HOSPITAL SISTERS HEALTH SYSTEM AND SUBSIDIARIES

Springfield, Illinois

Consolidated Financial Statements and Supplementary Information

June 30, 2017 and 2016

(With Independent Auditors' Report Thereon)

KPMG LLP
Aon Center
Suite 5500
200 East Randolph Drive
Chicago, IL 60601-6436

Independent Auditors' Report

The Board of Directors
Hospital Sisters Health System:

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Hospital Sisters Health System and Subsidiaries, which comprise the consolidated balance sheets as of June 30, 2017 and 2016, and the related consolidated statements of operations and change in unrestricted net assets, 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 Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Hospital Sisters Health System and Subsidiaries as of June 30, 2017 and 2016, and the results of their operations, the changes in their net assets, and their cash flows for the years then ended, in accordance with U.S. generally accepted accounting principles.

Other Matters

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary information included in schedules 1 through 6 is presented for purposes of additional analysis and is 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 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit 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 consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

KPMG LLP

Chicago, Illinois
October 17, 2017

HOSPITAL SISTERS HEALTH SYSTEM AND SUBSIDIARIES
Springfield, Illinois

Consolidated Balance Sheets

June 30, 2017 and 2016

(Dollars in thousands)

Assets		**2017**	**2016**
Current assets:			
Cash and cash equivalents	$	112,810	94,407
Receivables:			
Patients' accounts, less allowance for uncollectible accounts of approximately $115,900 in 2017 and $120,200 in 2016		426,821	394,879
Due from third-party reimbursement programs		2,491	2,274
Other		37,641	34,092
Total receivables		466,953	431,245
Current portion of assets whose use is limited or restricted		317,603	251,763
Inventories		48,021	45,574
Prepaid expenses		29,615	25,418
Total current assets		975,002	848,407
Assets whose use is limited or restricted, net of current portion		1,613,977	1,626,726
Property, plant, and equipment, net		1,410,180	1,342,416
Other assets		97,809	65,919
	$	4,096,968	3,883,468
Liabilities and Net Assets			
Current liabilities:			
Current installments of long-term debt	$	30,257	29,122
Long-term debt subject to short-term remarketing agreements		220,215	155,345
Current portion of estimated self-insurance liabilities		51,911	35,186
Accounts payable		105,770	103,485
Accrued liabilities		160,514	161,299
Estimated payables under third-party reimbursement programs		59,981	56,784
Total current liabilities		628,648	541,221
Long-term debt, excluding current installments		522,114	482,477
Estimated self-insurance liabilities		78,564	70,773
Derivative instruments		47,906	71,267
Accrued benefit liability		346,812	514,273
Other noncurrent liabilities		51,640	50,863
Total liabilities		1,675,684	1,730,874
Net assets:			
Unrestricted		2,353,270	2,093,726
Temporarily restricted		40,145	31,432
Permanently restricted		27,869	27,436
Total net assets		2,421,284	2,152,594
	$	4,096,968	3,883,468

See accompanying notes to consolidated financial statements.

HOSPITAL SISTERS HEALTH SYSTEM AND SUBSIDIARIES
Springfield, Illinois

Consolidated Statements of Operations and Change in Unrestricted Net Assets

Years ended June 30, 2017 and 2016

(Dollars in thousands)

	2017	2016
Net patient service revenues	$ 2,323,186	2,227,721
Provision for uncollectible accounts	(40,871)	(31,419)
Net patient service revenue less provision for uncollectible accounts	2,282,315	2,196,302
Other revenues:		
Investment income (loss)	595	(286)
Net assets released from restrictions used for operations	4,207	5,105
Other	77,425	76,508
Total revenues	2,364,542	2,277,629
Expenses:		
Sisters' services	1,036	1,128
Salaries and wages	851,307	840,256
Employee benefits	209,560	196,209
Pension expense, excluding mark-to-market adjustment	23,359	32,350
Pension expense, mark-to-market adjustment	(59,761)	257,203
Professional fees	121,882	113,316
Supplies	342,568	324,850
Depreciation and amortization, excluding Belleville campus	155,159	151,571
Accelerated depreciation on Belleville campus	7,479	7,479
Interest	11,213	11,931
Other	634,159	572,289
Total expenses	2,297,961	2,508,582
Income (loss) from operations	66,581	(230,953)
Nonoperating gains (losses):		
Investment income (loss)	147,152	(34,414)
Contributions of Good Shepherd unrestricted net assets	19,124	—
Contributions of Holy Family unrestricted net assets	—	749
Change in fair value of interest rate swaps	23,361	(22,533)
Revenues and gains in excess (deficient) of expenses and losses before discontinued operations	256,218	(287,151)
Net gains (losses) from discontinued operations	2,933	(55,210)
Revenues and gains in excess (deficient) of expenses and losses	259,151	(342,361)
Other changes in unrestricted net assets:		
Net assets released from restrictions used for the purchase of property, plant, and equipment	92	667
Recognition of change in pension funded status	301	580
Change in unrestricted net assets	$ 259,544	(341,114)

See accompanying notes to consolidated financial statements.

HOSPITAL SISTERS HEALTH SYSTEM AND SUBSIDIARIES
Springfield, Illinois

Consolidated Statements of Changes in Net Assets

Years ended June 30, 2017 and 2016

(Dollars in thousands)

		2017	2016
Unrestricted net assets:			
Revenues and gains in excess (deficient) of expenses and losses	$	259,151	(342,361)
Other changes in unrestricted net assets:			
Net assets released from restrictions used for the purchase of property, plant, and equipment		92	667
Recognition of change in pension funded status		301	580
Change in unrestricted net assets		259,544	(341,114)
Temporarily restricted net assets:			
Investment income		1,284	40
Contributions		10,470	11,399
Contribution of Good Shepherd restricted net assets		1,258	—
Contribution of Holy Family restricted net assets		—	11
Net assets released from restrictions		(4,299)	(5,772)
Change in temporarily restricted net assets		8,713	5,678
Permanently restricted net assets:			
Investment income		21	3
Contributions		352	647
Contribution of Good Shepherd restricted net assets		60	—
Contribution of Holy Family restricted net assets		—	967
Change in permanently restricted net assets		433	1,617
Change in net assets		268,690	(333,819)
Net assets at beginning of year		2,152,594	2,486,413
Net assets at end of year	$	2,421,284	2,152,594

See accompanying notes to consolidated financial statements.

HOSPITAL SISTERS HEALTH SYSTEM AND SUBSIDIARIES
Springfield, Illinois

Consolidated Statements of Cash Flows

Years ended June 30, 2017 and 2016

(Dollars in thousands)

		2017	2016
Cash flows from operating activities:			
Change in net assets	$	268,690	(333,819)
Adjustments to reconcile change in net assets to net cash provided by operating activities:			
Loss on disposal of SMS		—	40,569
Pension expense, mark-to-market adjustment		(59,761)	261,316
Recognition of change in pension funded status		(301)	(587)
Income from equity basis investments		(3,123)	(1,989)
Cash distributions received from equity basis investments		4,928	2,650
Net assets released from restrictions and used for operations		4,207	5,105
Contribution of Good Shepherd net assets		(20,442)	—
Contribution of Holy Family net assets		—	(1,727)
Restricted contributions and investment return		(12,127)	(12,089)
Amortization of bond issuance costs and premiums/discounts included in interest expense		(5,638)	(6,183)
Depreciation and amortization		162,638	159,050
Provision for uncollectible accounts		40,871	32,528
Change in net unrealized gains and losses on investments		(64,832)	83,169
Net realized gains on sale of investments		(65,425)	(29,146)
Change in the fair value of derivative instruments		(23,361)	22,533
Changes in assets and liabilities:			
Patients' accounts receivable		(70,603)	(67,938)
Other receivables		(3,549)	(28)
Inventories		(2,272)	(1,282)
Prepaid expenses		(3,936)	(1,701)
Net amounts due to third-party reimbursement programs		2,683	(10,236)
Accounts payable and accrued liabilities		(1,126)	(7,054)
Estimated self-insurance liabilities and other noncurrent liabilities		(82,106)	(59,076)
Net cash provided by operating activities		65,415	74,065
Cash flows from investing activities:			
Acquisition of property, plant, and equipment		(219,221)	(221,855)
Cash received from contribution of Good Shepard		412	—
Cash received from contribution of Holy Family		—	606
Cash paid for Door County		(40,000)	—
Gross purchases of investments		(2,088,241)	(1,733,706)
Gross proceeds from sale or maturity of investments		2,181,971	1,842,472
Change in other assets		6,812	(1,187)
Net cash used in investing activities		(158,267)	(113,670)
Cash flows from financing activities:			
Repayment of long-term debt		(101,508)	(13,033)
Proceeds from issuance of debt		206,902	—
Payment of bond issuance cost		(2,059)	—
Net assets released from restrictions and used for operations		(4,207)	(5,105)
Restricted contributions and investment return		12,127	12,089
Net cash provided by (used in) financing activities		111,255	(6,049)
Change in cash and cash equivalents		18,403	(45,654)
Cash and cash equivalents at beginning of year		94,407	140,061
Cash and cash equivalents at end of year	$	112,810	94,407

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HOSPITAL SISTERS HEALTH SYSTEM AND SUBSIDIARIES
Springfield, Illinois

Consolidated Statements of Cash Flows

Years ended June 30, 2017 and 2016

(Dollars in thousands)

		2017	2016
Supplemental disclosure of cash flow information:			
Cash paid for interest, net of amounts capitalized	$	14,809	13,529
Supplemental disclosure of noncash transactions:			
Assets acquired under capital lease	$	1,045	4,447
Noncash transactions associated with acquisitions:			
Patients' account receivable	$	2,210	3,346
Inventories		175	423
Prepaid expenses		261	851
Investments		16,564	4,751
Property, plant and equipment		10,136	9,844
Other assets		507	130
Estimated third-party payor settlements		(297)	(5,374)
Accounts payable and accrued expenses		(2,626)	(3,460)
Other long-term liabilities		—	(1,939)
Long-term debt		(6,900)	(7,451)

See accompanying notes to consolidated financial statements.

(1) Organization and Purpose

Hospital Sisters Health System (HSHS), an Illinois not-for-profit corporation, considers all wholly owned or controlled entities as subsidiaries for consolidated financial statement purposes. The accompanying consolidated financial statements include the accounts of HSHS and its subsidiaries. HSHS is the parent corporation for several subsidiary corporations and exerts control through various reserved powers. The subsidiary corporations and controlled entities presented in the accompanying consolidated financial statements include Hospital Sisters Services, Inc. (HSSI), HSHS System Services Center (the SSC), Hospital Sisters of St. Francis Foundation, Inc. (the Foundation), and Kiara, Inc. HSSI, an Illinois not-for-profit holding company, is the sole member of 16 hospitals in Illinois and Wisconsin, Hospital Sisters Healthcare – West, Inc. (HCW), HSHS Medical Group, Inc., and HSHS Wisconsin Medical Group, Inc. (collectively, referred to as the Medical Group), Unity Limited Partnership, Kiara Clinical Integration Network (KCIN), Prairie Education & Research Cooperative (PERC), and Renaissance Quality Insurance, Ltd. (RQIL).

The hospitals are organized for the purpose of providing inpatient and outpatient healthcare services. HSSI formed the Medical Group for the purpose of affiliating with physicians. RQIL is a captive insurance company incorporated in the Cayman Islands to provide professional and general liability insurance coverage to HSHS and affiliates. Effective July 1, 2013, RQIL started providing workers compensation coverage for the hospitals.

16 hospitals within HSSI have formed an Obligated Group for debt financing purposes through the use of a Master Trust Indenture (MTI) (note 12).

The 16 hospitals, of which HSSI is the sole corporate member, are as follows:

Hospital	Location
	Illinois:
St. Elizabeth's Hospital (SEB)	Belleville
St. Joseph's Hospital (SJB)	Breese
St. Mary's Hospital (SMD)	Decatur
St. Anthony's Memorial Hospital (SAE)	Effingham
Holy Family Hospital (HFG)	Greenville
St. Joseph's Hospital (SJH)	Highland
St. Francis Hospital (SFL)	Litchfield
St. John's Hospital (SJS)	Springfield
Good Shepherd Hospital (GSS)	Shelbyville
St. Mary's Hospital (SMS)	Streator

(Continued)

(Dollars in thousands)

Hospital	Location
	Wisconsin:
St. Joseph's Hospital (SJCF)	Chippewa Falls
Sacred Heart Hospital (SHEC)	Eau Claire
St. Mary's Hospital Medical Center (SMGB)	Green Bay
St. Vincent Hospital (SVGB)	Green Bay
St. Nicholas Hospital (SNS)	Sheboygan
St. Clare Memorial Hospital (SCO)	Oconto Falls

The SSC administers healthcare claims for the benefit of HSHS colleagues. The SSC is supported by annual fees paid by the HSHS' affiliated hospitals and certain other HSHS-controlled entities to the SSC. The SSC utilizes these funds to provide centralized management and information services to the 16 affiliated hospitals and employee health administration. In addition, the SSC administers a centralized investment program and defined-contribution and defined-benefit pension plans on behalf of all HSHS entities.

The Foundation, an Illinois not-for-profit corporation, is an entity whose purpose is to solicit and administer philanthropic funds. The Foundation is structured into 15 separate divisions to administer restricted and unrestricted gifts and bequests at each of the respective hospital locations and the SSC.

Kiara, Inc., an Illinois for-profit corporation, provides a vehicle for joint ventures with physicians and an entry into those health-related services, which do not qualify as tax-exempt services, such as pharmacy, durable medical equipment, nonaffiliated electronic health records (EHR) implementations, and real estate holdings. Kiara, Inc. is the sole stockholder of LaSante, Inc., LaSante Wisconsin, Inc., and Prairie Cardiovascular Consultants, Inc. The operations of these three wholly owned subsidiaries are consolidated into the financial statements of Kiara, Inc.

On June 22, 2015, the board of directors approved the intention to sell and donate certain assets associated with SMS in Streator, Illinois. Effective January 4, 2016, HSHS transferred sponsorship of substantially all of the assets and certain liabilities of and associated with SMS (note 9).

