lexington, Kentucky and operated eight acute care hospitals throughout Kentucky. In 2012, CHI created KentuckyOne Health ("KentuckyOne"), which integrated certain Louisville operations with CHI's existing Kentucky hospitals. As described below under *Part V: Strategic Affiliations & Acquisitions – Pending and Completed Divestitures*, CHI has reconfigured the Kentucky Region, including the separation of University of Louisville Medical Center from KentuckyOne and the approved divestiture of most or substantially all of the other Louisville-area facilities in the Kentucky region. As of July 1, 2017, the continuing operations of the Kentucky region were segregated from and are operated independently of the discontinued operations (primarily located in central

and eastern Kentucky, with most of the original eight acute care hospitals, as well as physician practices).

Texas - CHI's Texas region serves over 7.7 million people in a broad region of south Texas that stretches across three markets. The largest part of this region is the Houston Market, where the region operates seven acute care facilities. Serving as the referral center for Houston and the region is the Baylor St. Luke's Medical Center. In 2014, CHI St. Luke's ("SLH") entered into a joint venture with Baylor College of Medicine ("BCM") to develop Baylor St. Luke's as a leading academic medical center in the current heart of the Texas Medical Center, as well as to open a new, acute-care, open-staff hospital on BCM's McNair Campus, also in the Texas Medical Center. As part of this joint venture, BCM and SLH became co-members of CHI St. Luke's Medical Center ("SLMC"), with membership percentages of 35% and 65%, respectively, to oversee the operations of Baylor St. Luke's Medical Center at its current location and the expansion of McNair campus, where it will begin to move patient care operations in January 2019. BCM and SLH have also formed a joint venture to create a health care network, including a growing number of physician practices, in the Houston region.

In addition to the Houston hospitals and facilities, the Texas region also includes CHI St. Joseph Health System ("SJHS") and CHI St. Luke's Health Memorial of East Texas ("SLHMET"). SJHS operates five acute care hospitals, a long-term care facility and provides other services, all in the Brazos Valley region of Texas. SJHS joined CHI in 2014 in connection with the Corporation's acquisition of Sylvania Franciscan Health ("SFH"). St. Joseph HealthSouth Rehabilitation Hospital opened August 2016 and is operated under a joint venture with HealthSouth. During 2018, SJHS developed an affiliation agreement in primary care with the Texas A&M College of Medicine, which is being rolled out in the first two quarters of fiscal year 2019. SLHMET also joined CHI in 2014 and operates three acute care hospitals, one specialty hospital and various clinics in the East Texas region.

In 2016, SLH became the sole corporate member of Brazosport Regional Health System ("BRHS"), which is also part of the Houston region, a nonprofit health care organization that includes a 158-licensed bed hospital that operates the only Level III trauma center in Brazoria County, Lake Jackson, Texas.

Iowa - Most of CHI's Iowa operations are managed by Mercy Health Network ("MHN"), which is a joint operating company that was created in 1998 pursuant to a joint operating agreement between CHI and Trinity Health, based in Livonia, Michigan. See *Part V: Pending and Completed Affiliations/Acquisitions* for additional detail regarding MHN. Operations in this region include seven acute care hospitals located in central and eastern Iowa.

Ohio – At June 30, 2018, CHI's Ohio region includes Good Samaritan Hospital, an acute care hospital located in Cincinnati, which is managed by TriHealth, the joint operating company established in 1995 pursuant to a joint operating agreement and Bethesda Hospital, Inc.

CHI also has an interest in Premier Health Partners ("Premier"), which operates several hospitals as well as certain ambulatory/ancillary service centers, joint ventures and other services in the greater Dayton area. See *Part V, Pending and Completed Divestitures and/or Restructurings* for a detailed description of the relationship with Premier.

CHI's Ohio region also includes SFH which operates long term care facilities in Ohio and Kentucky and a critical access hospital in Dennison, Ohio, as well as Trinity Health System ("THS"), which operates two acute care hospitals and provides other services in Steubenville, Ohio.

Arkansas - CHI's Arkansas region includes four acute care hospitals as well as primary care facilities, specialty physician clinics and convenient care clinics.

Tennessee - CHI's Tennessee region includes three acute care hospitals, as well as primary care facilities, specialty clinics, an imaging center and a home health agency.

North Dakota/Minnesota - CHI's North Dakota/Minnesota region includes 14 acute care hospitals in Minnesota and North Dakota, of which 13 are critical access hospitals. The region also operates primary care facilities, specialty clinics and long-term care facilities.

PART IV: STRATEGIC & OPERATIONAL INITIATIVES

A. Strategic Intent

In 2011, the Board of Stewardship Trustees ("the Board") set a revenue diversification goal based on its assessment of the potential impact of health care reform. The Board's vision generated a focus on reducing cost, expanding access to health services and increasing revenue to derive 65% of patient revenues from ambulatory, physician, virtual, post-acute and other non-inpatient revenue sources, using alternate financing models to augment future investments. As of June 30, 2018, CHI had achieved 55.6% of patient revenues from areas other than acute care.

One example of revenue diversification is CHI Health at Home. In 2011, CHI acquired a home health specialty services company including home health, medical transportation services, home medical equipment and home infusion in Indiana, Kentucky and Ohio with approximately 2,300 associates, $124 million in annual managed revenues and 571,000 annual patient encounters. At June 30, 2018, CHI Health at Home operates in eight states, has over 3,300 associates, $285 million in annual managed revenue, with a total of nearly 1.5 million patient encounters. CHI Health at Home provides five distinct but coordinated home-based health services including home care, hospice, home infusion therapy, home medical equipment and medical transportation across CHI and to ten outside partners. CHI Health at Home is actively exploring opportunities to expand into other existing CHI markets and with new partnerships.

CHI adopted a multi-faceted approach to achieve success in both the existing fee-for-service and new payment-for-value environments. To sustain its ministry into the future, four strategic objectives were introduced in the CHI Strategic Plan 2016-2020 and are depicted below.

With a shared vision and strategic objectives setting the course, CHI regions and functional areas consisting of supply chain, revenue cycle, information technology, human resources, treasury and finance, marketing and communication, strategy and other shared services established strategic imperatives to address the realities, opportunities and needs within their communities, with a goal of providing greater clarity of purpose and accountability. CHI is measuring, monitoring and advancing these efforts through the use of the *Living Our Mission Measures* and other key metrics described in *Part III: B. Clarify Purpose and Accountability* below.

B. Clarify Purpose and Accountability

Living Our Mission Measures are nine CHI-wide performance goals that are most vital to our mission: from safety and quality to patient experience and the transition to value-based health care. The Board established more granular goals in each of the functional areas. Region-specific goals align to these CHI-wide goals.

- Commitments to advance equity of care for people in the communities CHI serves
- Expansion of ambulatory care sites to address consumer needs and expectations

CHI also established four strategic measures intended to complement the *Living Our Mission Measures* and to move beyond care delivery to impact the determinants of health. These measures assess:

- Collaboration with community leaders to define and implement initiatives to address health priorities
- Growing the number of consumers CHI serves

Each region and functional area creates its own tactical, measurable plan that integrates these CHI-wide strategies into day-to-day operations.

C. Transformative Change Sharpens Focus

CHI has two important parallel initiatives underway: To become a "higher performing" organization and to create a new ministry with Dignity Health ("Dignity"). CHI is focused on meeting its *Living our Mission Measures* and balancing that work with the proposed Dignity alignment, as both initiatives are equally important to the organization. The proposed ministry alignment with Dignity would allow both organizations to have a greater advocacy voice and resources for those in need, as well as for those who are poor and vulnerable and continuing the service of care for the millions of people who depend on both organizations. The integration efforts of the two organizations will focus on incorporating the strengths of both cultures to ensure the new system embodies the best of CHI and Dignity.

CHI remains focused on the work ahead to meet its commitments to the *Living our Mission Measures*. CHI is committed to further advancing the performance improvement achievements of the past several years in the functional areas/workstreams of labor management, revenue cycle, supply chain, the medical group enterprise, non-labor overhead, organic growth and information technology. The philosophy underlying this work was to create operational efficiency, economies of scale, standardization of

systems and processes, cost reductions and savings, growth and revenue enhancement and consolidation and centralization of back-office and core services. By June 30, 2017, CHI met its goal of performance improvement initiatives that increased revenues and/or decreased expenses by approximately $800 million annually. This work continues as CHI's journey to becoming a higher performing organization progresses.

The change in processes provides operational accountability while aligning governance and operating models to ensure high performance. There are four dimensions of the *Living Our Mission Measures* operating model: philosophy outlines expectations for performance; performance metrics measure success; playbooks provide a management support tool; and performance reviews track progress. These four dimensions capture how *Living our Mission Measures* are at the core of CHI operations.

D. Regional Positioning and Performance

During fiscal year 2018, approximately 70.4% of CHI's total operating revenues and approximately 86% of operating EBIDA before restructuring, impairment and other losses were derived from the following five markets:

Colorado **–** Under Centura Health, the western Kansas and Colorado region continues to be one of CHI's strongest. Its statewide network has grown substantially through ownership, management and affiliation, and capitalizing on the rapid population growth across the state of Colorado. Ambulatory service centers have opened in the northern corridor of the Denver metropolitan area and in the Colorado Springs metropolitan area. The Colorado region has extensive brand and ambulatory presence across metropolitan Denver, Colorado Springs, and other Colorado communities as well as western Kansas. The anticipated 2019 completion of the St. Francis Medical Center in Colorado Springs is expected to address favorable market conditions and population growth in that market. The Colorado region is working to optimize its market relationships and payer partnerships. To do so, Centura is advancing Colorado Health Neighborhoods ("CHN"), its statewide Clinically Integrated Network ("CIN"), which currently has the largest pool of specialists and the most facilities of any CIN in Colorado and western Kansas.

Pacific Northwest ("PNW") - The PNW region continues to be a strong performer for CHI. Areas of strategic focus in the PNW region include extending geographic reach and access through growth of partnerships and ambulatory facilities as well as expanding the Rainier Health Network, the region's CIN. In March 2017, CHI Franciscan Health entered into a clinical partnership and strategic affiliation with Virginia Mason Medical Center ("Virginia Mason") with a goal of serving new

patients through combined clinical institutes in key service lines and enabling the integration of Virginia Mason providers into the Rainier Health Network. In addition, CHI and regional management are pursuing partnership opportunities to expand ambulatory presence across the region.

Construction is underway to build a new, state-of-the-art hospital at Harrison Medical Center in Silverdale, Washington. The multi-phase, $540 million expansion and consolidation of multiple campuses will feature leading-edge medical technology, a new acute care center, and an efficient design. It will also include a medical office building for primary and specialty care physicians. The expected completion date is the first quarter of calendar 2020. Also included in this $540 million, CHI Franciscan is making additional investments in Bremerton, with the anticipated opening of a 32,000 square foot outpatient clinic with primary care and urgent care services in May 2020. The clinic will be part of Harrison Medical Center's new Family Medicine Residency program, which will train highly qualified family medicine physicians. Residents for the new program were selected in August and are expected to begin working out of the clinic in 2019.

Franciscan Health System ("FHS") partnered with Kindred and opened the first rehabilitation hospital in The Puget Sound. The hospital is successfully providing specialized services to the community since its opening in May 2018.

The Franciscan Medical Group ("FMG") added 91 providers during the prior fiscal year, totaling 872 providers, which resulted in a 12.5% increase in physician visits and a 22.2% increase in outpatient surgeries for the fiscal year ended June 30, 2018. The operating loss in the FMG, however, increased compared to the prior fiscal year. Management is addressing this through operational initiatives, including increased provider and staff productivity, as well as through an evaluation of provider compensation arrangements.

Nebraska **-** The Nebraska region, known as CHI Health, rebounded during fiscal year 2018 with strong financial performance. Operating EBIDA margin before restructuring, impairment and other losses improved from 5.3% at June 30, 2017 to 11.4% at June 30, 2018. CHI Health retooled its approach to performance management and has focused on building core leader strength and accountabilities to achieve results. The bar was raised on performance at all levels of operations including engagement, revenue growth, expense reductions and focused strategy deployment. As a result, net patient services revenues grew 2.7%, labor hours per adjusted admission decreased by 4.9%, supply costs per adjusted admission decreased by 3.6% and total expenses decreased 3.7%, each as compared to the prior fiscal year.

CHI Health's medical group operation losses were reduced by 20.0%, when compared to the prior fiscal year which was the result of planned changes to the physician complement to better align with CHI Health's strategic imperatives. As a result, there has been an increased accountability for results, system alignment and focused cost reduction strategies.

CHI Health, one of the largest integrated health systems in the state of Nebraska and southwest Iowa, continues to pursue success under value-based care initiatives. This includes lower cost options for patients, select direct to employer programs, and introduction of direct primary care sites. As a Medicare Shared Savings track 3 participant, CHI Health achieved shared savings in excess of $4 million during fiscal year 2018. CHI Health is implementing a statewide electronic medical record system, Epic, that will be completed in early fiscal year 2020, to further streamline access and interoperability for its patients.

Texas – The Texas region improved operationally and financially during fiscal year 2018. Operating EBIDA margin before restructuring, impairment and other losses improved from $64.3 million at June 30, 2017 to $84.3 million at June 30, 2018, despite the adverse impact of Hurricane Harvey in August 2017. It is estimated that the impact of the hurricane, net of business interruption insurance proceeds, adversely affected the Texas region overall financial performance by $11 million.

Fiscal year 2018 was also a year of leadership transition for the region. In March 2018, T. Douglas Lawson, PhD, was named President and Chief Executive Officer. Dr. Lawson was previously the President of Baylor Scott & White Medical Center, Dallas, Texas. In July 2018, Mark J. McGinnis, was named Senior Vice President and Chief Financial Officer. Mr. McGinnis, a seven-year CHI veteran, was previously CHI's System Vice President –

Operational Finance and Integration and CFO overseeing the Arkansas and Tennessee regions. In addition, new presidents were recently named at CHI St. Joseph Health System, Bryan, and at CHI St. Luke's - The Woodlands Hospital.

CHI continues to focus on strengthening its partnership with the BCM. The flagship Texas facility, CHI Baylor St. Luke's Medical Center ("BSLMC"), located in the Texas Medical Center, has recruited key physicians in its transplant, lung surgery and neurosurgery programs. The regional leadership, BSLMC and the Baylor College of Medicine continues to move forward with a plan to expand and/or relocate certain operations in the Texas Medical Center to the McNair campus while enhancing existing facilities and equipment at the current campus.

On December 1, 2017, the Centers for Medicare and Medicaid Services ("CMS") conducted an onsite re-approval survey at BSLMC. On January 19, 2018, CMS determined the results of the survey findings demonstrated the Adult Only Heart Transplant Program ("Program") was out of compliance based on data provided by the Scientific Registry of Transplant Recipients, 2014 to 2015. Subsequently, BSLMC voluntarily suspended its Program for a 14 day-period in June 2018 while it performed an in-depth review of three unsuccessful transplants that had occurred earlier in fiscal year 2018. During the temporary pause, BSLMC completed medical reviews of the recent mortalities, reorganized the transplant surgery team, and instituted improvements designed to strengthen the Program. A special transplant committee, authorized by the BSLMC Board of Directors ("BSLMC Board"), is overseeing reviews and improvements and will continue into next year. In August, the Program was notified that CMS would end reimbursement for Medicare patients effective August 17, 2018. BSLMC has appealed this decision, remains active today and continues to ensure critically ill patients receive the care they need.

Fewer than half of the patients on Baylor St. Luke's heart transplant list typically are covered by Medicare, and the hospital has offered assistance in the transfer of affected Medicare inpatient cases to other transplant programs. Many of these patients have elected to remain with their care team at BSLMC. BSLMC continues as a program in good standing with the United Network for Organ Sharing ("UNOS"), the accrediting body for transplant programs in the United States. To date, the financial impact has been minimal as the Program has historically contributed approximately 2% of net patient services revenues toward the consolidated BSLMC revenue base.

Kentucky –The Kentucky region continued its strong improvement trend for the fiscal year ended June 30, 2018 with an operating EBIDA before restructuring, impairment and other losses of 8.4%. As further described in *Part V: Strategic Affiliations & Acquisitions - Pending and Completed Divestitures,* the transition of certain operations in the Kentucky region continued during fiscal year 2018. The Corporation transitioned the University of Louisville Hospital operations, management and control back to University of Louisville, effective July 1, 2017. Additionally, the Board approved the divestiture of most or substantially all of the other Louisville-area acute facilities in the Kentucky region. During this strategic repositioning period, CHI's Louisville facilities are operated separately from the remainder of the Kentucky region. Effective September 1, 2017, the Corporation assumed complete ownership of KentuckyOne by purchasing the non-controlling interest of the other partner for $150 million. In December 2017, the Corporation entered into a non-binding letter of intent to negotiate a definitive agreement for the sale of most or substantially all of the KentuckyOne Louisville-area acute care operations. Effective July 1, 2018, Saint Joseph Martin was sold to the Appalachian Regional Healthcare. Effective June 28, 2018, the sale of the Southern Rehab Hospital to Vibra Healthcare was finalized.

During the transition of KentuckyOne as discussed above and further described in *Part V: Strategic Affiliations & Acquisitions - Pending and Completed Divestitures,* the retained operations of KentuckyOne will focus on providing high quality and cost-effective care across central and eastern Kentucky, with the acute care hospitals and physician practices to position as a leader in the Commonwealth for the long-term. KentuckyOne will design, balance and grow market-based, local delivery systems by considering multiple care distribution strategies that promote growth by:

- Partnering with leading regional providers along the continuum of care with complementary, clinical and operational capabilities;

- Alignment of providers around clearly defined shared strategic priorities, performance requirements and expectations;
- Further development of ambulatory access through primary/specialty care with strategically located sites of care;
- Expanding regional capabilities to serve the needs of providers and patients in southern Kentucky;
- Enhancing and deploying home health capabilities and service offerings;
- Utilizing telemedicine to enhance access for existing patients and to capture new customers;
- Maintaining high functioning information systems that support effective clinical processes, integrate patient management, and inform performance improvement.

KentuckyOne will continue to offer healthcare services in Kentucky by enhancing access across the care continuum to provide an optimal customer experience and the best possible clinical outcome for the patient. Through partnerships with other providers, innovative care delivery and access models, and continuous performance improvement efforts, KentuckyOne strives to deliver superior value to patients, employers, and payers in the Kentucky region.

E. Transformative Change Drives Organizational Adaptation

Health Plans

CHI created QualChoice Health, Inc. ("QualChoice"), a wholly-owned subsidiary, to support the health plan aspect of CHI's multi-faceted approach to value-based care delivery and corresponding new reimbursement models. QualChoice oversees CHI's portfolio of commercial and Medicare Advantage health insurance plans, care networks and related products and services in markets across CHI's service areas. Through QualChoice, CHI acquired health plans, including its purchase of Soundpath Health, a Medicare Advantage plan in Federal Way, Washington, and its purchase of QualChoice Holdings, Inc. ("QualChoice Holdings"), a commercial health plan based in Little Rock, Arkansas. QualChoice extended its reach through strategic geographic expansion, including a portfolio of third-party administrative services and Medicare Advantage plans in new regions, including Iowa, Kentucky, Nebraska, Ohio and Tennessee.

As part of CHI's performance improvement efforts and strategic realignment, in May 2016, the Board approved a plan to sell or otherwise dispose of QualChoice. CHI's strategy to be an industry leader in population health and valued-based payments has not changed with its redirection relating to health plans. Rather than moving forward with developing health insurance products in a wholly-owned and nationally driven entity, which required a large capital and operational investment, CHI intends to rely on capabilities developed in its regions, CINs and through partnerships and will continue to focus on alignment of its CINs/physicians in existing regions as further described below in *Clinically Integrated Networks/Accountable Care Organizations.*

While CHI has been seeking buyers for its health plan operations, it also has focused on improving operating results of the discontinued operations, moving from an operating EBIDA loss before restructuring, impairment, and other losses of $(85. 4) million in fiscal year 2016 to a positive operating EBIDA before restructuring, impairment and other losses of $8.6 million in fiscal year 2018 - a $94 million improvement over the two fiscal year periods.

In June 2018, the Corporation entered into an asset purchase agreement for the sale of its Medicare Advantage health insurance operations in the State of Washington to be effective in January 2019. In addition, the Corporation entered into a non-binding letter of intent to sell the QualChoice commercial operations in the State of Arkansas. The negotiations related to the QualChoice commercial operations are ongoing with the expectation that a purchase agreement will be executed during fiscal year 2019.

The following summarizes the financial results of QualChoice reported as discontinued operations in the CHI consolidated statements of changes in net assets:

($ in millions)	Twelve Months Ended June 30, 2018	2017	2016
		Unaudited	
QualChoice			
Operating revenues	$562.3	$578.0	$520.4
Operating EBIDA before restructuring	$8.6	$(38.6)	$(85.4)

The CHI consolidated balance sheets include the discontinued operations of QualChoice. At June 30, 2018, total assets held for sale were $167.6 million and total liabilities held for sale were $159.3 million.

Clinically Integrated Networks/Accountable Care Organizations

CHI continues to advance in value-based care and population health management. Driven by further changes in healthcare policy and marketplace payment, CHI's multi-faceted action plan includes:

- Strengthening the scope and depth of its all-payer CINs and Accountable Care Organizations ("ACOs") in each of CHI's regions;
- Aligning CHI payer and physician compensation agreements with value-based outcomes;
- Divesting its wholly-owned national health plan and refocusing on regional joint ventures with payers;
- Intensifying Direct-To-Employer sales for employee clinical services and health plan total medical spend management;
- Transforming the CHI Management Incentive Program from volume (managed lives) to health outcome improvements (controlled diabetes and hypertensive conditions).

As the healthcare industry evolves to value-based care programs and population health payment arrangements, CHI is building on its CIN-ACO readiness across the country. Several of CHI's CIN-ACO organizations have achieved national ranking. In all CHI markets, the CIN-ACO serves as a regional host to align providers into high performing networks. As appropriate, these networks are forming joint venture partnerships with payers and large employers.

CHI CIN-ACOs are essential to managing the 900,000 contracted lives under value-based arrangements. Within the CIN-ACOs, over 200 clinical care management team members work with the 12,000 CIN-ACO providers (physicians and advanced practice clinicians). Most of these providers are not employed by CHI, rather they have chosen to join its CIN-ACO as their value-based care vehicle.

Additionally, post-acute providers (skilled nursing facilities, home health, hospice) and ancillary providers (physical therapy, laboratories, pharmacies) have joined CHI's CIN-ACOs. These ancillary providers in the network further expedite care transitions, improve care quality and enhance the patient and family experience.

CHI's six Medicare ACOs currently manage $1.4 billion of medical spend for nearly 175,000 Medicare beneficiaries. Mercy ACO in Iowa was CHI's first Medicare ACO to form in 2012. To date, Mercy ACO, Rainier Health Network (WA), Nebraska UniNet and KentuckyOne Health Partners have each driven improved quality outcomes and generated net savings resulting in gain share payments from CMS.

Given the CIN-ACO success with government contracts and in managing its own employee health plan expense, CHI markets are carefully expanding value-based arrangements with payers and employers. By building on these CIN-ACO capabilities and successes, each CHI market further strengthens its role as a key contributor to the health of the communities in which CHI operates.

PART V: STRATEGIC AFFILIATIONS & DIVESTITURES

CHI actively engages in ongoing monitoring and evaluation of potential facility expansion, relationships with academic health center partners, mergers, acquisitions, divestitures, and affiliation opportunities consistent with its strategic goal of creating, maintaining and/or strengthening its clinically integrated networks ("CINs") in key existing markets and, in certain cases, new markets. CHI's strategic vision is supported by focused system growth in both existing and new markets, as evidenced by recent acquisition activity and strategic divestitures, and realignments, certain of which are described below.

A. Pending and Completed Affiliations/Acquisitions/Transactions

CHI - In September 2018, CHI joined with six major, nationally recognized health systems to form Civica Rx, a nonprofit generic drug company that will help patients by addressing shortages and high prices of life saving medications. Once manufacturing approval is obtained from the FDA, Civica Rx will either directly manufacture generic drugs or sub-contract manufacturing with reputable organizations. Its initial goal is to stabilize the supply of essential generic medications administered in hospitals, since many of the medications are in chronic short supply. Civica Rx expects to have its first products on the market as early as 2019.

CHI – Dignity Health Alignment. On December 6, 2017, the Corporation and Dignity Health executed a Ministry Alignment Agreement pursuant to which the Corporation and Dignity Health agreed to align their respective ministries into a single, Catholic, non-profit health system.

Dignity Health owns and operates 39 hospitals in California, Arizona and Nevada and 400+ ancillary care sites across 22 states. As of and for the fiscal year ended June 30, 2017, Dignity Health reported approximately $17.4 billion of total assets, $7.0 billion of net assets and $12.9 billion in total operating revenue.

The new organization will be led by an office of the CEO. Kevin E. Lofton, currently the Chief Executive Officer of CHI and Lloyd Dean, currently the President and Chief Executive Officer of Dignity Health, will both serve as CEOs, each with specific and independent responsibilities and decision-making authority.

The governing board for the new organization, the Board of Stewardship Trustees, will include six members from each legacy board and the two CEOs. The new organization plans to establish its corporate headquarters in Chicago and operate under a new name expected to be chosen in the second half of calendar 2018. Local facilities will continue operating under their current names.

The indebtedness and obligations of the Corporation will remain solely those of the Corporation, secured by and subject to the provisions of its Capital Obligation Document, and the indebtedness and obligations of Dignity Health will remain solely those of Dignity Health, secured by and subject to the provisions of its Master Trust Indenture, until the organizations can be consolidated into a single credit.

The proposed transaction is subject to customary closing conditions, canonical approvals and federal and state regulatory approvals, including the approval of Attorneys General of multiple states. The California approval process involves public meetings, and the California Attorney General may impose conditions to his approval of the proposed transaction. Insurance commissioner approvals are also required in several states. There is no assurance that the closing conditions will be satisfied or such approvals will be received. The parties filed notifications under the Hart-Scott-Rodino Act ("HSR"), and the HSR waiting period expired on April 2, 2018. The parties may close the transaction before April 2, 2019 without having to file another HSR notification.

B. Pending and Completed Divestitures and /or Restructurings

Premier Health Partners Joint Operating Agreement. (the "Premier JOA"). Premier, which was established in 1995 pursuant to the Premier JOA, was responsible for the operational and financial activities of the Premier System, which included CHI's Good Samaritan Hospital located in Dayton, Ohio ("Good Samaritan – Dayton"). The Premier JOA did not provide for or result in an asset merger, and the Corporation therefore retained ownership of the Good Samaritan-Dayton assets.

Effective January 1, 2018, the Corporation entered into an agreement (the "Reorganization Agreement") with Premier Health Partners ("Premier"), an Ohio nonprofit corporation operating various hospitals in southwest Ohio (the "Premier System") and others, to reorganize and restructure Premier from a joint operating company to a joint venture.

Pursuant to the Reorganization Agreement, the Corporation has transferred ownership of the Good Samaritan – Dayton assets and those of its affiliated entities to Premier in exchange for a 22% interest in the restructured Premier joint venture. The Corporation holds an investment in Premier as an unconsolidated organization and reflects the changes in the investment through the statement of operations. There was no gain or loss reported as a result of this transaction.

In July 2018, Premier closed Good Samaritan – Dayton's Philadelphia Drive location, to consolidate its health services at Miami Valley Hospital, which is also now wholly-owned by Premier as a result of the reorganization and located within five miles of the Good Samaritan – Dayton hospital facility. As a result of the Good Samaritan – Dayton's closure, the Corporation expects to defease approximately $40 million of debt with cash by the end of calendar year 2018.

KentuckyOne Health. In November 2012, KentuckyOne entered into a Joint Operating Agreement ("Kentucky JOA") and an Academic Affiliation Agreement ("AAA") (collectively "Agreements") with U of L, University Medical Center, Inc. ("UMC"), which owns the University of Louisville Hospital, and other parties.

Effective June 28, 2018, the sale of the Southern Rehab Hospital to Vibra Healthcare was finalized. Effective July 1, 2018, Saint Joseph Martin was sold to Appalachian Regional Healthcare.

On December 17, 2016, KentuckyOne, UMC and U of L agreed to restructure the Kentucky JOA. The operations, management and control of the University of Louisville Hospital was transferred back to UMC effective July 1, 2017. The AAA was also restructured, and various transition services agreements were entered into in connection with the transfer of the University of Louisville Hospital to UMC.

As described in the Annual Report, *Part II: Fiscal Year 2017 Highlights and Summary*, in May 2017, the Corporation approved a plan to sell most or substantially all KentuckyOne's Louisville market acute care operations, including certain entities of Jewish Hospital and St. Mary's Healthcare, Inc. ("JHSMH"). As a result, the Corporation will refocus the Kentucky region on a smaller community footprint, centered in central and eastern Kentucky.

The Corporation assumed complete ownership of KentuckyOne, effective September 1, 2017, when the Corporation purchased the non-controlling interest from the other partner for $150 million in cash consideration.

In December 2017, the Corporation entered into a non-binding letter of intent to negotiate a definitive agreement for the sale of most or substantially all of the KentuckyOne Louisville-area acute care operations, and as a result, CHI recorded impairment charges of $272.0 million for the write-down of assets held for sale to their estimated fair value, less estimated costs to sell, as a result of this anticipated transaction. The impairment charge was recorded as a reduction in net assets through discontinued operations.

In June 2018, an updated non-binding letter of intent for the purchase of JHSMH was received and based upon the terms of that letter of intent, CHI recognized additional impairment charges of $105.5 million in discontinued operations and $11.8 million in continuing operations, to adjust the JHSMH property and equipment values to the lower of their carrying value or their fair value less cost to sell. CHI anticipates closing on a sale during fiscal year 2019.

The following summarizes selected financial results of UMC and JHSMH included in the CHI consolidated statements of changes in net assets as discontinued operations:

($ in millions)	Twelve Months Ended June 30, 2018	2017	Increase (Decrease)
		Unaudited	
UMC			
Operating revenues	$ -	$ 515.2	N/A
Operating EBIDA before restructuring, impairment and other losses	$ -	$ 47.4	N/A
JHSMH			
Operating revenues	$ 731.8	$ 770.3	$(38.5)
Operating EBIDA before restructuring, impairment and other losses	$(56.9)	$ (44.4)	$(12.5)

The CHI consolidated balance sheets included UMC total assets of $605.5 million and total liabilities of $330.3 million at June 30, 2017. Upon deconsolidation of UMC on July 1, 2017, CHI incurred a loss of $319.2 million recognized in the CHI consolidated statements of changes in net assets. The CHI consolidated balance sheets include JHSMH discontinued operations total assets held for sale of $25.7 million and total liabilities held for sale of $92.4 million at June 30, 2018.

QualChoice. In May 2016, the Corporation approved a plan to sell or otherwise dispose of certain entities of QualChoice, a consolidated CHI subsidiary, whose primary business is to develop, manage and market commercial and Medicare Advantage health insurance programs, as well as a wide range of products and administrative services. In June 2018, the Corporation entered into an asset purchase agreement for the sale of its Medicare Advantage health insurance operations in the State of Washington to be effective in January 2019. In addition, the Corporation also entered into a non-binding letter of intent for the sale of the QualChoice Health commercial operations in the State of Arkansas. Those negotiations related to the QualChoice Health commercial operations are ongoing with the expectation that a purchase agreement will be executed during fiscal year 2019. The Corporation has continued to actively manage QualChoice and has steadily improved operations since the announcement to sell or otherwise dispose of the operations. See *Part IV, Transformative Change Drives Organizational Adaptation-Health Plans* for further description.

The following summarizes the financial results of QualChoice reported in the CHI consolidated statements of changes in net assets:

($ in millions)	Twelve Months Ended June 30, 2018	2017	Increase (Decrease)
QualChoice		*Unaudited*	
Operating Revenues	$562.3	$576.0	$(15.7)
Operating EBIDA before restructuring, impairment and other losses	$8.6	$(38.6)	$47.2

The June 30, 2018 CHI consolidated balance sheets included the discontinued operations of QualChoice. At June 30, 2018, total assets held for sale were $167.6 million and total liabilities held for sale were $159.3 million.