On May 2, 2016, HSSI became the sole corporate member of Greenville Regional Healthcare, Inc. (GRH) in Greenville, Illinois. Effective on the acquisition date, GRH became a Catholic entity and the hospital name was changed to HSHS Holy Family Hospital, Inc. prior to the acquisition. Revised governing documents are consistent with HSHS policies applicable to affiliates. HSSI will retain certain reserve powers over HFG consistent with other HSSI subsidiaries. As a part of the change in sponsorship, HSHS recorded $749 of contribution of unrestricted net assets. HSHS acquired $19,951 of total assets, $18,224 of total liabilities, and $1,727 of net assets. The valuation of property, plant, and equipment, other current and long-term assets, including any identifiable intangible assets, and current and long-term liabilities has been completed. In valuing these assets and liabilities acquired, fair values were based on, but not limited to, independent appraisals, discounted cash flows, and replacement costs.

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Effective November 1, 2016 HSHS, HSSI, and SVGB entered into an affiliation agreement with Door County Memorial Hospital and Door County Medical Corporation. SVGB became a 40% minority member of Door County Memorial Hospital for $40,000. Other assets include $5,735 of goodwill as of June 30, 2017 related to this investment.

On January 16, 2017, HSSI became the sole corporate member of Shelby Memorial Hospital, Inc. (SMH) in Shelbyville, Illinois. Effective on the acquisition date, SMH became a Catholic entity and the hospital name was changed to HSHS Good Shepherd Hospital, Inc. prior to the acquisition. Revised governing documents are consistent with HSHS policies applicable to affiliates. HSSI will retain certain reserve powers over GSS consistent with other HSSI subsidiaries. As a part of the change in sponsorship, HSHS recorded $19,124 of contribution of unrestricted net assets. HSHS acquired $30,265 of total assets, $9,823 of total liabilities, and $20,442 of net assets. The valuation of property, plant, and equipment, other current and long-term assets, including any identifiable intangible assets, and current and long-term liabilities has been completed. In valuing these assets and liabilities acquired, fair values were based on, but not limited to, independent appraisals, discounted cash flows, and replacement costs.

All significant intercompany transactions have been eliminated in consolidation.

(2) Summary of Significant Accounting Policies

The significant accounting policies of HSHS are as follows:

(a) Presentation

For purposes of display, transactions deemed by management to be ongoing, major, or central to the provision of healthcare services are reported as revenues and expenses. Peripheral or incidental transactions are reported as nonoperating gains or losses. Nonoperating gains or losses include investment return, other than that which is associated with self-insurance programs, or funds held by trustee under indenture agreements, contributions of excess assets over liabilities, discontinued operations, and the change in fair value of the interest rate swaps.

(b) Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements. Estimates also affect the reported amounts of revenue and expenses during the reporting period. Significant estimates include allowances for contractual allowances and bad debts, third-party payor settlements, valuation of investments, recoverability of property, plant, and equipment, self-insurance liabilities, derivative instruments, accrued benefit liability, and other liabilities. Actual results could differ from those estimates.

(c) Cash and Cash Equivalents

Cash and cash equivalents include investments in highly liquid debt instruments with a maturity of three months or less when purchased, excluding those amounts included as assets whose use is limited or restricted.

(d) Assets Whose Use is Limited or Restricted

Assets whose use is limited or restricted include assets set aside by the board of directors for future capital improvements, self-insurance funding, and for other purposes over which the board of directors retains control and may at its discretion subsequently use for other purposes; assets held by third-party trustees under indenture agreements; and funds temporarily or permanently restricted by donors. Management classifies the current portion of assets whose use is limited or restricted based on the approximate amount of the current portion of long-term debt and self-insurance.

Investments in equity securities with readily determinable values and all investments in debt securities are measured at fair value in the accompanying consolidated balance sheets. Investment return on assets associated with self-insurance programs and assets deposited in funds held by trustee under indenture agreements are reported as other revenues. Investment return from all other investments is reported as nonoperating gains (losses), unless the income or loss is restricted by donor or law. Changes in net unrealized gains and losses on investments are included in revenues and gains in excess (deficient) of expenses and losses as all investments are considered to be trading securities.

(e) Inventories

Inventories are stated at the lower of cost or market. Cost is determined on a first-in, first-out basis.

(f) Property, Plant, and Equipment

Property, plant, and equipment additions are stated at cost or fair value at the date of acquisition or donation. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed using the straight-line method of accounting. Useful lives may be reassessed from time to time as facts and circumstances change in regards to how assets are being used. Interest costs incurred on borrowed funds during the period of construction of major projects are capitalized as a component of the cost of acquiring those assets. Capitalized interest is reduced by the amount of investment income earned on unexpended proceeds from project-specific borrowings. HSHS is in the process of repurposing the current campus to continue providing healthcare services in Belleville.

(g) Long-Lived Assets

Long-lived assets (including property, plant, and equipment) are periodically assessed for recoverability based on the occurrence of a significant adverse event or change in the environment in which HSHS operates or if the expected future cash flows (undiscounted and without interest) would become less than the carrying amount of the asset. An impairment loss would be recorded in the period such determination is made based on the fair value of the related entity. HSHS recorded $0 and $40,569 of impairments for the years ended June 30, 2017 and 2016, respectively.

(h) Other Assets – Joint Ventures

HSHS invests in various organizations that are not wholly owned or controlled by HSHS. Investments in affiliates in which HSHS has significant influence but does not control are reported on the equity method of accounting, which represents HSHS' equity in the underlying net book value. The equity method of accounting is discontinued when the investment is reduced to zero unless HSHS has guaranteed the obligations of the organization or is committed to provide additional capital support.

(i) Loss Reserves

HSHS is self-insured for professional and general liability, workers' compensation, and employee health claims. The provision for loss reserves include the ultimate cost for both reported losses and losses incurred, but not reported as of the respective consolidated balance sheet dates. HSHS reports the amount predicted to settle within one year as the current portion of estimated self-insurance liabilities with the corresponding investments held as current portion of assets whose use is limited or restricted. The long-term portion is reported as estimated self-insurance liabilities with the corresponding investments held as assets whose use is limited or restricted.

The liability for loss reserves represents an estimate of the ultimate net cost of all such amounts that are unpaid at the consolidated balance sheet dates. The liability is based on projections and the historical claim experience of HSHS and gives effect to estimates of trends. Although management believes the estimate of the liability for claims is reasonable, it is possible HSHS' actual incurred claims will not conform to the assumptions' inherent variability with respect to the significant assumptions utilized. The ultimate settlement of claims may vary from the liability for unpaid claims included in the accompanying consolidated financial statements.

(j) Derivative Instruments

HSHS accounts for derivatives and hedging activities in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Subtopic 815-10, *Accounting for Derivative Instruments and Hedging Activities*, which requires that an entity recognize all derivatives as either assets or liabilities in the consolidated balance sheet and measure those instruments at fair value. HSHS is involved in five interest rate swaps. The fair value of the interest rate swap programs is included as derivative instruments in the accompanying consolidated balance sheets. For HSHS, the derivatives are not designated as hedge instruments, and therefore, settlements on derivative instruments and the change in fair values of the interest rate swap agreements are recognized in the consolidated statements of operations and change in unrestricted net assets as a component of nonoperating gains (losses).

(k) Asbestos Removal Costs

HSHS accounts for asbestos removal costs in accordance with ASC Subtopic 410-20, *Accounting for Conditional Asset Retirement Obligations*. ASC Subtopic 410-20 requires the current recognition of a liability when a legal obligation exists to perform an asset retirement obligation (ARO) in which the timing or method of settlement is conditional on a future event that may or may not be under the control of the entity. ASC Subtopic 410-20 requires an ARO liability be recorded at its net present value with recognition of a related long-lived asset in a corresponding amount. The ARO liability is accreted

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through periodic charges to depreciation expense. The initially capitalized ARO long-lived asset is depreciated over the corresponding long-lived asset's remaining useful life. HSHS is legally liable to remove asbestos from existing buildings prior to future remodeling or demolishing of the existing hospital buildings. The estimated asbestos removal cost at June 30, 2017 and 2016 is $26,377 and $27,906, respectively, and is included within other noncurrent liabilities in the accompanying consolidated balance sheets.

(l) Donor-Restricted Net Assets

Net assets and activities are classified into three classes based on the existence or absence of donor-imposed restrictions: unrestricted, temporarily restricted, and permanently restricted. Temporarily restricted net assets represent those net assets whose use by HSHS has been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained by HSHS in perpetuity.

(m) Gifts, Bequests, and Grants

Unconditional promises to give cash and other assets are reported at fair value at the date the promise is received, which is then treated as cost. The gifts are reported as either temporarily or permanently restricted support 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 unrestricted net assets and reported in the consolidated statements of operations and change in unrestricted net assets as assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are recorded as unrestricted contributions. Unrestricted contributions are included in other revenues.

Gifts of long-lived assets, such as property, plant, and equipment, are reported as unrestricted gifts and bequests and are excluded from revenue and gains in excess (deficient) of expenses and losses, unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted contributions. In the absence of explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

(n) Net Patient Service Revenues

Net patient service revenues are reported at the estimated net realizable amounts due from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors and amounts received under the Medicaid assessment tax programs. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

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(o) Charity Care

HSHS provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Amounts determined to qualify as charity care are not reported as net patient service revenues, since HSHS does not pursue collection of such amounts.

(p) Revenues and Gains in Excess (Deficient) of Expenses and Losses

The consolidated statements of operations and change in unrestricted net assets include revenues and gains in excess (deficient) of expenses and losses. Changes in unrestricted net assets that are excluded from revenues and gains in excess (deficient) of expenses and losses, consistent with industry practice, include contributions of property, plant, and equipment (including assets acquired using contributions that by donor restrictions or grants were to be used for the purpose of acquiring such assets), net assets released from restrictions used for the purpose of property, plant, and equipment, and the change in pension funded status.

(q) Income Taxes

HSHS and the Foundation are Illinois not-for-profit organizations as described in Section 501(c) (3) of the Internal Revenue Code (the Code) and are exempt from federal income taxes on related income pursuant to Section 501(a) of the Code. Kiara, Inc. is an Illinois for-profit corporation that recognizes income taxes under the asset-and-liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the consolidated financial statement carrying amounts of existing assets and liabilities and their respective tax basis and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using the enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

Kiara, Inc.'s tax effects of temporary differences that give rise to significant portions of the deferred tax assets at June 30, 2017 and 2016 are primarily the result of net operating loss carryforwards of $163,075 and $125,538 at June 30, 2017 and 2016, respectively, which expire at various future dates through 2037.

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers projected future taxable income and tax planning strategies in making this assessment. Based upon the level of historical taxable losses and projections for future taxable losses over the periods for which the deferred tax assets are deductible, management believes it is more likely than not Kiara, Inc. will not realize the majority of the benefits of these deductible differences. Full valuation allowances have been applied against the deferred tax assets attributable to the net operating loss carryforwards not realized as of June 30, 2017 and 2016 in the accompanying consolidated financial statements due to the uncertainty of realization.

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HSHS recognizes the tax benefit from an uncertain tax position only if it is more likely than not the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. As of June 30, 2017 and 2016, HSHS does not have any liabilities for unrecognized tax benefits.

(r) Fair Value

HSHS has adopted the provisions of ASC Topic 820, *Fair Value Measurement*, for fair value measurements of financial assets and financial liabilities and for fair value measurements of nonfinancial items that are recognized or disclosed at fair value in the consolidated financial statements on a recurring basis. ASC Topic 820 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. ASC Topic 820 also establishes a framework for measuring fair value and expands disclosures about fair value measurements.

In conjunction with the adoption of ASC Topic 820, HSHS adopted the measurement provisions of FASB Accounting Standards Update (ASU) No. 2009-12, *Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*, to certain investments in funds that do not have readily determinable fair values including private investments, hedge funds, real estate, and other funds. This guidance amends ASC Topic 820 and allows for the estimation of the fair value of investments in investment companies for which the investment does not have a readily determinable fair value using net asset value (NAV) per share or its equivalent.

In May 2015, the FASB issued ASU No. 2015-07, *Fair Value Measurement (Topic 820), Disclosures for Investment in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*. ASU No. 2015-07 removes the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the NAV per share practical expedient. It also removes the requirement to make certain disclosures for all investments that are eligible to be measured at fair value using the NAV per share practical expedient. The requirements of the standard are effective for reporting periods in fiscal years that begin after December 15, 2016 with early adoption permitted. ASU No. 2015-07 is to be applied retrospectively. HSHS elected to adopt ASU No. 2015-07 in 2016. The adoption resulted in the elimination of the disclosure noted above. There was no effect on HSHS's financial statements.

(s) Electronic Health Record (EHR) Incentive Program

The EHR Incentive Program (the Program) provides incentive payments to eligible hospitals and professionals as they adopt, implement, upgrade, or demonstrate meaningful use of certified EHR technology in their first year of participation and demonstrate meaningful use for up to five remaining participation years. HSHS accounts for the Program using the grant model. HSHS applies the "ratable recognition" approach, which states that the grant income can be recognized ratably over the entire EHR reporting period once a "reasonable assurance" income recognition threshold is met. HSHS recorded $0 and $3,951 as other revenues related to EHR incentives for the years ended June 30, 2017 and 2016, respectively.

(t) Pension

On July 1, 2015, HSHS changed its methodology for calculating and reporting pension expense. The new accounting methodology, referred to as mark-to-market (MTM), immediately recognizes actuarial gains and losses as a separate component of net periodic pension costs as of the financial reporting date. Prior methodology smoothed the effects of actuarially determined gains and losses over future periods. HSHS has made this change to improve transparency of its underlying operational performance by immediate recognition of the effects of investment performance and interest rates, which historically have caused high volatility in the conventional calculation of pension expense.

Effective with the change, and reported in the accompanying consolidated financial statements, pension expense is reported in two elements: 1) pension expense, excluding mark-to-market adjustment comprising service cost, interest cost, assumed returns on plan assets, and recognition of prior service cost and 2) pension expense, mark-to-market adjustment is the gains and losses resulting from change in the discount rates and/or the difference between actual experience and assumed experience including the return on plan assets.

(u) New Accounting Presentation

In April 2015, the FASB issued ASU No. 2015-03, *Interest – Imputation of Interest,* (ASU No. 2015-03). ASU No. 2015-03 amends ASC Topic 835, *Interest,* by requiring debt issuance costs to be presented in the balance sheet as a direct deduction from the carrying amount of the debt liability, consistent with the debt discounts and premiums. HSHS adopted ASU No. 2015-03 in 2017 and applied changes retrospectively to 2016.

In May 2014, FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers* (Topic 606). This ASU establishes principles for reporting useful information to users of financial statements about the nature, amount, timing, and uncertainty of revenue and cash flows arising from the entity's contracts with customers. Particularly, that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The requirements of this statement are effective for HSHS for the year ending June 30, 2019. HSHS expects to record a decrease in net patient service revenue and a corresponding decrease in the provision for uncollectible accounts upon adoption of the standard.

In August 2016, FASB issued ASU No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities, (*ASU 2016-14). ASU 2016-14 represents phase 1 of FASB's not-for-profit financial reporting project and the results reduce the number of net asset classes, requires expense presentation by functional and natural classification, requires quantitative and qualitative information in liquidity, retains the option to present the cash flow statement on a direct or indirect method, as well as includes various other additional disclosure requirements. ASU 2016-14 is effective for annual reporting periods beginning after December 15, 2017 with retrospective application. Early adoption of ASU 2016-14 is permitted. The requirements of this statement are effective for HSHS for the year ending June 30, 2019. HSHS has not evaluated the impact of this statement.

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In February 2016, FASB issued ASU No. 2016-02, *Leases, (*ASU 2016-02). ASU 2016-02 requires entities to recognize all leased assets as assets on the balance sheet with a corresponding liability resulting in a gross up of the balance sheet. Entities will also be required to present additional disclosures as the nature and extent of leasing activities. ASU 2016-02 is effective for nonpublic business entities for the annual reporting period beginning after December 31, 2018. The requirements of this statement are effective for HSHS for the year ending June 30, 2020. HSHS has not evaluated the impact of this statement.

In November 2016, FASB issued ASU No. 2016-18, *Restricted Cash*, *a consensus of the FASB Emerging Issues Task Force (*ASU 2016-18). ASU 2016-18 requires an entity to include amounts generally described as restricted cash and restricted cash equivalents, along with cash and cash equivalents when reconciling beginning and ending balances on the statement of cash flows. ASU 2016-18 is effective for nonpublic business entities for annual reporting periods beginning after December 15, 2018, with retrospective application and disclosure. Early adoption of ASU 2016-18 is permitted. The requirements of this statement are effective for HSHS for the year ending June 30, 2020. HSHS has not evaluated the impact of this statement.

(v) Reclassifications

Certain 2016 amounts have been reclassified to conform to the 2017 consolidated financial statement presentation. Deferred financing costs of $3,962 were reclassified from other assets in the consolidated financial statements to a net presentation with long-term debt, less current installments in 2016 in accordance with the adoption and retrospective application of ASU No. 2015-03 in note 2(u).

(3) Community Benefit

Consistent with its mission, HSHS provides medical care to all patients regardless of their ability to pay. In addition, HSHS provides services intended to benefit the poor and underserved, including those persons who cannot afford health insurance because of inadequate resources and/or are uninsured or underinsured, and to enhance the health status of the communities in which it operates.

(Dollars in thousands)

The following summary has been prepared in accordance with the Catholic Health Association of the United States' policy document, *A Guide for Planning and Reporting Community Benefit*, released in May 2006. HSHS uses a cost-to-charge ratio to calculate the cost of charity care and the unpaid cost of Medicaid. The amounts in the following table reflect the quantifiable costs of HSHS' community benefit for the years ended June 30, 2017 and 2016:

		2017	2016
Benefits for the poor:			
Charity care at cost	$	26,006	28,114
Unpaid cost of Medicaid and other public programs		128,559	134,302
Community health services		2,370	2,009
Other		5,039	4,330
		161,974	168,755
Benefits for the broader community:			
Community health services		5,915	4,849
Health professions education		20,044	19,089
Other		9,596	11,104
		35,555	35,042
Total community benefit	$	197,529	203,797

Benefits for the poor represent the cost of services provided to persons who cannot afford healthcare because of inadequate resources and who are uninsured or underinsured.

Benefits for the broader community represent the cost of services provided to other needy populations that may not qualify as poor, but that need special services and support. It also includes the cost of services for the general benefit of the communities in which HSHS operates. Many programs are targeted toward populations that may be poor, but also include those areas that may need special health services and support. These programs are not financially self-supporting.

Charity care at cost represents the cost of services provided to patients who cannot afford healthcare services due to inadequate resources. All or a portion of a patient's services may be considered charity care for which no payment is anticipated in accordance with HSHS' established policies.

Unpaid cost of Medicaid and other public programs represents the cost of providing services to beneficiaries of public programs, including state Medicaid and indigent care programs, in excess of payments for those services. (See note 4 for an explanation of changes to the Medicaid reimbursement from the State of Illinois.)

Community health services are activities and services for which no patient bill exists although there may be nominal patient fees. These services are not expected to be financially self-supporting, although some may be partially supported by outside grants or funding.

Health professions education includes the unreimbursed cost of training health professionals, such as medical residents, nursing students, technicians, and students, in allied health professions.

Other benefits include subsidized health services, in-kind donations, and other benefits.

A related organization, the Foundation, funded $6,303 and $7,482 for charity care or other operating expenses on behalf of the hospitals during the years ended June 30, 2017 and 2016, respectively. The community benefits reported above are net of the contributions from the Foundation for such benefits.

HSHS also provides a significant amount of uncompensated care for patients, which is not included above, but is reported in the consolidated statements of operations and change in unrestricted net assets as a provision for uncollectible accounts. Many of those patients are uninsured or underinsured, but did not apply for, or qualify for, charity care.

(4) Net Patient Service Revenues

HSHS has agreements with third-party payors that provide for payment at amounts different from their established rates. A summary of the payment arrangements with major third-party payors is as follows:

Medicare – Inpatient acute care services rendered to Medicare program beneficiaries are generally paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Certain patient services related to Medicare beneficiaries are paid based upon a cost reimbursement method, prospectively determined rates, established fee screens, or a combination thereof. The hospitals are reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the hospitals and audits by the Medicare fiscal intermediary. Certain outpatient services performed by the hospitals are reimbursed at a prospectively determined rate per service based upon their ambulatory payment classification. Home health services performed by the hospitals are reimbursed at a prospectively determined rate per episodic treatment.

As of June 30, 2017, Medicare cost reports have been audited and final settled through December 31, 2012.

Medicaid – Inpatient services rendered to Medicaid program beneficiaries are reimbursed at prospectively determined rates per discharge. Outpatient services rendered to Medicaid program beneficiaries are reimbursed based upon per visit rates. Medicaid payment methodologies and rates for services are based on the amount of funding available to state Medicaid programs.

The Illinois Hospital Assessment Program and the Enhanced Illinois Hospital Assessment Program (collectively referred to herein as HAP) have been approved by CMS through June 30, 2018. Under HAP, the state receives additional federal Medicaid funds for the state’s healthcare system, administered by the Illinois Department of Healthcare and Family Services. Included in the

(Continued)

(Dollars in thousands)

accompanying consolidated statement of operations and changes in net assets for the years ended June 30, 2017 and 2016, is $94,528 and $70,935, respectively, of net patient service revenue from the HAP and $40,550 and $33,849, respectively, of other expense for provider taxes for the HSHS Illinois hospitals.

The State of Wisconsin has an assessment tax on the gross revenue of all Wisconsin hospitals, which is used to increase reimbursements made under its Medicaid program. During the years ended June 30, 2017 and 2016, the HSHS Wisconsin hospitals were assessed $20,192 and $20,305, respectively, related to this tax, which is included as a component of other expenses in the accompanying consolidated statements of operations and change in unrestricted net assets, and received $22,434 and $26,400, respectively, in supplemental Medicaid reimbursement, which is included as a component of net patient service revenues in the accompanying consolidated statements of operations and change in unrestricted net assets.

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

A summary of gross and net patient service revenues for the years ended June 30, 2017 and 2016 is as follows:

		2017	2016
Inpatient revenue	$	2,611,541	2,538,030
Outpatient revenue		4,229,599	3,953,987
Less provisions for estimated contractual adjustments under third-party reimbursement programs		4,517,954	4,264,296
Net patient service revenues	$	2,323,186	2,227,721

Net patient service revenues for the years ended June 30, 2017 and 2016 include $9,944 and $11,556, respectively, of favorable retrospectively determined prior year settlements with third-party payors.

A summary of Medicare, Medicaid, and managed care/contracted payor utilization percentages, based upon gross patient service revenue, is as follows:

	2017	2016
Medicare	48%	47%
Medicaid	17	18
Managed care/contracted payor	32	32
Self-pay	1	1
Other	2	2

(Continued)

(Dollars in thousands)

Patients' accounts receivable are reduced by an allowance for uncollectible accounts. In evaluating the collectibility of patients' accounts receivable, HSHS analyzes its past history and identifies trends for each of its major payor sources of revenue to estimate the appropriate allowance for uncollectible accounts and provision for bad debts. Management regularly reviews data about these major payor sources of revenue in evaluating the sufficiency of the allowance for doubtful accounts. For receivables associated with services provided to patients who have third-party coverage, HSHS analyzes contractually due amounts and provides an allowance for doubtful accounts and a provision for bad debts, if necessary (e.g., for expected uncollectible deductibles and co-payments on accounts for which the third-party payor has not yet paid, or for payors who are known to be having financial difficulties that make the realization of amounts due unlikely). For receivables associated with self-pay patients (which include both patients without insurance and patients with deductible and co-payment balances due for which third-party coverage exists for part of the bill), HSHS records a significant provision for bad debts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the standard rates (or the discounted rates if negotiated) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for doubtful accounts.

The allowance for uncollectible accounts was $115,900 and $120,200, or 21.4% and 22.9%, of the related patient accounts receivable, net of contractual adjustments as of June 30, 2017 and 2016. Gross write-offs decreased from approximately $54,990 for fiscal year 2016 to $45,171 in fiscal year 2017.

HSHS recognizes patient service revenues associated with services provided to patients who have third-party payor coverage on the basis of contractual rates for the services rendered. For uninsured patients that do not qualify for charity care, HSHS recognizes revenue on the basis of its standard rates for services provided (or on the basis of discounted rates, if negotiated or provided by policy). On the basis of historical experience, a significant portion of HSHS' uninsured patients will be unable or unwilling to pay for the services provided. Thus, HSHS records a significant provision for bad debts related to uninsured patients in the period the services are provided. Patient service revenue, net of contractual allowances and discounts (before the provision for bad debts), is recognized in the period from these major payor sources, as follows:

		2017	2016
Medicare	$	795,748	766,822
Medicaid		295,356	284,419
Managed care/contracted payor		1,109,615	1,084,082
Self-pay		42,854	20,439
Other		79,613	71,959
Net patient service revenue	$	2,323,186	2,227,721

(5) Concentration of Credit Risk

HSHS provides healthcare services through their inpatient and outpatient facilities located in Illinois and Wisconsin. HSHS grants credit to patients, substantially all of whom are local residents. HSHS does not

(Continued)

(Dollars in thousands)

require collateral or other security in extending credit to patients; however, they routinely obtain assignment of (or are otherwise entitled to receive) patients' benefits payable under their health insurance programs, plans, or policies (e.g., Medicare, Medicaid, Blue Cross, health maintenance organizations, and commercial insurance policies).

The mix of net receivables from patients and third-party payors as of June 30, 2017 and 2016 is as follows:

	2017	**2016**
Medicare	23%	27%
Medicaid	18	15
Managed care/contracted payor	48	50
Self-pay	4	1
Other	7	7

(6) Investment Composition and Fair Value Measurements

(a) Overall Investment Objective

The overall investment objective of HSHS is to invest its assets in a prudent manner that will achieve an expected rate of return, manage risk exposure, and focus on downside protection. HSHS' invested assets maintain sufficient liquidity to fund a portion of HSHS' annual operating activities and structure the invested assets to maintain a high percentage of available liquidity. HSHS diversifies its investments among various asset classes incorporating multiple strategies and managers. The HSHS board approves the Investment Policy Statement (IPS). The investment subcommittee oversees the investment program in accordance with the IPS.

(b) Allocation of Investment Strategies

To manage risk, HSHS invests in fixed income, domestic equities, international equities, custom hedge funds, and real assets. HSHS engages outside portfolio managers as follows: 5 fixed income managers, 11 domestic equity managers, 6 international managers, 2 custom hedge fund portfolio managers (K2 and Mesirow), and 2 real estate managers. Because of the inherent uncertainties for valuation of some holdings, the estimated fair values may differ from values that would have been used had a ready market existed.

The investment objective of the K2 Custom Solutions Hospital Sisters Fund is to achieve equity type returns with reduced volatility and risk. This is achieved through a diversified portfolio targeting allocations of long strategies and low volatility strategies and spread across 33 separate underlying funds.

The investment objective of the Mesirow Custom Solutions Hospital Sisters Fund is to achieve positive returns with low volatility and risk. This is achieved through a multimanager, multistrategy, and diversified investment approach and spread across 48 separate underlying funds.

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A summary of the strategies used by the hedge fund managers is as follows:

- *Commodities* include investment entities that may trade in agricultural, metal, and energy markets at various stages of the commodity cycle.
- *Event Driven* includes investment entities that focus on identifying and analyzing securities that may benefit from the occurrence of specific corporate events.
- *Global Macro* includes investment entities, which invest in products that may benefit from overall economic and political events of various countries.
- *Insurance-Linked* includes investment entities with an income-based strategy that invest across instruments, the value of which is driven by insurance-related events primarily related to property and life insurance. Risk is managed by diversifying over geography, insurance type, and sensitivity to insured losses amongst other factors. The strategy is a tool to reduce overall investment risk as underlying insurance risk factors are less sensitive to general market factors.
- *Long/Short Equity* includes investment entities that invest both long and short, primarily in common stocks and debt instruments, based on the manager's perception of such securities being undervalued or overvalued by the market.
- *Multistrategy* includes investment entities that pursue multiple strategies to diversify risks and reduce volatility.
- *Relative Value* includes investment entities that utilize nondirectional strategies. Relative value investing involves trading around the mispricing of two related securities using various types of securities or instruments.
- *Specialist Credit* includes investment entities that seek to generate superior risk-adjusted returns from a combination of capital appreciation and current income by opportunistically investing and trading in a diversified portfolio of credit-related securities and other instruments.
- *Structured Credit* includes investment entities that invest across structured credit markets, including agency and nonagency residential mortgage-backed securities, commercial mortgage-backed securities, and various asset-backed securities. Strategies can be trading oriented or directional, and may include a hedging component to offset market risks.
- *Hedge Overlay Strategy* involves the measuring, monitoring, and management of the primary beta sensitivities contained within the fund. Futures, options, swaps, and ETF positions will be taken (or overlaid) alongside the core portfolio in order to fine tune any market sensitivities or hedge any undersigned directional biases.