Real Estate and Other Asset Sales. During fiscal years 2018 and 2017, certain CHI affiliates sold various real estate assets as part of a long-term effort to improve the mix of owned and leased assets. In conjunction with the sale, those CHI affiliates entered into 10-year operating lease agreements with the buyer, and in accordance with ASC 840-40 – Leases – Sale-Leaseback

Transactions, certain of the gains on the sale of the real estate assets were deferred and will be amortized to lease expense over the life of the operating leases.

For fiscal year 2018 and 2017, real estate assets with a net book value of $14.2 million and $281.8 million, respectively, were sold for gross proceeds of $33.6 million and $366.5 million, respectively. As a result of the sale, net of closing costs, CHI recognized $4.0 million and $22.0 million gain on sales in the consolidated statements of operations for the fiscal year ended June 30, 2018 and 2017, respectively. CHI also recorded deferred gains of $15.1 million and $58.0 million for the fiscal year ended June 30, 2018 and 2017, respectively which are being amortized against rent expense over the terms of the respective operating lease agreements.

Pathology Associates Medical Laboratories, LLC ("PAML"). The Corporation owned an interest in PAML, while PAML and certain affiliates of the Corporation owned interests in several joint venture subsidiary entities located in the states of Colorado, Kentucky and Washington. In February 2017, the Corporation and those affiliates entered into a definitive agreement with Laboratory Corporation of America Holdings ("LabCorp") to sell all such interests in PAML to LabCorp. As of June 30, 2018, the Colorado, Kentucky and Washington transactions have closed. Non-refundable gross sales proceeds attributable to the Corporation and its affiliates of $96.7 million were received in May 2017, resulting in a net gain on sale of $40.2 million.

Additionally, certain affiliates of the Corporation also sold various other ambulatory assets during fiscal year 2017 for net proceeds of $101.7 million reflected within other operating revenues as gain on sale on the consolidated statement of operations for the fiscal year ended June 30, 2017.

PART VI: SELECTED FINANCIAL DATA

The selected financial data that follows has been prepared by management, based on (i) CHI's unaudited interim financial statements for the three months period ended June 30, 2018 and 2017, and (ii) CHI's audited financial statements as of and for the fiscal years ended June 30, 2018 and 2017. The unaudited financial statements include all adjustments, consisting of normal recurring accruals, which management of CHI considers necessary for a fair presentation of the combined financial position and results of operations for these periods.

The CHI consolidated financial information should be read in conjunction with the unaudited financial statements, related notes, and other financial information of CHI included in Appendix A of this Annual Report.

The results of operations for recently acquired entities that have been accounted for as acquisitions are included in the CHI consolidated financial and operating information from the respective dates of acquisition.

CHI participates in JOAs with hospital-based organizations in Colorado, Iowa and Ohio. The agreements generally provide for, among other things, joint management of the combined operations of the local facilities included in the JOAs through JOCs. CHI retains ownership of the assets, liabilities, equity, revenues and expenses of the CHI facilities that participate in the JOAs. Transfers of assets from facilities owned by the JOA participants are generally restricted under the terms of the agreements. The financial statements of the CHI facilities managed under all JOAs are included in the CHI consolidated financial statements.

As of June 30, 2018, CHI has investment interests of 65%, 50%, and 50% in JOCs based in Colorado, Iowa, and Ohio, respectively. CHI's interests in the JOCs are included in investments in unconsolidated organizations and totaled $435.8 million and $381.7 million at June 30, 2018 and 2017, respectively. CHI recognizes its investment in all JOCs under the equity method of accounting. The JOCs provide various levels of services to the related JOA sponsors, and operating expenses of the JOCs are allocated to each sponsoring organization.

Certain joint venture agreements do not result in the consolidation of the jointly owned controlled entities with the Corporation. The results of those operations are instead reflected in the consolidated financial statements of CHI under the line item "Changes in equity of unconsolidated organizations". Additional detail regarding certain of CHI's JOAs and investments in Unconsolidated Organizations can be found in Note 3 of the CHI Audited Financial Statements included in Appendix A of this Annual Report.

A. The following table provides condensed consolidated balance sheets as of June 30, 2018 and 2017.

CHI Condensed Consolidated Balance Sheets	*($ in thousands)*	June 30, 2018	2017
		Unaudited	
Assets			
Current assets:			
Cash and equivalents		$ 510,456	$ 810,235
Net patient accounts receivable		2,121,582	2,064,050
Assets of discontinued operations		195,698	1,187,811
Other current assets		764,272	757,938
Total current assets		3,592,008	4,820,034
Investments and assets limited as to use:			
Internally designated investments		5,308,868	5,546,290
Restricted investments		1,163,995	1,211,731
Total investments and assets limited as to use		6,472,863	6,758,021
Property and equipment, net		8,110,767	8,378,161
Other assets		2,419,669	1,975,534
Total assets		$ 20,595,307	$ 21,931,750
Liabilities and net assets			
Current liabilities:			
Accounts payable and accrued expenses		$ 2,181,021	$ 2,274,401
Liabilities of discontinued operations		251,710	492,440
Short-term and current portion of debt		2,184,106	2,112,742
Total current liabilities		4,616,837	4,879,583
Other liabilities		2,504,785	2,798,007
Long-term debt		6,341,931	6,527,426
Total liabilities		13,463,553	14,205,016
Net assets:			
Unrestricted		6,829,063	7,415,388
Temporarily restricted		207,695	214,250
Permanently restricted		94,996	97,096
Total net assets		7,131,754	7,726,734
Total liabilities and net assets		$ 20,595,307	$ 21,931,750

B. The following table presents condensed consolidated statements of operations for the three month periods ended June 30, 2018 and 2017, and fiscal years ended June 30, 2018 and 2017.

CHI Condensed Consolidated Statements of Operations *($ in thousands)*	Three Months Ended June 30,		Fiscal Year Ended June 30,	
	2018	2017	2018	2017
	Unaudited			
Revenues				
Net patient services revenues	$ 3,527,835	$ 3,484,241	$ 14,136,374	$ 13,962,767
Other	230,788	294,651	845,713	1,079,903
Total operating revenues	3,758,623	3,778,892	14,982,087	15,042,670
Expenses				
Salaries and employee benefits	1,760,141	1,819,151	7,110,519	7,329,717
Supplies, purchased services and other	1,759,815	1,735,600	6,838,039	6,829,086
Depreciation and amortization	218,054	218,274	856,188	824,386
Interest	82,965	73,861	312,771	289,732
Total operating expenses before restructuring, impairment and other losses	3,820,975	3,846,886	15,117,517	15,272,921
Loss from operations before restructuring, impairment and other losses	(62,352)	(67,994)	(135,430)	(230,251)
Restructuring, impairment and other losses	99,633	181,472	141,283	363,191
Loss from operations	(161,985)	(249,466)	(276,713)	(593,442)
Nonoperating gains	45,469	170,139	498,814	704,335
(Deficit) excess of revenues over expenses	$ (116,516)	$ (79,327)	$ 222,101	$ 110,893

1. CRITICAL ACCOUNTING POLICIES

The preparation of financial statements in conformity with GAAP requires that management make assumptions, estimates and judgments affecting the amounts reported in the financial statements, including the notes thereto, and related disclosures of commitments and contingencies, if any. Management considers critical accounting policies to be those that require more significant judgments and estimates in the preparation of its financial statements, including the following: recognition of net patient services revenues, which includes contractual allowances, bad debt and charity care reserves; cost report settlements; impairment of goodwill, intangibles and long-lived assets; provisions for bad debt; valuations of investments; and reserves for losses and expenses related to health care professional and general liability risks. In making such judgments and estimates, management relies on historical experience and on other assumptions believed to be reasonable under the circumstances. Actual results could differ materially from the estimates. A description of CHI's significant accounting policies can be found in Note 1 of the CHI Audited Financial Statements included in Appendix A of this Annual Report.

PART VII: MANAGEMENT'S DISCUSSION & ANALYSIS

The following table provides key balance sheet metrics as of June 30, 2018 and 2017.

CHI Key Balance Sheet Metrics	June 30, 2018	June 30, 2017
	Unaudited	
Consolidated Balance Sheet Summary		
Total assets	$ 20.6 billion	$ 21.9 billion
Total liabilities	$ 13.5 billion	$ 14.2 billion
Total net assets	$ 7.1 billion	$ 7.7 billion
Financial Position and Leverage Ratios (Unaudited)		
Total cash and unrestricted investments	$ 5.8 billion	$ 6.4 billion
Days of cash on hand[1]	149	161
Total debt	$ 8.5 billion	$ 8.6 billion
Debt to capitalization[2]	55.5%	53.8%
Debt to cash flow[3]	14.5x	26.2x
Historical Debt Service Coverage Ratio	3.3x	2.5x

[1] (Cash and equivalents + Investments and assets limited as to use: Internally designated investments)/((Total operating expenses before restructuring, impairment and other losses - Depreciation and amortization)/365). For the days of cash on hand one day of operating expenses represented $39.1 million at June 30, 2018 and $39.6 million at June 30, 2017.

[2] (Short-term and current portion of debt + Long-term debt)/(Short-term and current portion of debt + Long-term debt + Unrestricted net assets).

[3] (Short-term and current portion of debt + Long-term debt)/(Loss from operations + Depreciation and amortization + Non-cash restructuring, impairment and other losses + Net periodic pension expense (income)).

The following table presents key operating metrics and utilization statistics for the three months ended June 30, 2018 and 2017, and fiscal years ended June 30, 2018 and 2017.

CHI Key Operating Metrics and Utilization Statistics	Three Months Ended June 30, 2018	Three Months Ended June 30, 2017	Fiscal Year Ended June 30, 2018	Fiscal Year Ended June 30, 2017
		Unaudited		
Consolidated Revenues, Expenses and Key Operating Metrics*				
Total net patient services revenues	$ 3.5 billion	$ 3.5 billion	$ 14.1 billion	$ 14.0 billion
Total operating revenues	$ 3.8 billion	$ 3.8 billion	$ 15.0 billion	$ 15.0 billion
Total operating expenses before restructuring, impairment and other losses	$ 3.8 billion	$ 3.8 billion	$ 15.1 billion	$ 15.3 billion
Operating EBIDA before restructuring, impairment and other losses[1]	$ 238.7 million	$ 224.1 million	$ 1,033.5 million	$ 883.9 million
Operating EBIDA margin before restructuring, impairment and other losses[2]	6.3%	5.9%	6.9%	5.9%
Operating loss before restructuring, impairment and other losses	$ (62.4) million	$ (68.0) million	$ (135.4) million	$ (230.3) million
Operating loss margin before restructuring, impairment and other losses[3]	(1.7)%	(1.8)%	(0.9)%	(1.5)%
Operating EBIDA[4]	$ 139.0 million	$ 42.7 million	$ 892.2 million	$ 520.7 million
Operating EBIDA margin[5]	3.7%	1.1%	6.0%	3.5%
Operating loss	$ (162.0) million	$ (249.5) million	$ (276.7) million	$ (593.4) million
Operating loss margin[6]	(4.3)%	(6.6)%	(1.8)%	(3.9)%
Net (loss) income[7]	$ (116.5) million	$ (79.3) million	$ 222.1 million	$ 110.9 million
Net (loss) income margin[8]	(3.1)%	(2.0)%	1.4%	0.7%
Utilization Statistics				
Acute admissions	111,442	120,170	464,717	488,821
Acute inpatient days	522,572	550,125	2,176,954	2,274,881
Acute average length of stay in days	4.7	4.6	4.7	4.7
Long-term care days	111,736	116,968	422,069	483,151
Medicare case-mix index	1.9	1.8	1.9	1.8
Adjusted admissions[9]	257,529	268,980	1,046,800	1,081,115
Inpatient ER visits	62,633	65,003	256,642	263,209
Inpatient surgeries	34,032	37,064	142,272	149,670
Outpatient ER visits	449,305	466,486	1,849,152	1,911,854
Outpatient non-ER visits	1,346,328	1,434,473	5,408,771	5,699,575
Outpatient surgeries	59,630	61,238	236,617	247,641
Physician visits	2,730,907	2,725,679	10,949,019	10,540,482

* Includes business combination gains.

[1] Income (loss) from operations before restructuring, impairment and other losses + depreciation and amortization + interest.

[2] Income (loss) from operations before restructuring, impairment and other losses + depreciation and amortization + interest/total operating revenues.

[3] Income (loss) from operations before restructuring, impairment and other losses/total operating revenues.

[4] Income (loss) from operations + depreciation and amortization + interest.

[5] Income (loss) from operations + depreciation and amortization + interest/total operating revenues.

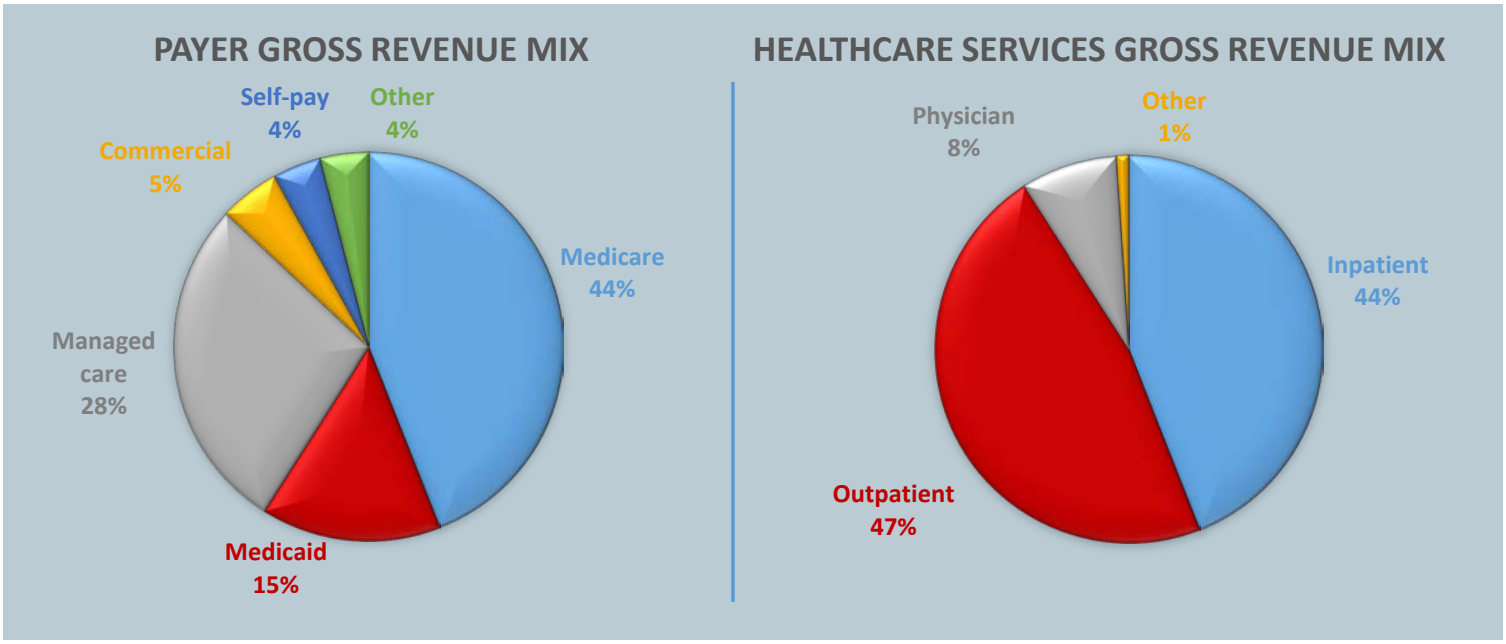
[6] Income (loss) from operations/total operating revenues.

[7] Excess (deficit) of revenues over expenses

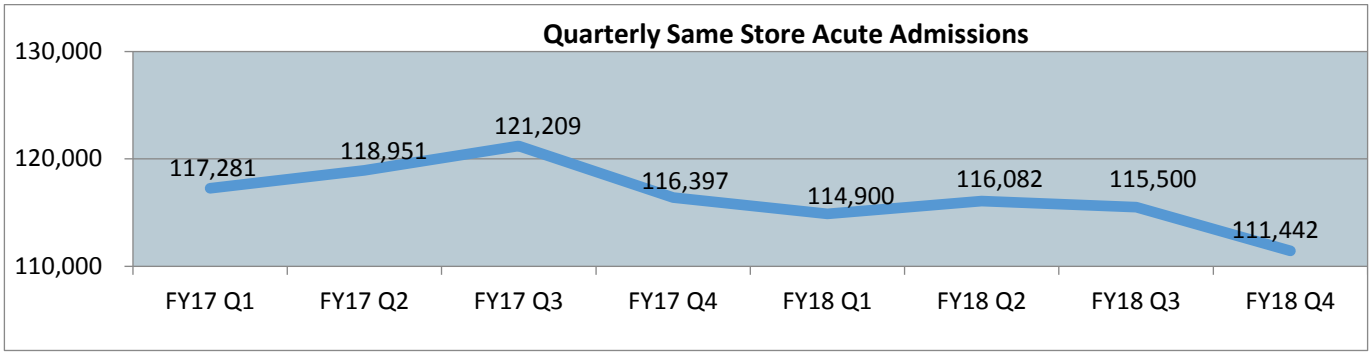
[8] Excess (deficit) of revenues over expenses/(total operating revenues + nonoperating gains (losses).

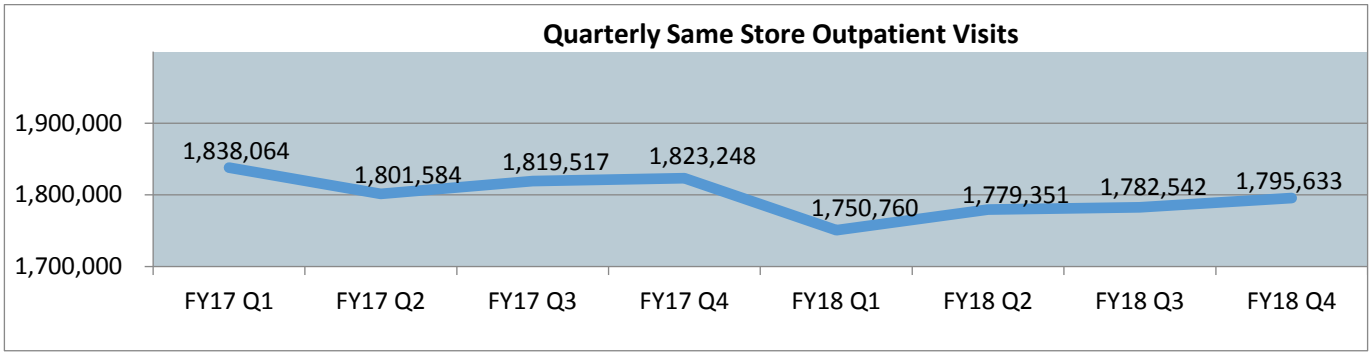
[9] (Total gross patient revenues/total gross inpatient revenues) x acute admissions.

The following charts represent the payer gross revenue mix and healthcare services gross revenue mix for the consolidated operations for the fiscal year ended June 30, 2018.



The following charts represent quarterly patient volume activity for the consolidated operations over the previous eight quarters.





1. SUMMARY OF OPERATING RESULTS FOR THE THREE MONTHS ENDED JUNE 30, 2018 AND 2017

OPERATING EBIDA/LOSS FROM OPERATIONS

Operating EBIDA before restructuring, impairment and other losses, excluding transactional gains and other items, improved $53.2 million for the three months ended June 30, 2018, compared to the three months ended June 30, 2017, due to increased net patient services revenues combined with favorable expense management. Loss from operations before restructuring, impairment and other losses, excluding transactional gains and other items, improved $44.2 million for the three months ended June 30, 2018, compared to the three months ended June 30, 2017.

Same store net patient services revenues per adjusted admission was $13,699 for the three months ended June 30, 2018, compared to $13,036 for the three months ended June 30, 2017, or a $663 and 5.1% increase, whereas same store expenses per adjusted admissions before restructuring was $14,837 for the three months ended June 30, 2018, compared to $14,430 for the three months ended June 30, 2017, or a $407 and 2.8% increase. Same store total net patient services revenues increased $131.0 million, or 3.9%. Impacting same store net patient services revenues were $141.1 million in contract rate increases and other improvements, increases in acuity of $42.6 million, and provider fee revenue improvements of $16.6 million, offset by volume decreases of $69.3 million. Same store total operating expenses increased $61.0 million, or 1.6%, which included inflationary increases as well as increased supplies and medical professional fees expenses, which were partially offset by decreases in labor and purchased services expenses as a result of favorable expense management.

Operating EBIDA before restructuring, impairment and other losses, excluding transactional gains and other items, is as follows:

($ in millions)	Three Months Ended June 30,		
	2018	2017	Increase
	Unaudited		
Operating EBIDA before restructuring, impairment and other losses, excluding transactional gains and other items	$235.1	$181.9	$53.2
Operating EBIDA margin before restructuring, impairment and other losses, excluding transactional gains and other items	6.3%	4.9%	
Ohio compliance adjustment[1]	3.6	-	
Gain on sale of lab operations[2]	-	40.2	
Gains on real estate sales	-	2.0	
Operating EBIDA before restructuring, impairment and other losses	$238.7	$224.1	$14.6
Operating EBIDA margin before restructuring, impairment and other losses	6.3%	5.9%	

[1] Related to a reimbursement documentation matter.
[2] Related to gains recognized from CHI's interest in PAML as well as CHI's interests in several PAML joint ventures.

Operating loss before restructuring, impairment and other losses, excluding transactional gains and other items, is as follows:

($ in millions)	Three Months Ended June 30, 2018	2017	Increase
	Unaudited		
Operating loss before restructuring, impairment and other losses, excluding transactional gains and other items	$(66.0)	$(110.2)	$44.2
Operating loss margin before restructuring, impairment and other losses, excluding transactional gains and other items	(1.8)%	(2.9)%	
Ohio compliance adjustment[1]	3.6	-	
Gain on sale of lab operations[2]	-	40.2	
Gains on real estate sales	-	2.0	
Operating income (loss) before restructuring, impairment and other losses	$(62.4)	$(68.0)	$5.6
Operating income (loss) margin before restructuring, impairment and other losses	(1.7)%	(1.8)%	

[1] Related to a reimbursement documentation matter.
[2] Related to gains recognized from CHI's interest in PAML as well as CHI's interests in several PAML joint ventures.

Operating EBIDA before restructuring, impairment and other losses, excluding transactional gains and other items, over the trailing four quarters is as follows:

($ in millions)	QTD 6/30/2018	QTD 3/31/2018	QTD 12/31/2017	QTD 9/30/2017
		Unaudited		
Operating EBIDA before restructuring, impairment and other losses, excluding transactional gains and other items	$235.1	$259.8	$298.1	$226.8
Operating EBIDA margin before restructuring, impairment and other losses, excluding transactional gains and other items	6.3%	7.0%	7.8%	6.2%
Nebraska net patient services revenue adjustments[1]	-	-	-	13.6
Ohio compliance adjustment[2]	3.6	-	-	(7.4)
Gains on real estate sales	-	-	-	4.0
Operating EBIDA before restructuring, impairment and other losses	$238.7	$259.8	$298.1	$237.0
Operating EBIDA margin before restructuring, impairment and other losses	6.3%	7.0%	7.8%	6.4%

[1] Related to favorable bad debt adjustments.
[2] Related to a reimbursement documentation matter.

The table below presents various regional financial metrics for CHI for the three months ended June 30, 2018 and 2017. Further information on CHI's regional operating results is discussed within the regional operating trends section below.

Catholic Health Initiatives Operations Summary – Three Months Ended June 30, 2018 and 2017

Region	QTD 6/30/2018 Operating EBIDA before restructuring, impairment and other losses	QTD 6/30/2017 Operating EBIDA before restructuring, impairment and other losses	QTD 6/30/2018 Operating EBIDA margin before restructuring, impairment and other losses	QTD 6/30/2017 Operating EBIDA margin before restructuring, impairment and other losses	QTD 6/30/2018 Operating revenues percentage of CHI consolidated	QTD 6/30/2017 Operating revenues percentage of CHI consolidated
	($ in thousands)		*Unaudited*			
Pacific Northwest	$ 67,592	$ 84,523	9.6%	12.3%	18.7%	18.1%
Colorado	89,988	96,814	15.0%	15.9%	15.9%	16.1%
Texas	25,819	1,505	4.5%	0.3%	15.4%	14.4%
Nebraska	62,886	31,492	11.8%	6.2%	14.2%	13.5%
Kentucky	10,325	34,832	4.2%	11.9%	6.6%	7.7%
Iowa	10,521	11,543	4.0%	4.5%	7.0%	6.8%
Ohio	(1,180)	17,508	(0.6)%	6.2%	5.3%	7.5%
Arkansas	(7,396)	1,969	(3.8)%	1.0%	5.2%	5.1%
North Dakota/Minnesota	11,417	1,508	6.2%	0.8%	4.9%	4.8%
Tennessee	6,319	12,012	3.7%	7.5%	4.5%	4.2%
National business lines[1]	7,631	11,981	8.5%	15.7%	2.4%	2.0%
Other[2]	(425)	(7,051)	N/A	N/A	(0.1)%	(0.2)%
Total Regional	283,497	298,636	7.5%	7.9%	100.0%	100.0%
Corporate services and other business lines[3]	(44,830)	(74,495)	N/A	N/A	0.0%	0.0%
Total CHI Consolidated	$ 238,667	$ 224,141	6.3%	5.9%	100.0%	100.0%

[1] Includes Home Care and Senior Living business lines.
[2] Includes the operations of Albuquerque Health Ministries and Lancaster Health Ministries MBOs as well as regional eliminations.
[3] Includes CHI Corporate and First Initiatives Insurance, Ltd. ("FIIL"), CHI's wholly-owned captive insurance company as well as CHI system eliminations.

OPERATING REVENUE AND VOLUME TRENDS

Same store total operating revenue, net patient services revenues, and other operating revenue changes are summarized below. Normalized amounts have been adjusted to exclude transactional gains and other items as noted above.

Three Months Ended June 30, 2018 Compared to Three Months Ended June 30, 2017

Same Store Revenue	2018	2017	Increase (Decrease)
($ In millions)	*Unaudited*		
Net patient services revenues	$3,527.8	$3,396.9	$ 130.9
Other operating revenue	242.7	300.3	(57.6)
Total operating revenue	$3,770.5	$3,697.2	$73.3
Net patient services revenues normalized[1]	3,522.7	3,396.9	125.8
Other operating revenue normalized[2]	244.2	258.2	(14.0)
Total operating revenue normalized	$3,766.9	$3,655.1	$111.8

[1] Excludes the $5.1 million Ohio favorable reimbursement documentation matter impact for the three months ended June 30, 2018.
[2] Excludes the $1.5 million unfavorable JOA income share impact as a result of the Ohio reimbursement documentation matter for the three months ended June 30, 2018, the $40.2 million gain on sale of lab operations from CHI's interest in PAML as well as CHI's interests in several PAML joint ventures for the three months ended June 30, 2017 and the $2.0 million in real estate gains for the three months ended June 30, 2017.

Same store other operating revenues, adjusted to exclude transactional gains and other items, have decreased $14.0 million for the three months ended June 30, 2018, compared to the three months ended

June 30, 2017, due primarily to clinical engineering support provided to external parties.

Same store patient volume increases (decreases) are summarized below.

Three Months Ended June 30, 2018 Compared to Three Months Ended June 30, 2017

Same Store Patient Volumes	Increase (Decrease)	Increase (Decrease)
	Unaudited	
Adjusted Admissions	(1.2)%	(3,037)
Acute Admissions	(4.3)%	(4,955)
Acute Inpatient Days	(2.4)%	(12,725)
Inpatient ER Visits	(3.6)%	(2,370)
Inpatient Surgeries	(6.2)%	(2,266)
Outpatient ER Visits	0.7%	3,052
Outpatient Non-ER Visits	(2.2)%	(30,667)
Outpatient Surgeries	0.7%	438
Physician Visits	0.2%	5,228

OPERATING EXPENSES

Increases (decreases) in same store total operating expenses before restructuring, impairment and other losses are summarized below.

Three Months Ended June 30, 2018 Compared to Three Months Ended June 30, 2017

Same Store Expense	2018	2017	Increase (Decrease)
	($ In millions)		
	Unaudited		
Total labor	$1,760.1	$1,773.4	$(13.3)
Supplies	614.5	589.8	24.7
Purchased services	431.8	440.	(8.7)
Medical professional fees	139.5	122.8	16.7
Interest	83.0	74.2	8.8
Depreciation and amortization	218.1	210.9	7.2
All other	574.0	548.4	25.6
Total operating expenses	$3,821.0	$3,760.0	$61.0

Same store labor and supply indicators are summarized below.

Three Months Ended June 30, 2018 Compared to Three Months Ended June 30, 2017

Same store labor and supply indicators	2018	2017
	Unaudited	
Labor % of net patient services revenues	49.9%	52.2%
Labor % of total operating expense	46.1%	47.2%
Supplies % of net patient services revenues	17.4%	17.4%
Supplies % of total operating expense	16.1%	15.7%

Reductions in same store total labor costs and purchased services for the three months ended June 30, 2018, were a result of strategic initiatives to reduce overall expenses across CHI as described in more detail below.

Same store total labor costs decreased $13.3 million for the three months ended June 30, 2018, compared to the three months ended June 30, 2017, due to a decrease in FTEs of 611 or $14.9 million, offset by an increase in average hourly rates of $1.6 million. CHI continues to address labor productivity within the regions, as well as growth initiatives in certain physician practices where labor costs have been added in anticipation of future increased patient volumes.

Same store medical professional fees increased $16.7 million, or 13.6%, for the three months ended June 30, 2018, compared to the three months ended June 30, 2017, due to the movement of certain employed physicians to a professional fee contract model primarily in the Texas region.

Same store supplies as a percentage of net patient services revenues were 17.4% for the three months ended June 30, 2018 and 2017, and included $14.8 million in increased medical surgical utilization supplies expenses and $9.9 million in increased pharmacy supplies expenses.

REGIONAL OPERATING TRENDS

The Corporation periodically reviews its allocation methodology for corporate support services and may adjust those allocations based on the strategic needs and resource consumption of the regions and CHI overall. These changes in allocation methodologies

may increase or decrease a region's operating results from year to year, but have no impact on the consolidated results of CHI.

The Pacific Northwest, Colorado, Texas, Nebraska and Kentucky regions represent CHI's five largest operating regions, and for the three months ended June 30, 2018, represented 70.8% of CHI's consolidated operating revenues. Additional information on these regions is discussed below.

Pacific Northwest - the region's operating EBIDA before restructuring, impairment and other losses totaled $67.6 million for the three months ended June 30, 2018, and decreased $16.9 million, compared to the three months ended June 30, 2017. Results included a $14.9 million gain on sale of interests in various laboratory operations for the three months ended June 30, 2017. Net patient services revenues increased $30.9 million for the three months ended June 30, 2018, compared to the three months ended June 30, 2017, and included $28.1 million in favorable contract increases and other items and favorable increases in volume of $2.8 million. Increased operating expenses of $41.0 million exceeded the growth in net patient services revenues for the three months ended June 30, 2018, compared to the three months ended June 30, 2017. The increase in operating expenses was primarily a result of increased compensation, inflation increases, and depreciation increases. Depreciation and amortization expenses increased $6.4 million, or 20.0% for the three months ended June 30, 2018, compared to the three months ended June 30, 2017, due to facility expansion and renovation activities which has increased capitalized assets and related depreciation.

Total net revenue per adjusted admission increased 4.0% for the three months ended June 30, 2018, compared to the three months ended June 30, 2017, while total operating expense per adjusted admission increased 5.6% for the three months ended June 30, 2018, compared to the three months ended June 30, 2017. Total labor as a percentage of net patient services revenues was 51.3% for the three months ended June 30, 2018 and 2017. Supply expense as a percentage of net patient services revenues increased to 13.6% for the three months ended June 30, 2018, compared to 13.2% for the three months ended June 30, 2017, which represents an unfavorable expense variance of $2.4 million.

Colorado - the region's operating EBIDA before restructuring, impairment and other losses totaled $90.0 million for the three months ended June 30, 2018 and decreased $6.8 million compared to the three months ended June 30, 2017. Results included a $10.3 million gain on sale of interests in various laboratory operations for the three months ended June 30, 2017. Net patient services revenues decreased $6.5 million for the three months ended June 30, 2018, compared to the three months ended June 30, 2017, due to decreases in volume of $25.1 million, offset by increases in acuity of $10.8 million, provider fee increases of $5.7 million, and $2.1 million in favorable contract increases and other items. Operating expenses decreased $4.2 million for the three months ended June 30, 2018, compared to the three months ended June 30, 2017, due to continued implementation of expense management and productivity improvements.

Total net revenue per adjusted admission increased 3.1% for the three months ended June 30, 2018, compared to the three months ended June 30, 2017, while total operating expense per adjusted admission increased 3.6% for the three months ended June 30, 2018, compared to the three months ended June 30, 2017. Total labor as a percentage of net patient services revenues decreased to 38.3% for the three months ended June 30, 2018, compared to 41.8% for the three months ended June 30, 2017, representing a favorable expense variance of $18.7 million. Supply expense as a percentage of net patient services revenues increased to 15.5% for the three months ended June 30, 2018, compared to 14.9% for the three months ended June 30, 2017, which represents an unfavorable expense variance of $3.6 million.

Texas - the region's operating EBIDA before restructuring, impairment and other losses totaled $25.8 million for the three months ended June 30, 2018 and increased $24.3 million compared to the three months ended June 30, 2017. Net patient services revenues increased $37.1 million for the three months ended June 30, 2018, compared to the three months ended June 30, 2017, and included $14.8 million favorable contract rate increases and other items, state program reimbursement increases of $12.4 million, and

$9.9 million in favorable acuity shifts. The growth in net patient services revenues exceeded the increase in operating expenses of $12.2 million for the three months ended June 30, 2018, compared to the three months ended June 30, 2017, due to continued implementation of expense management and productivity improvements.

Total net revenue per adjusted admission increased 7.0% for the three months ended June 30, 2018, compared to the three months ended June 30, 2017, while total operating expense per adjusted admission increased 2.1% for the three months ended June 30, 2018, compared to the three months ended June 30, 2017. Total labor as a percentage of net patient services revenues decreased to 41.0% for the three months ended June 30, 2018, compared to 45.9% for the three months ended June 30, 2017, representing a favorable expense variance of $27.3 million. However, medical professional fees expense increased $12.7 million and purchased services expense increased $17.5 million for the three months ended June 30, 2018, compared to the three months ended June 30, 2017, due to a shift in classification of certain services and physician compensation arrangements. Supply expense as a percentage of net patient services revenues increased to 20.5% for the three months ended June 30, 2018, compared to 19.8% for the three months ended June 30, 2017, representing an unfavorable expense variance of $3.7 million. Management is continuing to implement strategies to improve labor productivity, supply chain, and overall expense savings in the Texas region.

Nebraska - the region's operating EBIDA before restructuring, impairment and other losses totaled $62.9 million for the three months ended June 30, 2018, and increased $31.4 million compared to the three months ended June 30, 2017. Net patient services revenues increased $32.7 million for the three months ended June 30, 2018, compared to the three months ended June 30, 2017, and included $20.0 million in favorable contract rate increases and other items, $13.5 million in updated cost report and compliance reserve estimates, and favorable shifts in acuity of $5.6 million, offset by decreases in volume of $6.4 million.

Total net revenue per adjusted admission increased 8.1% for the three months ended June 30, 2018, compared to the three months ended June 30, 2017, while total operating expense per adjusted admission increased 0.6% for the three months ended June 30, 2018, compared to the three months ended June 30, 2017. Total operating expenses decreased $2.1 million for the three months ended June 30, 2018, compared to the three months ended June 30, 2017, due to continued implementation of expense management and productivity improvements. Total labor as a percentage of net patient services revenues decreased to 54.0% for the three months ended June 30, 2018, compared to 55.9% for the three months ended June 30, 2017, representing a favorable expense variance of $9.4 million. Supply expense as a percentage of net patient services revenues decreased to 14.3% for the three months ended June 30, 2018, compared to 16.4% for the three months ended June 30, 2017, representing a favorable expense variance of $10.5 million.

Kentucky - the region's operating EBIDA before restructuring, impairment and other losses (excluding discontinued operations) totaled $10.3 million for the three months ended June 30, 2018 and decreased $24.5 million compared to the three months ended June 30, 2017. Net patient services revenues decreased $31.6 million for the three months ended June 30, 2018, compared to the three months ended June 30, 2017, and included volume decreases of $32.5 million and unfavorable shifts in payer mix of $1.0 million, offset by $1.9 million in favorable contract rate increases and other items. Total operating expenses decreased $23.6 million for the three months ended June 30, 2018, compared to the three months ended June 30, 2017, due to continued expense management and labor productivity improvements across the region.

Total net revenue per adjusted admission decreased 4.5% for the three months ended June 30, 2018, compared to the three months ended June 30, 2017, while total operating expense per adjusted admission decreased 0.6% for the three months ended June 30, 2018, compared to the three months ended June 30, 2017. Total labor as a percentage of net patient services revenues increased to 49.7% for the three months ended June 30, 2018, compared to 48.6% for the three months ended June 30, 2017, representing an unfavorable expense variance of $2.3 million. Supply expense as a percentage of net patient services

revenues increased to 20.3% for the three months ended June 30, 2018, compared to 17.2% for the three months ended June 30, 2017, representing an unfavorable expense variance of $6.9 million.

CHI Corporate services and other business lines - operating EBIDA before restructuring, impairment and other losses totaled $44.8 million, an improvement of $29.7 million for the three months ended June 30, 2018, compared to the three months ended June 30, 2017. Margin improvements include focused cost reductions in all support services and include $9.0 million related to information technology services, $13.5 million in reductions for National support services, and $7.2 million related to self-insurance welfare benefit programs. Changes in support services activities relate to a variety of factors and include strategic transfers of support activities from the regions and other service lines to corporate services to build corporate support functions, and new implementations of system-wide services. Support services allocations to the regions consider the strategic needs and resource consumption of the regions and CHI overall. Expense decreases have occurred within various support services concentrated within Information Technology, Clinical Engineering and Onshore Risk and Insurance.

Restructuring, Impairment and Other Losses

($ in thousands)	Three Months Ended June 30, 2018 *Unaudited*	2017
Changes in business operations	$ 14,563	$ 119,190
Severance costs	20,106	21,687
Impairment charges	11,765	917
Pension settlement costs	53,199	39,678
Total restructuring, impairment and other losses	$ 99,633	$ 181,472
Non-cash expenses related to restructuring, impairment and other losses	$ 64,976	$ 102,697

Restructuring, impairment, and other losses include charges relating to changes in business operations, severance costs, EPIC go-live support costs, goodwill impairments, acquisition-related costs, and pension settlement activity. Changes in business operations include costs incurred periodically to implement reorganization efforts within specific operations to align CHI's operations in the most strategic and cost-effective manner. The non-cash portion of total restructuring, impairment and other losses includes impairment charges, pension settlement costs, and project cost abandonment charges included in changes in business operations.

Nonoperating Results

($ in thousands)	Three Months Ended June 30, 2018 *Unaudited*	2017
Investment income, net	$ 37,436	$ 186,066
Losses on early extinguishment of debt	-	(3,402)
Realized and unrealized gains (losses) on interest rate swaps	12,063	(13,444)
Other nonoperating (losses) gains	(4,030)	919
Total nonoperating gains	$ 45,469	$ 170,139

2. SUMMARY OF OPERATING RESULTS FOR FISCAL YEARS ENDED JUNE 30, 2018 AND 2017

OPERATING EBIDA/LOSS FROM OPERATIONS

Operating EBIDA before restructuring, impairment and other losses, excluding transactional gains and other items, improved $255.7 million for the fiscal year ended June 30, 2018, compared to the fiscal year ended June 30, 2017, due to increased net patient services revenues combined with favorable expense management. Loss from operations before restructuring, impairment and other losses, excluding

transactional gains and other items, improved $221.1 million for the fiscal year ended June 30, 2018, compared to the fiscal year ended June 30, 2017.

Same store net patient services revenues per adjusted admission was $13,548 for the fiscal year ended June 30, 2018, compared to $12,990 for the fiscal year ended June 30, 2017, or a $558 and 4.3% increase, whereas same store expenses per adjusted admissions before restructuring was $14,478 for the fiscal year ended June 30, 2018, compared to $14,231 for the fiscal year ended June 30, 2017, or a $247 and 1.7% increase. Same store total net patient services revenues, excluding transactional gains and other items, increased $327.6 million, or 2.4%. Impacting same store net patient services revenues were $348.5 million in contract rate increases and other improvements, increases in acuity of $53.7 million, $36.7 million increase to net revenue due to accounts receivable reserve changes between years, and provider fee revenue improvements of $23.0 million, offset by volume decreases of $111.6 million and decreases of $22.7 million related to payer mix shifts. Same store total operating expenses increased $23.5 million, or 0.2%, which included decreases in labor and purchased services expenses due to favorable expense management, offset by increases in supplies and medical professional fees expenses.

Operating EBIDA before restructuring, impairment and other losses, excluding transactional gains and other items, is as follows:

($ in millions)	Twelve Months Ended June 30,		
	2018	2017	Increase
	Unaudited		
Operating EBIDA before restructuring, impairment and other losses, excluding transactional gains and other items	$1,019.7	$764.0	$255.7
Operating EBIDA margin before restructuring, impairment and other losses, excluding transaction gains and other items	6.8%	5.1%	
Nebraska net patient services revenue adjustments[1]	13.6	(28.0)	
Ohio compliance adjustment[2]	(3.8)	-	
Net gain on ambulatory sale[3]	-	85.7	
Gain on sale of lab operations[4]	-	40.2	
Gains on real estate sales	4.0	22.0	
Operating EBIDA before restructuring, impairment and other losses	$1,033.5	$883.9	$149.6
Operating EBIDA margin before restructuring, impairment and other losses	6.9%	5.9%	

[1] Related to favorable bad debt adjustments for the twelve months ended June 30, 2018 and unfavorable revenue adjustments for the twelve months ended June 30, 2017.
[2] Related to an unfavorable reimbursement documentation matter.
[3] Related to net favorable results primarily from the sale of certain outpatient ambulatory business lines in the Pacific Northwest region.
[4] Related to gains recognized from CHI's interest in PAML as well as CHI's interest's in several PAML joint ventures.

Operating loss before restructuring, impairment and other losses, excluding transactional gains and other items, is as follows:

($ in millions)	Twelve Months Ended June 30, 2018	2017 Unaudited	Increase
Operating loss before restructuring, impairment and other losses, excluding transactional gains and other items	$(129.1)	$(350.2)	$221.1
Operating loss margin before restructuring, impairment and other losses, excluding transactional gains and other items	(0.9)%	(2.3)%	
Nebraska net patient services revenue adjustments[1]	13.6	(28.0)	
Ohio compliance adjustment[2]	(3.8)	-	
Net gain on ambulatory sale[3]	-	85.7	
Gain on sale of lab operations[4]	-	40.2	
Gains on real estate sales	4.0	22.0	
Depreciation increase on IT assets due to change in useful life	(20.1)	-	
Operating loss before restructuring, impairment and other losses	$(135.4)	$(230.3)	$94.9
Operating loss margin before restructuring, impairment and other losses	(0.9)%	(1.5)%	

[1] Related to favorable bad debt adjustments for the twelve months ended June 30, 2018, and unfavorable revenue adjustments for the twelve months ended June 30, 2017.
[2] Related to an unfavorable reimbursement documentation matter.
[3] Related to net favorable results primarily from the sale of certain outpatient ambulatory business lines in the Pacific Northwest region.
[4] Related to gains recognized from CHI's interest in PAML as well as CHI's interests in several PAML joint ventures.

The table below presents various regional financial metrics for CHI for the twelve months ended June 30, 2018 and 2017. Further information on CHI's regional operating results is discussed within the regional operating trends section below.

Catholic Health Initiatives Operations Summary – Twelve Months Ended June 30, 2018 and 2017

($ in thousands) Region	6/30/2018 Operating EBIDA before restructuring, Impairment and other losses	6/30/2017 Operating EBIDA before restructuring, Impairment and other losses	6/30/2018 Operating EBIDA margin before restructuring, Impairment and other losses	6/30/2017 Operating EBIDA margin before restructuring, Impairment and other losses	6/30/2018 Operating revenues percentage of CHI consolidated	6/30/2017 Operating revenues percentage of CHI consolidated
			Unaudited			
Pacific Northwest	$ 292,130	$ 369,519	10.6%	13.4%	18.4%	18.4%
Colorado	318,416	275,949	13.2%	11.7%	16.1%	15.6%
Texas	84,334	64,332	3.8%	3.0%	14.9%	14.4%
Nebraska	238,336	106,715	11.4%	5.3%	13.9%	13.5%
Kentucky	89,103	68,758	8.4%	6.2%	7.1%	7.4%
Iowa	43,630	62,561	4.3%	6.1%	6.8%	6.8%
Ohio	26,477	89,551	2.7%	7.8%	6.4%	7.7%
Arkansas	(13,577)	10,885	(1.8)%	1.4%	5.1%	5.1%
North Dakota/Minnesota	58,864	38,420	8.0%	5.1%	4.9%	5.0%
Tennessee	55,052	59,239	8.1%	9.0%	4.5%	4.4%
National business lines[1]	31,304	28,201	9.5%	9.9%	2.2%	1.9%
Other[2]	(42,028)	(35,054)	N/A	N/A	(0.3)%	(0.2)%
Total Regional	1,182,041	1,139,076	7.9%	7.6%	100.0%	100.0%
Corporate services and other business lines[3]	(148,512)	(255,209)	N/A	N/A	0.0%	0.0%
Total CHI Consolidated	$ 1,033,529	$ 883,867	6.9%	5.9%	100.0%	100.0%

[1] Includes Home Care and Senior Living business lines.
[2] Includes the operations of Albuquerque Health Ministries and Lancaster Health Ministries MBOs as well as regional eliminations.
[3] Includes CHI Corporate and First Initiatives Insurance, Ltd. ("FIIL"), CHI's wholly-owned captive insurance company as well as CHI system eliminations.

OPERATING REVENUE AND VOLUME TRENDS

Same store total operating revenue, net patient services revenues, and other operating revenue changes are summarized below. Normalized amounts have been adjusted to exclude transactional gains and other items as noted above.

Twelve Months Ended June 30, 2018 Compared to Twelve Months Ended June 30, 2017

($ In millions) Same Store Revenue	2018	2017	Increase (Decrease)
	Unaudited		
Net patient services revenues	$13,973.8	$13,609.5	$ 364.3
Other operating revenue	864.8	1,086.8	(222.0)
Total operating revenue	$14,838.6	$14,696.3	$142.3
Net patient services revenues normalized[1]	13,965.1	13,637.5	327.6
Other operating revenue normalized[2]	859.7	922.9	(63.2)
Total operating revenue normalized	$14,824.8	$14,560.4	$264.4

[1] Excludes the $13.6 million Nebraska favorable bad debt adjustments for the twelve months ended June 30, 2018, the $28.0 million Nebraska unfavorable net revenue adjustments for the twelve months ended June 30, 2017, and the $4.9 million Ohio unfavorable reimbursement documentation matter impact for the twelve months ended June 30, 2018.

[2] Excludes the $1.1 million favorable JOA income share impact as a result of the Ohio reimbursement documentation matter for the twelve months ended June 30, 2018, the $101.7 million gain recognized from the sale of certain outpatient ambulatory business lines in the Pacific Northwest region for the twelve months ended June 30, 2017, and the $4.0 million and $22.0 million real estate gains for the twelve months ended June 30, 2018 and 2017, respectively.

Same store other operating revenues, adjusted to exclude transactional gains and other items, have decreased $63.2 million for the fiscal year ended June 30, 2018, compared to the fiscal year ended June 30, 2017, due primarily to reductions in clinical engineering support provided to external parties and decreased premium revenues.

Same store patient volume increases (decreases) are summarized below.

Twelve Months Ended June 30, 2018 Compared to Twelve Months Ended June 30, 2017

Same Store Patient Volumes	Increase (Decrease)	Increase (Decrease)
	Unaudited	
Adjusted Admissions	(1.5)%	(16,237)
Acute Admissions	(3.4)%	(15,914)
Acute Inpatient Days	(3.0)%	(66,076)
Inpatient ER Visits	(2.5)%	(6,567)
Inpatient Surgeries	(3.9)%	(5,709)
Outpatient ER Visits	(1.2)%	(21,463)
Outpatient Non-ER Visits	(2.8)%	(152,664)
Outpatient Surgeries	(2.6)%	(6,263)
Physician Visits	3.9%	408,537

OPERATING EXPENSES

Increases (decreases) in same store total operating expenses before restructuring, impairment and other losses are summarized below.

Twelve Months Ended June 30, 2018 Compared to Twelve Months Ended June 30, 2017

($ In millions) Same Store Expense	2018	2017	Increase (Decrease)
	Unaudited		
Total labor	$7,016.4	$7,141.6	$(125.2)
Supplies	2,413.8	2,376.8	37.0
Purchased services	1,673.9	1,715.8	(41.9)
Medical professional fees	518.2	441.7	76.5
Interest	312.8	289.0	23.8
Depreciation and amortization	841.6	794.6	47.0
All other	2,156.2	2,149.9	6.3
Total operating expenses	$14,932.9	$14,909.4	$23.5

Same store labor and supply indicators are summarized below.

Twelve Months Ended June 30, 2018 Compared to Twelve Months Ended June 30, 2017

Same Store Labor & Supply	2018	2017
	Unaudited	
Labor % of net patient services revenues	50.2%	52.5%
Labor % of total operating expense	47.0%	48.0%
Supplies % of net patient services revenues	17.3%	17.5%
Supplies % of total operating expense	16.2%	15.9%

Reductions in same store total labor costs and purchased services for the fiscal year ended June 30, 2018, compared to the fiscal year ended June 30, 2017, were a result of strategic initiatives to reduce overall expenses across CHI as described in more detail below.

Same store total labor costs decreased $125.2 million for the fiscal year ended June 30, 2018, compared to the fiscal year ended June 30, 2017, due to a reduction of FTEs of 2,382 or $226.4 million, offset by an increase in average hourly rates of $101.2 million. CHI continues to address labor productivity within the regions, as well as growth initiatives in certain physician practices where

labor costs have been added in anticipation of future increased patient volumes.

Same store medical professional fees increased $76.5 million, or 17.3%, for the fiscal year ended June 30, 2018, compared to the fiscal year ended June 30 2017, largely due to the movement of employed physicians to a professional fee contract model primarily in the Texas region.

Same store supplies as a percentage of net patient services revenues were 17.3% for the fiscal year ended June 30, 2018, and 17.5% for the fiscal year ended June 30, 2017, and included $21.6 million in increased pharmacy supplies expenses and $15.4 million in increased medical surgical utilization supplies expenses.

Same store interest expense increased $23.8 million, or 8.2% for the fiscal year ended June 30, 2018, compared to the fiscal year ended June 30, 2017, largely due to increased variable-rate debt interest cost increases as a result of rising market rates. Total debt outstanding decreased $114.1 million during the fiscal year ended June 30, 2018 due to regularly scheduled debt service payments.

Same store depreciation and amortization expenses increased $47.0 million, or 5.9% for the fiscal year ended June 30, 2018, compared to the fiscal year ended June 30, 2017, and included $20.1 million in increased expense due to changes in the estimated remaining useful life of certain information technology assets.

REGIONAL OPERATING TRENDS

The Corporation periodically reviews its allocation methodology for corporate support services and may adjust those allocations based on the strategic needs and resource consumption of the regions and CHI overall. These changes in allocation methodologies may increase or decrease a region's operating results from year to year, but have no impact on the consolidated results of CHI.

Regional operations were improved primarily by favorable expense management offsetting reduced patient volumes for the fiscal year ended June 30, 2018, compared to the fiscal year ended June 30, 2017. The Pacific Northwest, Colorado, Texas, Nebraska and Kentucky regions represent CHI's five largest operating regions, and for the fiscal year ended June 30, 2018, represented 70.4% of CHI's consolidated operating revenues. Additional information on these regions is discussed below.

Pacific Northwest - the region's operating EBIDA before restructuring, impairment and other losses totaled $292.1 million for the fiscal year ended June 30, 2018 and decreased $77.4 million compared to the fiscal year ended June 30, 2017. Results included $85.7 million in net favorable results primarily from the sale of certain outpatient ambulatory business lines and a $14.9 million gain on sale of interests in various laboratory operations for the fiscal year ended June 30, 2017. Net patient services revenues increased $116.9 million for the fiscal year ended June 30, 2018, compared to the fiscal year ended June 30, 2017, and included managed care contract rate increases of $45.8 million, $37.5 million in other contract rate increases and other improvements, favorable shifts in acuity of $20.0 million, and volume increases of $13.6 million. The growth in net patient services revenues exceeded the $83.3 million in increased operating expenses for the fiscal year ended June 30, 2018, compared to the fiscal year ended June 30, 2017. The increase in operating expenses was primarily a result of increased compensation, inflation increases, and depreciation increases, slightly offset by continued implementation of expense management and productivity improvements across the region. Depreciation and amortization expenses increased $14.6 million, or 12.4% for the fiscal year ended June 30, 2018, compared to the fiscal year ended June 30, 2017, due to facility expansion and renovation activities which has increased capitalized assets and related depreciation.

Total net revenue per adjusted admission increased 6.0% for the fiscal year ended June 30, 2018, compared to the fiscal year ended June 30, 2017, while total operating expense per adjusted admission increased 4.8% for the fiscal year ended June 30, 2018, compared to the fiscal year ended June 30, 2017. Total labor as a percentage of net patient services revenues decreased to 51.0% for the fiscal year ended June 30, 2018, compared to 51.9% for the fiscal year ended June 30, 2017, due to ongoing labor productivity improvements, representing a favorable expense variance of $24.9 million. Supply expense as a percentage of net patient services revenues declined to 13.5% for the fiscal year

ended June 30, 2018, compared to 13.8% for the fiscal year ended June 30, 2017, which represents a favorable expense variance of $6.4 million due to improved utilization.

Colorado - the region's operating EBIDA before restructuring, impairment and other losses totaled $318.4 million for the fiscal year ended June 30, 2018 and increased $42.5 million compared to the fiscal year ended June 30, 2017. Results included a $10.3 million gain on sale of interests in various laboratory operations for the fiscal year ended June 30, 2017. Net patient services revenues increased $67.3 million for the fiscal year ended June 30, 2018, compared to the fiscal year ended June 30, 2017, and included $38.2 million in increased provider fee revenue from the state-based reimbursement programs, $22.5 million in contract rate increases and other improvements, and favorable shifts in acuity of $19.6 million, offset by decreases in volume of $13.0 million. The state-based reimbursement program included increased program expenses of $36.4 million for the fiscal year ended June 30, 2018, compared to the fiscal year ended June 30, 2017. Additional state-based reimbursement revenues provided a net revenue benefit of $1.9 million. Operating expenses increased $32.4 million for the fiscal year ended June 30, 2018, compared to the fiscal year ended June 30, 2017, and included the $36.4 million expense increase for the state-based reimbursement program, as noted above.

Total net revenue per adjusted admission increased 4.8% for the fiscal year ended June 30, 2018, compared to the fiscal year ended June 30, 2017, while total operating expense per adjusted admission increased 3.2% for the fiscal year ended June 30, 2018, compared to the fiscal year ended June 30, 2017. Total labor as a percentage of net patient services revenues decreased to 39.5% for the fiscal year ended June 30, 2018, compared to 42.5% for the fiscal year ended June 30, 2017, representing a favorable expense variance of $68.6 million. Supply expense as a percentage of net patient services revenues declined to 14.9% for the fiscal year ended June 30, 2018, compared to 15.0% for the fiscal year ended June 30, 2017, which represents a favorable expense variance of $3.7 million due to improved utilization.

Texas - the region's operating EBIDA before restructuring, impairment and other losses totaled $84.3 million for the fiscal year ended June 30, 2018 and increased $20.0 million compared to the fiscal year ended June 30, 2017. Results included $24.4 million in gains on real estate sales for the fiscal year ended June 30, 2017.

Operations in the Texas region were impacted in late August 2017 by Hurricane Harvey, which caused the temporary closure and evacuation of two facilities, resulting in decreased patient volumes due to rescheduling of procedures and visits, and additional expenses. The total impact to operations was estimated at approximately $25.8 million. In December 2017, the Texas region recognized $14.6 million of insurance recoveries which were primarily funded by FIIL.

Net patient services revenues increased $68.1 million for the fiscal year ended June 30, 2018, compared to the fiscal year ended June 30, 2017, and included $39.3 million in managed care contract rate increases, $31.8 million in other contract rate increases and other improvements, volume increases of $14.7 million, and $9.8 million in favorable service mix shifts, offset by $27.5 million in decreased provider fee revenue from the state-based reimbursement programs. The change in the state-based reimbursement programs had a decrease in programs expenses of $4.9 million for the fiscal year ended June 30, 2018, compared to the fiscal year ended June 30, 2017, for a net state-based reimbursement programs impact of $22.6 million in reduced operating EBIDA before restructuring, impairment and other losses. Total operating expenses increased $38.0 million for the fiscal year ended June 30, 2018, compared to the fiscal year ended June 30, 2017.

Total net revenue per adjusted admission increased 5.2% for the fiscal year ended June 30, 2018, compared to the fiscal year ended June 30, 2017, while total operating expense per adjusted admission increased 3.5% for the fiscal year ended June 30, 2018, compared to the fiscal year ended June 30, 2017. Total labor as a percentage of net patient services revenues decreased to 43.2% for the fiscal year ended June 30, 2018, compared to 48.4% for the fiscal year ended June 30, 2017, representing a favorable expense variance of

$111.0 million. However, medical professional fees expense increased $63.8 million and purchased services expense increased $47.3 million for the fiscal year ended June 30, 2018, compared to the fiscal year ended June 30, 2017, due to a shift in classification of certain services and physician compensation arrangements. Supply expense as a percentage of net patient services revenues increased to 20.0% for the fiscal year ended June 30, 2018, compared to 19.4% for the fiscal year ended June 30, 2017, which represents an unfavorable expense variance of $13.2 million. Management is continuing to implement strategies to improve labor productivity, supply chain, and overall expense savings in the Texas region.

Nebraska - the region's operating EBIDA before restructuring, impairment and other losses totaled $238.3 million for the fiscal year ended June 30, 2018 and increased $131.6 million compared to the fiscal year ended June 30, 2017. Results included $13.6 million in favorable and $28.0 million in unfavorable net patient services revenues adjustments for the fiscal year ended June 30, 2018, and 2017, respectively. Net patient services revenues increased $50.3 million for the fiscal year ended June 30, 2018, compared to the fiscal year ended June 30, 2017, and included a favorable $53.3 million in accounts receivable reserve changes and bad debt reconciliation adjustments between years, $26.3 million in other contract rate increases and other improvements, and managed care contract rate increases of $20.1 million, offset by decreases in volume of $49.4 million.

Total net revenue per adjusted admission increased 4.9% for the fiscal year ended June 30, 2018, compared to the fiscal year ended June 30, 2017, while total operating expense per adjusted admission decreased 1.5% for the fiscal year ended June 30, 2018, compared to the fiscal year ended June 30, 2017. Total operating expenses decreased $75.1 million for the fiscal year ended June 30, 2018, compared to the fiscal year ended June 30, 2017, due to continued implementation of expense management and productivity improvements. Total labor as a percentage of net patient services revenues decreased to 53.9% for the fiscal year ended June 30, 2018, compared to 56.5% for the fiscal year ended June 30, 2017, representing a favorable expense variance of $50.5 million. Supply expense as a percentage of net patient services revenues decreased to 15.4% for the fiscal year ended June 30, 2018, compared to 16.8% for the fiscal year ended June 30, 2017, representing a favorable expense variance of $26.7 million.

Kentucky - the region's operating EBIDA before restructuring, impairment and other losses (excluding discontinued operations) totaled $89.1 million for the fiscal year ended June 30, 2018 and increased $20.3 million compared to the fiscal year ended June 30, 2017. Net patient services revenues decreased $34.8 million for the fiscal year ended June 30, 2018, compared to the fiscal year ended June 30, 2017, and included volume decreases of $72.3 million, which is partly due to the home health business moving to CHI Health at Home, a division within CHI, and $8.0 million in decreases due to favorable managed care settlements in fiscal year 2017 that did not recur, offset by $34.3 million in contract rate increases and other improvements and favorable shifts in acuity of $11.2 million. Operating expenses decreased $79.7 million for the fiscal year ended June 30, 2018, compared to the fiscal year ended June 30, 2017, due to continued implementation of expense management and labor productivity improvements across the region.

Total net revenue per adjusted admission increased 1.4% for the fiscal year ended June 30, 2018, compared to the fiscal year ended June 30, 2017, while total operating expense per adjusted admission decreased 2.6%. Total labor as a percentage of net patient services revenues decreased to 47.2% for the fiscal year ended June 30, 2018, compared to 47.9% for the fiscal year ended June 30, 2017, representing a favorable expense variance of $6.2 million. Supply expense as a percentage of net patient services revenues increased to 19.3% for the fiscal year ended June 30, 2018, compared to 18.8% for the fiscal year ended June 30, 2017, representing a favorable expense variance of $5.6 million.

CHI Corporate services and other business lines - operating EBIDA before restructuring, impairment and other losses totaled $148.5 million, and improved $106.7 million for the fiscal year ended June 30, 2018, compared to the fiscal year ended June 30, 2017. Margin improvements include focused cost reductions in all support services and include $59.7 million related

to information technology services, $29.1 million in reductions for National support services, and $17.9 million related to self-insurance welfare benefit programs. Changes in support services activities relate to a variety of factors and include strategic transfers of support activities from the regions and other service lines to corporate services to build corporate support functions, and new implementations of system-wide services. Support services allocations to the regions consider the strategic needs and resource consumption of the regions and CHI overall. Expense decreases have occurred within various support services concentrated within Information Technology, Clinical Engineering and Onshore Risk and Insurance.

Restructuring, Impairment and Other Losses

($ in thousands)	Twelve Months Ended June 30, 2018	2017
	Unaudited	
Changes in business operations	$ 40,043	$ 206,297
Severance costs	33,810	68,860
Impairment charges	14,231	48,356
Pension settlement costs	53,199	39,678
Total restructuring, impairment and other losses	$ 141,283	$ 363,191
Non-cash expenses related to restructuring, impairment and other losses	$ 67,443	$ 147,401

Restructuring, impairment, and other losses include charges relating to changes in business operations, severance costs, EPIC go-live support costs, goodwill impairments, acquisition-related costs, and pension settlement activity. Changes in business operations include costs incurred periodically to implement reorganization efforts within specific operations, to align CHI's operations in the most strategic and cost-effective manner. The non-cash portion of total restructuring, impairment and other losses includes impairment charges, pension settlement costs, and project cost abandonment charges included in changes in business operations.

Nonoperating Results

($ in thousands)	Twelve Months Ended June 30, 2018	2017
	Unaudited	
Investment gains, net	$ 442,496	$ 629,216
Gains (losses) on early extinguishment of debt	208	(19,586)
Realized and unrealized gains on interest rate swaps	52,123	92,698
Other nonoperating gains	3,987	2,007
Total nonoperating gains	$ 498,814	$ 704,335

3. SUMMARY OF CHI BALANCE SHEETS AS OF JUNE 30, 2018 AND 2017

Total assets were $20.6 billion and $21.9 billion at June 30, 2018 and 2017, respectively, representing a decrease of 6.1%, or $1.3 billion, during the fiscal year ended June 30, 2018. The decrease was primarily attributable to a $992.1 million decrease in assets of discontinued operations, due to the deconsolidation of UMC on July 1, 2017 and the impairment of JHSMH's discontinued operation assets on December 31, 2017 and on June 30, 2018, as well as a decrease of $537.2 million in cash and unrestricted investments during the fiscal year ended June 30, 2018.

Total cash and equivalents, and unrestricted investments were $5.8 billion and $6.4 billion at June 30, 2018 and 2017, respectively, representing a decrease of 8.5%, or $537.2 million during the fiscal year ended June 30, 2018. Decreases included $90.5 million due to the deconsolidation of the Dayton assets in exchange for a 22% equity method investment in Premier. For the fiscal year ended June 30, 2018, CHI spent a net $796.1 million in investing cash flow activities, including $759.7 million of on-going capital investment activity, which includes IT infrastructure investments, as well as new hospital construction and facility renovations across CHI. Financing cash flow decreases for the fiscal year ended June 30, 2018, totaled $238.8 million and include net debt and interest payments, net swap collateral receipts, and $150.0 million for the purchase of the remaining non-controlling interest in KentuckyOne. Working capital changes and cash flows from operations, including investments and assets limited to use, increased $738.2 million for the fiscal year ended June 30, 2018.