(c) Basis of Reporting

Assets whose use is limited or restricted are reported at estimated fair value. If an investment is held directly by HSHS and an active market with quoted prices exists, the market price of an identical security is used as reported fair value. Reported fair values for shares in common and preferred stock and fixed income are based on share prices reported by the funds as of the last business day of the fiscal year. HSHS' interests in alternative investment funds are generally reported at the NAV reported by the fund managers, which is used as a practical expedient to estimate the fair value of the HSHS' interest therein, unless it is probable that all or a portion of the investment will be sold for an amount different from NAV. As of June 30, 2017, HSHS had no plans or intentions to sell investments at amounts different from NAV.

(d) Fair Value of Financial Instruments

The following methods and assumptions were used by HSHS in estimating the fair value of its financial instruments:

- The carrying amount reported in the consolidated balance sheets for the following approximates fair value because of the short maturities of these instruments: cash and cash equivalents, receivables, accounts payable, accrued liabilities, and estimated payables under third-party reimbursement programs.
- Fair values of HSHS' investments held as assets whose use is limited or restricted are estimated based on prices provided by its investment managers and its custodian bank except pledges receivable and other, whereby carrying amounts approximate fair value. Fair value for cash and cash equivalents, common stocks, foreign securities, U.S. government securities, corporate bonds, taxable municipals, and commingled mutual funds are measured using quoted market prices at the reporting date multiplied by the quantity held. The carrying value equals fair value.
- HSHS has two real estate fund investments for which quoted market prices are not available. The estimated fair value of these real estate fund investments includes estimates, appraisals, assumptions, and methods provided by external financial advisers and reviewed by HSHS.
- HSHS has two hedge fund investments for which quoted market prices are not available. The estimated fair value of these hedge fund investments includes estimates, appraisals, assumptions, and methods provided by external financial advisers and reviewed by HSHS.
- Fair value of interest rate swaps is determined using pricing models developed based on the LIBOR swap rate and other observable market data by financial advisers. The value was determined after considering the potential impact of collateralization and netting agreements, adjusted to reflect nonperformance risk of the counterparties and HSHS. The carrying value equals fair value.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although HSHS believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

(e) Fair Value Hierarchy

HSHS has adopted ASC Topic 820 for fair value measurements of financial assets and liabilities and for fair value measurements of nonfinancial items that are recognized or disclosed at fair value in the consolidated financial statements on a recurring basis. ASC Topic 820 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques 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 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that HSHS has the ability to access at the measurement date.
- Level 2 inputs are observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3 inputs are unobservable inputs for the asset or liability.

The availability of observable market data is monitored to assess the appropriate classification of financial instruments within the fair value hierarchy. Changes in economic conditions or model-based valuation techniques may require the transfer of financial instruments from one fair value level to another. In such instances, the transfer is reported at the beginning of the reporting period. There were no transfers between Level 1, Level 2, or Level 3 for the fiscal year ended June 30, 2017 or 2016.

(Dollars in thousands)

The following table summarizes HSHS' fair values of cash and cash equivalents, assets whose use is limited or restricted by major category and derivative instruments in the fair value hierarchy as of June 30, 2017, as well as related strategy, liquidity, and funding commitments:

	June 30, 2017				Redemption or	Days'
	Level 1	Level 2	Level 3	Total	liquidation	notice
Cash and cash equivalents	$ 112,810	—	—	112,810	Daily	One
Assets whose use is limited or restricted excluding accrued interest and other of $3,618 and pledges receivable and other of $15,794:						
Cash and cash equivalents	118,206	—	—	118,206	Daily	One
Common stocks	368,562	—	—	368,562	Daily	One
U.S. government securities	—	146,290	—	146,290	Daily	One
Taxable municipals	—	30,042	—	30,042	Daily	Two
Corporate bonds	—	129,995	—	129,995	Daily	Two
Foreign securities	384,938	17,861	—	402,799	Daily	Three
Commingled mutual funds	—	187,452	—	187,452	Daily	Three
Subtotal	984,516	511,640	—	1,496,156		
Real-estate funds[1]:						
JLL Income Property Trust, Inc.				90,864	Daily	Zero
J.P. Morgan U.S. Real Estate Income and Growth Fund				37,853	Quarterly	Sixty
Hedge funds1:						
K2 multistrategy fund				312,138	See below	
Mesirow multistrategy				87,967	See below	
Total financial assets				$ 2,024,978		
Liabilities:						
Derivative instruments	$ —	47,906	—	47,906		

[1] Certain investments that are measured at fair value using the NAV per share (or its equivalent) practical expedient have not been categorized in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the consolidated balance sheets.

(Dollars in thousands)

The following table summarizes HSHS' fair values of cash and cash equivalents, assets whose use is limited or restricted by major category and derivative instruments in the fair value hierarchy as of June 30, 2016, as well as related strategy, liquidity, and funding commitments:

	June 30, 2016				Redemption or	Days'
	Level 1	Level 2	Level 3	Total	liquidation	notice
Cash and cash equivalents	$ 94,407	—	—	94,407	Daily	One
Assets whose use is limited or restricted excluding accrued interest and other of $3,947 and pledges receivable and other of $10,419:						
Cash and cash equivalents	16,796	—	—	16,796	Daily	One
Common stocks	397,648	—	—	397,648	Daily	One
U.S. government securities	—	200,306	—	200,306	Daily	One
Taxable municipals	—	36,564	—	36,564	Daily	Two
Corporate bonds	—	139,154	—	139,154	Daily	Two
Foreign securities	306,312	16,028	—	322,340	Daily	Three
Commingled mutual funds	—	284,475	—	284,475	Daily	Three
Subtotal	815,163	676,527	—	1,491,690		
Real-estate funds[1]:						
JLL Income Property Trust, Inc.				71,536	Daily	Zero
J.P. Morgan U.S. Real Estate Income and Growth Fund				35,227	Quarterly	Sixty
Hedge funds[1]:						
K2 multistrategy fund				276,938	See below	
Mesirow multistrategy				83,139	See below	
Total financial assets				$ 1,958,530		
Liabilities:						
Derivative instruments	$ —	71,267	—	71,267		

(Continued)

(Dollars in thousands)

The following table presents information about the redemption terms and restrictions as of June 30, 2017 and 2016 for the alternative investments:

(i) K2 Custom Solutions Hospital Sisters Fund

		Fair value		Notice period (days) minimum/
		2017	2016	maximum
Redemption terms:				
Monthly	$	96,763	60,926	15–90 Days
Quarterly		131,098	166,163	30–90 Days
Biannual		74,913	22,155	60–90 Days
Annually		9,364	27,694	90 Days
Total	$	312,138	276,938	

(ii) Mesirow Custom Solutions Hospital Sisters Fund

		Fair value		Notice period (days) minimum/
		2017	2016	maximum
Redemption terms:				
Monthly	$	16,626	31,593	15–90 Days
Quarterly		16,801	20,785	30–90 Days
Biannual		40,025	26,604	60–90 Days
Annually		14,515	4,157	90 Days
Total	$	87,967	83,139	

(Dollars in thousands)

A summary of assets whose use is limited or restricted as of June 30, 2017 and 2016 is as follows:

		2017	2016
Assets whose use is limited or restricted:			
By the board for capital improvements	$	1,566,541	1,599,294
Funds held by custodian/trustee under indenture agreements		58,078	904
Funds held by trustee for self-insurance		72,092	69,212
Funds held by RQIL		120,349	105,015
Funds temporarily restricted by donors		2,868	1,453
Investments held at the Foundation		111,652	102,611
Total assets whose use is limited or restricted	$	1,931,580	1,878,489

The composition of investment return for the years ended June 30, 2017 and 2016 is as follows:

		2017	2016
Investment return:			
Interest and dividend income	$	18,795	19,366
Net realized gains on sale of investments		65,425	29,146
Change in net unrealized gains and losses		64,832	(83,169)
Total investment return	$	149,052	(34,657)

Investment returns are included in the accompanying consolidated statements of operations and change in unrestricted net assets, and changes in net assets for the years ended June 30, 2017 and 2016 as follows:

		2017	2016
Other revenue – investment income (loss)	$	595	(286)
Nonoperating gains (losses) – investment return		147,152	(34,414)
Temporarily restricted net assets – income		1,284	40
Permanently restricted net assets – income		21	3
Total investment return	$	149,052	(34,657)

(Continued)

(7) Derivative Instruments

HSHS has interest-rate-related derivative instruments to manage its exposure on its debt instruments. HSHS does not enter into derivative instruments for any purpose other than cash flow hedging purposes, and HSHS does not speculate using derivative instruments.

By using derivative financial instruments to hedge exposures to changes in interest rates, HSHS exposes itself to credit risk, tax risk, and market risk. Credit risk is the failure of the counterparty to perform under the terms of the derivative contract. When the fair value of a derivative contract is positive, the counterparty owes HSHS, which creates credit risk for HSHS. When the fair value of a derivative contract is negative, HSHS owes the counterparty, and therefore, it does not possess credit risk. HSHS minimizes the credit risk in derivative instruments by entering into transactions with high-quality counterparties.

Tax risk is the adverse effect that HSHS takes on to the extent tax law changes impact the rates paid to a variable rate bondholder (either positively or negatively) that would affect the variable rate received from the counterparty under a LIBOR-based swap that may not match the tax-exempt equivalent rate being paid. HSHS minimizes the tax risk in derivative instruments by maintaining sufficient cash reserves to handle potential tax law changes.

Market risk is the adverse effect on the value of the derivative instrument that results from a change in interest rates. The market risk associated with interest rate contracts is managed by establishing and monitoring parameters that limit the types and degree of market risk that may be undertaken.

HSHS is exposed to credit loss in the event of nonperformance by the counterparty to the interest rate swap agreements; however, this is not anticipated. During the year ended June 30, 2017 or 2016, neither HSHS or its counterparties were required to post collateral.

HSHS maintains interest rate swap agreements, which effectively change the interest rate exposure on a portion of its variable rate bonds to fixed rates. HSHS receives 86.1% of the three-month LIBOR ($76,750 notional amount) and 67% of the one-month LIBOR ($41,300 and $100,425 notional amounts) and pays a fixed rate of 4.02% ($76,750 notional amount) and 3.47% ($41,300 and $100,425 notional amounts). The interest rate swap agreements have notional amounts of $218,475 at June 30, 2017 and 2016, respectively, which will amortize through March 2036.

HSHS maintains a fixed spread basis swap that removes the tax risk from the bondholders and transfers the risk to HSHS. The premium that HSHS receives for taking on this risk is 67.00% of the one-month LIBOR plus a fixed spread of 48 basis points less the Securities Industry and Financial Markets Association index rate. The fixed spread basis swap has a notional amount of $150,000 with a final maturity in May 2033.

HSSI and JPMorgan Chase Bank, N.A. (the Counterparty) entered into the 2016 Swap simultaneously with the sale of the Series 2016 Bonds. The 2016 Swap will be governed by an ISDA Master Agreement under the terms of which the provider will pay to HSSI an amount equal to the interest paid on the bonds, and the HSSI will pay the Counterparty an amount equal to the SIFMA rate plus a spread. If the 2016 Swap is not extended, on the termination date, HSSI is obligated to pay to the Counterparty an amount equal to the loss in value of the bonds, if any.

(Dollars in thousands)

The following is a summary of the swaps as of June 30, 2017:

Type of interest swap	Notional amount	Settlement value	Fair value
Fixed payor	$ 76,750	$ (19,115)	(18,111)
Fixed spread basis	150,000	1,593	1,681
Fixed payor	41,300	(10,101)	(9,563)
Fixed payor	100,425	(24,660)	(23,290)
Fixed receiver	75,000	1,377	1,377
Fixed payor		$ (50,906)	(47,906)

The following is a summary of the swaps as of June 30, 2016:

Type of interest swap	Notional amount	Settlement value	Fair value
Fixed payor	$ 76,750	$ (28,831)	(27,198)
Fixed spread basis	150,000	3,056	3,016
Fixed payor	41,300	(14,582)	(13,706)
Fixed payor	100,425	(35,593)	(33,379)
Fixed payor		$ (75,950)	(71,267)

(Dollars in thousands)

(8) Property, Plant, and Equipment

A summary of property, plant, and equipment at June 30, 2017 and 2016 is as follows:

	2017	2016
Land	$ 79,663	77,861
Land improvements	45,743	41,390
Buildings and permanent fixtures	1,622,492	1,548,396
Equipment and furnishings	1,238,895	1,200,575
	2,986,793	2,868,222
Less accumulated depreciation	1,791,671	1,667,634
	1,195,122	1,200,588
Construction in progress	215,058	141,828
	$ 1,410,180	1,342,416

As of June 30, 2017, construction in progress represents various building and remodeling projects. These projects, which have remaining contracted costs at June 30, 2017 of $95,888, will be financed with board-designated assets or from operations.

A reconciliation of total interest costs, as reported in the accompanying consolidated statements of operations and change in unrestricted net assets for 2017 and 2016, is as follows:

	2017	2016
Interest cost capitalized	$ 3,596	1,598
Interest cost charged to expense	11,213	11,931
Total interest cost	$ 14,809	13,529

(9) Discontinued Operations

SMS in Streator, Illinois was an inpatient hospital previously operated by HSSI. HSSI and SMS submitted a Certificate of Exemption application to the Health Facilities and Services Review Board for the State of Illinois to discontinue all services, both inpatient and outpatient at SMS, which was approved.

The operations of SMS are presented in the accompanying consolidated statements of operations and changes in unrestricted net assets as discontinued operations.

Included in the discontinued operations for pension expense excluding MTM adjustment at June 30, 2016 is $295. The MTM adjustment at June 30, 2016 is $4,113.

(Continued)

(Dollars in thousands)

A summary of the operating components of the gain (loss) from discontinued operations for SMS for the years ended June 30, 2017 and 2016 is as follows:

		2017	2016
Revenue	$	—	15,460
Expenses, including $40,569 of impairment in 2016		(2,933)	70,670
Loss from discontinued operations	$	2,933	(55,210)

(10) Self-Insurance

(a) Workers' Compensation, Professional, and General Liability

RQIL provides coverage in addition to workers' compensation, professional, and general liability, but the associated liabilities for the other coverages are less than 3% of the total RQIL liabilities at June 30, 2017 and 2016.