Days of cash on hand decreased to 149 days at June 30, 2018, from 161 at June 30, 2017. For purposes of the days of cash on hand calculation, one day of operating expenses represented $39.1 million and $39.6 million at June 30, 2018, and 2017, respectively.

Net patient accounts receivable were $2.1 billion at both June 30, 2018 and 2017, representing a slight increase of 2.8%, or $57.5 million, during the fiscal year ended June 30, 2018. Total liabilities were $13.5 billion and $14.2 billion at June 30, 2018 and 2017, respectively, representing a decrease of 5.2%, or $741.5 million, during the fiscal year ended June 30, 2018, including a $256.6 million decrease in pension liability balances, a $193.0 million decrease in liabilities of discontinued operations, primarily as a result of the deconsolidation of UMC on July 1, 2017, a $114.1 million decrease in outstanding debt balance, and a $98.8 million decrease in accounts payable and accrued expenses as a result of working capital changes.

The unfunded pension benefit obligation, reported as long-term liabilities, was $854.4 million and $1.1 billion at June 30, 2018 and 2017, respectively, representing a $256.6 million decrease. The pension benefit obligation decreased $218.1 million during the fiscal year ended June 30, 2018, due to favorable actuarial assumption changes at June 30, 2018, including a decrease of $230.0 million as a result of the increase in the discount rate assumption. Pension plan assets increased $38.4 million during the fiscal year ended June 30, 2018, due to $272.5 million in investment income and $108.6 million in plan contributions, offset by $340.8 million of plan distributions to participants.

Total debt was $8.5 billion and $8.6 billion at June 30, 2018, and 2017, respectively, and includes a decrease of $114.1 million due to regularly scheduled debt service payments.

The debt-to-capitalization ratio increased to 55.5% at June 30, 2018, from 53.8% at June 30, 2017, primarily due to a decrease in unrestricted net assets. Total unrestricted net assets decreased 7.9%, or $583.3 million during the fiscal year ended June 30, 2018, primarily due to a $319.2 million loss on the deconsolidation of UMC, a $377.5 million impairment of JHSMH's discontinued operation assets, a $150.0 million decrease from the purchase of the remaining non-controlling interest in KentuckyOne, and a $97.1 million net loss from discontinued operations, offset by $222.1 million in excess of revenues over expenses and a $143.6 million favorable change in pension funded status.

4. CERTAIN CONTRACTUAL OBLIGATIONS

CAPITAL OBLIGATION DOCUMENT

The obligations of the Corporation to pay amounts due on its commercial paper notes, revenue bonds, guarantees and certain swap agreements are evidenced by Obligations issued under the Capital Obligation Document ("COD"). Obligations also evidence the Corporation's obligations to banks that provide funds for the purchase of indebtedness tendered for purchase or subject to mandatory tender for purchase and not remarketed under the Corporation's self-liquidity program, funded loans and for general purpose revolving lines of credit.

At June 30, 2018, the Corporation's outstanding indebtedness evidenced by Obligations issued under the COD totaled $7.93 billion. Payment obligations under the COD are limited to the Obligated Group (defined in the COD), which only includes the Corporation. Certain covenants under the COD are tested based on the combination of the Obligated Group and Participants. However, holders of Obligations have no recourse to Participants or their property for payment thereof.

INDEBTEDNESS

($ in millions)	June 30, 2018	2017
Capital Obligation Debt		
Fixed Rate Bonds[1]	$4,575	$ 4,894
Variable Rate Bonds[2]	508	508
Long Term Rate Bonds[3]	142	142
Direct Purchase Bonds[4]	1,578	1,002
Commercial Paper Notes	881	815
Short term bank loans and lines of credit	250	584
Total Capital Obligation Debt	**$7,934**	**$ 7,945**
Non-Capital Obligation Debt		
Other MBO Debt[5]	$385	$ 458
Capital Leases	113	106
Note Payable issued to Episcopal Health Foundation	99	134
Total Non-Capital Obligation Debt	**597**	**$ 699**
Total CHI Debt	**$8,531**	**$ 8,644**

[1]Excludes unamortized original issue premium, discount and issuance costs.

[2] Includes bonds that bear interest at variable rates (currently determined weekly) and are subject to optional tender for purchase by their holders, FRNs that bear interest at variable rates (currently determined weekly and monthly), for a specified period and are subject to mandatory tender as set forth below and direct purchase debt of affiliates that is placed directly with holders, bears interest at variable rates determined monthly based upon a percentage of LIBOR or SIFMA plus a spread, and is subject to mandatory tender on certain dates.

[3] Long-term rate bonds bear interest at a fixed rate for a specified period and are subject to mandatory tender at the end of such period as set forth below.

[4] Direct purchase debt of the Corporation is placed directly with holders, bears interest at variable rates determined monthly based upon a percentage of LIBOR or SIFMA plus a spread, and is subject to mandatory tender on certain dates as set forth below.

[5] Other debt is comprised mostly of $187.0 million of CHI St. Luke's affiliate debt, $94.4 million of Centura affiliate debt and $50.9 million of SFH affiliate debt.

The required principal payments on the total CHI long-term debt during fiscal year 2019 is approximately $697.7million.

As of the date of this report, the Corporation had one revolving line of credit with PNC Bank in the amount of $250 million that is fully drawn and matures on July 3, 2019.

A. Direct Purchase Debt

The Corporation's direct purchase debt is subject to mandatory tender on the dates set forth in the following table. Prior to the mandatory tender of direct purchase debt, management expects that it would analyze the then current market conditions and availability and relative cost of refinancing or restructuring alternatives which could include without limitation, conversion to another interest mode, refinancing or repayment.

Series ($ in millions)	Par Outstanding June 30, 2018	Mandatory Tender Date
Taxable 2016[1]	$200.0	9/30/2018
Providence Series 2009A[2]	6.5	10/1/2018
Providence Series 2009B[2]	5.6	10/1/2018
Providence Series 2009C[2]	4.0	10/1/2018
Taxable 2017A[3]	250.0	10/29/2018
Colorado 2011C[4]	117.0	11/10/2018
Colorado 2017B	333.7	12/19/2018
Washington 2008A[4]	118.9	1/29/2019
Colorado 2004B6[4]	54.2	9/15/2020
Taxable 2013E	125.0	12/18/2020
Taxable 2013F	75.0	12/18/2020
Colorado 2015-1	35.0	8/1/2021
Colorado 2015-2	63.5	8/1/2021
Colorado 2013C	100.0	12/18/2023
Colorado 2015A	17.1	8/1/2024
Colorado 2015B	27.3	8/1/2024
Washington 2015A	45.4	8/1/2024

[1] The 2016 taxable bonds were repaid in full on August 30, 2018. The Corporation issued the Colorado Health Facilities Authority Taxable Revenue Bonds Series 2018 B on August 30, 2018 in the amount of $200 million with a mandatory tender date of August 30, 2019.

[2] The bondholder of the Providence 2009 Series A, B and C has given notice that they will not elect to tender the bonds on October 1, 2018. The new mandatory tender date is October 1, 2019.

[3] The Taxable 2017 A bonds mandatory tender date was extended to July 1, 2021.

[4] Includes a "term out" provision that varies among agreements, which permits repayment after the mandatory tender date absent any defaults or events of default.

The Corporation's direct purchase agreements are publicly available, and can be accessed through the Digital Assurance Certification LLC website ("DAC") at www.dacbond.com and the Municipal Securities Rulemaking Board ("MSRB") through the Electronic Municipal Market Access ("EMMA") website of the MSRB, which can be found at http://emma.msrb.org.

B. Long – Term Rate Bonds

The Corporation's long-term rate bonds are subject to mandatory tender on the dates set forth below. Prior to the mandatory tender of long-term rate bonds, management expects that it would analyze the then current market conditions and availability and relative cost of refinancing or restructuring alternatives, which could include without limitation, conversion to another interest mode, refinancing or repayment.

($ in millions) Series	Par Outstanding June 30, 2018	Mandatory Tender Date
CO 2009B-3	$40.0	11/6/2019
KY 2009B	60.0	11/10/2021
CO 2008D-3	41.9	11/12/2021
Total Long-Term Rate Bonds	**$141.9**	

C. Floating Rate Notes ("FRNs")

The Corporation's FRNs are subject to mandatory tender on the dates set forth below. Prior to the mandatory tender of the FRNs, management expects that it would analyze the then current market conditions and availability and relative cost of refinancing or restructuring alternatives, which could include without limitation, conversion to another interest mode, refinancing or repayment.

($ in millions) Series	Par Outstanding June 30, 2018	Mandatory Tender Date
KY 2011B-1	$ 52.7	1/31/2020
KY 2011B-2	52.7	1/31/2020
CO 2008C-2	26.5	11/12/2020
CO 2008C-4	26.5	11/122020
WA 2013B-1	100.0	12/31/2020
WA 2013B-2	100.0	12/31/2024
KY 2011B-3	52.7	1/31/2025
Total FRNs	**$411.1**	

D. Variable Rate Bonds

The Corporation's variable rate demand bonds are subject to optional and mandatory tender. As of June 30, 2018, variable rate demand bonds are outstanding in the amount of $96.7 million, supported by the Corporation's self-liquidity, not by a dedicated liquidity or credit facility. See *Part VII: 5. Liquidity and Capital Resources - Liquidity Arrangements*.

E. Taxable Commercial Paper

The Corporation's commercial paper note program permits the issuance of up to $881 million in aggregate principal amount outstanding, with maturities limited to 270-day periods. The Corporation has directed the commercial paper dealers to tranche the commercial paper maturities so that no greater than approximately one-third of the outstanding balance matures in any one month, and no more than $100 million matures per dealer within any five business-day period while the outstanding balance of the commercial paper is greater than $500 million. The Corporation has, from time to time, directed its dealers to deviate from such directions, and may do so again in the future. As of June 30, 2018, $881 million of commercial paper notes were outstanding. The commercial paper notes are supported by the Corporation's self-liquidity, and not supported by a dedicated liquidity or credit facility. See *Part VII: 5. Liquidity and Capital Resources - Liquidity Arrangements.*

F. Swap Agreements

The Corporation or its affiliates are currently party to 35 swap transactions that had an aggregate notional amount of approximately $1.6 billion at June 30, 2018. The 35 transactions have varying termination dates ranging from 2018 to 2047. The swap agreements require the Corporation (or with respect to certain swap agreements, affiliates of the corporation) to provide collateral if its respective liability, determined on a mark-to-market basis, exceeds a specified threshold that varies based upon the rating on the Corporation's long-term indebtedness. The swap agreements of Memorial East Texas and Centura Health do not require collateral postings. The fair value of the swaps is estimated based on the present value sum of anticipated future net cash settlements until the swaps' maturities. Cash collateral balances are netted against the fair value of the swaps, and the net amount is reflected in other liabilities in the accompanying consolidated balance sheets. At June 30, 2018, the net swap liability reflected in other liabilities was $33.6 million, net of swap collateral posted of $174.9 million. The swap agreements, excluding the Centura Health swap, are secured by Obligations issued under the COD. *(See Note 10 in the Consolidated Financial Statements (Audited) as of June 30, 2018 and 2017.)*

Obligated Party ($ in millions)	Type	Outstanding Notional June 30, 2018	Termination Date
CHI[1]	Total Return	$ 77.7	8/9/2018 -1/16/2020
CHI	Fixed Payer	150.9	5/1/2025
CHI	Fixed Payer	217.8	3/1/2032
CHI	Fixed Payer	97.9	9/1/2036
CHI	Fixed Payer	127.3	9/1/ 2036
CHI	Fixed Payer	19.6	9/1/2036
CHI	Fixed Payer	99.0	12/1/2036
CHI	Fixed Payer	148.5	12/1/2036
CHI St. Luke's	Fixed Payer	119.0	2/18/2031
CHI St. Luke's	Fixed Payer	92.5	2/15/2032
CHI St. Luke's	Fixed Payer	100.0	2/15/2047
CHI St. Luke's	Fixed Payer	100.0	2/15/2047
Centura Health[2]	Fixed Payer	14.6	5/20/2024
Madonna Manor	Total Return	27.0	8/15/2020
Memorial East Texas	Fixed Payer	24.0	2/15/2035
Memorial East Texas	Fixed Payer	16.8	2/15/2028
St. Joseph Regional Health[3]	Total Return	49.8	8/15/2020
St. Joseph Regional Health	Fixed Payer	45.2	1/1/2028
St. Joseph Regional Health	Basis	30.0	3/1/2028
Total Notional Amount		**$ 1,557.6**	

[1] Represents 14 Total Return Swaps.
[2] Not secured by CHI COD obligations.
[3] Represents 4 Total Return Swaps.

5. LIQUIDITY AND CAPITAL RESOURCES

Cash Equivalents and Internally Designated Investments

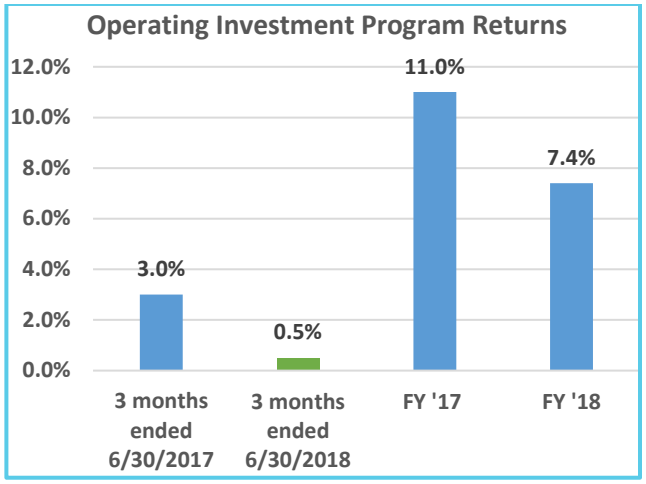
CHI holds highly liquid investments to enhance its ability to satisfy liquidity needs. Asset allocations are reviewed monthly and compared to investment allocation targets included within CHI's investment policy. At June 30, 2018 and 2017, CHI had cash and equivalents and internally designated investments (including net unrealized gains and losses) as described in the table below.

($ in thousands)	June 30, 2018	June 30, 2017
Cash and equivalents	$ 510,456	$ 810,235
Internally designated investments	5,308,868	5,546,290
Total	**$ 5,819,324**	**$ 6,356,525**

CHI maintains an Operating Investment Program (the "Program") administered by the Corporation. The Program is structured as a limited partnership with the Corporation as the managing general partner.

The Program contracts with investment advisers to manage the investments within the Program. Substantially all CHI long-term investments are held in the Program. The Corporation requires all Participants to invest in the Program. The Program consists of equity securities, fixed-income securities and alternative investments (e.g., private equity, hedge funds and real estate interests). The asset allocation is established by the Finance Committee of the Board of Stewardship Trustees. At June 30, 2018, the asset allocation for the Program's Long-Term Pool was 45% equity securities, 30% fixed-income securities, 25% alternative investments, and 0% cash and equivalents. Alternative investments within the Program have limited liquidity. As of June 30, 2018, illiquid investments not available for redemption totaled $395.0 million, and investments available for redemption within 180 days at the request of the Program totaled $858.5 million. The asset allocation for the Program's Intermediate Pool was 100% fixed-income securities. As of June 30, 2018, 92.0% of the Program's assets were invested in the Long-Term Pool, with 8.0% of assets invested in the Intermediate

Pool. The Program's return for the three months ended June 30, 2018 and 2017 and for the fiscal years ended June 30, 2018 and 2017 are listed in the chart below.



LIQUIDITY ARRANGEMENTS

The Corporation maintains several liquidity facilities that are dedicated to funding optional or mandatory tenders of its variable rate debt and paying the maturing principal of the commercial paper notes in the event remarketing proceeds are unavailable for such purpose. At June 30, 2018, no amounts were drawn on these lines. The Corporation's dedicated self-liquidity lines are set forth below and can be found at http://emma.msrb.org.

CHI Dedicated Self-Liquidity Lines – June 30, 2018

Bank *$ in millions*	Committed Amount	Expiration
MUFG Union Bank[1]	75.0	9/27/2019
J.P. Morgan[1]	50.0	9/30/2019
Bank of New York Mellon	50.0	12/14/2018
Northern Trust	65.0	6/28/2019
PNC Bank	125.0	8/23/2019
Total Self-Liquidity Lines	**$ 365.0**	

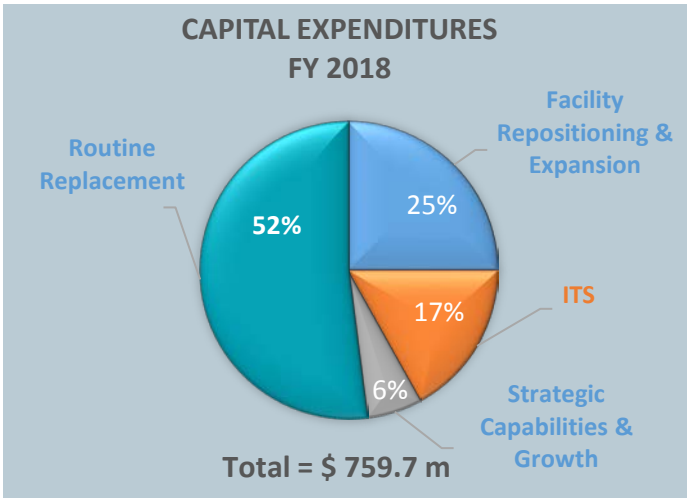
[1] Subsequent to June 30, 2018 the dedicated self-liquidity line was extended with the maturity date noted above.

6. LIQUIDITY REPORT

CHI posts a liquidity report monthly, which can be found at www.catholichealthinitiatives.org and http://emma.msrb.org.

7. CAPITAL EXPENDITURES

The chart below reflects capital allocations for fiscal year 2018 to information technology ("ITS"), strategic capabilities and growth, facility repositioning and expansion, as well as routine replacement of capital assets.



8. COVENANT COMPLIANCE

The following table presents the Historical Long-Term Debt Service Coverage Ratio for fiscalyars ended June 30, 2018 and 2017.

CHI Historical Long-Term Debt Service Coverage

($ in thousands)	June 30, 2018	June 30, 2017
Income available for debt service		
Total Revenues (included nonoperating gains)	$ 15,480,901	$ 15,747,005
Total Operating Expenses (includes restructuring)	15,258,800	15,636,112
Excess of Revenues over Expenses	222,101	110,893
Add: Interest on Long-Term Indebtedness	256,953	264,319
Add: Depreciation and Amortization	856,188	824,386
Add: Non-Cash Restructuring, Impairment and Other Losses	14,244	107,723
Add: Losses (Gains) on Defeasance of Bonds and Escrow	(208)	19,586
Add: Net periodic pension expense (income)	(4,367)	(9,348)
Add: Unrealized Losses (Gains) on Interest Rate Swaps	(79,596)	(127,866)
Add: Net Investment Unrealized Losses (Gains)	(11,731)	(152,085)
Total Adjustments to Excess (Deficiency) of Revenues Over Expenses	1,031,483	926,715
Total income available for debt service	**$ 1,253,584**	**$ 1,037,608**
Debt service requirements on Long Term Indebtedness:		
Total CHI Principal Payments	116,619	133,650
Total CHI Interest Payments	265,470	277,299
Total Debt Service Requirements on Long Term Indebtedness:	**$ 382,089**	**$ 410,949**
Historical Long-Term Debt Service Coverage Ratio	**3.3x**	**2.5x**

9. PENSION AND RETIREMENT PLAN OBLIGATIONS

CHI Penson Plan

CHI and its direct affiliates maintain a variety of noncontributory, defined benefit retirement plans (Retirement Plans) for their employees. Certain of these plans were frozen in previous fiscal years, and benefits earned by employees through that time period remain in the Retirement Plans, where employees continue to receive interest credits and vesting credits, if applicable. Vesting occurs over a five-year period. Benefits in the Retirement Plans are based on compensation, retirement age, and years of service. Substantially all the Retirement Plans are qualified as church plans and are exempt from certain provisions of both the Employee Retirement Income Security Act of 1974 and Pension Benefit Guaranty Corporation premiums and coverage. Funding requirements are determined through consultation with independent actuaries.

CHI recognizes the funded status (the difference between the fair value of plan assets and the projected benefit obligations) of its Plans in the consolidated balance sheets, with a corresponding adjustment to net assets. Actuarial gains and losses that arise and are not recognized as net periodic pension cost in the same periods are recognized as a component of changes in

net assets. CHI recognized an unfunded status for the Plans of $854.4 million and $1.1 billion at the June 30, 2018 and 2017 measurement dates, respectively. The fair value of the Plan assets was $4.1 billion at both June 30, 2018 and 2017.

CHI recognized net periodic pension expense (income) of $39.5 million and $28.1 million for the three months ended June 30, 2018 and 2017, respectively, and $(4.4) million and $(9.3) million for the fiscal years ended June 30, 2018 and 2017, respectively. Pension income is the result of the decline in the service cost of the frozen CHI plan and lower discount assumptions in the current fiscal year. The service cost, interest cost, expected return on the Plans' assets, actuarial losses, and amortization of prior service benefit components of net periodic pension expense (income) are recognized in the consolidated statements of operations within employee benefits expense. The curtailment and settlement components of net periodic pension expense (income) are recognized in the consolidated statements of operations within restructuring, impairment and other losses.

The expected return on the Plans' assets for determining pension cost was 5.5-7.2% for both fiscal years ended June 30, 2018 and 2017. The assumption for the expected return on the Plans' assets is based on historical returns and adherence to the asset allocations set forth in the Plans' investment policies.

Certain of the Plans' investments are held in the CHI Master Trust, which was established for the investment of assets of the Plans. The CHI Master Trust investment portfolio is designed to preserve principal and obtain competitive investment returns and long-term investment growth, consistent with actuarial assumptions, while minimizing unnecessary investment risk. Diversification is achieved by allocating assets to various asset classes and investment styles and by retaining multiple investment managers with complementary philosophies, styles and approaches. Although the objective of the CHI Master Trust is to maintain asset allocations close to target, temporary periods may exist where allocations are outside of the expected range due to market conditions. The use of leverage is prohibited except as specifically directed in the alternative investment allocation. The portfolio is managed on a basis consistent with the CHI social responsibility guidelines.

A summary of the CHI Master Trust asset allocations by asset class at the measurement dates of June 30, 2018 and 2017 are as follows:

	June 30,	
	2018	2017
Equity securities	47%	48%
Fixed-income securities	34%	33%
Alternative investments	19%	19%

CHI 401(k) Retirement Savings Plan

CHI sponsors the CHI 401(k) Retirement Savings Plan (401(k) Savings Plan) for its employees whereby CHI matches 100.0% of the first 1.0% of eligible pay an employee contributes to the plan, and 50.0% of the next 5.0% of eligible pay contributed to the plan, for a maximum employer matching rate of 3.5% of eligible pay. On an annual basis and regardless of whether an employee participates in the 401(k) Savings Plan, CHI will also contribute 2.5% of eligible pay to an employee's 401(k) Savings Plan account. This contribution is made if an employee reaches 1,000 hours in the first year of employment, or every calendar year thereafter, and is employed on the last day of the calendar year. An employee is fully vested in the plan for employer contributions after three years of service. CHI recorded 401(k) Savings Plan expense of $54.0 million and $55.7 million for the three months ended June 30, 2018 and 2017, respectively, and $218.8 million and $224.2 million for the fiscal years ended June 30, 2018 and 2017, respectively.

10. COMMUNITY BENEFIT

In accordance with its mission and values, CHI commits substantial resources to sponsor a broad range of services to the poor as well as the broader community. Community benefit to the poor includes the cost of providing services to persons who cannot afford health care due to inadequate resources and/or who are uninsured or underinsured. This type of community benefit includes the costs of traditional charity care; unpaid costs of care provided to beneficiaries of Medicaid and other indigent public programs; services such as free clinics and meal programs for which a patient is not billed or for which a nominal fee has been assessed; and cash and in-kind donations of equipment, supplies or staff time volunteered on behalf of the

community. Community benefit provided to the broader community includes the costs of providing services to other populations that may not qualify as poor but may need special services and support. This type of community benefit includes the costs of services such as health promotion, education, clinics and screenings. In addition, it includes all services that are not billed or can be operated only on a deficit basis; unpaid portions of training health professionals such as medical residents, nursing students and students in allied health professions; and the unpaid portions of testing medical equipment and controlled studies of therapeutic protocols.

The cost to CHI of community benefit provided to the poor and the broader community (excluding unpaid Medicare costs) totaled $1.1 billion and $1.2 million in the fiscal years ended June 30, 2018 and 2017, respectively.

11. LONG - TERM BOND RATINGS

The Corporation's fixed rate unenhanced debt is rated BBB+ (positive outlook) by Standard & Poor's Rating Service, Baa1 (stable outlook) by Moody's Investors Service, Inc., and BBB+ (stable outlook) by Fitch Ratings.

12. EMPLOYEES/PROFESSIONAL STAFF

At June 30, 2018, CHI employed over 3,900 providers (including advanced practice clinicians and physicians). At June 30, 2018, CHI employed 91,089 employees. Salary levels and benefit packages for CHI employees are market competitive. 11.4% of CHI's employees are represented by collective bargaining units.

13. ACCREDITATIONS AND LICENSES

CHI's hospital facilities, skilled nursing facilities and long-term care facilities have the necessary licenses to operate their facilities and necessary certifications and licenses for Medicare and Medicaid reimbursement.

14. CONFLICTS OF INTEREST

The Corporation maintains policies that require internal reporting of outside financial and fiduciary activities to protect its interests in circumstances that may result in a conflict between the personal interests of its employees and Trustees and those of CHI. Those policies put in place a general obligation for all employees, employed and non-employed researchers, and trustees to report potential conflicts of interest. In addition, on an annual basis, CHI requires all managers and above, employed medical staff members, researchers and trustees to complete a conflict of interest disclosure. A process is in place to review any potential conflicts of interest disclosed through this annual disclosure process.

PART VIII: GOVERNANCE

CATHOLIC HEALTH INITIATIVES

Board of Stewardship Trustees. The Corporation's Bylaws provide for the governance of the Corporation by a Board of Stewardship Trustees of at least twelve and no more than 21 appointed Trustees, one of which is an *ex officio* Trustee with voting powers. All Trustees serve regular staggered terms of three years. The Board of Stewardship Trustees has the power and the authority to supervise, control, direct and manage the property, affairs, and activities of the Corporation, to determine the policies of the Corporation, to do or cause to be done any and all things for and on behalf of the Corporation, to exercise or cause to be exercised any or all of its powers, privileges, or franchises, and to seek the effectuation of CHI's objectives and purposes.

There are currently six committees of the Board of Stewardship Trustees: the Executive Committee, the Sponsorship and Governance Committee, the Finance Committee, the Human Resources Committee, the Quality and Safety Committee and the Audit and Compliance Committee.

The Board of Stewardship Trustees currently consists of 11 elected Trustees plus the *ex officio* Trustee and meets in person five times a year. The Chief Executive Officer of the Corporation serves as the *ex officio* Trustee and is a voting *ex officio* Trustee. The table below lists the current Trustees, their professional affiliations and the expiration of their terms in office.

Board of Stewardship Trustees		
Name	**Professional Affiliation**	**Term Expires June 30***
Margaret Ormond, OP	President, Dominican Academy	Extended
Gary Yates, MD	Partner, Strategic Consulting Press Ganey Associates, Inc	Extended
Betsy (Ruth) Goodwin, OSF	Director of Sponsorship Sisters of St. Francis of Philadelphia	Extended
Christopher Lowney, Chairperson	Public Speaker/Author	Extended
James P. Hamill	Retired President & Chief Executive Officer Healthcare Administration	Extended
Antoinette Hardy-Waller, RN, BSN, MJ	CEO The Leverage Network Inc.	Extended
Geraldine "Polly" Bednash, PhD, RN, FAAN	Visiting Professor -University of Vermont College of Nursing and Health Science Adjunct Faculty - Australian Catholic University	2019
Barbara Hagedorn, SC	Volunteer Good Samaritan Free Health Center	2019
Lillian Murphy, RSM	Retired Chief Executive Officer Mercy Housing	2019
Challis Lowe	Retired Chief Human Resources Officer	2019
Kevin E. Lofton, FACHE *Ex-officio* member of the Board	Chief Executive Officer Catholic Health Initiatives	N/A

** Board Members will remain in place until a successor is appointed.*

Participating Congregations. As of June 30, 2018, there are 13 Participating Congregations and one Partnering Congregation of CHI. CHI honors the traditions and services established by the foundresses of these congregations and continued by their participation. The Participating Congregations are: Benedictine Sisters of Mother of God Monastery, Watertown, South Dakota; Congregation of the Dominican Sisters of St. Catherine of Siena, Saratoga, CA; Franciscan Sisters of Little Falls, Minnesota; Dominican Sisters of Peace, Columbus, Ohio; Sisters of Charity of Cincinnati, Ohio; Sisters of Mercy, West Midwest Community, Omaha, Nebraska; Sisters of St. Francis of Philadelphia, Pennsylvania; Sisters of Presentation of the Blessed Virgin Mary of Fargo, North Dakota; The Congregation of the Sisters of Charity of Nazareth, Kentucky; Sisters of St. Francis of the Immaculate Heart of Mary of Hankinson, North Dakota; Sisters of the Holy Family of Nazareth, Des Plaines, Illinois; Sisters of St. Francis of Colorado Springs, Colorado; and Sisters of St. Francis of Sylvania, Ohio. The Partnering Congregation of CHI is the Benedictine Sisters of Annunciation Monastery, Bismarck, North Dakota. All rights of the Participating Congregations as stated in the Corporation bylaws are exercised through a representative appointed by each Participating Congregation. Such rights include (1) approving any substantial change in the mission or philosophical direction of CHI; (2) approving amendments to the Corporation's articles of incorporation or bylaws affecting any provision governing the qualification, rights or responsibilities of the Participating Congregations; (3) selecting and removing without cause a person to represent the Participating Congregation in exercising the rights and duties as described in the Corporation's bylaws; (4) participating in the distribution of assets upon the dissolution of the Corporation, in accordance with the Corporation's Bylaws; (5) participating in organizational advocacy efforts; (6) encouraging members of the Participating Congregations to participate in the ministries sponsored by the Corporation; and (7) participating through their representatives in meetings held at least annually.

GOVERNANCE OF PARTICIPANTS

Governance of Participants. Each Participant is governed by a Board of Directors, subject to the powers

reserved to its corporate member. The corporate member or sole shareholder of each of the Participants (other than Centura Health and certain Participants that are parties to JOAs, as described immediately below) is the Corporation or a local "parent organization," the sole corporate member or sole shareholder of which is the Corporation. The Corporation as sole corporate member has the right to appoint and remove Participant board members, except as otherwise described herein.

Certain Relationship and Control Mechanisms within the Corporation. The Corporation has the right, directly or indirectly, to appoint and remove a majority of the Board of Directors of each Participant, except for certain Participants affiliated with certain JOAs. In addition, the bylaws of substantially all non-profit Participants that own and operate a substantial portion of the property of CHI and constitute a substantial portion of the revenues of CHI permit the Corporation to require such Participants to transfer assets to the Corporation to the extent necessary to accomplish CHI's goals and objectives. The bylaws of such Participants also permit the Corporation to provide for the payment of all indebtedness of the Corporation in furtherance of CHI's goals and objectives, including indebtedness secured by the Capital Obligation Document. The Corporation's Board of Stewardship Trustees also maintains other powers over the Participants, including approval of operating and capital budgets.

Joint Operating Agreements and Joint Ventures. As discussed above, the Corporation is a party to several joint ventures and JOAs. Certain of the JOAs create corporate entities or operating companies to operate health care facilities within a system or network. The Corporation shares certain reserved powers over those corporations or operating companies with the other health system or hospital corporation that is a party to the related joint operating agreement. Each JOA may contain limitations on the ability of CHI entities to transfer property to others, including transfers to CHI and to the other party to the agreement. Such limitations may limit the ability of the applicable Participant to transfer property to CHI if so requested by CHI pursuant to the Capital Obligation Document.

PART IX: CHI LEADERSHIP

Under the leadership of the CEO, CHI has two levels of management, management at the regional level and management at the national office level. CHI operations are overseen by two Presidents who serve as President, Health System Delivery and Chief Operating Officer; and President, Enterprise Business Lines and Chief Financial Officer. The position of President, Health System Delivery and Chief Operating Officer, is currently open; that role is now being filled by an interim executive vice president for operations. Key executives lead mission, strategy, clinical services, physician enterprise, legal services and human resources. CHI's geographic regions are each led by a senior vice president of operations. CHI leverages expertise across the system in areas such as mission, human resources, marketing and communications, finance, legal services, clinical effectiveness, supply chain, information technology, insurance, risk management, and strategy and business development. Several functions have been nationalized including information technology, legal services, clinical engineering and corporate responsibility. Day-to-day operations of the local markets is the responsibility of a local executive who reports to the regional senior vice president of operations. CHI continues to evolve its operating model to include clinical leaders as it moves from a hospital-centric organization to one that provides a full continuum of care in support of the creation of healthier communities.

CHI has strong, experienced leadership teams with a solid understanding of the formation and ongoing management of partnership relationships. Short biographies of key employees are discussed below.

Kevin E. Lofton, FACHE, Chief Executive Officer. Mr. Lofton joined the Corporation in 1998 and has served in his current position since 2003. Prior to that time, he served as Executive Vice President and Chief Operating Officer of the Corporation from 1999 and as the Regional President responsible for markets in seven states from 1998 through 1999. Before joining the Corporation in February 1998, Mr. Lofton was the Chief Executive Officer of the UAB Hospital in Birmingham. In previous positions, Mr. Lofton served as the Chief Executive Officer of Howard University Hospital in Washington, D.C., and Chief Operating Officer at the University of Florida Health Shands Hospital in Jacksonville. Mr. Lofton served as the 2007 Chairman of the Board of the American Hospital Association and on

the board and executive committee of the Catholic Health Association of the United States. Mr. Lofton received a bachelor of science degree in business administration from the Boston University Questrom School of Business and a master of health administration degree from the Georgia State University Robinson College of Business. In May 2016, Mr. Lofton received an honorary doctor of humanities in medicine degree from the Baylor College of Medicine.

J. Dean Swindle, President, Enterprise Business Lines and Chief Financial Officer. Mr. Swindle joined the Corporation in May 2010 and has overall responsibility for financial strategy and planning, and corporate business services, including revenue cycle, supply chain, enterprise support centers, treasury services and payer strategy and operations. In addition, Mr. Swindle leads the Corporation's enterprise business lines including home health, senior living, virtual health services, payer strategy, health plan product offerings and population health resources. Prior to joining the Corporation, Mr. Swindle served as Senior Vice President of Finance, Executive Vice President and Chief Financial Officer and most recently as President, Ambulatory Services and Chief Financial Officer with Novant Health System, Winston-Salem, North Carolina. Mr. Swindle has also served as Vice President, Financial Services, at General Health System in Baton Rouge, Louisiana. He began his career with KPMG LLP in Jackson, Mississippi. Mr. Swindle earned a master of business administration from Duke University Fuqua School of Business in Durham, North Carolina, and a bachelor of business administration degree from Millsaps College, Jackson, Mississippi. He is a member of the Health Care Financial Management Association and the American Institute of Certified Public Accountants.

Anthony Jones, FACHE, Interim Executive Vice President of Operations. Anthony K. Jones is the Executive Vice President and Chief Operating Officer (Interim), and currently serving as the Chief Information Officer (Interim), In his role as COO, Mr. Jones oversees all day-to-day operations including medical affairs, nursing affairs, information technology, quality and patient safety, patient experience, performance excellence and market operations.

Prior to joining the Corporation, Mr. Jones has served in multiple executive capacities, including CEO of the State University of New York (Brooklyn) University Hospital, CEO of Tulare Regional Medical Center in central California, CEO of Dimension Health System in Cheverly, Maryland, and CEO of Ascension St. John Hospital and Medical Center in Detroit, Michigan.

Mr. Jones is a Fellow in the American College of Healthcare Executives (ACHE). Mr. Jones earned his master's in health administration from St. Louis University in St. Louis, Missouri, and a bachelor's degree in business from Abilene Christian University in Abilene, Texas. Mr. Jones is certified in LEAN and Six Sigma and author of the book "Leading a Hospital Turnaround: A Practical Guide." Mr. Jones currently serves on the Board of Directors of Baylor St. Luke's Medical Center, CHI Health, Mercy Medical Center, and the Texas Heart Institute.

Reverend Thomas R. Kopfensteiner, STD, Executive Vice President, Mission. Fr. Kopfensteiner is Executive Vice President of Mission for the Corporation. Prior to joining the Corporation, Fr. Kopfensteiner was previously an associate professor of moral theology and chair of the Department of Theology at Fordham University, Bronx, NY. Fr. Kopfensteiner has written extensively in the area of moral theology and health care ethics. Fr. Kopfensteiner has served as a board member and ethical consultant for several health care organizations. Fr. Kopfensteiner holds a doctorate in sacred theology from Gregorian University in Rome.

Mitch H. Melfi, Esq., Executive Vice President, Corporate Affairs and Chief Legal Officer. Mitch Melfi is the Executive Vice President for Corporate Affairs and Chief Legal Officer. In his current role, Mr. Melfi provides oversight for legal services, including legal mergers and acquisitions, enterprise risk management, corporate governance, audit and tax. Mr. Melfi has also held other positions for the Corporation, including Senior Vice President and General Counsel, Senior Vice President and Chief Risk Officer, and as President and CEO of First Initiatives Insurance, LTD, CHI's wholly owned captive insurance company. Prior to joining the Corporation, Mr. Melfi was the Vice President for Risk/Claim Management and Associate General Counsel for the Sisters of Charity Health Care Systems, Inc. in Cincinnati, Ohio until it merged with two other Catholic health systems to form CHI. Mr. Melfi served was a member of the executive management team for Children's Hospital in Columbus, Ohio, where he provided oversight for all legal operations. Mr. Melfi has authored several publications and spoken on various

legal and risk management topics for lawyers, physicians, nurses, risk managers and other allied healthcare professionals, and has provided consulting services in various areas of risk management and loss prevention.

Mr. Melfi taught at the College of Medicine at The Ohio State University and served as a guest lecturer at Capital University Law School. Mr. Melfi serves on the board of directors of several organizations including health care systems, insurance companies and internal audit. Mr. Melfi received his bachelor of arts from The Ohio State University and his juris doctor from Capital University Law School in Columbus.

Paul W. Edgett, III, Executive Vice President, Chief Strategy Officer. Mr. Edgett joined one of CHI's predecessor health systems in August 1993 as Senior Vice President of Network Services, and most recently served as Executive Vice President, Growth and Business Acquisitions for the Corporation. In his current role, Mr. Edgett provides leadership and direction for enterprise strategic development, strategic transactions, management of JOA and JV investments and formation of strategic partnerships.

Previously, Mr. Edgett was senior vice president of St. Vincent Health System, Little Rock, Arkansas. Prior to that, Mr. Edgett was assistant vice president for Methodist Hospitals of Dallas in Dallas, Texas. Mr. Edgett has also worked for Voluntary Hospitals of America in Irving, Texas, and for Humana, Inc. in Mt. Prospect, Illinois. Mr. Edgett holds a bachelor of arts from Dallas Baptist University and a master of business administration from the University of Colorado.

Patricia G. Webb, Executive Vice President, Chief Administrative Officer and Chief Human Resources Officer. Ms. Webb joined the Corporation in December 2010. She has more than 30 years of experience in leading operations and human resource functions in non-union, union and multi-facility health care organizations. Prior to joining the Corporation, Ms. Webb was Senior Vice President and Chief Human Resources Officer at UMass Memorial Health Care, Worcester, MA. Ms. Webb has also served as human resources executive at Boston Medical Center, Boston, MA; Wake Medical Center, Raleigh, NC; and University Medical Center, Jacksonville, FL. Ms. Webb has a master's degree in business and human resources management from the University of North Florida, Jacksonville; and a bachelor's degree in management and marketing from Florida A&M University, Tallahassee. Ms. Webb is a Fellow in the American College of Health Care Executives and participates frequently on national forums and panels.

Kathleen Sanford, DBA, RN, FACHE, FAAN, Senior Vice President and Chief Nursing Officer. Dr. Sanford joined the Corporation in 2006. She has over 40 years of experience in health care, including staff nursing, middle management, chief nurse executive, hospital administrator, and strategy executive roles. In addition to acute care leadership, she has worked in long term care; founded, initiated and managed a Medicare-certified home health agency; built and managed urgent care services; and managed employed physician office practices. A former Army Nurse, Dr. Sanford retired as Chief Nurse of the Washington Army National Guard. Dr. Sanford served as the 2006 President of the American Organization of Nurse Executives, and in that role, also participated in the Tri-Council for Nursing. She has served on the American Hospital Association Board in addition to multiple regional and local boards. She is currently editor-in-chief for Nursing Administration Quarterly (NAQ). As a former newspaper health care columnist and author of multiple publications, Dr. Sandford has published many articles and the management book, "Leading with Love." Dr. Sanford co-wrote the 2015 management book on Dyad Leadership titled, "Dyad Leadership In Healthcare: When One Plus One Is Greater Than Two." Dr. Sanford education includes a bachelor's degree in Nursing from the University of Maryland/Walter Reed Army Institute of nursing, a master of arts in Human Resources Management from Pepperdine University, a master of business administration from Pacific Lutheran University, and a doctorate in business from Nova Southeastern University. Dr. Sandford is a Fellow in the Wharton School of Business Nursing Administration Program, a Fellow of the American College of Healthcare Executives, and a Fellow of the American Academy of Nursing.

Robert J. Weil, M.D., Senior Vice President and Chief Medical Officer. Dr. Weil joined the Corporation in September 2016 and provides strategic clinical and cultural leadership to ensure the delivery of high-quality, cost-effective and patient-centered care. Among other responsibilities, Dr. Weil manages the clinical service lines, the physician enterprise and CHI's Institute for Research and Innovation ("CIRI").

Previously, Dr. Weil held several roles at Geisinger Health System, including Chief Medical Executive in Northeastern Pennsylvania, Associate Chief Scientific Officer for Clinical and Translational Research for the system, and as Medical Director of Care Support Services, Geisinger's enterprise supply chain and pharmacy division. Prior to joining Geisinger, Dr. Weil was a staff neurosurgeon at the Cleveland Clinic where he was President of Lakewood Hospital in Lakewood, Ohio, part of the Cleveland Clinic Health System. Dr. Weil graduated from Yale College, received his medical degree from the University of Missouri, and a master of business administration from Case Western Reserve University.

PART X: LEGAL PROCEEDINGS

PENDING LITIGATION/REGULATORY MATTERS

CHI operates in a highly litigious industry. As a result, various lawsuits, claims and regulatory proceedings have been instituted or asserted against it from time to time. CHI has knowledge of certain pending suits against certain of its entities that have arisen in the ordinary course of business. In the opinion of management, CHI maintains adequate insurance and/or other financial reserves to cover the estimated potential liability for damages in these cases, or, to the extent such liability is uninsured, adverse decisions will not have a material adverse effect on the financial position or operations of CHI.

General Observation Relating to Status as Health Care System. CHI, like all major health care systems, periodically may be subject to investigations or audits by federal, state and local agencies involving compliance with a variety of laws and regulations. These investigations seek to determine compliance with, among other things, laws and regulations relating to Medicare and Medicaid reimbursement, including billing practices for certain services. Violation of such laws could result in substantial monetary fines, civil and/or criminal penalties and exclusion from participation in Medicare, Medicaid or similar programs.

St. Joseph–London. St. Joseph London ("SJHS") is party to a corporate integrity agreement ("CIA") with the Office of Inspector General that imposes certain compliance oversight obligations solely at SJHS's facility following a 2014 settlement with the federal government, the Commonwealth of Kentucky and others to resolve civil and administrative monetary claims raised in a *qui tam* lawsuit relating to certain diagnostic and therapeutic cardiac procedures performed at SJHS's facility and the financial relationship with certain cardiac physicians and physician groups. The CIA expires in February 2019.

Numerous civil lawsuits were also filed against the Corporation and SJHS claiming damages for alleged unnecessary cardiac stent placements and other cardiac procedures. One such case, *Kevin Ray Wells, Sr. v. Catholic Health Initiatives, et. al.,* Case No. 12-CI-00090 remains unresolved. In August 2016, the jury in that matter found in favor of the plaintiff and awarded compensatory damages in an amount just under $1.3 million and punitive damages of $20.0 million. Post-trial motions were filed and, while the trial court did not set aside the verdict, it did reduce the punitive damage award to $5.0 million. The rulings of the trial court are now being appealed. Oral argument was held on July 13, 2018 in Louisville, Kentucky before a three-judge panel. A decision from the appellate court is pending. Management believes that adequate reserves have been established and that the outcome of the current litigation will not have a material adverse effect on the financial position or results of operations of CHI.

Pension Plan Litigation. As described in greater detail in the Annual Report dated September 15, 2017, in May 2013, the Corporation and two employees were named as defendants in a class action lawsuit under the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), challenging the "church plan" status of one of CHI's defined benefit plans. *Medina v. Catholic Health Initiatives, et. al.*, Civil No 13-1249 (District of Colorado). On December 8, 2015, the U.S. District Court for the District of Colorado entered summary judgment in favor of CHI and the individual defendants on all of plaintiff's claims, dismissing the claims with prejudice, and awarding defendants their costs. In a unanimous opinion issued on December 19, 2017, the Tenth Circuit affirmed the District Court's ruling that CHI's plan qualifies as a church plan exempt from ERISA. By written agreement, dated February 14, 2018, plaintiff's counsel confirmed that plaintiff would not appeal the Tenth Circuit's decision in exchange for

defendants foregoing recovery of costs. As a result, this matter is now fully and finally resolved.

Washington State Attorney General Civil Litigation. The Washington State Attorney General's office ("WA AG") filed two civil lawsuits in late summer/early fall of 2017.

In the first action, on August 31, 2017, the WA AG filed a civil lawsuit in the U.S. District Court for the Western District of Washington against Franciscan Health System and Franciscan Medical Group (collectively "CHI Franciscan Health"), and two physician practices, The Doctors Clinic ("TDC") and WestSound Orthopaedics, P.S. ("WSO"). The lawsuit seeks to unwind CHI Franciscan Health's 2016 transactions with TDC and WSO, claiming that they resulted in increased prices and decreased competition for adult primary care and orthopedic physicians' services on Kitsap Peninsula in violation of federal antitrust laws and the Washington Consumer Protection Act, and further seeks monetary disgorgement, civil penalties and fees. The Court has denied both a motion to dismiss from CHI Franciscan Health and an early motion for summary judgment from the WA AG regarding the WA AG's claim that the agreement between CHI Franciscan Health and TDC constitutes *per se* illegal price-fixing, holding that that question cannot be resolved without a full factual record. Discovery is in process. A tentative trial date of March 19, 2019, has been set. No assurance can be given as to the timing or outcome of this litigation matter.

In the second action, on September 5, 2017, the WA AG filed a civil lawsuit in Pierce County Superior Court, Washington, against St. Joseph Medical Center ("SJMC") alleging that SJMC violated the Washington Consumer Protection Act by failing to comply with Washington State's charity care laws and regulations from 2012 to the present, allegedly resulting in a failure to provide charity care to patients who would have qualified for charity care assistance under state law and FHS's charity care policy. The lawsuit seeks civil money penalties, restitution to patients, attorneys' fees and other injunctive relief. Discovery is in process. CHI Franciscan Health has filed an answer to this lawsuit and discovery is proceeding. Both sides have noted summary judgment motions for December 14, 2018. A tentative trial date of February 25, 2019, has been set. No assurance can be given as to the timing or outcome of this litigation matter.

Additionally, on June 22, 2018, an alleged former patient filed a purported class-action lawsuit against CHI Franciscan Health and SJMC in the U.S. District Court for the Western District of Washington, alleging that SJMC violated the Washington Consumer Protection Act, breached the covenant of good faith and fair dealing, and were unjustly enriched, by failing to affirmatively screen her and other similarly situated patients who sought emergency care at SJMC for charity care before engaging in collection efforts, in violation of Washington's charity care laws and regulations. The lawsuit seeks treble damages, restitution, costs, attorneys' fees and injunctive relief. CHI Franciscan Health and SJMC answered the complaint on July 19, 2018. A joint status report is due on September 24, 2018. No other deadlines have been set at this time. No assurance can be given as to the timing or outcome of this litigation matter.

EXHIBIT A
List of Certain CHI Facilities As of June 30, 2018

State / Market	Facilities	Location	Acute Care Facility Licensed Beds	LTC Licensed Beds
Arkansas				
CHI St. Vincent				
	CHI St. Vincent Hospital Hot Springs	Hot Springs	282	
	CHI St. Vincent Infirmary	Little Rock	615	
	CHI St. Vincent Morrilton (CAH)	Morrilton	25	
	CHI St. Vincent North	Sherwood	69	
Colorado and Kansas				
Centura Health[2]				
	St. Thomas More Hospital	Canon City	55	
	Progressive Care Center	Canon City		108
	St. Francis Medical Center	Colorado Springs	195	
	Penrose Hospital	Colorado Springs	327	
	Mercy Regional Medical Center	Durango	82	
	St. Anthony Summit Medical Center	Frisco	35	
	OrthoColorado Hospital (Joint Venture)	Lakewood	48	
	St. Anthony Hospital	Lakewood	285	
	Longmont United Hospital	Longmont	186	
	St. Mary-Corwin Medical Center	Pueblo	408	
	St. Anthony North Health Campus	Westminster	100	
	St. Catherine Hospital	Garden City (Kansas)	100	
	Bob Wilson Memorial Grant County Hospital	Ulysses (Kansas)	26	
Iowa and Nebraska				
Mercy Health Network (Iowa)[3]				
	Mercy Medical Center - Centerville (CAH)	Centerville	25	20
	Mercy Medical Center	Des Moines	656	
	Skiff Medical Center	Newton	48	
	Mercy Medical Center West Lakes	West Des Moines	146	
CHI Health				
	CHI Health Mercy Corning (CAH)	Corning (Iowa)	22	
	CHI Health Mercy Council Bluffs	Council Bluffs (Iowa)	278	
	CHI Health Missouri Valley (CAH)	Missouri Valley (Iowa)	25	
	CHI Health St. Francis and St Francis Memorial Health Center	Grand Island (Nebraska)	159	58
	CHI Health Good Samaritan	Kearney (Nebraska)	233	22
	CHI Health Richard Young Behavioral Health	Kearney (Nebraska)	61	

State / Market	Facilities[1]	Location	Acute Care Facility Licensed Beds	LTC Licensed Beds
	CHI Health Nebraska Heart	Lincoln (Nebraska)	63	
	CHI Health St. Elizabeth	Lincoln (Nebraska)	260	
	CHI Health St. Mary's (CAH)	Nebraska City (Nebraska)	18	
	CHI Health Creighton University Medical Center - Bergan Mercy	Omaha (Nebraska)	400	
	Lasting Hope Recovery Center	Omaha (Nebraska)	64	
	CHI Health Immanuel	Omaha (Nebraska)	345	
	CHI Health Lakeside	Omaha (Nebraska)	157	
	CHI Health Midlands	Papillion (Nebraska)	121	
	CHI Health Plainview (CAH)	Plainview (Nebraska)	15	
	CHI Health Schuyler (CAH)	Schuyler (Nebraska)	25	
Kentucky				
KentuckyOne Health, Inc.				
	Flaget Memorial Hospital	Bardstown	40	12
	Saint Joseph -Berea (CAH)	Berea	25	
	Saint Joseph East, including Women's Hospital at Saint Joseph East	Lexington	217	
	Saint Joseph Hospital	Lexington	408	
	Saint Joseph-London	London	150	
	Frazier Rehabilitation and Neuroscience Center[4]	Louisville	135	
	Jewish Hospital[4]	Louisville	462	
	Our Lady of Peace	Louisville	396	
	Sts. Mary & Elizabeth Hospital[4]	Louisville	298	
	Saint Joseph-Martin (CAH) [5]	Martin	25	
	Saint Joseph-Mount Sterling	Mount Sterling	42	
	Jewish Hospital Shelbyville	Shelbyville	70	
Minnesota				
CHI Lakewood Health				
	CHI Lakewood Health (Hospital) (CAH)	Baudette	15	
CHI St. Francis Health				
	St. Francis Home	Breckenridge		80
	CHI St. Francis Health (Hospital) (CAH)	Breckenridge	25	
Unity Family Healthcare				
	CHI St. Gabriel's Health (Hospital) (CAH)	Little Falls	25	

State / Market	Facilities[1]	Location	Acute Care Facility Licensed Beds	LTC Licensed Beds
CHI St. Joseph's Health				
	CHI St. Joseph's Health (Hospital) (CAH)	Park Rapids	54	
North Dakota				
CHI Villa Nazareth				
	CHI Villa Nazareth	Fargo		90
CHI Lisbon Health				
	CHI Lisbon Health (Hospital) (CAH)	Lisbon	25	
CHI Oakes Hospital				
	CHI Oakes Hospital (CAH)	Oakes	20	
CHI St. Alexius Health				
	CHI St. Alexius Medical Center	Bismarck	306	
	CHI St. Alexius Turtle Lake (CAH)	Turtle Lake	25	
	CHI St. Alexius Health Garrison (CAH)	Garrison	22	28
	CHI St. Alexius Health Carrington (CAH)	Carrington	25	
	CHI St. Alexius Health Devils Lake (CAH)	Devils Lake	25	
	CHI St. Alexius Health Williston (CAH)	Williston	25	
	CHI St. Alexius Health Dickinson (Hospital) (CAH)	Dickinson	25	
CHI Mercy Health				
	CHI Mercy Health (Hospital) (CAH)	Valley City	25	
Ohio				
Sylvania Franciscan Health				
CHI Living Communities ***Ohio, Colorado, and Iowa***				
	Medalion Retirement Community	Colorado Springs (Colorado)		60
	Namaste Alzheimer Center	Colorado Springs (Colorado)		64
	The Gardens at St. Elizabeth	Denver (Colorado)		126
	The Villas at Sunny Acres	Thornton (Colorado		134
	Bishop Drumm Retirement Center	Johnston (Iowa)		150
	Franciscan Care Center	Sylvania		109
	Madonna Manor	Villa Hills		60
	Providence Care Center	Sandusky		138
	St. Clare Commons	Perrysburg		60
	St. Leonard	Centerville		150

State / Market	Facilities(1)	Location	Acute Care Facility Licensed Beds	LTC Licensed Beds
Trinity Health System				
	Trinity East	Steubenville	194	50
	Trinity West	Steubenville	238	
Trinity Hospital Twin City				
	Trinity Hospital Twin City (CAH)	Dennison	25	
TriHealth, Inc.				
	Good Samaritan Hospital[6]	Cincinnati	502	
Oregon				
Mercy Medical Center				
	Mercy Medical Center	Roseburg	174	
St. Anthony Hospital				
	St. Anthony Hospital (CAH)	Pendleton	49	
Tennessee				
CHI Memorial				
	Memorial Hospital	Chattanooga	349	
	Memorial Hospital-Hixson	Hixson	75	
	Memorial Hospital-Georgia	Fort Oglethorpe	179	
Texas				
CHI St. Luke's Health				
	Brazosport Regional Health System	Lake Jackson	158	
	St. Luke's Hospital at The Vintage	Houston	106	
	Baylor St. Luke's Medical Center[7]	Houston	879	
	Patients Medical Center	South Pasadena	61	
	St. Luke's Sugar Land Hospital	Sugar Land	100	
	St. Luke's Lakeside Hospital	The Woodlands	30	
	St. Luke's The Woodlands Hospital	The Woodlands	231	
	CHI St. Luke's Health Springwoods Village	Spring	4	
CHI St. Luke's Health - Memorial				
	CHI St. Luke's Health Memorial Livingston	Livingston	66	
	CHI St. Luke's Health Memorial Lufkin	Lufkin	271	
	CHI St. Luke's Memorial Specialty Hospital[8]	Lufkin		26
	CHI St. Luke's Memorial San Augustine (CAH)	San Augustine	18	
CHI St. Joseph Health				
	CHI St. Joseph Health Bellville Hospital	Bellville	**30**	
	CHI St. Joseph Health Burleson Hospital (CAH)	Caldwell	**25**	
	CHI St. Joseph Health Madison Hospital (CAH)	Madisonville	**25**	
	St. Joseph Manor	Bryan		88

State / Market	Facilities (1)	Location	Acute Care Facility Licensed Beds	LTC Licensed Beds
	CHI St. Joseph Health Regional Hospital	Bryan	235	
	CHI St. Joseph Health Grimes Hospital	Navasota	25	
Washington				
CHI Franciscan Health				
	Harrison Medical Center	Bremerton, Silverdale	336	
	Highline Medical Center	Burien	133	
	Regional Hospital for Respiratory and Complex Care	Burien	40	
	St. Anthony Hospital	Gig Harbor	112	
	St. Clare Hospital	Lakewood	106	
	St. Elizabeth Hospital (CAH)	Enumclaw	38	
	St. Francis Hospital	Federal Way	124	
	St. Joseph Medical Center	Tacoma	366	
Wisconsin				
CHI Franciscan Villa				
	CHI Franciscan Villa	South Milwaukee		150

(1) (CAH) denotes a Critical Access Hospital.

(2) These facilities operated under the Centura Health (Colorado) Joint Operating Agreement.

(3) These facilities operated under the Mercy Health Network (Iowa) Joint Operating Agreement.

(4) These facilities are part of the planned divestiture described in *Part V: Strategic Affiliations and Acquisitions-Pending and Completed Divestitures, KentuckyOne Health*

(5) This facility was sold July 1, 2018.

(6) Operated under the TriHealth Inc. (Ohio) Joint Operating Agreement

(7) This facility managed and operated under the Joint Operating Agreement with Baylor College of Medicine.

(8) This facility was sold July 1, 2018.

APPENDIX A

CATHOLIC HEALTH INITIATIVES

CONSOLIDATED FINANCIAL STATEMENTS

AND SUPPLEMENTAL INFORMATION

YEARS ENDED JUNE 30, 2018 AND 2017

Consolidated Financial Statements and Supplementary Information

Catholic Health Initiatives
Years Ended June 30, 2018 and 2017
With Report of Independent Auditors

Ernst & Young LLP

Building a better working world

Catholic Health Initiatives

Consolidated Financial Statements
and Supplementary Information

Years Ended June 30, 2018 and 2017

Contents

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Report of Independent Auditors

The Board of Stewardship Trustees
Catholic Health Initiatives

We have audited the accompanying consolidated financial statements of Catholic Health Initiatives, which comprise the consolidated balance sheets as of June 30, 2018 and 2017, and the related consolidated statements of operations, changes in net assets and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Building a better working world

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Catholic Health Initiatives as of June 30, 2018 and 2017, and the consolidated results of its operations and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Ernst & Young LLP

September 27, 2018

Catholic Health Initiatives

Consolidated Balance Sheets
(In Thousands)

	June 30	
	2018	**2017**
Assets		
Current assets:		
Cash and equivalents	**$ 510,456**	$ 810,235
Net patient accounts receivable, less allowances for bad debts of $827,130 and $955,830 at June 30, 2018 and 2017, respectively	**2,121,582**	2,064,050
Other accounts receivable	**257,285**	249,350
Current portion of investments and assets limited as to use	**64,348**	65,161
Inventories	**298,636**	290,267
Assets of discontinued operations and held for sale	**195,698**	1,187,811
Prepaid and other	**144,003**	153,160
Total current assets	**3,592,008**	4,820,034
Investments and assets limited as to use:		
Internally designated for capital and other funds	**5,308,868**	5,546,290
Held by trustees	**76,080**	76,850
Held for insurance purposes	**829,402**	876,370
Restricted by donors	**258,513**	258,511
Total investments and assets limited as to use	**6,472,863**	6,758,021
Property and equipment, net	**8,110,767**	8,378,161
Investments in unconsolidated organizations	**1,732,840**	1,320,017
Intangible assets and goodwill, net	**421,388**	420,659
Notes receivable and other	**265,441**	234,858
Total assets	**$ 20,595,307**	$ 21,931,750

Continued on following page

Catholic Health Initiatives

Consolidated Balance Sheets (continued)
(In Thousands)

	June 30	
	2018	**2017**
Liabilities and net assets		
Current liabilities:		
Compensation and benefits	**$ 568,986**	$ 632,857
Third-party liabilities, net	**131,670**	91,008
Accounts payable and accrued expenses	**1,480,365**	1,550,536
Liabilities of discontinued operations and held for sale	**251,710**	492,440
Variable-rate debt with self-liquidity	**96,700**	96,700
Commercial paper and current portion of debt	**2,087,406**	2,016,042
Total current liabilities	**4,616,837**	4,879,583
Pension liability	**854,427**	1,110,983
Self-insured reserves and claims	**623,267**	633,392
Other liabilities	**1,027,091**	1,053,632
Long-term debt	**6,341,931**	6,527,426
Total liabilities	**13,463,553**	14,205,016
Net assets:		
Net assets attributable to CHI	**6,528,635**	7,047,905
Net assets attributable to noncontrolling interests	**300,428**	367,483
Unrestricted	**6,829,063**	7,415,388
Temporarily restricted	**207,695**	214,250
Permanently restricted	**94,996**	97,096
Total net assets	**7,131,754**	7,726,734
Total liabilities and net assets	**$ 20,595,307**	$ 21,931,750

See accompanying notes.

Catholic Health Initiatives

Consolidated Statements of Operations
(In Thousands)

	Year Ended June 30	
	2018	**2017**
Revenues:		
Net patient services revenues before provision for doubtful accounts	**$ 14,903,723**	$ 14,806,472
Provision for doubtful accounts	**(767,349)**	(843,705)
Net patient services revenues	**14,136,374**	13,962,767
Other operating revenues:		
Donations	**41,753**	30,954
Changes in equity of unconsolidated organizations	**18,458**	48,404
Hospital ancillary revenues	**350,321**	321,211
Other	**435,181**	679,334
Total other operating revenues	**845,713**	1,079,903
Total operating revenues	**14,982,087**	15,042,670
Expenses:		
Salaries and wages	**5,995,955**	6,157,237
Employee benefits	**1,114,564**	1,172,480
Purchased services, medical professional fees and consulting	**2,301,000**	2,285,741
Supplies	**2,447,516**	2,446,952
Utilities	**196,428**	203,984
Rentals, leases, maintenance and insurance	**883,442**	888,222
Depreciation and amortization	**856,188**	824,386
Interest	**312,771**	289,732
Other	**1,009,653**	1,004,187
Total operating expenses before restructuring, impairment and other losses	**15,117,517**	15,272,921
Loss from operations before restructuring, impairment and other losses	**(135,430)**	(230,251)
Restructuring, impairment and other losses	**141,283**	363,191
Loss from operations	**(276,713)**	(593,442)
Nonoperating gains (losses):		
Investment gains, net	**442,496**	629,216
Gains (losses) on early extinguishment of debt	**208**	(19,586)
Realized and unrealized gains on interest rate swaps	**52,123**	92,698
Other nonoperating gains	**3,987**	2,007
Total nonoperating gains	**498,814**	704,335
Excess of revenues over expenses	**222,101**	110,893
Excess of revenues over expenses attributable to noncontrolling interests	**28,449**	19,948
Excess of revenues over expenses attributable to CHI	**$ 193,652**	$ 90,945

See accompanying notes.