Under the System's Workers' Compensation, Professional, and General Liability self-insurance program through RQIL, claims are reflected based upon actuarial estimation, including both reported and incurred but not reported claims, taking into consideration the severity of incidents and the expected timing of claim payments. At June 30, 2017 and 2016, funds held by RQIL were $120,349 and $105,015, respectively. The related current estimated self-insurance liabilities for June 30, 2017 and 2016 were $34,623 and $22,368, respectively. The related long-term estimated self-insurance liabilities for June 30, 2017 and 2016 were $78,564 and $70,599, respectively. At June 30, 2017 and 2016, the estimated self-insurance liability for all future claims payments reflects the actuarially determined outstanding losses at the undiscounted/expected level. The amount included in expenses for 2017 and 2016 was $33,816 and $23,389, respectively, and is included in other expense in the consolidated statements of operations and change in unrestricted net assets. These calculations take into consideration any liability that may be covered under an extended reporting endorsement and considered tail liability.

HSHS is involved in litigation arising in the ordinary course of business. Reported claims are in various stages of litigation. Additional claims may be asserted against HSHS arising from services through June 30, 2017. It is the opinion of management that the estimated liabilities accrued at June 30, 2017 are adequate to provide for potential losses resulting from pending or threatened litigation.

(b) Employee Health

The HSHS self-insurance program provides health insurance for employees. HSHS has developed internal techniques for estimating costs. The amounts funded are administered by the custodian.

At June 30, 2017 and 2016, funds held by the custodian for health insurance liability for employees' self-insurance are $72,092 and $69,212, respectively, and are included in current and noncurrent assets whose use is limited or restricted. At June 30, 2017 and 2016, related estimated current self-insurance liabilities are $17,288 and $12,818, respectively.

(Continued)

(11) Employee Benefit Plans

(a) Defined-Benefit Plan

HSHS employees participate in The Hospital Sisters Health System Employees' Pension Plan (the Plan). This noncontributory defined-benefit pension plan covers substantially all employees of HSHS who have completed 1,000 hours of employment during any calendar year subsequent to the commencement of employment. The Plan recognizes and funds the costs related to employee service using the projected unit credit actuarial cost method. The information below represents the aggregation of HSHS' pension financial status, which is determined by the consulting actuaries on a member-specific basis.

Effective July 1, 2014, the HSHS amended its retirement program to have all employees covered by one comprehensive retirement program that administers benefits under two different tracks. Employees hired or rehired on or after July 1, 2014 will receive their employer-provided retirement benefits based a combination of a cash balance formula within the defined-benefit plan and an employer-matching contribution into HSHS defined-contribution plan. Employees hired before July 1, 2014 receive their employer-provided retirement benefits based on a final average pay formula within the defined-benefit plan.

(Dollars in thousands)

The following tables set forth the Plan's funded status, amounts recognized in HSHS' consolidated financial statements, and assumptions at June 30, 2017 and 2016:

		2017	2016
Change in benefit obligation:			
Benefit obligation at beginning of year	$	1,789,623	1,514,591
Service cost		53,777	47,112
Interest cost		64,214	73,196
Actuarial loss(gain)		(6,937)	194,380
Benefits paid		(44,666)	(39,656)
Benefit obligation at end of year	$	1,856,011	1,789,623
Change in plan assets:			
Fair value of plan assets at beginning of year	$	1,275,350	1,197,111
Actual gain on plan assets		157,324	30,287
Employer contributions		130,756	96,587
Expenses paid		(9,565)	(8,979)
Benefits paid		(44,666)	(39,656)
Fair value of plan assets at end of year	$	1,509,199	1,275,350
Reconciliation of funded status:			
Funded status	$	(346,812)	(514,273)
Amounts recognized in the accompanying consolidated balance sheets:			
Accrued benefit liability		(346,812)	(514,273)
Amounts not yet reflected in net periodic benefit cost and included as an accumulated charge to unrestricted net assets:			
Prior service cost		(613)	(914)
	$	(613)	(914)

(Continued)

(Dollars in thousands)

	2017	2016
Changes recognized in unrestricted net assets:		
Net (gain) loss arising during the period	$ (59,761)	261,316
Amortization of prior service credit	(301)	(580)
Amortization or settlement recognition of net loss(gain)	59,761	(261,316)
Total recognized in unrestricted net assets	$ (301)	(580)
Total recognized in net periodic pension cost and unrestricted net assets	$ (36,703)	293,381
Estimated amounts that will be amortized from unrestricted net assets over the next fiscal year:		
Prior service credit	(171)	(301)
Accumulated benefit obligation	1,707,130	1,645,180
Components of net periodic benefit cost:		
Service cost	53,777	47,112
Interest cost	64,214	73,196
Expected return on plan assets	(94,933)	(88,243)
Amortization of prior service cost	301	580
Net periodic benefit cost excluding MTM adjustment*	23,359	32,645
MTM adjustment*	(59,761)	261,316
Net periodic benefit cost	$ (36,402)	293,961

* Includes amounts for SMS in Streator, Illinois.

	2017	2016
Weighted average assumptions used to determine benefit obligations at June 30:		
Discount rate	4.29%	4.16%
Average rate of compensation increase	3.00	3.00
Measurement date	June 30, 2017	June 30, 2016
Weighted average assumptions used to determine net periodic benefit cost for the year ended June 30:		
Discount rate	4.16%	4.86%
Expected long-term return on plan assets	8.00	8.00
Average rate of compensation increase	3.00	3.00
Measurement date	June 30, 2016	June 30, 2015

(Dollars in thousands)

The expected long-term rate of return is based on the portfolio as a whole and not on the sum of the returns on individual assets categories. The return is based exclusively on historical returns, without adjustments.

The Plan's liability at the measurement date is determined by discounting cash flow by the corresponding annual spot rate on the client-specific yield curve. The client-specific yield curve in conjunction with the Mercer Bond Model produces a single equivalent discount rate of 4.29% at June 30, 2017.

A client-specific yield curve based on the Mercer Bond Model was used to calculate the pension expense for FYE 2017. The client-specific yield curve in conjunction with the Mercer Bond Model produces a single equivalent discount rate of 4.16% at June 30, 2016.

HSHS expects to contribute to its pension plan for the 2017 fiscal year the following amount	$	116,447
The following benefit payments that reflect expected future service, as appropriate, are expected to be paid:		
2018	$	54,811
2019		62,103
2020		68,772
2021		75,159
2022		82,320
2023–2027		505,736

The expected benefits are based on the same assumptions used to measure HSHS' benefit obligation at June 30, 2017 and 2016 and include estimated future employee service.

As of June 30, 2017, HSHS adopted the new RP-2014 Society of Actuaries Employee and Retiree Healthy no Collar Mortality Table backed off to 2007 with generational mortality improvements projected using the mortality projection scale implied by the Social Security Administration's rate of mortality (MSS-2016). As a result of the adoption, the projected benefit obligation decreased in 2017 by approximately $4,200.

The Plan has developed an Investment Policy Statement (the IPS), which is reviewed and approved by the HSHS board of directors. The IPS establishes goals and objectives of the fund, asset allocations, allowable and prohibited investments, socially responsible guidelines, and asset classifications. The IPS dictates that assets should be rebalanced back to target allocation on a quarterly basis. Investments are managed by independent managers. Management monitors the performance of these managers on a quarterly basis.

(Continued)

(Dollars in thousands)

The table below lists the target asset allocation and acceptable ranges and actual asset allocations as of June 30, 2017 and 2016:

Asset	Target allocation	Acceptable range	Actual allocation at June 30 2017	Actual allocation at June 30 2016
Equities	57%	27%–81%	54%	53%
Debt securities	30	20–70	30	31
Alternative investments	13	0–15	12	11
Cash and cash equivalents	—	0–6	4	5

(b) Overall Investment Objective

The overall investment objective of the Plan is to invest the Plan's assets in a prudent manner to best serve the participants of the Plan. Plan investment assets are to produce investment results that achieve the Plan's actuarial assumed rate of return, protect the integrity of the Plan, assist HSHS in meeting the obligations to the Plan's participants, manage risk exposures, focus on downside protection, and to maintain enough liquidity in the portfolio to ensure timely cash outflows and beneficiary payments. The Plans' investments are diversified among various asset classes incorporating multiple strategies and managers to exceed a weighted benchmark return based upon policy asset allocation targets and standard index returns. Major investment decisions are authorized by the HSHS's retirement committee, which oversees the Plan's investment program in accordance with established guidelines.

(c) Allocation of Investment Strategies

The Plan maintains a percent of assets in domestic and international equity stocks to achieve the expected rate of return. To manage risk exposure, up to 30% of the Plans' assets are invested in a liability driven investment strategy.

(d) Basis of Reporting

Investments are reported at estimated fair value. If an investment is held directly by the Plan and an active market with quoted prices exists, the market price of an identical security is used as reported fair value. Reported fair values for shares in mutual funds are based on share prices reported by the funds as of the last business day of the fiscal year. The Plan's ownership in alternative investment funds are generally reported at the NAV reported by the fund managers, which is used as a practical expedient to estimate the fair value of the Plan's ownership therein, unless it is probable that all or a portion of the investment will be sold for an amount different from NAV. As of June 30, 2017, the Plan had no plans or intentions to sell investments at amounts different from NAV.

(Continued)

(Dollars in thousands)

The fair values of the Plan's assets at June 30, 2017, by asset category class, are as follows:

	June 30, 2017				Redemption or	Days'
	Level 1	Level 2	Level 3	Total	liquidation	notice
Pension plan assets excluding accrued interest of $745:						
Cash and cash equivalents	$ 68,240	—	—	68,240	Daily	One
Common stocks	565,887	—	—	565,887	Daily	One
U.S. government securities	—	138,520	—	138,520	Daily	One
Commingled mutual funds	—	292,414	—	292,414	Daily	Three
Municipal bonds	—	1,221	—	1,221	Daily	Two
Corporate bonds, notes, and debentures	—	17,179	—	17,179	Daily	Two
Foreign securities	234,207	7,641	—	241,848	Daily	Three
Subtotal	$ 868,334	456,975	—	1,325,309		
Hedge funds[1]:						
K2 multistrategy fund				48,482	Note 6(e)*	Note 6(e)*
Mesirow multistrategy fund				134,663	Note 6(e)*	Note 6(e)*
Total assets at fair value				$ 1,508,454		

* Liquidity terms are allocated the same as disclosed in note 6(e) for plan assets.

[1] Certain investments that are measured at fair value using the NAV per share (or its equivalent) practical expedient have not been categorized in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the consolidated balance sheets.

The fair values of the Plan's assets at June 30, 2016, by asset category class, are as follows:

	June 30, 2016				Redemption or	Days'
	Level 1	Level 2	Level 3	Total	liquidation	notice
Pension plan assets excluding accrued interest of $1,008:						
Cash and cash equivalents	$ 59,281	—	—	59,281	Daily	One
Common stocks	458,598	—	—	458,598	Daily	One
U.S. government securities	—	148,942	—	148,942	Daily	One
Commingled mutual funds	—	239,870	—	239,870	Daily	Three
Municipal bonds	—	1,263	—	1,263	Daily	Two
Corporate bonds, notes, and debentures	—	3,732	—	3,732	Daily	Two
Foreign securities	218,396	1,281	—	219,677	Daily	Three
Subtotal	$ 736,275	395,088	—	1,131,363		
Hedge funds[1]:						
K2 multistrategy fund				32,306	Note 6(e)*	Note 6(e)*
Mesirow multistrategy fund				110,673	Note 6(e)*	Note 6(e)*
Total assets				$ 1,274,342		

* Liquidity terms are allocated the same as disclosed in note 6(e) for plan assets.

(e) Fair Value of Financial Instruments

The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at June 30, 2017 or 2016.

- Cash and cash equivalents: Valued at the carrying amount that approximates fair value because of the short-term maturity of these investments
- Common and preferred stocks, U.S. government securities, commingled mutual funds, and foreign securities: Valued at the closing price reported on the active market on which the individual securities are traded
- Municipal bonds, corporate bonds, notes, and debentures: Certain corporate bonds are valued at the closing price reported in the active market in which the bond is traded. Other corporate bonds are valued based on yields currently available on comparable securities of issuers with similar credit ratings. When quoted prices are not available for identical or similar bonds, the bond is valued under a discounted cash flows approach that maximizes observable inputs, such as current yields of similar instruments, but includes adjustments for certain risks that may not be observable, such as credit and liquidity.

The Plan has certain hedge fund investments for which quoted market prices are not available. The estimated fair value of these hedge fund investments includes estimates, appraisals, assumptions, and methods provided by external financial advisers and reviewed by HSHS.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Plan believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

(f) Fair Value Hierarchy

The Plan has adopted ASC Subtopic 715-20-50, *Compensation – Retirement Benefits: Defined Benefit Plans – General: Disclosures*, for fair value measurements of financial assets and financial liabilities and for fair value measurements of nonfinancial items that are recognized or disclosed at fair value in the consolidated financial statements on a recurring basis. ASC Subtopic 715-20-50 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value.

(g) 403(b) Plan

HSHS's Tax Deferred Annuity Program is a 403(b) retirement saving plan for its colleagues. Colleagues hired or rehired on or after July 1, 2014 are eligible for an employer paid match of 50 cents per $1 contributed by the participating colleague up to the first 4% of eligible pay for each calendar year. Eligible colleagues must have a minimum of 1,000 paid hours during the fiscal year to participate. For fiscal years ended June 30, 2017 and June 30, 2016, HSHS contributed $2,574 and $1,323, respectively, in matching contributions.

(Continued)

(Dollars in thousands)

(12) Long-Term Debt

Under the terms of the Obligated Group MTI, each member of the Obligated Group is jointly and severally liable for all obligations issued thereunder. Bonds issued are unsecured general obligations, but carry covenants regarding withdrawals from the Obligated Group, issuance of additional debt, and creations of liens on property. Obligations outstanding under the Obligated Group MTI are issued through state authorities and comprise both serial and term bonds with varying maturities.

On December 22, 2016, HSSI issued $75,000 in fixed rated debt Series 2016 bonds. The bonds were issued at par and HSSI paid bond issue costs of $577 related to this issuance. On February 8, 2017, HSSI issued no call option bonds of $57,710 in fixed rate debt Series 2017A. HSSI received a bond premium of $9,322 and paid bond issue costs of $800 related to this issuance. On February 8, 2017, HSSI issued variable rate bonds Series 2017B of $64,870 and paid issue costs of $682 for this issuance.

On December 22, 2016, HSSI entered into an escrow agreement with the Illinois Finance Authority and The Bank of New York Mellon Trust Company N.A. to legally defease the Series 2007A Bonds. The par value of the Bonds was $72,035 and the escrow was funded with $73,753 of cash from HSSI to refund the bonds and interest due on March 15, 2017, the first call date of the 2007A Bonds.