Catholic Health Initiatives

Consolidated Statements of Changes in Net Assets
(In Thousands)

	Unrestricted Net Assets					
	Attributable to CHI	**Attributable to Noncontrolling Interests**	**Total**	**Temporarily Restricted Net Assets**	**Permanently Restricted Net Assets**	**Total Net Assets**
Balances, July 1, 2016	$ 6,704,217	$ 423,424	$ 7,127,641	$ 224,524	$ 94,931	$ 7,447,096
Excess of revenues over expenses	90,945	19,948	110,893	–	–	110,893
Net loss from discontinued operations	(116,300)	(18,500)	(134,800)	–	–	(134,800)
Change in pension funded status	335,923	73	335,996	–	–	335,996
Temporarily and permanently restricted contributions	–	–	–	40,754	2,034	42,788
Net assets released from restriction for capital	33,737	–	33,737	(33,737)	–	–
Net assets released from restriction for operations	–	–	–	(19,939)	–	(19,939)
Investment (losses) income	(423)	–	(423)	7,811	1,113	8,501
Distributions to noncontrolling owners	–	(28,935)	(28,935)	–	–	(28,935)
Other changes in net assets	(194)	(28,527)	(28,721)	(5,163)	(982)	(34,866)
Net increase (decrease) in net assets	343,688	(55,941)	287,747	(10,274)	2,165	279,638
Balances, June 30, 2017	7,047,905	367,483	7,415,388	214,250	97,096	7,726,734
Excess of revenues over expenses	**193,652**	**28,449**	**222,101**	**–**	**–**	**222,101**
Net loss from discontinued operations	**(790,493)**	**(3,261)**	**(793,754)**	**–**	**–**	**(793,754)**
Change in pension funded status	**139,204**	**4,360**	**143,564**	**–**	**–**	**143,564**
Temporarily and permanently restricted contributions	**–**	**–**	**–**	**41,883**	**563**	**42,446**
Net assets released from restriction for capital	**20,584**	**–**	**20,584**	**(20,584)**	**–**	**–**
Net assets released from restriction for operations	**–**	**–**	**–**	**(26,552)**	**–**	**(26,552)**
Investment income	**–**	**–**	**–**	**4,760**	**697**	**5,457**
Distributions to noncontrolling owners	**–**	**(33,384)**	**(33,384)**	**–**	**–**	**(33,384)**
Purchase of noncontrolling interest	**(91,483)**	**(63,968)**	**(155,451)**	**–**	**–**	**(155,451)**
Other changes in net assets	**9,266**	**749**	**10,015**	**(6,062)**	**(3,360)**	**593**
Net decrease in net assets	**(519,270)**	**(67,055)**	**(586,325)**	**(6,555)**	**(2,100)**	**(594,980)**
Balances, June 30, 2018	**$ 6,528,635**	**$ 300,428**	**$ 6,829,063**	**$ 207,695**	**$ 94,996**	**$ 7,131,754**

See accompanying notes.

Catholic Health Initiatives

Consolidated Statements of Cash Flows
(In Thousands)

	Year Ended June 30	
	2018	**2017**
Operating activities		
(Decrease) increase in net assets	**$ (594,980)**	$ 279,638
Adjustments to reconcile (decrease) increase in net assets to net cash provided by operating activities:		
Loss on deconsolidation of subsidiary	**319,167**	–
Purchase of noncontrolling interest	**155,451**	–
Depreciation and amortization	**856,188**	824,386
Provision for bad debts	**767,349**	843,705
Changes in equity of unconsolidated organizations	**(18,458)**	(48,404)
Net gains on sales of facilities and investments in unconsolidated organizations	**(46,105)**	(195,583)
Noncash operating expenses related to restructuring, impairment and other losses	**14,244**	107,723
Noncash operating expenses related to impairment of long-lived assets of discontinued operations	**377,519**	–
(Gains) losses on early extinguishment of debt	**(208)**	19,586
Change in fair value of interest rate swaps	**(79,596)**	(127,866)
Noncash pension adjustments	**(139,773)**	(345,344)
Pension cash contributions	**(116,782)**	(79,513)
Net changes in current assets and liabilities:		
Net patient and other accounts receivable	**(916,987)**	(850,461)
Other current assets	**(3,557)**	(27,796)
Current liabilities	**(70,595)**	(101,894)
Other changes	**33,871**	22,535
Net cash provided by operating activities, before net change in investments and assets limited as to use	**536,748**	320,712
Net decrease (increase) in investments and assets limited as to use	**198,352**	(246,020)
Net cash provided by operating activities	**735,100**	74,692
Investing activities		
Purchases of property, equipment, and other capital assets	**(759,713)**	(705,147)
Investments in unconsolidated organizations	**(110,020)**	(106,082)
Business acquisitions, net of cash acquired	**(20,753)**	(64,432)
Proceeds from asset sales	**60,814**	597,434
Distributions from investments in unconsolidated organizations	**50,119**	39,696
(Issuance) repayments of notes receivable, net	**(17,978)**	144,433
Other changes	**1,473**	(12,380)
Net cash used in investing activities	**(796,058)**	(106,478)
Financing activities		
Proceeds from issuance of debt and bank loans	**909,620**	240,129
Repayment of debt and bank loans	**(1,043,783)**	(636,114)
Swap cash collateral received	**84,177**	82,036
Distributions to noncontrolling owners	**(33,384)**	(15,541)
Purchase of noncontrolling interest	**(155,451)**	–
Net cash used in financing activities	**(238,821)**	(329,490)
Decrease in cash and equivalents	**(299,779)**	(361,276)
Cash and equivalents at beginning of period	**810,235**	1,171,511
Cash and equivalents at end of period	**$ 510,456**	$ 810,235
Supplemental disclosures of noncash investing activity		
Noncash purchases of property and equipment	**$ 43,537**	$ 53,881
Supplemental disclosures of cash flow information		
Cash paid during the year for interest, including amounts capitalized	**$ 338,488**	$ 326,131

See accompanying notes.

Catholic Health Initiatives

Notes to Consolidated Financial Statements

June 30, 2018

1. Summary of Significant Accounting Policies

Organization

Catholic Health Initiatives (CHI), established in 1996, is a tax-exempt Colorado corporation and has been granted an exemption from federal income tax under Section 501(c)(3) of the Internal Revenue Code. CHI sponsors market-based organizations (MBOs) and other facilities operating in 18 states and comprises 100 hospitals, including two academic health centers, major teaching hospitals and 29 critical access facilities; community health services organizations; accredited nursing colleges; home health agencies; living communities; and other facilities and services that span the inpatient and outpatient continuum of care. CHI also has an offshore captive insurance company, First Initiatives Insurance, Ltd. (FIIL).

The mission of CHI is to nurture the healing ministry of the Church, supported by education and research. Fidelity to the Gospel urges CHI to emphasize human dignity and social justice as CHI creates healthier communities.

Principles of Consolidation

CHI consolidates all direct affiliates in which it has sole corporate membership or ownership (Direct Affiliates) and all entities in which it has greater than 50% equity interest with commensurate control. All significant intercompany accounts and transactions are eliminated in consolidation.

Fair Value of Financial Instruments

Financial instruments consist primarily of cash and equivalents, patient accounts receivable, investments and assets limited as to use, notes receivable and accounts payable. The carrying amounts reported in the consolidated balance sheets for these items, other than investments and assets limited as to use, approximate fair value. See Note 8, *Fair Value of Assets and Liabilities*, for a discussion of the fair value of investments and assets limited as to use.

1. Summary of Significant Accounting Policies (continued)

Cash and Equivalents

Cash and equivalents include all deposits with banks and investments in interest-bearing securities with maturity dates of 90 days or less from the date of purchase. In addition, cash and equivalents include deposits in short-term funds held by professional managers. The funds generally invest in high-quality, short-term debt securities, including U.S. government securities, securities issued by domestic and foreign banks, such as certificates of deposit and bankers' acceptances, repurchase agreements, asset-backed securities, high-grade commercial paper, and corporate short-term obligations.

Net Patient Accounts Receivable and Net Patient Services Revenues

Net patient accounts receivable has been adjusted to the estimated amounts expected to be collected. These estimated amounts are subject to further adjustments upon review by third-party payors.

The provision for bad debts is based upon management's assessment of historical and expected net collections, taking into consideration historical business and economic conditions, trends in health care coverage, and other collection indicators. Management routinely assesses the adequacy of the allowances for uncollectible accounts based upon historical write-off experience by payor category. The results of these reviews are used to modify, as necessary, the provision for bad debts and to establish appropriate allowances for uncollectible net patient accounts receivable. After satisfaction of amounts due from insurance, CHI follows established guidelines for placing certain patient balances with collection agencies, subject to the terms of certain restrictions on collection efforts as determined by each facility. The provision for bad debts is presented in the consolidated statement of operations as a deduction from patient services revenues (net of contractual allowances and discounts) since CHI accepts and treats all patients without regard to the ability to pay.

1. Summary of Significant Accounting Policies (continued)

Details of CHI's allowance activity is as follows (in thousands):

	Reserve for Contractual Allowance	Allowance for Bad Debts	Reserve for Charity	Total Accounts Receivable Allowances
Balance at July 1, 2016	$ (3,553,575)	$ (909,994)	$ (171,921)	$ (4,635,490)
Additions	(34,877,877)	(843,705)	(1,046,622)	(36,768,204)
Reductions	34,993,719	797,869	998,438	36,790,026
Balance at June 30, 2017	(3,437,733)	(955,830)	(220,105)	(4,613,668)
Additions	**(36,589,384)**	**(767,349)**	**(933,570)**	**(38,290,303)**
Reductions	**36,727,665**	**896,049**	**873,228**	**38,496,942**
Balance at June 30, 2018	**$ (3,299,452)**	**$ (827,130)**	**$ (280,447)**	**$ (4,407,029)**

CHI records net patient services revenues in the period in which services are performed. CHI has agreements with third-party payors that provide for payments at amounts different from its established rates. The basis for payment under these agreements includes prospectively determined rates, cost reimbursement and negotiated discounts from established rates, and per diem payments.

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

Investments and Assets Limited as to Use

Investments and assets limited as to use include assets set aside by CHI for future long-term purposes, including capital improvements and self-insurance. In addition, assets limited as to use include amounts held by trustees under bond indenture agreements, amounts contributed by donors with stipulated restrictions and amounts held for Mission and Ministry programs.

CHI has designated its investment portfolio as trading as the portfolio is actively managed to achieve investment returns. Accordingly, unrealized gains and losses on marketable securities are reported within excess of revenues over expenses. In addition, cash flows from the purchases and sales of marketable securities are reported as a component of operating activities in the accompanying consolidated statements of cash flows.

1. Summary of Significant Accounting Policies (continued)

Direct investments in equity securities with readily determinable fair values and all direct investments in debt securities have been measured at fair value in the accompanying consolidated balance sheets. Investment income or loss (including realized gains and losses on investments, interest and dividends) is included in excess of revenues over expenses unless the income or loss is restricted by donor or law.

Investments in limited partnerships and limited liability companies are recorded using the equity method of accounting (which approximates fair value as determined by the net asset values of the related unitized interests) with the related changes in value in earnings reported as investment income in the accompanying consolidated financial statements.

Inventories

Inventories, primarily consisting of pharmacy drugs, and medical and surgical supplies, are stated at lower of cost (first-in, first-out method) or market.

Assets and Liabilities of Discontinued Operations and Held for Sale

Assets and liabilities of discontinued operations and held for sale represent assets and liabilities that are expected to be sold within one year or were disposed of other than by sale. A group of assets and liabilities expected to be sold within one year is classified as held for sale if it meets certain criteria. The assets and liabilities of discontinued operations held for sale are measured at the lower of carrying value or fair value less costs to sell. Such valuations include estimates of fair values generally based upon firm offers, discounted cash flows and incremental direct costs to transact a sale (Level 2 and Level 3 inputs).

Property and Equipment

Property and equipment are stated at historical cost or, if donated or impaired, at fair value at the date of receipt or impairment. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed using the straight-line method. Buildings and improvements are depreciated over estimated useful lives of 5 to 84 years, equipment over 3 to 30 years, and land improvements over 2 to 25 years. For property and equipment under capital lease, amortization is determined over the shorter period of the lease term or the estimated useful life of the property and equipment.

1. Summary of Significant Accounting Policies (continued)

Interest cost incurred during the period of construction of major capital projects is capitalized as a component of the cost of acquiring those assets. Capitalized interest of $8.5 million and $12.9 million was recorded in the fiscal years ended June 30, 2018 and 2017, respectively.

Costs incurred in the development and installation of internal-use software are expensed if they are incurred in the preliminary project stage or post-implementation stage, while certain costs are capitalized if incurred during the application development stage. Internal-use software is amortized over its expected useful life, generally between 2 and 15 years, with amortization beginning when the project is completed and the software is placed in service.

Investments in Unconsolidated Organizations

Investments in unconsolidated organizations are accounted for under the cost or equity method of accounting, as appropriate, based on the relative percentage of ownership or degree of influence over that organization. The income or loss on the equity method investments is recorded in the consolidated statements of operations as changes in equity of unconsolidated organizations.

Intangible Assets and Goodwill

Intangible assets are comprised primarily of trade names, which are amortized over the estimated useful lives ranging from 10 to 25 years using the straight-line method. The weighted average useful life of the trade names is 16 years. Amortization expense of $9.5 million and $12.6 million was recorded in the fiscal years ended June 30, 2018 and 2017, respectively.

Goodwill is not amortized but is subject to annual impairment tests during the third quarter of the fiscal year, as well as more frequent reviews whenever circumstances indicate a possible impairment may exist; no such circumstances were identified at June 30, 2018 and at June 30, 2017, with the exception of the Houston MBO discussed below. Impairment testing of goodwill is performed at the reporting unit level by comparing the fair value of the reporting unit's net assets against the carrying value of the reporting unit's net assets, including goodwill. Each MBO is defined as a reporting unit for purposes of impairment testing. The fair value of the reporting unit's net assets is generally estimated based on quantitative analysis of discounted cash flows (Level 3 measurement). The fair value of goodwill is determined by assigning fair values to assets and liabilities, with the remaining fair value reported as the implied fair value of goodwill.

1. Summary of Significant Accounting Policies (continued)

During fiscal year 2017, the Houston MBO acquired various physician and diagnostic operations in Texas, which resulted in the recognition of $43.9 million of total goodwill, calculated as the difference between the consideration paid and the fair value of assets acquired and liabilities assumed. Goodwill impairment reviews of the Houston MBO during fiscal year 2017 indicated that the $43.9 million of goodwill attributable to the Houston MBO was impaired, and total goodwill impairment charges of $43.9 million were recorded in the consolidated statement of operations for the fiscal year ended June 30, 2017.

The changes in the carrying amount of goodwill and intangibles for the years ended June 30 are as follows (in thousands):

	2018	2017
Intangible assets, beginning of year	**$ 236,034**	$ 251,776
Acquisitions	**1,084**	4,783
Sales and other adjustments	**(3,833)**	(20,525)
Intangible assets, end of year	**233,285**	236,034
Accumulated amortization, beginning of year	**(47,370)**	(50,680)
Intangible amortization expense	**(9,477)**	(12,581)
Sales and other adjustments	**5,259**	15,891
Accumulated amortization, end of year	**(51,588)**	(47,370)
Intangible assets, net	**181,697**	188,664
Goodwill, beginning of year	**231,995**	208,564
Acquisitions	**11,459**	67,567
Impairments and dispositions	**(3,763)**	(44,136)
Goodwill, end of year	**239,691**	231,995
Total intangible assets and goodwill, net	**$ 421,388**	$ 420,659

Notes Receivable and Other Assets

Other assets consist primarily of notes receivable, pledges receivable, deferred compensation assets, long-term prepaid service contracts, deposits and other long-term assets.

1. Summary of Significant Accounting Policies (continued)

A summary of notes receivable and other assets is as follows as of June 30 (in thousands):

	2018	2017
Notes receivable:		
From related entities	**$ 16,842**	$ 135
Other	**35,566**	20,560
Long-term pledge receivables	**36,387**	37,911
Reinsurance recoverable on unpaid losses and loss adjustment expense	**39,772**	29,089
Deferred compensation assets	**57,466**	58,558
Other long-term assets	**79,408**	88,605
Total notes receivable and other	**$ 265,441**	$ 234,858

Net Assets

Temporarily restricted net assets are those whose use has been limited by donors to a specific time period or purpose. Permanently restricted net assets consist of gifts with corpus values that have been restricted by donors to be maintained in perpetuity, including endowment funds. Temporarily restricted net assets and earnings on permanently restricted net assets, including earnings on endowment funds, are used in accordance with the donor's wishes primarily to purchase equipment, to provide charity care, and to provide other health and educational programs and services.

Unconditional promises to receive cash and other assets are reported at fair value at the date the promise is received. Conditional promises and indications of donors' intentions to give are reported at fair value at the date the conditions are met or the gifts are received. All unrestricted contributions are included in the excess of revenue over expenses as donation revenues. Other gifts are reported as either temporarily or permanently restricted if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as donations revenue when restricted for operations or as unrestricted net assets when restricted for property and equipment.

1. Summary of Significant Accounting Policies (continued)

Performance Indicator

The performance indicator is the excess of revenues over expenses, which includes all changes in unrestricted net assets other than changes in the pension liability funded status, net assets released from restrictions for property acquisitions, cumulative effect of changes in accounting principles, discontinued operations, contributions of property and equipment, and other changes not required to be included within the performance indicator under U.S. GAAP.

Operating and Nonoperating Activities

CHI's primary mission is to meet the health care needs in its market areas through a broad range of general and specialized health care services, including inpatient acute care, outpatient services, physician services, long-term care, and other health care services. Activities directly associated with the furtherance of this purpose are considered to be operating activities. Other activities that result in gains or losses peripheral to CHI's primary mission are considered to be nonoperating. Nonoperating activities include investment earnings, gains/losses from extinguishment of debt, net interest cost and changes in fair value of interest rate swaps, and the nonoperating component of Joint Operating Agreement (JOA) income share adjustments. Any infrequent and nonreciprocal contribution that CHI makes to enter a new market community or to expand upon existing affiliations is also classified as nonoperating.

Charity Care

As an integral part of its mission, CHI accepts and provides medically necessary health care to all patients without regard to the patient's financial ability to pay. Services to patients are classified as charity care in accordance with standards established across all MBOs. Charity care represents services rendered for which partial or no payment is expected, and includes the cost of providing services to persons who cannot afford health care due to inadequate resources and/or who are uninsured or underinsured. CHI determines the cost of charity care on the basis of an MBO's total cost as a percentage of total charges applied to the charges incurred by patients qualifying for charity care under CHI's policy. This amount is not included in net patient services revenue in the accompanying consolidated statements of operations and changes in net assets. The estimated cost of charity care provided was $226.2 million and $240.8 million in fiscal years 2018 and 2017, respectively, for continuing operations, and $18.3 million and $25.8 million in fiscal years 2018 and 2017, respectively, for discontinued operations.

1. Summary of Significant Accounting Policies (continued)

Other Operating Revenues

Other operating revenues include services sold to external health care providers, gains on acquisitions of subsidiaries, cafeteria sales, rental income, retail pharmacy and durable medical equipment sales, auxiliary and gift shop revenues, electronic health records incentive payments, gains and losses on asset disposals, the operating portion of revenue-sharing income or expense associated with Direct Affiliates that are part of JOAs, premium revenues, and revenues from other miscellaneous sources.

Derivative and Hedging Instruments

CHI uses derivative financial instruments (interest rate swaps) in managing its capital costs. These interest rate swaps are recognized at fair value on the consolidated balance sheets. CHI has not designated its interest rate swaps related to CHI's long-term debt as hedges. The net interest cost and change in the fair value of such interest rate swaps is recognized as a component of nonoperating gains (losses) in the accompanying consolidated statements of operations. It is CHI's policy to net the value of collateral on deposit with counterparties against the fair value of its interest rate swaps in other liabilities on the consolidated balance sheets.

Functional Expenses

CHI provides healthcare services, including inpatient, outpatient, ambulatory, long-term care and community-based services to individuals within the various geographic areas supported by its facilities. Support services include administration, finance and accounting, information technology, public relations, human resources, legal, mission services, and other functions that are supported centrally for all of CHI. Support services expenses as a percentage of total operating expenses were approximately 5.8% and 6.2% in 2018 and 2017, respectively.

Restructuring, Impairment and Other Losses

Restructuring, impairment and other losses include charges relating to changes in business operations, severance costs, EPIC go-live support costs, goodwill and long-lived asset impairments, acquisition-related costs, and pension settlement activity. Changes in business operations include costs incurred periodically to implement reorganization efforts within specific operations, in order to align CHI's operations in the most strategic and cost-effective manner.

1. Summary of Significant Accounting Policies (continued)

Details of CHI's restructuring, impairment and other losses for the years ended June 30 are as follows (in thousands):

	2018	2017
Changes in business operations	**$ 40,043**	$ 206,297
Severance costs	**33,810**	68,860
Impairment charges	**14,231**	48,356
Pension settlement costs	**53,199**	39,678
Restructuring, impairment and other losses from continuing operations	**$ 141,283**	$ 363,191
Restructuring, impairment and other losses from discontinued operations	**$ 724,198**	$ 25,517

Discontinued operations are reported in the consolidated statements of changes in net assets. For the year ended June 30, 2018, discontinued operations include total impairment charges of $377.5 million to reduce the carrying value of the Jewish Hospital and St. Mary's Healthcare, Inc. System's (JHSMH) long-lived assets to their estimated fair value, less estimated costs to sell, as a result of the anticipated sale of their operations. For the year ended June 30, 2018, discontinued operations also include a $319.2 million loss on deconsolidation of UMC – see Note 5, *Assets and Liabilities of Discontinued Operations and Held for Sale*.

Income Taxes

CHI is a tax-exempt Colorado corporation and has been granted an exemption from federal income tax under Section 501(c)(3) of the Internal Revenue Code. CHI owns certain taxable subsidiaries and engages in certain activities that are unrelated to its exempt purpose and, therefore, subject to income tax. As of June 30, 2018, CHI has a deferred tax asset of $130.4 million related to net operating loss (NOL) carryforwards. CHI believes that most of the NOL carryforwards will expire unused, and has established a valuation allowance of $127.0 million against the deferred tax asset associated with these NOL carryforwards. Of the total deferred tax asset and valuation allowance at June 30, 2018, $62.7 million is related to discontinued operations.

Management reviews its tax positions annually and has determined that there are no material uncertain tax positions that require recognition in the accompanying consolidated financial statements.

1. Summary of Significant Accounting Policies (continued)

On December 22, 2017, the Tax Cuts and Jobs Act (the Tax Act) was enacted. The Tax Act reduces the U.S. federal corporate tax rate from 35% to 21%, requires companies to pay a one-time transition tax on earnings of certain foreign subsidiaries that were previously tax deferred, creates new taxes on certain foreign sourced earnings, provides for a new excise tax on certain compensation of exempt organizations over $1 million, and requires the separate calculation of unrelated business taxable income for each trade or business carried on.

At June 30, 2018, CHI has made provisional estimates of the tax effects of the Tax Act, including remeasuring its deferred tax balances at the new tax rate. CHI will continue to revise and refine its calculations as it receives additional guidance from the Internal Revenue Service on how the new provisions apply to exempt organizations and taxable subsidiaries.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. Actual results could vary from the estimates.

New Accounting Pronouncements

Revenue Recognition – The Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers (Topic 606)*, and subsequent amendments thereto (collectively referred to herein as ASC 606), to clarify the principles for recognizing revenue and to improve financial reporting by creating common revenue recognition guidance for U.S. GAAP. 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 or services.

ASC 606 is effective for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period.

CHI has evaluated the impact of adopting ASC 606 on its revenue recognition policies, procedures and control framework, and on its consolidated financial statements. Based on the work performed to-date, CHI has determined the adoption of ASC 606 will not have a material impact on its consolidated financial statements, with the exception of the new disclosure requirements. The most

1. Summary of Significant Accounting Policies (continued)

significant impact of adopting ASC 606 will be on the presentation of the provision for doubtful accounts on the consolidated statements of operations. After the adoption of ASC 606, the majority of what is currently separately presented as provision for doubtful accounts on the consolidated statements of operations will be considered an implicit price concession under the new guidance, and, therefore, included in patient services revenues in the consolidated statement of operations. CHI is in process of finalizing analyses of its various revenue streams and evaluating the presentation of fees paid to uncompensated care programs in the states in which it operates. CHI expects to adopt ASC 606 on July 1, 2018, using the modified retrospective approach.

Leases – The FASB issued ASU 2016-02, *Leases (Topic 842)*, and subsequent amendments thereto (collectively referred to herein as ASC 842), to require a lessee to recognize a right-of-use asset and a lease liability for both operating and finance leases, whereas previous U.S. GAAP required the asset and liability to be recognized only for capital leases. ASC 842 also modified the lease classification criteria for lessors, eliminates some of the real estate leasing guidance previously applied for certain leasing transactions, and requires qualitative and specific quantitative disclosures. ASC 842 is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years, with early adoption permitted. CHI anticipates adopting ASC 842 on July 1, 2019, and anticipates that because of the number of leases utilized by the organization, the adoption will have a significant impact on its consolidated financial statements. CHI is currently performing an assessment of the contractual provisions of its various leasing arrangements to determine a plan related to processes, systems and internal controls.

Presentation of Financial Statements of Not-for-Profit Entities – In August 2016, the FASB issued ASU 2016-14, *Not-for Profit Entities (Topic 958)*, to change the way a not-for-profit entity (NFP) classifies and presents net assets on the face of the financial statements, and presents information in the financial statements and notes about the NFP's liquidity, financial performance and cash flows. The amendment changes the way an NFP reports classes of net assets, from the currently required three classes to two, by eliminating the distinction between resources with permanent restrictions and those with temporary restrictions. The amendment also requires the NFP to provide enhanced disclosure about the nature, amounts and effects of the various types of donor-imposed restrictions, the NFP's management of its liquidity to meet short-term demands for cash, and the types of resources used and how they are allocated to carrying out the NFP's activities. ASU 2016-14 is effective for fiscal years beginning after December 15, 2017, and for interim periods within fiscal years beginning after December 15, 2018. Early application is permitted.

1. Summary of Significant Accounting Policies (continued)

Classification of Certain Cash Receipts and Cash Payments – In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows (Topic 230)*, to provide guidance on the presentation and classification of eight specific cash flow issues, including debt prepayment or debt extinguishment costs, contingent consideration payments made after a business combination, proceeds from the settlement of insurance claims, distributions received from equity method investees, and separately identifiable cash flows and application of the predominance principle. The objective of the amendment is to reduce the existing diversity in practice. ASU 2016-15 is effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted.

Restricted Cash – In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230)*, to provide guidance on the presentation of restricted cash or restricted cash equivalents in the statement of cash flows. The amendments require that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. ASU 2016-18 is effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted.

Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost – In March 2017, the FASB issued ASU 2017-07, *Compensation – Retirement Benefits (Topic 715)*, to improve the presentation of net periodic pension cost and net periodic postretirement benefit cost. The amendments in this update require that an employer disaggregate the service cost component and the other components of net benefit cost, and that the service cost component be reflected in the same line item as other employee compensation costs. The other components of net benefit cost would be reported as nonoperating gains (losses) on the consolidated statement of operations. ASU 2017-07 is effective for annual periods beginning after December 15, 2018, and interim periods within annual periods beginning after December 15, 2019. Early adoption is permitted.

Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made – In June 2018, the FASB issued ASU 2018-08, *Not-for-Profit Entities (Topic 958)*, to clarify and improve current guidance about whether a transaction is a contribution or an exchange transaction, and whether a contribution is conditional. The amendments in the update clarify how an entity determines whether a resource provider is participating in an exchange transaction by evaluating whether the resource provider is receiving commensurate value in return for the resources transferred based on several criteria. ASU 2018-08 should be applied on a

1. Summary of Significant Accounting Policies (continued)

modified prospective basis, and is effective for contributions received in annual periods beginning after June 15, 2018, including interim periods within those annual periods. Early adoption is permitted.

Reclassifications

Certain reclassifications were made to the fiscal year 2017 consolidated financial statement presentation to conform to the 2018 presentation – effective July 1, 2017, CHI ceased consolidating the operations of University Medical Center (UMC). The results of operations of UMC for the previous fiscal year are no longer reported in the consolidated statement of operations, but are now reported as discontinued operations in the consolidated statements of changes in net assets. The assets and liabilities of UMC are reflected as assets and liabilities of discontinued operations on the consolidated balance sheets. See Note 5, *Assets and Liabilities of Discontinued Operations and Held for Sale*.

2. Community Benefit (Unaudited)

In accordance with its mission and philosophy, CHI commits substantial resources to sponsor a broad range of services to both the poor and the broader community. Community benefit provided to the poor includes the cost of providing services to persons who cannot afford health care due to inadequate resources and/or who are uninsured or underinsured. This type of community benefit includes the costs of traditional charity care; unpaid costs of care provided to beneficiaries of Medicaid and other indigent public programs; services such as free clinics and meal programs for which a patient is not billed or for which a nominal fee has been assessed; and cash and in-kind donations of equipment, supplies or staff time volunteered on behalf of the community.

Community benefit provided to the broader community includes the costs of providing services to other populations who may not qualify as poor but may need special services and support. This type of community benefit includes the costs of services such as health promotion and education, health clinics and screenings, all of which are not billed or can be operated only on a deficit basis; unpaid portions of training health professionals such as medical residents, nursing students and students in allied health professions; and the unpaid portions of testing medical equipment and controlled studies of therapeutic protocols.

2. Community Benefit (Unaudited) (continued)

A summary of the cost of community benefit provided to both the poor and the broader community is as follows for the years ended June 30 (in thousands):

	2018	2017
Cost of community benefit:		
Cost of charity care provided	**$ 226,169**	$ 240,837
Unpaid cost of public programs, Medicaid and other indigent care programs	**652,826**	611,131
Nonbilled services	**35,187**	28,450
Cash and in-kind donations	**6,429**	19,295
Education research	**72,596**	78,859
Other benefit	**78,561**	102,664
Total cost of community benefit from continuing operations	**1,071,768**	1,081,236
Total cost of community benefit from discontinued operations	**67,203**	132,594
Total cost of community benefit	**1,138,971**	1,213,830
Unpaid cost of Medicare from continuing operations	**924,794**	911,572
Total cost of community benefit and the unpaid cost of Medicare	**$ 2,063,765**	$ 2,125,402

The summary above has been prepared in accordance with the Catholic Health Association of the United States (CHA) publication, *A Guide for Planning & Reporting Community Benefit*. Community benefit is measured on the basis of total cost, net of any offsetting revenues, donations or other funds used to defray cost. During fiscal year 2018 and 2017, CHI received $22.1 million and $20.9 million, respectively, in funds used to subsidize charity care provided.

The total cost of community benefit from continuing and discontinued operations was 6.9% and 7.0% of total operating expenses before restructuring, impairment and other losses in fiscal years 2018 and 2017, respectively. The total cost of community benefit and the unpaid cost of Medicare from continuing and discontinued operations was 12.5% and 12.3% of total operating expenses before restructuring, impairment and other losses in fiscal years 2018 and 2017, respectively.

3. Joint Operating Agreements and Investments in Unconsolidated Organizations

Joint Operating Agreements

CHI participates in JOAs with hospital-based organizations in three separate market areas. The agreements generally provide for, among other things, joint management of the combined operations of the local facilities included in the JOAs through Joint Operating Companies (JOC). CHI retains ownership of the assets, liabilities, equity, revenues and expenses of the CHI facilities that participate in the JOAs. The financial statements of the CHI facilities managed under all JOAs are included in the CHI consolidated financial statements. Transfers of assets from facilities owned by the JOA participants generally are restricted under the terms of the agreements.

As of June 30, 2018 and 2017, CHI has investment interests of 65%, 50%, and 50% in JOCs based in Colorado, Iowa, and Ohio, respectively. CHI's interests in the JOCs are included in investments in unconsolidated organizations and totaled $435.8 million and $381.7 million at June 30, 2018 and 2017, respectively. CHI recognizes its investment in all JOCs under the equity method of accounting. The JOCs provide varying levels of services to the related JOA sponsors, and operating expenses of the JOCs are allocated to each sponsoring organization.

Investments in Unconsolidated Organizations

CHI holds noncontrolling interests in various other organizations, accounted for under the cost or equity method of accounting, as appropriate. Significant investments are described below.

Conifer Health Solutions (Conifer) – As of June 30, 2018 and 2017, CHI holds a 23.8% equity method investment in Conifer totaling $670.6 million and $614.0 million, respectively. The investment in Conifer was acquired as part of a multi-year agreement with Conifer where Conifer provides revenue cycle services and health information management solutions for CHI acute care operations. Since CHI was granted incremental shares in Conifer in conjunction with the multi-year agreement with Conifer, CHI also has a deferred income balance related to the Conifer agreement of $403.2 million and $431.1 million, as of June 30, 2018 and 2017, respectively, reported in other liabilities on the accompanying consolidated balance sheets. The deferred income balance is being amortized straight line over the remaining agreement term expiring in January 2033, offsetting revenue cycle services fees paid to Conifer, which are reported in purchased services expense in the accompanying consolidated statements of operations.

3. Joint Operating Agreements and Investments in Unconsolidated Organizations (continued)

As a result of CHI recording its incremental equity ownership in Conifer at fair value, the carrying value of its equity method investment in Conifer was $243.9 million and $253.3 million greater than CHI's equity interest in the underlying net assets of Conifer as of June 30, 2018 and 2017, respectively, due to basis differences in the carrying amounts of the tangible and intangible assets of $177.2 million and $186.6 million, respectively, and of goodwill of $66.7 million in both years. Goodwill is not amortized but is subject to annual impairment tests during the third quarter of the fiscal year, as well as more frequent reviews whenever circumstances indicate a possible impairment may exist. No impairment of goodwill was identified as of June 30, 2018 and 2017. The basis differences of the tangible and intangible assets are being amortized over the average useful lives of the underlying assets, ranging from 8 to 25 years, as a reduction of CHI's equity earnings in Conifer.

Premier Health Partners (Premier) – Effective on January 1, 2018, CHI entered into an agreement with Premier, an Ohio nonprofit corporation operating various hospitals in southwest Ohio, to reorganize and restructure the existing JOA with Premier. The agreement provided that CHI transfer ownership of the Good Samaritan-Dayton MBO to Premier in exchange for a 22% interest in Premier. No gain or loss was recognized upon the exchange as the net book value of the Good Samaritan-Dayton MBO was equal to the fair value of CHI's interest in Premier of $325.4 million. The fair value of CHI's interest in Premier was estimated based upon Level 3 inputs, including estimated future cash flows and probability-weighed performance assumptions. As of June 30, 2018, CHI's 22% equity method investment in Premier totals $310.8 million.

3. Joint Operating Agreements and Investments in Unconsolidated Organizations (continued)

The summarized financial positions and results of operations for all entities accounted for under the equity method of accounting as of and for the years ended June 30, are as follows (in thousands):

	2018						
	Outpatient and Diagnostic Services	**Ambulatory Surgery Centers**	**JOC's and Related Hospital Services**	**Hospital Services**	**ACO/ CCO/ CIN**	**Other Investees**	**Total**
Total assets	**$ 128,799**	**$ 81,815**	**$ 1,364,724**	**$ 2,937,914**	**$ 95,785**	**$ 1,536,081**	**$ 6,145,118**
Total debt	**16,451**	**8,545**	**68,150**	**949,411**	**–**	**45,285**	**1,087,842**
Net assets	**100,071**	**34,040**	**965,651**	**1,563,422**	**68,972**	**1,194,742**	**3,926,898**
Net patient services revenues	**107,080**	**99,054**	**794,449**	**1,036,066**	**–**	**220,217**	**2,256,866**
Total revenues, net	**158,156**	**123,153**	**926,822**	**1,072,584**	**147,323**	**702,445**	**3,130,483**
Excess (deficit) of revenues over expenses	**25,994**	**31,279**	**(127,089)**	**(37,794)**	**(6,395)**	**312,222**	**198,217**

	2017						
	Outpatient and Diagnostic Services	**Ambulatory Surgery Centers**	**JOC's and Related Hospital Services**	**Hospital Services**	**ACO/ CCO/ CIN**	**Other Investees**	**Total**
Total assets	$ 90,399	$ 82,079	$ 1,106,496	$ 185,356	$ 107,722	$ 1,319,303	$ 2,891,355
Total debt	5,976	21,480	75,302	17,343	–	89,700	209,801
Net assets	75,284	37,937	808,367	150,231	76,659	910,894	2,059,372
Net patient services revenues	84,779	96,056	763,904	177,431	–	201,054	1,323,224
Total revenues, net	137,557	125,565	884,180	177,889	180,436	629,238	2,134,865
Excess (deficit) of revenues over expenses	23,789	33,523	(93,825)	32,968	1,723	230,398	228,576

4. Acquisitions, Affiliations, and Divestitures

There were no significant business combinations and affiliations, individually or in the aggregate, during the fiscal year ended June 30, 2018.

During fiscal year 2017, CHI entered into various business combinations and affiliations, including the acquisition by a subsidiary of CHI of the operations of a multi-specialty group in the state of Texas. The operations include a general acute care hospital and emergency room, an ambulatory surgery center, a management company, and an independent physician association comprising of more than 80 health care providers. The fair value of identifiable assets acquired and liabilities assumed were determined based upon Level 3 inputs, including estimated future cash flows and

4. Acquisitions, Affiliations, and Divestitures (continued)

probability-weighted performance assumptions. The following table is a summary of significant business combinations and affiliations that occurred during the fiscal year ended June 30, 2017 (in thousands):

Fiscal year 2017	
Purchase consideration:	
Cash	$ 64,432
Current liabilities	723
Debt	27,755
	$ 92,910
Purchase price allocation:	
Inventory	$ 3,041
Property and equipment	39,681
Intangible assets	11,180
Goodwill	43,865
Current liabilities	(752)
Debt	(4,105)
	$ 92,910

The affiliations and acquisitions reported a combined $49.9 million and $52.0 million, respectively, in operating revenues, and $(26.3) million and $(17.5) million, respectively, in deficit of revenues over expenses to the CHI consolidated results of operations for the fiscal years ended June 30, 2018 and 2017, respectively.

Other Affiliations

Pathology Associates Medical Laboratories, LLC (PAML) – Effective in May 2017, CHI sold all of its interests in PAML to Laboratory Corporation of America Holdings (LabCorp). As part of the agreement, LabCorp also acquired CHI's direct and indirect interests in three CHI joint ventures with PAML in the states of Colorado, Kentucky and Washington. Nonrefundable gross sales proceeds attributable to CHI and its affiliates of $96.7 million were received in May 2017, resulting in a gain on sale of $40.2 million reflected in other operating revenues in the consolidated statements of operations.

4. Acquisitions, Affiliations, and Divestitures (continued)

KentuckyOne Health Noncontrolling Interest – Effective September 1, 2017, CHI became the sole owner of KentuckyOne Health through the purchase of the noncontrolling interest from the remaining partner for $150.0 million in cash consideration.

Dignity Health – On December 7, 2017, CHI and Dignity Health signed a definitive agreement to combine their ministries. The combined ministries will build a stronger operational and financial foundation to expand access to quality care, build upon complementary resources and capabilities, and reinvest in critical areas to accelerate improvements in care delivery across 28 states.

The combined ministries will include more than 700 care sites and 139 hospitals, offering people and communities access to quality care delivered by approximately 159,000 employees and more than 25,000 physicians and other advanced practice clinicians. The ministries are geographically complementary with no overlap across hospital service areas.

The agreement is anticipated to close in the second half of calendar year 2018, subject to federal and state approvals.

5. Assets and Liabilities of Discontinued Operations and Held for Sale

Assets and liabilities of discontinued operations and held for sale represent the operations of UMC, JHSMH, and QualChoice Health, Inc. (QualChoice Health). The assets and liabilities of JHSMH and QualChoice Health are reflected as held for sale, in accordance with Accounting Standards Codification (ASC) 205-20, *Presentation of Financial Statements – Discontinued Operations.*

UMC deconsolidation – Effective on July 1, 2017, and in accordance with the agreement entered into in December 2016 between KentuckyOne Health and UMC, UMC took over the management of its assets and CHI ceased consolidating the UMC operations. The transaction resulted in a loss on deconsolidation of $319.2 million (equal to the net assets of UMC as of June 30, 2017) for the fiscal year ended June 30, 2018, reflected in discontinued operations in the accompanying consolidated statement of changes in net assets. The assets and liabilities of UMC for the prior fiscal year were also reclassified and reflected as assets and liabilities of discontinued operations on the consolidated balance sheet.

5. Assets and Liabilities of Discontinued Operations and Held for Sale (continued)

JHSMH held for sale – In May 2017, CHI approved a plan to sell or otherwise dispose of certain entities of JHSMH. In December 2017, CHI entered into a nonbinding letter of intent to negotiate a definitive agreement for the purchase of substantially all of the JHSMH assets. As of December 31, 2017, and as a result of the anticipated sale transaction, the assets and liabilities of the JHSMH discontinued operations were remeasured at the lower of their carrying amount or their fair value less cost to sell, which resulted in the recognition of an impairment charge of $272.0 million in the consolidated statement of changes in net assets.

In June 2018, an updated letter of intent for the purchase of JHSMH was received, and based upon the terms of that letter of intent, CHI recognized additional impairment charges of $105.5 million in discontinued operations and $11.8 million in continuing operations, to adjust the JHSMH property and equipment values to the lower of their carrying value or their fair value less cost to sell. CHI anticipates closing on a sale during fiscal year 2019.

QualChoice Health held for sale – In September 2018, CHI entered into an asset purchase agreement for the sale of its Medicare Advantage health insurance operations in the state of Washington, effective in January 2019. The purchase price is contingent upon future increases in the number of lives covered by the Medicare Advantage plans acquired, and upon maintaining a specified Centers for Medicare & Medicaid Services (CMS) Star Rating as published annually in October 2018 and 2019.

In May 2018, CHI also entered into a letter of intent for the sale of its commercial insurance operations. Negotiations are currently under way, and CHI anticipates closing on the sale during fiscal year 2019.

5. Assets and Liabilities of Discontinued Operations and Held for Sale (continued)

A reconciliation of major classes of assets and liabilities of the discontinued operations held for sale is presented below as of June 30 (in thousands):

	2018	2017		
	Held for Sale	**Held for Sale**	**UMC**	**Total**
Cash	**$ –**	$ –	$ 222,931	$ 222,931
Accounts receivable	**–**	–	90,198	90,198
Other accounts receivable	**23,672**	31,204	1,788	32,992
Investments held for insurance purposes	**126,899**	132,519	28,450	160,969
Property and equipment, net	**6,918**	380,495	191,153	571,648
Intangibles	**–**	–	53,178	53,178
Other assets	**31,320**	35,725	17,769	53,494
Total major classes of assets of the discontinued operations	**188,809**	579,943	605,467	1,185,410
Other assets classified as held for sale	**6,889**	2,401	–	2,401
Total assets classified as discontinued operations and held for sale	**$ 195,698**	$ 582,344	$ 605,467	$ 1,187,811
Compensation and benefits	**$ 42,167**	$ 48,530	$ 9,766	$ 58,296
Accounts payable and accrued expenses	**66,260**	50,297	127,993	178,290
Debt	**8,856**	10,258	62,241	72,499
Self-insured reserves	**91,094**	62,049	2,388	64,437
Other liabilities	**36,918**	42,317	76,601	118,918
Total major classes of liabilities of the discontinued operations	**245,295**	213,451	278,989	492,440
Other liabilities classified as held for sale	**6,415**	–	–	–
Total liabilities classified as discontinued operations and held for sale	**$ 251,710**	$ 213,451	$ 278,989	$ 492,440

The $6.9 million and $2.4 million of other assets classified as held for sale as of June 30, 2018 and 2017, respectively, represent real estate and other assets that are scheduled to be sold in fiscal year 2019, measured at the lower of their carrying amount or fair value less cost to sell.

5. Assets and Liabilities of Discontinued Operations and Held for Sale (continued)

Operating results of discontinued operations are reported in the accompanying consolidated statements of changes in net assets and are summarized as follows for the years ended June 30 (in thousands):

	2018	2017
Net patient service revenues	**$ 713,441**	$ 1,251,108
Other operating revenues	**582,047**	618,287
Total operating revenues	**1,295,488**	1,869,395
Salaries, wages and employee benefits	**440,097**	657,664
Purchased services and medical claims	**625,092**	748,556
Depreciation and amortization	**3,516**	64,818
Other expenses	**291,486**	515,359
Total operating expenses before restructuring, impairment and other losses	**1,360,191**	1,986,397
Loss from operations before restructuring, impairment and other losses	**(64,703)**	(117,002)
Restructuring, impairment and other losses	**(724,198)**	(25,517)
Loss from operations	**(788,901)**	(142,519)
Nonoperating (losses) gains	**(4,853)**	7,719
Deficit of revenues over expenses	**(793,754)**	(134,800)
Deficit of revenues over expenses attributable to noncontrolling interest	**(3,261)**	(18,500)
Deficit of revenues over expenses attributable to CHI	**$ (790,493)**	$ (116,300)

For the fiscal year ended June 30, 2018, discontinued operations include JHSMH impairment charges totaling $377.5 million and the $319.2 million loss on deconsolidation of UMC.

The discontinued operations reported $7.5 million and $36.3 million in capital expenditures for fiscal years 2018 and 2017, respectively.

6. Net Patient Services Revenues

Net patient services revenues are derived from services provided to patients who are either directly responsible for payment or are covered by various insurance or managed care programs. CHI receives payments from the federal government on behalf of patients covered by the Medicare program, from state governments for Medicaid and other state-sponsored programs, from certain private insurance companies and managed care programs, and from patients themselves. A summary of payment arrangements with major third-party payors follows:

Medicare – Inpatient acute care and certain outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge or procedure. These rates vary according to patient classification systems based on clinical, diagnostic and other factors. Certain CHI facilities have been designated as critical access hospitals and, accordingly, are reimbursed their cost of providing services to Medicare beneficiaries. Professional services rendered by physicians are paid based on the Medicare allowable fee schedule.

Medicaid – Inpatient services rendered to Medicaid program beneficiaries are primarily paid under the traditional Medicaid plan at prospectively determined rates per discharge. Certain outpatient services are reimbursed based on a cost reimbursement methodology, fee schedules or discounts from established charges.

Other – CHI has also entered into payment agreements with certain managed care and commercial insurance carriers, health maintenance organizations and preferred provider organizations. The basis for payment to CHI under these agreements includes prospectively determined rates per discharge, discounts from established charges and prospectively determined daily rates.

CHI's Medicare, Medicaid and other payor utilization percentages, based upon net patient services revenues before provision for doubtful accounts, are as follows for the years ended June 30:

	2018	**2017**
Medicare	**36%**	36%
Medicaid	**12**	14
Managed care	**40**	39
Self-pay	**3**	3
Commercial and other	**9**	8
	100%	100%

6. Net Patient Services Revenues (continued)

Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. Estimated settlements related to Medicare and Medicaid of $110.4 million and $90.2 million at June 30, 2018 and 2017, respectively, are included in third-party liabilities. Net patient services revenues from continuing operations increased by $47.6 million and $68.9 million in fiscal years 2018 and 2017, respectively, due to favorable changes in estimates related to prior-year settlements.

7. Investments and Assets Limited as to Use

CHI's investments and assets limited as to use are reported in the accompanying consolidated balance sheets as presented in the following table (in thousands):

	June 30	
	2018	**2017**
Cash and equivalents	**$ 106,053**	$ 150,960
CHI Investment Program	**5,534,127**	5,703,077
Marketable equity securities	**267,390**	274,671
Marketable fixed-income securities	**623,789**	664,155
Hedge funds and other investments	**5,852**	30,319
	6,537,211	6,823,182
Less current portion	**(64,348)**	(65,161)
	$ 6,472,863	$ 6,758,021

CHI attempts to reduce its market risk by diversifying its investment portfolio using cash equivalents, fixed-income securities, marketable equity securities and alternative investments. Most of the U.S. Treasury, money market funds and corporate debt obligations as well as exchange-traded marketable securities held directly by CHI and by the CHI Investment Program (the Program) have an actively traded market. However, CHI also invests in commercial paper, mortgage-backed or other asset-backed securities, alternative investments (hedge funds, private equity investments, real estate funds, funds of funds, etc.), collateralized debt obligations, municipal securities and other investments that have potential complexities in valuation based upon the current conditions in the credit markets. For some of these instruments, evidence supporting the determination of fair value may not come from trading in active primary or secondary markets. Because these investments may not be readily marketable, the estimated value

7. Investments and Assets Limited as to Use (continued)

is subject to uncertainty and, therefore, may differ from the value that would have been used had an active market for such investments existed. Such differences could be material. However, management reviews the CHI investment portfolio on a regular basis and seeks guidance from its professional portfolio managers related to U.S. and global market conditions to determine the fair value of its investments. CHI believes the carrying amount of these financial instruments in the accompanying consolidated financial statements is a reasonable estimate of fair value.

The majority of all CHI long-term investments are held in the Program. The Program is structured under a Limited Partnership Agreement with CHI as managing general partner and numerous limited partners, most sponsored by CHI. The partnership provides a vehicle whereby virtually all entities associated with CHI, as well as certain other unrelated entities, can optimize investment returns while managing investment risk. Entities participating in the Program that are not consolidated in the accompanying financial statements have the ability to direct their invested amounts and liquidate and/or withdraw their interest without penalty as soon as practicable based on market conditions but within 180 days of notification. The Limited Partnership Agreement permits a simple-majority vote of the noncontrolling limited partners to terminate the partnership. Accordingly, CHI recognizes only the unitized portion of Program assets attributable to CHI and its direct affiliates. Program assets attributable to CHI and its Direct Affiliates represented 89% of total Program assets at June 30, 2018 and 2017, respectively.

The Program asset allocation is as follows:

	June 30	
	2018	**2017**
Equity securities	**43%**	41%
Fixed-income securities	**36**	39
Alternative investments	**20**	19
Cash and equivalents	**1**	1
	100%	100%

The CHI Finance Committee (the Committee) of the Board of Stewardship Trustees is responsible for determining target asset allocations among fixed-income, equity, and alternative investments. At least annually, the Committee reviews targeted allocations and, if necessary, makes adjustments to targeted asset allocations. Given the diversity of the underlying securities in which the Program invests, management does not believe there is a significant concentration of credit risk.

7. Investments and Assets Limited as to Use (continued)

The Program allocation to alternative investments is based upon contractual commitment levels to various funds. These commitments are drawn by the fund managers as opportunities arise to invest the capital. As of June 30, 2018, the Program had committed to invest $1.0 billion in 45 funds, of which $839.9 million had been invested. The remaining $164.2 million will be invested when and if, requested by the funds. Alternative investments within the Program have limited liquidity. As of June 30, 2018, illiquid investments not available for redemption totaled $395.0 million, and investments available for redemption within 180 days at the request of the Program totaled $858.5 million.

Investment income, net is comprised of the following for the years ended June 30 (in thousands):

	2018	2017
Dividend and interest income	**$ 144,050**	$ 143,072
Net realized gains	**286,715**	334,059
Net unrealized gains	**11,731**	152,085
Investment income, net from continuing operations	**442,496**	629,216
Investment (losses) income, net from discontinued operations	**(4,853)**	7,719
Total investment income, net	**$ 437,643**	$ 636,935

Direct expenses of the Program attributable to CHI and its Direct Affiliates were approximately $18.5 million and $17.0 million for the years ended June 30, 2018 and 2017, respectively, and are reflected in investment income. Fees paid to certain alternative investment managers are not included in the Program's total expense calculation as they are not a direct expense of the Program, but the fees are deducted from the alternative investment's performance and reflected in investment income.

8. Fair Value of Assets and Liabilities

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. ASC 820, *Fair Value Measurements and Disclosures*, establishes a fair value hierarchy that prioritizes the inputs used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 inputs) and the lowest priority to unobservable inputs (Level 3 inputs).

8. Fair Value of Assets and Liabilities (continued)

The three levels of the fair value hierarchy and a description of the valuation methodologies used for instruments measured at fair value are as follows:

Level 1 – Valuation is based upon quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2 – Valuation is based upon quoted prices for similar assets and liabilities in active markets or other inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial asset or liability.

Level 3 – Valuation is based upon other unobservable inputs that are significant to the fair value measurement.

Certain of CHI's alternative investments are made through limited liability companies (LLC) and limited liability partnerships (LLP). These LLCs and LLPs provide CHI with a proportionate share of the investment gains (losses). CHI accounts for its ownership in the LLCs and LLPs under the equity method. CHI also accounts for its ownership in the Program under the equity method. As such, these investments are excluded from the scope of ASC 820.

8. Fair Value of Assets and Liabilities (continued)

Financial assets and liabilities measured at fair value on a recurring basis were determined using the market approach based upon the following inputs (in thousands):

	June 30, 2018			
	Fair Value Measurements at Reporting Date Using			
		(Level 1)	(Level 2)	(Level 3)
	Total	Quoted Prices in Active Markets	Other Observable Inputs	Unobservable Inputs
Assets				
Assets limited as to use:				
Cash and short-term investments	**$ 106,053**	**$ 96,316**	**$ 9,737**	**$ –**
Equity securities	**267,390**	**267,390**	**–**	**–**
Fixed-income securities	**623,789**	**185,307**	**438,482**	**–**
Other investments	**2,585**	**–**	**–**	**2,585**
Deferred compensation assets:				
Cash and short-term investments	**5,249**	**5,249**	**–**	**–**
	$1,005,066	**$ 554,262**	**$ 448,219**	**$ 2,585**
Liabilities				
Interest rate swaps	**$ 208,462**	**$ –**	**$ 208,462**	**$ –**
Contingent consideration	**80,891**	**–**	**–**	**80,891**
Deferred compensation liability	**5,249**	**5,249**	**–**	**–**
	$ 294,602	**$ 5,249**	**$ 208,462**	**$ 80,891**

8. Fair Value of Assets and Liabilities (continued)

	June 30, 2017			
	Fair Value Measurements at Reporting Date Using			
		(Level 1)	(Level 2)	(Level 3)
	Total	Quoted Prices in Active Markets	Other Observable Inputs	Unobservable Inputs
Assets				
Assets limited as to use:				
Cash and short-term investments	$ 150,960	$ 130,400	$ 20,560	$ –
Equity securities	274,671	274,671	–	–
Fixed-income securities	664,155	170,425	493,730	–
Other investments	3,523	–	–	3,523
Deferred compensation assets:				
Cash and short-term investments	6,708	6,708	–	–
	$ 1,100,017	$ 582,204	$ 514,290	$ 3,523
Liabilities				
Interest rate swaps	$ 287,990	$ –	$ 287,990	$ –
Contingent consideration	87,959	–	–	87,959
Deferred compensation liability	6,708	6,708	–	–
	$ 382,657	$ 6,708	$ 287,990	$ 87,959

The fair values of the securities included in Level 1 were determined through quoted market prices. Level 1 instruments include money market funds, mutual funds, and marketable debt and equity securities. The fair values of Level 2 instruments were determined through evaluated bid prices based on recent trading activity and other relevant information, including market interest rate curves and referenced credit spreads; estimated prepayment rates, where applicable, are used for valuation purposes and are provided by third-party services where quoted market values are not available. Level 2 instruments include corporate fixed-income securities, government bonds, mortgage and asset-backed securities, and interest rate swaps. The fair values of Level 3 securities are determined primarily through information obtained from the relevant counterparties for such investments. Information on which these securities' fair values are based is generally not readily available in the market. The fair value of the contingent consideration liability was determined based on estimated future cash flows and probability-weighted performance assumptions, discounted to net present value. The contingent consideration liability balance was adjusted to reflect $9.0 million of payments made since June 30, 2017, and to reflect a $1.9 million increase for accretion and changes in payment assumptions, reported in other expenses in the accompanying consolidated statements of operations.

9. Property and Equipment

A summary of property, equipment, and software is as follows as of June 30 (in thousands):

	2018	2017
Land and improvements	**$ 758,732**	$ 778,652
Buildings and improvements	**7,162,024**	7,092,734
Equipment	**5,837,619**	5,552,473
Software	**1,107,182**	1,113,667
	14,865,557	14,537,526
Less accumulated depreciation and amortization	**(7,410,941)**	(7,042,719)
	7,454,616	7,494,807
Construction in progress	**656,151**	883,354
	$ 8,110,767	$ 8,378,161

CHI incurs a variety of direct and indirect costs to develop internal-use software. In order for software to be considered internal use, it must be acquired, internally developed or modified solely to meet CHI's needs, and no plan exists or is being developed to sell the software externally during the software's development or modification. Unamortized software costs as of June 30, 2018 and 2017, were $622.9 million and $746.3 million, respectively. For the fiscal years ended June 30, 2018 and 2017, CHI recorded $141.8 million and $137.8 million, respectively, related to amortization of internal-use software. Amortization of internal-use software begins when the software is placed in service, and is based on the expected useful life of the software, which is generally between 2 and 10 years.

During fiscal year 2017, CHI sold various real estate assets across the enterprise as part of a long-term effort to improve the mix of owned and leased assets. In conjunction with the sale, CHI entered into 10-year operating lease agreements with the buyers, and in accordance with ASC 840-40, *Leases – Sale-Lease Back Transactions*, certain of the gains on the sale of the real estate assets were deferred and will be amortized to lease expense over the life of the operating leases.

9. Property and Equipment (continued)

In fiscal year 2017, real estate assets with a net book value of $281.8 million were sold for gross proceeds of $366.5 million, and CHI recognized $22.0 million gains on sales, reflected in other operating revenues in the consolidated statements of operations for the year ended June 30, 2017. CHI also recorded short-term deferred gains of $5.8 million and long-term deferred gains of $52.2 million for fiscal year 2017. On the consolidated balance sheet, the short-term deferred gains are a component of accrued expenses, and the long-term deferred gains are a component of other long-term liabilities. The deferred gains will be amortized against rent expense over the terms of the respective operating lease agreements.

CHI also sold various other assets during fiscal year 2017 for net proceeds of $101.7 million, reflected within other operating revenues as gain on sale on the consolidated statement of operations for the year ended June 30, 2017.

10. Debt Obligations

The following is a summary of debt obligations (in thousands):

	June 30 2018	2017
Debt secured under the CHI COD		
Fixed-rate debt:		
Fixed-rate serial and term exempt bonds payable in installments from 2018 through 2045; interest at 2.84% to 7.0%	**$ 2,784,522**	$ 2,853,602
Fixed-rate serial and term taxable bonds payable in installments from 2018 through 2042; interest at 2.6% to 4.35%	**1,790,000**	2,040,000
Long-term rate exempt bonds subject to mandatory tender from 2019 through 2021; interest at 1.88% to 5.0%	**141,870**	141,870
Total fixed-rate debt	**4,716,392**	5,035,472
Variable-rate debt:		
Floating rate notes subject to mandatory tender from 2020 through 2025; interest set at prevailing market rates (2.25% to 2.91% at June 30, 2018)	**411,145**	411,145
Variable-rate demand bonds subject to optional 7-day tender terms and mandatory tender from 2032 through 2035; interest set at prevailing market rates (1.58% to 1.63% at June 30, 2018)	**96,700**	96,700
Variable-rate direct purchase exempt bonds subject to mandatory tender from 2018 through 2024; interest set at prevailing market rates (2.38% to 3.81% at June 30, 2018)	**928,287**	601,982
Variable-rate direct purchase taxable bonds subject to mandatory tender from 2018 through 2020; interest set at prevailing market rates (3.35% to 4.73% at June 30, 2018)	**650,000**	400,000
Bank line of credit maturing July 2018; interest set at prevailing market rates (2.86% at June 30, 2018)	**250,000**	250,000
Bank loan	**–**	333,741
Commercial paper notes with maturities ranging 3 to 128 days from June 30, 2018; interest set at prevailing market rates (2.74% at June 30, 2018)	**881,000**	815,519
Total variable-rate debt	**3,217,132**	2,909,087
Total debt secured under the CHI COD	**7,933,524**	7,944,559
St. Leonard Master Trust Indenture fixed-rate exempt bonds payable in installments through 2040; interest at 6.0% to 6.63%	**39,707**	40,732
Other debt:		
Capital lease obligations	**112,889**	106,400
Note payable issued to Episcopal Health Foundation payable in installments through 2020; interest at 4.0%	**98,726**	133,560
Other notes payable and debt obligations	**345,467**	418,697
Total debt obligations before unamortized debt issuance costs, debt premium and debt discount, net	**8,530,313**	8,643,948
Unamortized debt issuance costs, debt premium and debt discount, net	**(4,276)**	(3,780)
Total debt obligations	**8,526,037**	8,640,168
Less: amounts classified as current:		
Variable-rate debt with self-liquidity	**(96,700)**	(96,700)
Commercial paper and current portion of debt	**(2,087,406)**	(2,016,042)
Long-term debt	**$ 6,341,931**	$ 6,527,426

10. Debt Obligations (continued)

The fair value of debt obligations was approximately $8.6 billion at June 30, 2018. Management has determined the carrying values of the variable-rate bonds are representative of fair values as of June 30, 2018, as the interest rates are set by the market participants. The fair value of the fixed-rate tax-exempt bond obligations is determined by applying credit spreads for similar tax-exempt obligations in the marketplace, which are then used to calculate a price/yield for the outstanding obligations (Level 2 inputs).

A summary of scheduled principal payments, based upon stated maturities, on debt obligations for the next five years is as follows (in thousands):

	Amounts Due
Year Ending June 30:	
2019	$ 2,184,106
2020	423,070
2021	170,646
2022	220,087
2023	612,327

CHI issues the majority of its debt under the COD and is the sole obligor. Bondholder security resides both in the unsecured promise by CHI to pay its obligations and in its control of its Direct and Designated Affiliates. Covenants include a minimum CHI debt service coverage ratio, a minimum amount of days cash on hand and certain limitations on secured debt. The Direct Affiliates of CHI, defined as Participants under the COD, have agreed to certain covenants related to corporate existence, maintenance of insurance and exempt use of bond-financed facilities.

Debt issued under the St. Leonard Master Trust Indenture is secured by the property of St. Leonard in Centerville, Ohio, and a pledge of gross revenues.

Debt Redemptions and Reissuances

In August 2016, CHI redeemed $62.0 million of Series 2012A fixed-rate bonds in connection with the sale in the prior fiscal year of the underlying real estate assets. The bond redemption was funded from the real estate sale proceeds and resulted in a loss on redemption of $8.5 million included in losses on early extinguishment of debt in the accompanying consolidated statement of operations.

10. Debt Obligations (continued)

In August 2017, CHI redeemed $34.5 million of bonds originally acquired in fiscal year 2016 as part of the acquisition of Trinity Health System. The bond redemption was funded from cash and investments, resulting in a gain on redemption of $0.2 million reflected in the accompanying consolidated statements of operations.

In October 2017, CHI issued $250.0 million of Series 2017A variable-rate direct purchase taxable bonds subject to mandatory tender in October 2018. Proceeds were used to pay the $250.0 million principal payment due on Series 2012 fixed-rate taxable bonds.

In December 2017, CHI issued $333.7 million of Series 2017B fixed-rate direct purchase exempt bonds subject to mandatory tender in December 2018. Proceeds were used to pay the $333.7 million bank loan that matured in December 2017.

In March 2018, CHI issued $65.5 million in commercial paper notes. Proceeds were used to pay $34.8 million in principal payments, and for general purposes and capital improvements.

In July 2018, CHI issued $275.0 million of Series 2018A taxable bonds subject to mandatory tender in August 2021. Proceeds were used to fund the $275.0 million Series 2013D taxable bonds principal payment due in August 2018. Also in July 2018, CHI extended the mandatory purchase date of $250.0 million of the 2017A taxable bonds from August 2018 to July 2021. As a result, CHI classified the Series 2013D and 2017A taxable bonds as long-term debt as of June 30, 2018.

Liquidity Facilities, Credit Facilities, and Lines of Credit

CHI has external liquidity facilities available totaling $365.0 million at June 30, 2018 and 2017, which can be used to support CHI's obligations to fund tenders of variable rate demand bonds and to pay maturing principal of commercial paper.

At June 30, 2018 and 2017, CHI classified as current $881.0 million and $815.5 million, respectively, of commercial paper due to maturities of less than one year, and $96.7 million of VRDBs due to the holder's ability to put such VRDBs back to CHI on a daily basis, after providing a seven-day notice to tender.

10. Debt Obligations (continued)

At June 30, 2018 and 2017, CHI had a credit facility with a third-party bank totaling $69.0 million, of which letters of credit totaling $59.5 million and $63.8 million at June 30, 2018 and 2017, respectively, have been designated for the benefit of third parties, principally in support of the self-insurance programs administered by FIIL. No amounts were outstanding under this credit facility at June 30, 2018 and 2017.

At June 30, 2018 and 2017, CHI had a $250.0 million bank line of credit, which was fully drawn. The line of credit matured in July 2017, and was funded by the issuance of a new $250.0 million line of credit with another third-party bank. The new line of credit, as amended, matures in July 2019, and is classified as current portion of debt in the accompanying consolidated balance sheets.

Interest Rate Swap Agreements

CHI utilizes various interest rate swap contracts to manage the risk of increased interest rates payable of certain variable-rate bonds. The fixed-payer swap agreements convert CHI's variable-rate debt to fixed-rate debt. Generally, it is CHI's policy that all counterparties have an AA rating or better. The swap agreements generally require CHI to provide collateral if CHI's liability, determined on a mark-to-market basis, exceeds a specified threshold that varies based upon the rating on CHI's long-term indebtedness.