As of June 30, 2017, long-term debt consisted of the following:

Series	Interest rates	Final maturity dates		2017
Fixed interest rate issues:				
2012B	4.000% and 5.000%	August 15, 2021	$	46,800
2012C	5.000%	August 15, 2021		41,365
2014A	5.000%	November 15, 2029		167,990
2016A	5.375%	November 15, 2046		75,000
2017A	5.000%	February 15,2028		57,710
Variable interest rate issues:				
2012A	Variable 1.51% at June 30, 2017	June 30, 2041		50,160
2012G	Variable 0.90% at June 30, 2017	August 1, 2041		31,645
2012H	Variable 0.75% to 0.93% at June 30, 2017	August 1, 2041		65,885
2012I	Variable 0.94% to 0.99% at June 30, 2017	August 1, 2041		89,460

(Continued)

(Dollars in thousands)

Series	Interest rates	Final maturity dates		2017
2017B	Variable 0.90% to 0.97% at June 30, 2017	March 15, 2044	$	64,870
Total fixed and variable interest debt				690,885
Other long-term debt				48,146
Less unamortized bond issue costs				(5,269)
Plus unamortized bond issue premiums				38,824
Total debt				772,586
Less:				
Current installments				30,257
Long-term debt subject to short-term remarketing agreements				220,215
Total long-term debt, excluding current installments			$	522,114

As of June 30, 2016, long-term debt consisted of the following:

Series	Interest rates	Final maturity dates		2016
Fixed interest rate issues:				
2007A	5.00%	March 15, 2028	$	72,035
2012B	4.00% and 5.00%	August 15, 2021		54,815
2012C	5.00%	August 15, 2021		48,665
2014A	5.00%	November 15, 2029		174,125
Variable interest rate issues:				
2012A	Variable 1.08% at June 30, 2016	June 30, 2041		50,160
2012G	Variable 0.42% at June 30, 2016	August 1, 2041		31,645
2012H	Variable 0.45% to 0.52% at June 30, 2016	August 1, 2041		65,885
2012I	Variable 0.45% to 0.54% at June 30, 2016	August 1, 2041		89,460
Total fixed and variable interest debt				586,790
Other long-term debt				48,130
Less unamortized bond issue costs				(3,962)
Plus unamortized bond issue premiums				35,986
Total debt				666,944
Less:				
Current installments				29,122
Long-term debt subject to short-term remarketing agreements				155,345
Total long-term debt, excluding current installments			$	482,477

(Dollars in thousands)

The Obligated Group's effective interest rates for variable debt for the years ended June 30, 2017 and 2016 are as follows:

	2017	2016
Variable interest rate issues:		
2012A	1.28%	0.99%
2012G	0.68	0.13
2012H	0.78	0.11
2012I	0.74	0.14
2017B	0.81	—

Bond issue premiums and costs are amortized over 10 years using the straight-line method. Bond issuance costs, net of amortization, are reported as other assets in the accompanying consolidated balance sheets.

HSSI has variable rate bonds, a portion of which has a put option available to the holder. If the put option is exercised, the bonds are presented to the bank, which in turn draws on the underlying direct pay letter of credit, if available. Self-liquidity bonds are backed by the financial assets of HSSI and are presented as long-term debt subject to short-term remarketing agreements in the accompanying consolidated balance sheets. The bond series and the underlying credit facility terms are described as follows as of June 30, 2017:

Series	Term
Series 2012G	Equal quarterly installments on the first business day of each January, April, July, or October whichever occurs first on or following the 367th day after the purchase date and paid in full no later than the third anniversary of the purchase date
Series 2012H, 2012I, and 2017B	Self-liquidity – 270 days

(Dollars in thousands)

Scheduled principal repayments on long-term debt based on the variable rate demand notes being put back to HSHS and a corresponding draw being made on the underlying credit facility, if available, are as follows:

Year ending June 30:		
2018	$	250,472
2019		29,480
2020		28,374
2021		28,667
2022		29,943
Thereafter		372,095
	$	739,031

Scheduled principal repayments on the long-term debt based on the scheduled redemptions according to the Obligated Group MTI are as follows:

Year ending June 30:		
2018	$	30,257
2019		29,480
2020		28,374
2021		28,667
2022		29,943
Thereafter		592,310
	$	739,031

(Continued)

(Dollars in thousands)

(13) Capital Leases

HSHS leases certain equipment under capital leases. Included with property, plant, and equipment are $40,618 and $39,754 of assets held under capital leases and $20,222 and $13,536 of related accumulated amortization at June 30, 2017 and 2016, respectively. A summary of future minimum lease payments and the present value of future minimum lease payments related to capital leases at June 30, 2017 are as follows:

		Amount
Year:		
2018	$	7,513
2019		5,306
2020		2,830
2021		1,768
2022		1,610
Thereafter		10,308
Total future minimum lease payments		29,335
Less amount representing interest at rates ranging from 5.0% to 6.5%		6,981
Present value of future minimum lease payments		22,354
Less current portion of obligations under capital leases included in current installments of long-term debt		6,285
Obligations under capital leases, excluding current portion included in long-term debt, excluding current installments	$	16,069

(14) Functional Expenses

HSHS provides general healthcare services to residents within its respective geographic regions. Expenses related to providing these services for the years ended June 30, 2017 and 2016 are as follows:

		2017	2016
Healthcare services	$	1,758,815	1,952,281
General and administrative services		539,146	556,301
	$	2,297,961	2,508,582

(Continued)

(Dollars in thousands)

(15) Prevea

SVGB and SMGB (collectively, referred to as the Green Bay Hospitals), two members of the Obligated Group located in Green Bay, Wisconsin, each have a 25% interest in Prevea Health Systems, Inc. (Prevea). The Green Bay Hospitals held $21,989 (21,989 shares), at June 30, 2017 and 2016, of Prevea preferred stock. Prevea has 9,000 shares of authorized stock consisting of 900 shares of Class P voting common stock, 3,600 shares of Class P nonvoting, and 4,500 shares of Class H common stock.

With respect to all matters upon which shareholders are entitled to vote or give consent, the outstanding shares of Class P voting common stock constitute one voting group and the holders of outstanding shares of Class H common stock constitute a separate voting group. Each voting group gets 50% of the total voting privileges (with each entitled to elect one half of the total authorized number of directors of the corporation). As of June 30, 2017 and 2016, there are 100 voting shares for the Green Bay Hospitals (Class H) and 146 voting shares for Physicians (Class P). There are 457 nonvoting shares. The preferred stockholders of Prevea have liquidation preferences to common stockholders, as defined in the Articles of Incorporation of Prevea. The preferred stock entitles the Green Bay Hospitals to receive dividends equal to 7% of the face value of the preferred stock. Additionally, preferred stock dividends are cumulative. The Green Bay Hospitals' policy is to recognize preferred stock dividends when the dividends are declared. Dividends were declared and paid by Prevea totaling $3,188 in 2017 and $750 in 2016. The investment in Prevea is accounted for using the equity method. The carrying value of the Green Bay Hospitals' investment in Prevea, inclusive of preferred stock holdings, is reported as other assets in the accompanying consolidated balance sheets.

SVGB assumed operations of Prevea's medical clinic (Clinic) locations, and is now operating these sites as SVGB doing business as Prevea, receiving all of the Clinic's patient revenue and responsible for all of the operating expenses. The expenses directly related to Prevea, primarily for the leasing of all employees and doctors, for the years ended June 30, 2017 and 2016 are $226,727 and $229,472, respectively, included in other expenses in the consolidated statements of operations and change in unrestricted net assets.

During the years ended June 30, 2017 and 2016, the Green Bay Hospitals have $803 and $831, respectively, of notes receivable for cash advances to Prevea.

The following are Prevea's condensed unaudited financial statement data as of and for the years ended June 30, 2017 and 2016:

	2017	2016
Total assets	$ 91,866	94,417
Total liabilities	53,023	52,533
Total equity	38,843	41,884
Total net revenue	267,733	291,145
Net income	522	1,047

The Green Bay Hospitals' equity portion in Prevea at June 30, 2017 and 2016 decreased by $1,394 and $246, respectively, and is included in other revenues in the accompanying consolidated statements of operations and change in unrestricted net assets.

In fiscal year 2014, the Obligated Group guaranteed all outstanding debt of Prevea. The Obligated Group will be paid 1.25% of the average outstanding principal amount of the outstanding notes. Included in the guarantee are $2,920 taxable variable rate demand notes of PHP Insurance Plan, Inc. (PHP). PHP, a former health maintenance organization, sold its insurance license, changed its corporate structure, and became Prevea Ventures, LLC (PV). Prevea is the sole corporate member of PV. At June 30, 2017 and 2016, the Clinic has commercial loans outstanding, which replaced these notes with balances of $18,044 and $18,825, respectively. At June 30, 2017 and 2016, PV has notes outstanding of $1,976 and $2,073, respectively. Relative to the Guarantee Agreement, no amounts have been paid or accrued as of June 30, 2017 or 2016.

(16) Joint Ventures

Joint ventures are accounted for using the equity method of accounting and represent $45,853 and $7,232 of other long-term assets in the accompanying consolidated balance sheets at June 30, 2017 and 2016, respectively. The most significant of these investments, excluding Prevea (note 15), include:

- Protestant Memorial Medical Center and St. Elizabeth's Healthcare Services, LLP (held by SEB) – 50% ownership interest
- Pain Center of Wisconsin (held by SVGB) – 50% ownership interest
- Door County Memorial Hospital (held by SVGB) – 40% ownership interest
- Orange Cross Ambulance, Inc. (held by SNS) – 50% ownership interest
- Pain Centers of Wisconsin-Oconto Falls, LLC(held by SCO) – 50% ownership interest

For the years ended June 30, 2017 and 2016, HSHS recognized income of $1,329 and $1,485, respectively, in investments in affiliated companies. This activity is included as a component of other revenues in the accompanying consolidated statements of operations and change in unrestricted net assets. During 2017 and 2016, HSHS received cash distributions of $1,740 and $1,900, respectively, from the joint ventures.

(Dollars in thousands)

The following table summarizes the unaudited aggregated financial information of unconsolidated affiliated companies of HSHS as of June 30, 2017 and 2016:

		2017	2016
Total assets	$	116,080	13,821
Total liabilities		19,072	1,356
Total equity		97,008	12,465
Total net revenue		66,633	15,030
Net income		2,997	2,970

(17) Pledges Receivable

Pledges, net of a present value discount rate, determined in the year the pledge is made, and an allowance for uncollectible pledges are recorded as a component of assets whose use is limited or restricted in the accompanying consolidated financial statements based on their expected collection date.

Included in assets whose use is limited or restricted at June 30, 2017 and 2016 are the following unconditional promises to give:

		2017	2016
Unconditional promises to give	$	6,249	8,321
Less unamortized discount		287	304
		5,962	8,017
Less allowance for uncollectible pledges		163	211
Net pledges receivable	$	5,799	7,806
Amounts due in:			
Less than one year	$	1,060	2,189
One to five years		4,374	5,949
More than five years		815	183
Total	$	6,249	8,321

(Continued)

(Dollars in thousands)

(18) Temporarily and Permanently Restricted Assets

Temporarily restricted assets are available for the following purposes or periods at June 30, 2017 and 2016:

		2017	2016
Healthcare services	$	29,588	23,120
Capital expenditures		10,067	7,838
Catholic radio		264	252
College of nursing		226	222
	$	40,145	31,432

HSHS's endowments consist of individual donor restricted endowment and board-designated endowment funds for a variety of purposes plus the following where the assets have been designated for endowment: pledge receivable, split-interest agreements, and other net assets. The endowment includes both donor-restricted endowment funds and funds designated by the board of directors to function as endowments. The net assets associated with endowment funds, including funds designated by the board of directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Illinois is governed by the Uniform Prudent Management of Institutional Funds Act (UPMIFA). The board of directors of HSHS has interpreted UPMIFA as sustaining the preservation of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, HSHS classifies as permanently restricted net assets, (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulates to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by HSHS in a manner consistent with the standard of prudence prescribed by UPMIFA.

(Dollars in thousands)

HSHS has the following donor-restricted endowment activities during the years ended June 30, 2017 and 2016 delineated by net asset class:

	Unrestricted funds functioning	Temporarily restricted	Permanently restricted	2017 Total
Endowment net assets, beginning of year	$ 4,607	3,835	27,436	35,878
Investment return:				
Investment income	10	1	21	32
Net appreciation (realized and unrealized)	679	(22)	—	657
Total investment return	689	(21)	21	689
Contributions and bequests	—	—	352	352
Contribution of GSS net assets	—	—	60	60
Appropriation of endowment assets for expenditure	(552)	(584)	—	(1,136)
Other	—	—	—	—
Endowment net assets, end of year	$ 4,744	3,230	27,869	35,843

	Unrestricted funds functioning	Temporarily restricted	Permanently restricted	2016 Total
Endowment net assets, beginning of year	$ 4,770	4,302	25,819	34,891
Investment return:				
Investment income	94	1	3	98
Net appreciation (realized and unrealized)	73	1	—	74
Total investment return	167	2	3	172
Contributions and bequests	—	—	647	647
Contribution of HFG net assets	—	—	967	967
Appropriation of endowment assets for expenditure	(330)	(469)	—	(799)
Appropriation of endowment assets for capital	—	—	—	—
Other	—	—	—	—
Endowment net assets, end of year	$ 4,607	3,835	27,436	35,878

(Dollars in thousands)

As of June 30, 2017 and 2016, HSHS has permanently restricted endowments as follows:

		2017	2016
Assets to be held in perpetuity, the income from which expendable to support nursing schools	$	4,510	4,194
Assets to be held in perpetuity, the income from which expendable to support specific operations of HSHS facilities		23,359	23,242
	$	27,869	27,436

HSHS has established a spending policy, which is evaluated and approved by the Foundation's board every year. The approved spending rate for fiscal year 2017 and 2016 was 2.79% and 3.44%, respectively. In establishing this policy, the long term expected return on the endowment is considered. This is consistent with HSHS' objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term.

Endowment funds are commingled with the pooled investment fund administered by HSHS. HSHS relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). HSHS targets a diversified asset allocation of 27.0% fixed income, 21.5% domestic equities, 21.5% international equities, 22.0% custom hedge funds, 6.0% real assets, and 2.0% master limited partnerships to achieve its long-term return objectives within prudent risk constraints.

As of June 30, 2017 and 2016, HSHS has unrestricted and temporarily restricted funds that represent the unspent accumulation of earnings for endowment funds as follows:

		2017	2016
Unspent income from which is expendable to support nursing schools	$	182	170
Unspent income from which is expendable to support specific operations of HSHS facilities		7,792	8,272
	$	7,974	8,442

(19) Commitments and Contingencies

(a) Operating Leases

HSHS occupies space in certain facilities and leases various pieces of equipment under long-term noncancelable operating lease arrangements. Total equipment rental, asset lease, and facility rental expense in 2017 and 2016 were $44,076 and $40,866, respectively.

(Continued)

(Dollars in thousands)

The following is a schedule by year of future minimum lease payments to be made under operating leases as of June 30, 2017 that have initial or remaining lease terms in excess of one year:

		Amount
Year ending June 30:		
2018	$	28,882
2019		20,239
2020		17,666
2021		15,464
2022		13,604
Thereafter		28,849

(b) Legal, Regulatory, and Other Contingencies and Commitments

The laws and regulations governing the Medicare, Medicaid, and other government healthcare programs are extremely complex and subject to interpretation, making compliance an ongoing challenge for HSHS and other healthcare organizations. The federal government has increased its enforcement activity, including audits and investigations related to billing practices, clinical documentation, and related matters. HSHS maintains a compliance program designed to educate employees and to detect and correct possible violations.

(c) Litigation

HSHS is involved in litigation arising in the ordinary course of business. After consultation with legal counsel, management estimates that these matters will be resolved without material adverse effect on the HSHS's future consolidated financial position or results of operations.

(d) Unemployment

The Wisconsin hospitals of HSHS pledged a U.S. Treasury note as collateral for any unpaid unemployment compensation claims with a face value of $4,630 for 2017 and 2016 to the Wisconsin Unemployment Reserve Fund. The pledged U.S. Treasury note remained unused at June 30, 2017 and 2016.

(e) Tax Exemption for Sales Tax and Property Tax

Effective June 14, 2012, the governor of Illinois signed into law, Public Act 97-0688, which creates new standards for state sales tax and property tax exemptions in Illinois. The law establishes new standards for the issuance of charitable exemptions, including requirements for a nonprofit hospital to certify annually that in the prior year, it provided an amount of qualified services and activities to low-income and underserved individuals with a value at least equal to the hospital's estimated property tax liability. HSHS certified in 2017 and 2016 and has not recorded a liability for related property taxes based upon management's current determination of qualified services provided.

(f) Investment Risk and Uncertainties

HSHS invests in various investment securities. Investment securities are exposed to various risks, such as interest rate, credit, and overall market volatility risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such change could materially affect the amounts reported in the accompanying consolidated balance sheets.

(g) Guarantee Agreement

During fiscal year 2014, the Obligated Group executed a Guarantee Agreement with JPMorgan Chase, N.A. to guaranty $10,000 of debt for Touchette Regional Hospital in East Saint Louis, Illinois. The Obligated Group will be paid a fee of 0.90% of the average outstanding principal amount of the outstanding debt. Relative to the Guarantee Agreement, no amounts have been paid or accrued as of June 30, 2017 or 2016.

(20) Subsequent Events

In connection with the preparation of the consolidated financial statements and in accordance with ASC Topic 855, *Subsequent Events*, HSHS evaluated subsequent events after the consolidated balance sheet date of June 30, 2017 through October 17, 2017, which was the date the financial statements were issued and other than noted above, there were no other items to disclose.

HOSPITAL SISTERS HEALTH SYSTEM AND SUBSIDIARIES
Springfield, Illinois

Consolidating Balance Sheet Information

June 30, 2017

(Dollars in thousands)

Assets	HSSI – Obligated Group	RQIL	Unity Limited Partnership	KCIN	Healthcare West
Current assets:					
Cash and cash equivalents	$ 86,176	—	2,944	7,425	7
Receivables:					
Patients' accounts, net of uncollectible amounts	407,719	—	1,991	—	—
Due from third-party reimbursement programs	2,491	—	—	—	—
Other	33,966	—	76	3,027	—
Total receivables	444,176	—	2,067	3,027	—
Current portion of assets whose use is limited or restricted	144,736	34,756	8,741	—	—
Inventories	45,423	—	—	—	—
Prepaid expenses	14,462	—	—	1,321	—
Total current assets	734,973	34,756	13,752	11,773	7
Assets whose use is limited or restricted	1,778,934	85,593	400	—	10,455
Property, plant, and equipment, net	1,228,306	—	4,340	2,452	2,617
Other assets	111,080	—	—	—	—
	$ 3,853,293	120,349	18,492	14,225	13,079
Liabilities and Net Assets					
Current liabilities:					
Current installments of long-term debt	$ 24,658	—	—	7	—
Long-term debt subject to short-term remarketing agreements	220,215	—	—	—	—
Current portion of estimated self-insurance liabilities	—	34,623	—	—	—
Accounts payable	83,433	—	1,807	5,091	217
Accrued liabilities	119,738	133	54	3,117	—
Estimated payables under third-party reimbursement programs	59,981	—	—	—	—
Total current liabilities	508,025	34,756	1,861	8,215	217
Long-term debt, excluding current installments	793,494	—	—	3,841	—
Estimated self-insurance liabilities	—	78,564	—	—	—
Derivative instruments	47,906	—	—	—	—
Accrued benefit liability	291,628	—	—	—	—
Other noncurrent liabilities	35,668	—	7,484	—	397
Total liabilities	1,676,721	113,320	9,345	12,056	614
Net assets:					
Unrestricted	2,067,952	7,029	9,147	2,169	12,465
Temporarily restricted	81,751	—	—	—	—
Permanently restricted	26,869	—	—	—	—
Total net assets	2,176,572	7,029	9,147	2,169	12,465
Stockholder's equity	—	—	—	—	—
	$ 3,853,293	120,349	18,492	14,225	13,079

See accompanying independent auditors' report.

Schedule 1

System Office	Medical Group	Health Care Trust Fund	Flex Plan	Foundation	Kiara, Inc.	PERC	Eliminations	Total
5,698	5,496	—	1,118	1,704	1,587	2,359	(1,704)	112,810
—	10,391	—	—	—	6,720	—	—	426,821
—	—	—	—	—	—	—	—	2,491
4,119	2,840	—	—	5,799	3,124	596	(15,906)	37,641
4,119	13,231	—	—	5,799	9,844	596	(15,906)	466,953
5,466	19,416	32,375	—	—		1,086	71,027	317,603
—	141	—	—	—	2,457	—	—	48,021
11,778	1,551	—	—	—	456	47	—	29,615
27,061	39,835	32,375	1,118	7,503	14,344	4,088	53,417	975,002
182,387	—	39,717	—	104,802	8,075	—	(596,386)	1,613,977
152,698	13,211	—	—	—	6,401	155	—	1,410,180
12,428	902	—	—	463	5,602	—	(32,666)	97,809
374,574	53,948	72,092	1,118	112,768	34,422	4,243	(575,635)	4,096,968
5,466	—	—	—	—	126	—	—	30,257
—	—	—	—	—	—	—	—	220,215
—	—	17,288	—	—	—	—	—	51,911
4,188	3,702	13,583	718	—	3,123	15	(10,107)	105,770
9,305	18,106	1,504	—	112,768	8,190	367	(112,768)	160,514
—	—	—	—	—	—	—	—	59,981
18,959	21,808	32,375	718	112,768	11,439	382	(122,875)	628,648
143,226	—	—	—	—	5,950	—	(424,397)	522,114
—	—	—	—	—	—	—	—	78,564
—	—	—	—	—	—	—	—	47,906
43,702	7,354	—	—	—	4,136	(8)	—	346,812
7,107	274	—	—	—	710	—	—	51,640
212,994	29,436	32,375	718	112,768	22,235	374	(547,272)	1,675,684
155,679	24,512	39,717	400	—	—	3,869	30,331	2,353,270
4,901	—	—	—	—	—	—	(46,507)	40,145
1,000	—	—	—	—	—	—	—	27,869
161,580	24,512	39,717	400	—	—	3,869	(16,176)	2,421,284
—	—	—	—	—	12,187	—	(12,187)	—
374,574	53,948	72,092	1,118	112,768	34,422	4,243	(575,635)	4,096,968

HOSPITAL SISTERS HEALTH SYSTEM AND SUBSIDIARIES
Springfield, Illinois

Consolidating Statement of Operations Information and Change in Unrestricted Net Assets

Year ended June 30, 2017

(Dollars in thousands)

	HSSI – Obligated Group	RQIL	Unity Limited Partnership	KCIN	Healthcare West
Net patient service revenues	$ 2,190,336	—	21,448	—	—
Provision for uncollectible accounts	(36,757)	—	—	—	—
Net patient service revenue less provision for uncollectible accounts	2,153,579	—	21,448	—	—
Other revenues:					
Investment income (loss)	—	10,173	—	—	—
Net assets released from restrictions used for operations	1,368	—	—	—	—
Other	42,878	23,643	1,113	10,492	696
Total revenues	2,197,825	33,816	22,561	10,492	696
Expenses:					
Sisters' services	70	—	—	—	—
Salaries and wages	585,956	—	10,007	—	—
Employee benefits	162,068	—	3,605	—	—
Pension expense, excluding mark to market adjustment	11,639	—	—	—	—
Pension expense, mark to market adjustment	(51,664)	—	—	—	—
Professional fees	98,528	—	380	50	2
Supplies	341,825	—	212	4	4
Depreciation and amortization, excluding Belleville campus	112,988	—	450	1,368	228
Accelerated depreciation of Belleville campus	7,479	—	—	—	—
Interest	15,913	—	—	1	—
Other	787,120	33,816	6,084	12,303	340
Total expenses	2,071,922	33,816	20,738	13,726	574
Income (loss) from operations	125,903	—	1,823	(3,234)	122
Nonoperating gains (losses):					
Investment income (losses)	102,690	—	—	—	636
Contributions of excess assets over liabilities	19,124	—	—	—	—
Change in fair value of interest rate swaps	23,361	—	—	—	—
Revenues and gains in excess (deficient) of expenses and losses before discontinued operations	271,078	—	1,823	(3,234)	758
Net losses from discontinued operations	2,933	—	—	—	—
Revenues and gains in excess (deficient) of expenses and losses	274,011	—	1,823	(3,234)	758
Other changes in unrestricted net assets:					
Net assets released from restrictions used for the purchase of property, plant, and equipment	4,985	—	—	—	—
Recognition of change in pension funded status	94	—	—	—	—
Transfers (to) from affiliates	(68,219)	—	—	6,478	—
Change in unrestricted net assets	$ 210,871	—	1,823	3,244	758

See accompanying independent auditors' report.

System Office	Medical Group	Health Care Trust Fund	Flex Plan	Foundation	Kiara, Inc.	PERC	Eliminations	Total
—	77,067	—	—	—	34,335	—	—	2,323,186
—	(3,570)	—	—	—	(544)	—	—	(40,871)
—	73,497	—	—	—	33,791	—	—	2,282,315
—	—	3,038	1	—	595	—	(13,212)	595
—	—	—	—	4,276	—	—	(1,437)	4,207
136,093	100,579	158,330	230	2,618	29,975	2,904	(432,126)	77,425
136,093	174,076	161,368	231	6,894	64,361	2,904	(446,775)	2,364,542
966	—	—	—	—	—	—	—	1,036
62,902	123,213	—	131	—	67,142	1,769	187	851,307
14,074	19,385	161,354	—	—	10,263	390	(161,579)	209,560
3,125	5,074	—	—	—	3,418	103	—	23,359
(2,850)	(4,371)	—	—	—	(594)	(282)	—	(59,761)
5,973	19,770	—	—	—	379	207	(3,407)	121,882
212	3,810	—	—	—	1,343	10	(4,852)	342,568
34,833	3,585	—	—	—	1,622	85	—	155,159
—	—	—	—	—	—	—	—	7,479
649	—	—	—	—	112	—	(5,462)	11,213
58,901	23,928	—	—	10,389	13,409	606	(312,737)	634,159
178,785	194,394	161,354	131	10,389	97,094	2,888	(487,850)	2,297,961
(42,692)	(20,318)	14	100	(3,495)	(32,733)	16	41,075	66,581
43,748	623	—	—	4,807	—	74	(5,426)	147,152
—	—	—	—	—	—	—	—	19,124
—	—	—	—	—	—	—	—	23,361
1,056	(19,695)	14	100	1,312	(32,733)	90	35,649	256,218
—	—	—	—	—	—	—	—	2,933
1,056	(19,695)	14	100	1,312	(32,733)	90	35,649	259,151
—	—	—	—	—	—	—	(4,893)	92
37	—	—	—	—	154	16	—	301
21,794	29,547	10,400	—	(1,312)	32,579	—	(31,267)	—
22,887	9,852	10,414	100	—	—	106	(511)	259,544

HOSPITAL SISTERS HEALTH SYSTEM AND SUBSIDIARIES
Springfield, Illinois

Consolidating Statement of Changes in Net Assets Information

Year ended June 30, 2017

(Dollars in thousands)

	HSSI – Obligated Group	RQIL	Unity Limited Partnership	KCIN	Healthcare West
Unrestricted net assets:					
Revenues and gains in excess (deficient) of expenses and losses	$ 274,011	—	1,823	(3,234)	758
Other changes in unrestricted net assets:					
Net assets released from restrictions use for the purchase of property, plant, and equipment	4,985	—	—	—	—
Recognition of change in pension funded status	94	—	—	—	—
Transfers (to)from affiliates	(68,219)	—	—	6,478	—
Change in unrestricted net assets	210,871	—	1,823	3,244	758
Temporarily restricted net assets:					
Investment income (losses)	1,808	—	—	—	—
Contributions	9,906	—	—	—	—
Contribution of Good Shepherd restricted net assets	1,258	—	—	—	—
Transfers (to) from affiliates	3,256	—	—	—	—
Net assets released from restrictions	(6,353)	—	—	—	—
Change in temporarily restricted net assets	9,875	—	—	—	—
Permanently restricted net assets:					
Investment income	21	—	—	—	—
Contributions	352	—	—	—	—
Contribution of Good Shepherd restricted net assets	60	—	—	—	—
Transfers (to) from affiliates	—	—	—	—	—
Change in permanently restricted net assets	433	—	—	—	—
Change in net assets	221,179	—	1,823	3,244	758
Net assets (deficit) at beginning of year	1,955,393	7,029	7,324	(1,075)	11,707
Net assets at end of year	$ 2,176,572	7,029	9,147	2,169	12,465

See accompanying independent auditors' report.