The fair value of the swaps is estimated based on the present value sum of anticipated future net cash settlements until the swaps' maturities. Cash collateral balances are netted against the fair value of the swaps, and the net amount is reflected in other liabilities in the accompanying consolidated balance sheets. At June 30, 2018 and 2017, the swap liability reflected in other liabilities was $33.6 million and $28.9 million, respectively, net of swap collateral posted of $174.9 million and $259.1 million, respectively. The change in the fair value of swap agreements resulted in a net gain of $79.6 million and $127.9 million for the years ended June 30, 2018 and 2017, respectively, and is reflected in realized and unrealized losses on interest rate swaps in the accompanying consolidated statements of operations.

Based upon the swap agreements in place as of June 30, 2018, a reduction in CHI's credit rating to BBB would obligate CHI to post additional cash collateral of $29.0 million. If CHI's credit rating were to fall below BBB, the swap counterparties would have the option to require CHI to settle the swap liabilities at the recorded fair value, which was $33.6 million as of June 30, 2018.

10. Debt Obligations (continued)

Following is a summary of interest rate swap contracts (in thousands):

		Swap Contracts Outstanding		Fair Value Liability (Asset)		Notional Amount	
	Maturity Date	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
Basis swaps	3/2028	**1**	1	**$ (474)**	$ (374)	**$ 30,000**	$ 30,000
Fixed payer swaps	2024–2047	**15**	15	**207,446**	286,882	**1,373,096**	1,411,223
Total return swaps	2018–2020	**19**	25	**1,490**	1,482	**154,462**	174,777
		35	41	**$ 208,462**	$ 287,990	**$ 1,557,558**	$ 1,616,000

11. Retirement Plans

CHI Pension Plan

CHI and its direct affiliates maintain a variety of noncontributory, defined benefit retirement plans (Retirement Plans) for their employees. Certain of these plans were frozen in previous fiscal years, and benefits earned by employees through that time period remain in the Retirement Plans, where employees continue to receive interest credits and vesting credits, if applicable. Benefits in the Retirement Plans are based on compensation, retirement age, and years of service. Substantially all of the Retirement Plans are qualified as church plans and are exempt from certain provisions of both the Employee Retirement Income Security Act of 1974 and Pension Benefit Guaranty Corporation premiums and coverage. Funding requirements are determined through consultation with independent actuaries.

CHI recognizes the funded status (that is, the difference between the fair value of plan assets and the projected benefit obligations) of its Retirement Plans in the consolidated balance sheets, with a corresponding adjustment to net assets. Actuarial gains and losses that arise and are not recognized as net periodic pension cost in the same periods are recognized as a component of changes in net assets.

11. Retirement Plans (continued)

A summary of the changes in the benefit obligation, fair value of plan assets and funded status of the Retirement Plans at the June 30 measurement dates is as follows (in thousands):

	2018	2017
Change in benefit obligation:		
Benefit obligation, beginning of year	**$ 5,178,365**	$ 5,431,434
Service cost	**13,785**	9,340
Interest cost	**164,290**	152,067
Actuarial gain	**(39,819)**	(146,604)
Plan amendments	**(13,716)**	–
Settlements	**(216,885)**	(162,860)
Benefits paid	**(123,911)**	(103,315)
Expenses paid	**(1,876)**	(1,697)
Benefit obligation, end of year	**4,960,233**	5,178,365
Change in the Retirement Plans' assets:		
Fair value of the Retirement Plans' assets, beginning of year	**4,067,382**	3,895,594
Actual return on the Retirement Plans' assets, net of expenses	**272,471**	360,147
Employer contributions	**108,625**	79,513
Settlements	**(216,885)**	(162,860)
Benefits paid	**(123,911)**	(103,315)
Expenses paid	**(1,876)**	(1,697)
Fair value of the Retirement Plans' assets, end of year	**4,105,806**	4,067,382
Funded status of the Retirement Plans	**$ (854,427)**	$ (1,110,983)
End-of-year values:		
Projected benefit obligation	**$ 4,960,233**	$ 5,178,365
Accumulated benefit obligation	**4,956,393**	5,170,046

Included in unrestricted net assets at June 30, 2018, are unrecognized actuarial losses of $1.2 billion that have not yet been recognized in net periodic pension cost. The actuarial losses included in unrestricted net assets and expected to be recognized in net periodic pension cost during the fiscal year ending June 30, 2019, total $45.5 million.

11. Retirement Plans (continued)

The components of net periodic pension expense (income) for the years ended June 30 are as follows (in thousands):

	2018	2017
Components of net periodic pension expense (income):		
Service cost	**$ 13,785**	$ 9,340
Interest cost	**164,290**	152,067
Expected return on the Retirement Plans' assets	**(283,508)**	(271,545)
Actuarial losses	**46,370**	60,182
Settlements	**54,696**	40,608
	$ (4,367)	$ (9,348)

The service cost, interest cost, expected return on the Retirement Plans' assets, actuarial losses, and amortization of prior service benefit components of net periodic pension expense (income) are recognized in the consolidated statements of operations within employee benefits expense. The settlements component of net periodic pension expense (income) is recognized in the consolidated statements of operations within restructuring, impairment and other losses.

During fiscal years 2018 and 2017, certain Retirement Plans triggered settlement accounting, which occurs when lump-sum distributions exceed the sum of service and interest costs. This acceleration of benefit payments resulted in the remeasurement of the Retirement Plans' benefit obligation and the recognition in the consolidated statements of operations, within restructuring, impairment and other losses, of a portion of unrecognized actuarial losses previously recognized within net assets in the consolidated balance sheet, as disclosed above.

The assumption for the expected return on the Retirement Plans' assets is based on historical returns and adherence to the asset allocations set forth in the Retirement Plans' investment policies.

Weighted-average assumptions used to determine the pension benefit obligation for the years ended June 30 are as follows:

	2018	2017
Discount rate	**4.13%–4.27%**	3.71%–3.95%
Rate of compensation increase	**n/a**	n/a

11. Retirement Plans (continued)

The increase in the discount rate at June 30, 2018, decreased the pension benefit obligation by approximately $230.0 million.

Weighted-average assumptions used to determine the net periodic pension expense (income) for the years ended June 30 are as follows:

	2018	2017
Discount rate	**3.67%–4.18%**	3.52%–3.82%
Expected return on Retirement Plans' assets	**5.50%–7.20%**	5.50%–7.20%
Rate of compensation increase	**n/a**	n/a

CHI expects to contribute $87.1 million to the Retirement Plans in fiscal year 2019. A summary of expected benefits to be paid to the Retirement Plans' participants and beneficiaries is as follows (in thousands):

	Estimated Payments
Year Ending June 30:	
2019	$ 374,662
2020	302,954
2021	305,420
2022	308,698
2023	314,534
2024–2028	1,546,823

11. Retirement Plans (continued)

A summary of the Retirement Plans' assets at June 30 is as follows (in thousands):

	2018	2017
Assets		
Retirement Plans' interest in the CHI Master Trust	**$ 3,812,898**	$ 3,743,308
Investments in securities	**304,983**	331,168
Receivables for securities sold	**4,234**	14,089
Foreign currency exchange contracts	**30,767**	20,455
Other receivables	**2,907**	6,497
Total assets	**4,155,789**	4,115,517
Liabilities		
Payable for securities purchased	**18,949**	27,324
Foreign currency exchange contracts	**30,846**	20,541
Other liabilities	**188**	270
Total liabilities	**49,983**	48,135
Total Retirement Plans' assets	**$ 4,105,806**	$ 4,067,382

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. ASC 820, *Fair Value Measurements and Disclosures*, establishes a fair value hierarchy that prioritizes the inputs used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 inputs) and the lowest priority to unobservable inputs (Level 3 inputs) as further described in Note 8.

11. Retirement Plans (continued)

The Retirement Plans' financial instruments measured at fair value on a recurring basis were determined using the following inputs at June 30 (in thousands):

	2018			
	Fair Value Measurements at Reporting Date Using			
		(Level 1)	(Level 2)	(Level 3)
	Total	Quoted Prices in Active Markets	Other Observable Inputs	Unobservable Inputs
Assets				
Cash and short-term investments	**$ 132,212**	**$ 83,282**	**$ 48,930**	**$ –**
Equity securities	**3,019**	**293**	**2,726**	**–**
Fixed-income securities	**169,752**	**34,726**	**130,092**	**4,934**
Investments in securities	**304,983**	**118,301**	**181,748**	**4,934**
Foreign currency exchange contracts	**30,767**	**–**	**30,767**	**–**
Total assets	**$ 335,750**	**$ 118,301**	**$ 212,515**	**$ 4,934**
Liabilities				
Foreign currency exchange contracts	**$ 30,846**	**$ –**	**$ 30,846**	**$ –**
Total liabilities	**$ 30,846**	**$ –**	**$ 30,846**	**$ –**

	2017			
	Fair Value Measurements at Reporting Date Using			
		(Level 1)	(Level 2)	(Level 3)
	Total	Quoted Prices in Active Markets	Other Observable Inputs	Unobservable Inputs
Assets				
Cash and short-term investments	$ 62,061	$ 55,925	$ 6,136	$ –
Equity securities	44,679	38,796	5,883	–
Fixed-income securities	224,428	47,209	173,068	4,151
Investments in securities	331,168	141,930	185,087	4,151
Foreign currency exchange contracts	20,455	–	20,455	–
Total assets	$ 351,623	$ 141,930	$ 205,542	$ 4,151
Liabilities				
Foreign currency exchange contracts	$ 20,541	$ –	$ 20,541	$ –
Total liabilities	$ 20,541	$ –	$ 20,541	$ –

11. Retirement Plans (continued)

The changes in fair value of the Retirement Plans' investments in securities, for which Level 3 inputs were used, are as follows (in thousands):

Investments at fair value at July 1, 2016	$	21,395
Purchases of investments		6,145
Sales of investments		(22,621)
Net change in unrealized loss on investments, including foreign currency changes		(172)
Net realized loss on investments, including foreign currency changes		(596)
Investments at fair value at June 30, 2017		4,151
Purchases of investments		**4,560**
Sales of investments		**(2,688)**
Net change in unrealized loss on investments, including foreign currency changes		**(31)**
Net realized loss on investments, including foreign currency changes		**(1,058)**
Investments at fair value at June 30, 2018	**$**	**4,934**

There were no significant transfers in or out of Level 3 during any period presented.

Certain of the Retirement Plans' investments are held in the CHI Master Trust, which was established for the investment of assets of the Retirement Plans. Each participating plan has an undivided interest in the CHI Master Trust. The CHI Master Trust assets are allocated among the participating plans by assigning to each plan those transactions (primarily contributions, benefit payments, and plan-specific expenses) that can be specifically identified and by allocating among all plans, in proportion to each plan's beneficial interest in the CHI Master Trust, income and expenses resulting from the collective investment of the assets of the CHI Master Trust.

The CHI Master Trust investment portfolio is designed to preserve principal and obtain competitive investment returns and long-term investment growth, consistent with actuarial assumptions, while minimizing unnecessary investment risk. Diversification is achieved by allocating assets to various asset classes and investment styles and by retaining multiple investment managers with complementary philosophies, styles and approaches. Although the objective of the CHI Master Trust is to maintain targeted asset allocations, temporary periods may exist where allocations are outside of the expected range due to market conditions. The use of leverage is prohibited except as specifically directed in the alternative investment allocation. The portfolio is managed on a basis consistent with the CHI social responsibility guidelines.

11. Retirement Plans (continued)

The CHI Master Trust asset allocation at June 30 is as follows:

	2018	2017
Equity securities	**47%**	48%
Fixed-income securities	**34**	33
Alternative investments	**19**	19
	100%	100%

The CHI Finance Committee (the Committee) of the Board of Stewardship Trustees is responsible for determining targeted asset allocations among fixed-income, equity, and alternative investments. At least annually, the Committee reviews targeted allocations and, if necessary, makes adjustments to targeted asset allocations. Given the diversity of the underlying securities in which the CHI Master Trust invests, management does not believe there is a significant concentration of credit risk.

The CHI Master Trust allocation to alternative investments is based upon contractual commitment levels to various funds. These commitments are drawn by the fund managers as opportunities arise to invest the capital. As of June 30, 2018, the CHI Master Trust had committed to invest $420.5 million in 27 funds, of which $378.5 million had been invested. The remaining $42.0 million will be invested when, and if, requested by the funds. Alternative investments within the CHI Master Trust have limited liquidity and as of June 30, 2018, $105.6 million of investments are illiquid and not available for redemption, and $619.9 million of investments are available for redemption within 180 days at the request of the CHI Master Trust.

11. Retirement Plans (continued)

A summary of the CHI Master Trust's assets at June 30 is as follows (in thousands). At June 30, 2018 and 2017, the Retirement Plans' interest in the net assets of the CHI Master Trust was approximately 100.0% and 99.9%, respectively.

	2018	2017
Assets		
Investments in securities	**$ 3,813,906**	$ 3,719,449
Receivables for securities sold	**28,700**	68,884
Foreign currency exchange contracts	**57,542**	49,037
Other receivables	**12,778**	11,618
Total assets	**3,912,926**	3,848,988
Liabilities		
Payable for securities purchased	**39,831**	53,561
Foreign currency exchange contracts	**57,405**	49,408
Other liabilities	**2,792**	2,706
Total liabilities	**100,028**	105,675
Total CHI Master Trust assets	**$ 3,812,898**	$ 3,743,313

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. ASC 820, *Fair Value Measurements and Disclosures*, establishes a fair value hierarchy that prioritizes the inputs used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 inputs) and the lowest priority to unobservable inputs (Level 3 inputs) as further described in Note 8.

The fair values of alternative investments are not publicly traded, nor are there generally readily available market quotations to be used for valuation purposes. Accordingly, the valuations of alternative investments are measured at the net asset value (NAV) practical expedient as of the reporting date, as reported by fund managers, and are excluded from the three-level hierarchy for fair value measurements in accordance with ASC Topic 820.

11. Retirement Plans (continued)

The CHI Master Trust's financial instruments measured at fair value on a recurring basis were determined using the following inputs at June 30 (in thousands):

	2018					
		Investments	Fair Value Measurements at Reporting Date Using			
				(Level 1)	(Level 2)	(Level 3)
	Total	Measured at NAV	Total	Quoted Prices in Active Markets	Other Observable Inputs	Unobservable Inputs
Assets						
Cash and short-term investments	**$ 90,826**	**$ –**	**$ 90,826**	**$ 85,993**	**$ 4,833**	**$ –**
Equity securities	**1,743,129**	**–**	**1,743,129**	**1,740,594**	**2,535**	**–**
Fixed-income securities	**1,246,718**	**–**	**1,246,718**	**349,221**	**714,002**	**183,495**
Alternative investments	**733,233**	**733,233**	**–**	**–**	**–**	**–**
Investments in securities	**3,813,906**	**733,233**	**3,080,673**	**2,175,808**	**721,370**	**183,495**
Foreign currency exchange contracts	**57,542**	**–**	**57,542**	**–**	**57,542**	**–**
Total assets	**$ 3,871,448**	**$ 733,233**	**$ 3,138,215**	**$ 2,175,808**	**$ 778,912**	**$ 183,495**
Liabilities						
Foreign currency exchange contracts	**$ 57,405**	**$ –**	**$ 57,405**	**$ –**	**$ 57,405**	**$ –**
Total liabilities	**$ 57,405**	**$ –**	**$ 57,405**	**$ –**	**$ 57,405**	**$ –**

	2017					
		Investments	Fair Value Measurements at Reporting Date Using			
				(Level 1)	(Level 2)	(Level 3)
	Total	Measured at NAV	Total	Quoted Prices in Active Markets	Other Observable Inputs	Unobservable Inputs
Assets						
Cash and short-term investments	$ 106,397	$ –	$ 106,397	$ 100,642	$ 5,755	$ –
Equity securities	1,710,426	–	1,710,426	1,707,864	2,562	–
Fixed-income securities	1,171,383	–	1,171,383	330,660	662,532	178,191
Alternative investments	731,243	731,243	–	–	–	–
Investments in securities	3,719,449	731,243	2,988,206	2,139,166	670,849	178,191
Foreign currency exchange contracts	49,037	–	49,037	–	49,037	–
Total assets	$ 3,768,486	$ 731,243	$ 3,037,243	$ 2,139,166	$ 719,886	$ 178,191
Liabilities						
Foreign currency exchange contracts	$ 49,408	$ –	$ 49,408	$ –	$ 49,408	$ –
Total liabilities	$ 49,408	$ –	$ 49,408	$ –	$ 49,408	$ –

11. Retirement Plans (continued)

The changes in fair value of the CHI Master Trust's investments, for which Level 3 inputs were used, are as follows (in thousands):

Investments at fair value at July 1, 2016	$ 164,146
Purchases of investments	166,065
Sales of investments	(155,094)
Net change in unrealized gain on investments, including foreign currency changes	5,556
Net realized loss on investments, including foreign currency changes	(2,482)
Investments at fair value at June 30, 2017	178,191
Purchases of investments	**140,185**
Sales of investments	**(135,273)**
Net change in unrealized loss on investments, including foreign currency changes	**(138)**
Net realized gain on investments, including foreign currency changes	**530**
Investments at fair value at June 30, 2018	**$ 183,495**

There were no significant transfers in or out of Level 3 during any period presented.

CHI 401(k) Retirement Savings Plan

CHI sponsors the CHI 401(k) Retirement Savings Plan (401(k) Savings Plan) for its employees whereby CHI matches 100.0% of the first 1.0% of eligible pay an employee contributes to the plan, and 50.0% of the next 5.0% of eligible pay contributed to the plan, for a maximum employer matching rate of 3.5% of eligible pay. On an annual basis and regardless of whether or not an employee participates in the 401(k) Savings Plan, CHI will also contribute 2.5% of eligible pay to an employee's 401(k) Savings Plan account. This contribution is made if an employee reaches 1,000 hours in the first year of employment, or every calendar year thereafter, and is employed on the last day of the calendar year. An employee is fully vested in the plan for employer contributions after three years of service. CHI recorded 401(k) Savings Plan expense of $218.8 million and $224.2 million for the years ended June 30, 2018 and 2017, respectively, which is reflected in employee benefits expenses in the accompanying consolidated statements of operations.

12. Concentrations of Credit Risk

CHI grants credit without collateral to its patients, most of whom are insured under third-party payor agreements. CHI's exposure to credit risk on patient accounts receivable is limited by the geographical diversity of its MBOs.

The mix of net patient accounts receivable at June 30 approximated the following:

	2018	2017
Medicare	**26%**	26%
Medicaid	**10**	14
Managed care	**34**	33
Self-pay	**11**	10
Commercial and other	**19**	17
	100%	100%

CHI maintains long-term investments with various financial institutions and investment management firms through its investment program, and its policy is designed to limit exposure to any one institution or investment. Management does not believe there are significant concentrations of credit risk at June 30, 2018 and 2017.

13. Commitments and Contingencies

Litigation

During the normal course of business, CHI may become involved in litigation. Management assesses the probable outcome of unresolved litigation and records estimated settlements. After consultation with legal counsel, management believes that any such matters will be resolved without material adverse impact to the consolidated financial position or results of operations of CHI.

13. Commitments and Contingencies (continued)

Health Care Regulatory Environment

The health care industry is subject to numerous laws and regulations of federal, state and local governments. These laws and regulations include, but are not limited to, matters such as licensure, accreditation, government health care program participation requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Management believes CHI is in compliance with all applicable laws and regulations of the Medicare and Medicaid programs. Compliance with such laws and regulations is complex and can be subject to future governmental interpretation as well as significant regulatory action, including fines, penalties and exclusion from the Medicare and Medicaid programs. Certain CHI entities have been contacted by governmental agencies regarding alleged violations of Medicare practices for certain services. In the opinion of management after consultation with legal counsel, the ultimate outcome of these matters will not have a material adverse effect on CHI's consolidated financial statements.

Operating Leases

CHI leases certain real estate and equipment under operating leases, which may include renewal options and escalation clauses. Future minimum lease payments required for the next five years and thereafter for all operating leases that have initial or remaining noncancelable lease terms in excess of one year at June 30, 2018, are as follows (in thousands):

	Amounts Due
Year Ending June 30:	
2019	$ 223,508
2020	194,822
2021	172,060
2022	150,054
2023	128,821
Thereafter	398,064
	$ 1,267,329

Lease expense under operating leases for continuing operations for the years ended June 30, 2018 and 2017, totaled approximately $329.4 million and $288.3 million, respectively.

13. Commitments and Contingencies (continued)

Capital Commitments

As of June 30, 2018, CHI has legally committed to fund $669.2 million of capital improvements related to certain acquisitions and affiliations.

14. Insurance Programs

FIIL, a wholly owned captive insurance company of CHI, provides professional liability, employment practices liability, miscellaneous professional liability, and commercial general liability coverage, primarily to CHI healthcare providers and all employees, including employed providers. Coverage is provided either on a direct written basis or through a reinsurance fronting relationship with commercial insurance carriers. Policies written provide coverage with primary limits in the amount of $10.0 million for each and every claim in fiscal years 2018 and 2017. For the policy year July 1, 2017 to July 1, 2018 (and in the prior year), there is an annual policy aggregate of $85.0 million eroded by professional liability and commercial general liability claims, subject to a $175,000 continuing underlying per claim limit. Effective July 1, 2011, FIIL provided excess umbrella liability coverage to CHI for claims in excess of the underlying limits discussed above. The limits provided under such excess coverage are $200.0 million per claim and in the aggregate. FIIL reinsured 100% of the excess layer with various commercial insurance companies. At June 30, 2018 and 2017, investments and assets limited as to use held for insurance purposes included $48.3 million and $55.9 million, respectively, held as collateral for the reinsurance fronting arrangement.

FIIL provided workers' compensation coverage to CHI entities on a directly written basis for the current and prior fiscal years, with limits of liability of $1 million per claim. FIIL did not reinsure this coverage for the current and prior fiscal years.

The liability for self-insured reserves and claims represents the estimated ultimate net cost of all reported and unreported losses incurred through June 30. The reserves for unpaid losses and loss adjustment expenses are estimated using individual case-based valuations, statistical analyses and the expertise of an independent actuary.

The estimates for loss reserves are subject to the effects of trends in loss severity and frequency. Although considerable variability is inherent in such estimates, management believes that the reserves for unpaid losses and loss adjustment expenses are adequate. The estimates are reviewed periodically, with consultation from independent actuaries, and any adjustments to the loss reserves are reflected in current operations. As a result of these reviews of claims experience,

14. Insurance Programs (continued)

estimated reserves were reduced by $70.3 million and $63.3 million in fiscal years 2018 and 2017, respectively. The reserves for unpaid losses and loss adjustment expenses relating to the workers' compensation program were discounted, assuming a 4.0% annual return at June 30, 2018 and 2017, to a present value of $147.7 million and $155.5 million at June 30, 2018 and 2017, respectively, and represented a discount of $48.5 million and $50.2 million at June 30, 2018 and 2017, respectively. Reserves related to professional liability, employment practices and general liability are not discounted.

FIIL holds $817.2 million and $848.8 million of investments held for insurance purposes as of June 30, 2018 and 2017, respectively. Distribution of amounts from FIIL to CHI are subject to the approval of the Cayman Island Monetary Authority. CHI established a captive management operation (Captive Management Initiatives, Ltd.) based in the Cayman Islands, which currently manages FIIL as well as operations of other unrelated parties.

CHI, through its Welfare Benefit Administration and Development Trust, provides comprehensive health and dental coverage to certain employees and dependents through a self-insured medical plan. Accounts payable and accrued expenses include $54.3 million and $58.8 million for unpaid claims and claims adjustment expenses for CHI's self-insured medical plan at June 30, 2018 and 2017, respectively. Those estimates are subject to the effects of trends in loss severity and frequency. Although considerable variability is inherent in such estimates, management believes that the reserves for unpaid losses and loss adjustment expenses are adequate. The estimates are reviewed periodically and, as adjustments to the liability become necessary, such adjustments are reflected in current operations. CHI has stop-loss insurance to cover unusually high costs of care beyond a predetermined annual amount per enrolled participant.

15. Subsequent Events

CHI's management has evaluated events subsequent to June 30, 2018 through September 27, 2018, which is the date these consolidated financial statements were issued. There have been no material events noted during this period that would either impact the results reflected herein or CHI's results going forward, except as disclosed herein.

In September 2018, CHI joined with six major, nationally recognized health systems to form Civica Rx, a nonprofit generic drug company that will help patients by addressing shortages and high prices of life saving medications. As an FDA-approved manufacturer, Civica Rx will either directly manufacture general drugs or sub-contract manufacturing with reputable organizations. Civica Rx will first seek to stabilize the supply of essential generic medications administered in hospitals, since many of the medications are in chronic short supply. Civica Rx expects to have its first products on the market as early as 2019.

Supplementary Information

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Report of Independent Auditors on Supplementary Information

The Board of Stewardship Trustees
Catholic Health Initiatives

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

Ernst & Young LLP

September 27, 2018

Catholic Health Initiatives

Consolidating Balance Sheet

June 30, 2018
(In Thousands)

	MBOs	Corporate	FIIL	CHI Welfare Benefits Trust	Other	Eliminations and Adjustments	Consolidated
Assets							
Current assets:							
Cash and equivalents	$ 657,504	$ (310,901)	$ 86	$ 50,068	$ 113,699	$ –	$ 510,456
Net patient accounts receivable, less allowance for bad debts of $827,130	2,135,402	–	–	–	–	(13,820)	2,121,582
Other accounts receivable	235,213	475,019	605	(56)	3,707	(457,203)	257,285
Current portion of investments and assets limited as to use	5,831	58,517	–	–	–	–	64,348
Inventories	298,636	–	–	–	–	–	298,636
Assets of discontinued operations and held for sale	28,083	–	–	–	167,615	–	195,698
Prepaid and other	65,726	77,795	41	–	441	–	144,003
Total current assets	3,426,395	300,430	732	50,012	285,462	(471,023)	3,592,008
Investments and assets limited as to use:							
Internally designated for capital and other funds	5,119,889	166,273	–	39,302	–	(16,596)	5,308,868
Held by trustees	11,141	64,939	–	–	–	–	76,080
Held for insurance purposes	112	–	817,237	–	12,053	–	829,402
Restricted by donors	257,183	1,205	–	–	125	–	258,513
Total investments and assets limited as to use	5,388,325	232,417	817,237	39,302	12,178	(16,596)	6,472,863
Property and equipment, net	7,450,237	649,829	–	–	10,701	–	8,110,767
Investments in unconsolidated organizations	999,527	1,069,837	–	–	14,773	(351,297)	1,732,840
Intangible assets and goodwill, net	409,288	12,100	–	–	–	–	421,388
Notes receivable and other	811,905	3,077,602	36,135	3,010	54	(3,663,265)	265,441
Total assets	$ 18,485,677	$ 5,342,215	$ 854,104	$ 92,324	$ 323,168	$ (4,502,181)	$ 20,595,307

Continued on following page

Catholic Health Initiatives

Consolidating Balance Sheet (continued)

June 30, 2018
(In Thousands)

	MBOs	Corporate	FIIL	CHI Welfare Benefits Trust	Other	Eliminations and Adjustments	Consolidated
Liabilities and net assets							
Current liabilities:							
Compensation and benefits	$ 443,284	$ 113,012	$ –	$ 1,561	$ 11,129	$ –	$ 568,986
Third-party liabilities, net	131,670	–	–	–	–	–	131,670
Accounts payable and accrued expenses	1,512,227	367,575	6,072	54,276	11,238	(471,023)	1,480,365
Liabilities of discontinued operations held for sale	92,369	–	–	–	159,341	–	251,710
Variable-rate debt with self-liquidity	–	96,700	–	–	–	–	96,700
Current portion of long-term debt	223,579	2,009,051	–	–	–	(145,224)	2,087,406
Total current liabilities	2,403,129	2,586,338	6,072	55,837	181,708	(616,247)	4,616,837
Pension liability	115,078	747,362	–	–	–	(8,013)	854,427
Self-insured reserves and claims	1,038	3,636	618,650	–	(57)	–	623,267
Other liabilities	407,476	618,593	–	–	1,022	–	1,027,091
Long-term debt	3,394,225	6,455,347	–	–	10,700	(3,518,341)	6,341,931
Total liabilities	6,320,946	10,411,276	624,722	55,837	193,373	(4,142,601)	13,463,553
Net assets:							
Net assets attributable to CHI	11,562,140	(5,069,434)	229,382	36,487	129,640	(359,580)	6,528,635
Net assets attributable to noncontrolling interests	300,496	(68)	–	–	–	–	300,428
Unrestricted	11,862,636	(5,069,502)	229,382	36,487	129,640	(359,580)	6,829,063
Temporarily restricted	207,099	441	–	–	155	–	207,695
Permanently restricted	94,996	–	–	–	–	–	94,996
Total net assets	12,164,731	(5,069,061)	229,382	36,487	129,795	(359,580)	7,131,754
Total liabilities and net assets	$ 18,485,677	$ 5,342,215	$ 854,104	$ 92,324	$ 323,168	$ (4,502,181)	$ 20,595,307

Catholic Health Initiatives

Consolidating Statement of Operations

June 30, 2018
(In Thousands)

	MBOs	Corporate	FIIL	CHI Welfare Benefits Trust	Other	Eliminations and Adjustments	Consolidated
Revenues:							
Net patient services revenues	$ 14,305,223	$ –	$ –	$ –	$ –	$ (168,849)	$ 14,136,374
Other operating revenues:							
Donations	41,720	3	–	–	30	–	41,753
Changes in equity of unconsolidated organizations	(35,718)	39,149	–	–	(749)	15,776	18,458
Hospital ancillary revenues	348,352	–	–	–	1,969	–	350,321
Other	344,010	1,623,456	167,155	628,905	308,453	(2,636,798)	435,181
Total other operating revenues	698,364	1,662,608	167,155	628,905	309,703	(2,621,022)	845,713
Total operating revenues	15,003,587	1,662,608	167,155	628,905	309,703	(2,789,871)	14,982,087
Expenses:							
Salaries and wages	5,713,518	274,607	–	–	192,645	(184,815)	5,995,955
Employee benefits	1,272,381	20,133	23,475	630,035	54,784	(886,244)	1,114,564
Purchased services, medical professional fees and consulting	2,494,221	849,945	12,263	2,194	60,289	(1,117,912)	2,301,000
Supplies	2,451,224	(3,740)	–	–	32	–	2,447,516
Utilities	174,977	21,360	–	–	91	–	196,428
Rentals, leases, maintenance and insurance	571,853	509,849	94,930	–	1,373	(294,563)	883,442
Depreciation and amortization	713,081	141,498	–	–	1,609	–	856,188
Interest	165,748	291,777	–	–	518	(145,272)	312,771
Other	1,143,373	32,990	509	739	8,883	(176,841)	1,009,653
Total operating expenses before restructuring, impairment and other losses	14,700,376	2,138,419	131,177	632,968	320,224	(2,805,647)	15,117,517
Income (loss) from operations before restructuring, impairment and other losses	303,211	(475,811)	35,978	(4,063)	(10,521)	15,776	(135,430)
Restructuring, impairment and other losses	55,877	79,140	5,897	–	369	–	141,283
Income (loss) from operations	247,334	(554,951)	30,081	(4,063)	(10,890)	15,776	(276,713)
Nonoperating gains (losses):							
Investment gains, net	377,621	24,713	33,554	3,653	31	2,924	442,496
Gains on early extinguishment of debt	208	–	–	–	–	–	208
Realized and unrealized gains on interest rate swaps	5,759	46,364	–	–	–	–	52,123
Other nonoperating gains (losses)	3,987	–	–	–	–	–	3,987
Total nonoperating gains	387,575	71,077	33,554	3,653	31	2,924	498,814
Excess (deficit) of revenues over expenses	634,909	(483,874)	63,635	(410)	(10,859)	18,700	222,101
Excess (deficit) of revenues over expenses attributable to noncontrolling interest	31,448	(2,999)	–	–	–	–	28,449
Excess (deficit) of revenues over expenses attributable to CHI	$ 603,461	$ (480,875)	$ 63,635	$ (410)	$ (10,859)	$ 18,700	$ 193,652

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