System Office	Medical Group	Health Care Trust Fund	Flex Plan	Foundation	Kiara, Inc.	PERC	Eliminations	Total
1,056	(19,695)	14	100	1,312	(32,733)	90	35,649	259,151
—	—	—	—	—	—	—	(4,893)	92
37	—	—	—	—	154	16	—	301
21,794	29,547	10,400	—	(1,312)	32,579	—	(31,267)	—
22,887	9,852	10,414	100	—	—	106	(511)	259,544
4,319	—	—	—	1,284	—	—	(6,127)	1,284
(913)	—	—	—	10,368	—	—	(8,891)	10,470
—	—	—	—	—	—	—	—	1,258
(3,256)	—	—	—	(7,376)	—	—	7,376	—
—	—	—	—	(4,276)	—	—	6,330	(4,299)
150	—	—	—	—	—	—	(1,312)	8,713
—	—	—	—	1	—	—	(1)	21
—	—	—	—	353	—	—	(353)	352
—	—	—	—	—	—	—	—	60
—	—	—	—	(354)	—	—	354	—
—	—	—	—	—	—	—	—	433
23,037	9,852	10,414	100	—	—	106	(1,823)	268,690
138,543	14,660	29,303	300	—	—	3,763	(14,353)	2,152,594
161,580	24,512	39,717	400	—	—	3,869	(16,176)	2,421,284

HOSPITAL SISTERS SERVICES, INC. –
OBLIGATED GROUP
Springfield, Illinois

Consolidating Balance Sheet Information

June 30, 2017

(Dollars in thousands)

Assets	St. Elizabeth's Belleville, Illinois	St. Joseph's Breese, Illinois	St. Mary's Decatur, Illinois	St. Anthony's Effingham, Illinois
Current assets:				
Cash and cash equivalents	$ 7,488	3,144	1,854	18,084
Receivables:				
Patients' accounts, net of uncollectible amounts	27,938	11,599	37,119	28,752
Due from third-party reimbursement programs	505	670	(481)	504
Other	2,060	30	3,701	1,001
Total receivables	30,503	12,299	40,339	30,257
Current portion of assets whose use is limited or restricted	335	2,550	374	7,594
Inventories	3,014	601	2,536	4,540
Prepaid expenses	1,015	111	1,776	240
Total current assets	42,355	18,705	46,879	60,715
Assets whose use is limited or restricted, net of current portion	63,599	127,154	9,073	332,586
Property, plant, and equipment, net	211,158	22,113	85,235	56,672
Other assets	4,464	—	—	—
	$ 321,576	167,972	141,187	449,973
Liabilities and Net Assets				
Current liabilities:				
Current installments of long-term debt	$ 1,836	322	1,161	976
Long term-debt subject to short-term remarketing agreements	17,966	3,157	11,358	9,424
Accounts payable	18,060	1,421	2,813	2,104
Accrued liabilities	10,702	1,890	5,626	5,156
Estimated payables under third-party reimbursement programs	5,901	2,840	8,599	12,779
Total current liabilities	54,465	9,630	29,557	30,439
Long-term debt, excluding current installments	380,753	13,452	43,992	14,309
Derivative instruments	9	3,397	—	9,355
Accrued benefit liability	29,074	7,808	20,827	16,710
Other noncurrent liabilities	9,013	2,820	1,888	493
Total liabilities	473,314	37,107	96,264	71,306
Net assets (deficit):				
Unrestricted	(162,927)	129,017	35,851	376,997
Temporarily restricted	10,765	1,848	7,871	1,492
Permanently restricted	424	—	1,201	178
Total net assets (deficit)	(151,738)	130,865	44,923	378,667
	$ 321,576	167,972	141,187	449,973

See accompanying independent auditors' report.

Holy Family Greenvile, Illinois	St. Joseph's Highland, Illinois	St. Francis Litchfield, Illinois	Good Shepherd Shelbyville, Illinois	St. John's Springfield, Illinois	St. Mary's Streator, Illinois	St. Joseph's Chippewa Falls, Wisconsin	Sacred Heart Eau Claire, Wisconsin
311	4,154	2,275	495	2,603	288	1,059	2,168
4,380	9,088	6,748	2,429	148,635	—	10,153	29,259
258	76	—	—	—	—	—	—
	(44)	290	—	7,776	—	472	2,324
4,638	9,120	7,038	2,429	156,411	—	10,625	31,583
638	254	3,287	—	68,254	1,541	4,717	17,515
619	561	421	160	12,902	—	414	5,743
553	283	145	313	4,087	—	54	497
6,759	14,372	13,166	3,397	244,257	1,829	16,869	57,506
1,298	3,174	45,355	22,169	59,482	—	102,634	516,066
9,287	41,119	24,582	4,930	353,835	—	29,388	93,653
—	—	—	499	4,399	—	—	5,466
17,344	58,665	83,103	30,995	661,973	1,829	148,891	672,691
680	1,897	180	300	8,636	—	670	2,216
—	18,518	1,685	—	84,514	—	5,737	21,688
969	466	1,200	1,096	16,315	1,620	2,322	10,828
1,408	1,099	1,149	825	21,559	—	3,861	8,567
1,124	3,895	1,764	327	17,207	—	975	4,570
4,181	25,875	5,978	2,548	148,231	1,620	13,565	47,869
10,030	28,597	7,578	6,691	169,711	—	10,744	27,495
—	36	1,104	—	2,971	209	2,813	14,455
—	5,269	8,846	—	62,986	—	16,894	29,008
1,599	—	3,897	1,043	7,991	—	—	1,055
15,810	59,777	27,403	10,282	391,890	1,829	44,016	119,882
446	(4,250)	51,440	19,395	242,573	—	99,543	543,633
100	3,138	3,012	1,258	24,626	—	2,409	2,770
988	—	1,248	60	2,884	—	2,923	6,406
1,534	(1,112)	55,700	20,713	270,083	—	104,875	552,809
17,344	58,665	83,103	30,995	661,973	1,829	148,891	672,691

Schedule 4

St. Mary's Green Bay, Wisconsin	St. Vincent Green Bay, Wisconsin	St. Clare Oconoto Falls, Wisconsin	St. Nicholas Sheboygan, Wisconsin	Hospital Sisters Services, Inc.	Eliminations	Total
4,134	22,765	1,850	4,940	8,564	—	86,176
13,146	62,382	3,448	12,643	—	—	407,719
108	39	746	66	—	—	2,491
1,032	20,602	904	823	218	(7,223)	33,966
14,286	83,023	5,098	13,532	218	(7,223)	444,176
9,708	22,771	392	4,806	—	—	144,736
2,524	7,969	1,552	1,867	—	—	45,423
125	2,415	30	302	2,516	—	14,462
30,777	138,943	8,922	25,447	11,298	(7,223)	734,973
91,314	343,952	3,788	52,444	4,846	—	1,778,934
74,029	159,592	10,597	52,116	—	—	1,228,306
8,881	78,353	(48)	946	8,120	—	111,080
205,001	720,840	23,259	130,953	24,264	(7,223)	3,853,293
1,228	3,235	397	924	—	—	24,658
12,021	28,196	—	5,951	—	—	220,215
4,957	13,654	1,975	4,848	8	(1,223)	83,433
4,719	43,232	7,966	3,879	4,100	(6,000)	119,738
—	—	—	—	—	—	59,981
22,925	88,317	10,338	15,602	4,108	(7,223)	508,025
15,240	39,909	7,004	11,023	6,966	—	793,494
2,575	9,669	—	1,313	—	—	47,906
19,535	65,495	52	9,124	—	—	291,628
230	772	130	335	4,402	—	35,668
60,505	204,162	17,524	37,397	15,476	(7,223)	1,676,721
136,999	500,929	5,435	84,083	8,788	—	2,067,952
5,198	9,197	290	7,777	—	—	81,751
2,299	6,552	10	1,696	—	—	26,869
144,496	516,678	5,735	93,556	8,788	—	2,176,572
205,001	720,840	23,259	130,953	24,264	(7,223)	3,853,293

HOSPITAL SISTERS SERVICES, INC. –
OBLIGATED GROUP
Springfield, Illinois

Consolidating Statement of Operations Information and Change in Unrestricted Net Assets

Year ended June 30, 2017

(Dollars in thousands)

		St. Elizabeth's Belleville, Illinois	St. Joseph's Breese, Illinois	St. Mary's Decatur, Illinois
Net patient service revenues	$	156,824	59,820	145,272
Provision for uncollectible accounts		(5,863)	(1,831)	(1,582)
Net patient service revenue less provision for uncollectible accounts		150,961	57,989	143,690
Other revenues:				
Net assets released from restrictions used for operations		5	2	14
Other		3,464	1,000	2,136
Total revenues		154,430	58,991	145,840
Expenses:				
Sisters' services		—	—	—
Salaries and wages		51,695	16,720	43,516
Employee benefits		13,536	5,457	11,690
Pension expense, excluding mark to market adjustment		1,387	910	474
Pension expense, mark to market adjustment		(5,317)	(247)	(3,951)
Professional fees		7,216	2,131	7,045
Supplies		25,511	4,741	22,159
Depreciation and amortization, excluding Belleville campus		8,491	2,901	9,639
Accelerated depreciation on Belleville campus		7,479	—	—
Interest		3,343	203	893
Other		72,388	18,205	49,225
Total expenses		185,729	51,021	140,690
Income (loss) from operations		(31,299)	7,970	5,150
Nonoperating income (loss):				
Investment income		425	6,963	26
Contributions of excess assets over liabilities		—	—	—
Change in fair value of interest rate swap		62	1,160	23
Revenues and gains in excess (deficient) of expenses and losses before discontinued operations		(30,812)	16,093	5,199
Net gains from discontinued operations		—	—	—
Revenues and gains in excess (deficient) of expenses and losses		(30,812)	16,093	5,199
Other changes in unrestricted net assets (deficit):				
Net assets released from restrictions used for the purchase of property, plant, and equipment		413	169	269
Recognition of changes in pension funded status		1	—	14
Transfer from (to) affiliate		(13,488)	(1,688)	(10,257)
Change in unrestricted net assets (deficit)	$	(43,886)	14,574	(4,775)

See accompanying independent auditors' report.

St. Anthony's Effingham, Illinois	Holy Family Greenville, Illinois	St. Joseph's Highland, Illinois	St. Francis Litchfield, Illinois	Good Shepherd Shelbyville, Illinois	St. John's Springfield, Illinois	St. Mary's Streator, Illinois	St. Joseph's Chippewa Falls, Wisconsin
141,991	30,173	42,538	48,750	6,504	483,326	—	63,185
(3,900)	(1,062)	(2,223)	(825)	(378)	(8,325)	—	(240)
138,091	29,111	40,315	47,925	6,126	475,001	—	62,945
—	5	1	24	—	1,317	—	—
2,971	1,853	1,913	1,074	186	20,049	—	1,500
141,062	30,969	42,229	49,023	6,312	496,367	—	64,445
—	—	—	—	—	44	—	—
42,688	10,765	11,831	11,070	2,738	144,791	—	24,181
13,958	2,944	3,724	3,486	596	38,853	—	5,686
1,100	—	219	(27)	—	917	—	773
649	—	(880)	(1,149)	—	(17,150)	—	(3,022)
6,731	2,856	2,291	3,307	586	33,743	—	6,888
19,166	2,626	3,929	3,991	571	97,052	—	4,669
5,855	683	3,538	2,509	364	30,369	—	3,446
—	—	—	—	—	—	—	—
378	186	2,171	428	85	5,299	—	231
34,966	10,700	12,824	11,268	2,070	149,024	—	15,089
125,491	30,760	39,647	34,883	7,010	482,942	—	57,941
15,571	209	2,582	14,140	(698)	13,425	—	6,504
19,144	39	198	2,215	923	8,051	843	5,934
—	—	—	—	19,124	—	—	—
3,222	—	238	312	—	5,157	644	1,083
37,937	248	3,018	16,667	19,349	26,633	1,487	13,521
—	—	—	—	—	—	2,933	—
37,937	248	3,018	16,667	19,349	26,633	4,420	13,521
130	24	49	3	—	766	—	380
3	—	—	—	—	16	—	—
(3,382)	(84)	(953)	(982)	46	(39,369)	6,950	(407)
34,688	188	2,114	15,688	19,395	(11,954)	11,370	13,494

Sacred Heart Eau Claire, Wisconsin	St. Mary's Green Bay, Wisconsin	St. Vincent Green Bay, Wisconsin	St. Clare Oconto Falls, Wisconsin	St. Nicholas Sheboygan, Wisconsin	Hospital Sisters Services, Inc.	Eliminations	Total
215,693	128,368	529,509	26,957	112,328	—	(902)	2,190,336
(1,109)	(2,342)	(4,797)	(169)	(2,111)	—	—	(36,757)
214,584	126,026	524,712	26,788	110,217	—	(902)	2,153,579
—	—	—	—	—	—	—	1,368
1,413	5,095	6,807	5,835	1,898	345	(14,661)	42,878
215,997	131,121	531,519	32,623	112,115	345	(15,563)	2,197,825
—	—	26	—	—	—	—	70
67,393	36,346	89,796	9,472	22,954	—	—	585,956
19,022	11,309	22,679	2,784	6,391	—	(47)	162,068
2,308	532	2,462	199	385	—	—	11,639
(7,458)	(3,449)	(7,290)	(360)	(2,040)	—	—	(51,664)
6,082	3,202	14,895	3,132	1,457	—	(3,034)	98,528
30,948	21,187	83,610	8,136	13,548	—	(19)	341,825
11,900	6,323	20,056	1,283	5,631	—	—	112,988
—	—	—	—	—	—	—	7,479
880	488	1,037	169	122	—	—	15,913
52,610	42,999	258,175	12,486	57,549	5	(12,463)	787,120
183,685	118,937	485,446	37,301	105,997	5	(15,563)	2,071,922
32,312	12,184	46,073	(4,678)	6,118	340	—	125,903
29,607	5,013	20,065	218	2,785	241	—	102,690
—	—	—	—	—	—	—	19,124
4,705	843	5,249	—	663	—	—	23,361
66,624	18,040	71,387	(4,460)	9,566	581	—	271,078
—	—	—	—	—	—	—	2,933
66,624	18,040	71,387	(4,460)	9,566	581	—	274,011
458	300	1,982	16	26	—	—	4,985
14	11	35	—	—	—	—	94
(1,313)	(651)	(2,077)	(170)	(394)	—	—	(68,219)
65,783	17,700	71,327	(4,614)	9,198	581	—	210,871

HOSPITAL SISTERS SERVICES, INC. –
OBLIGATED GROUP
Springfield, Illinois

Consolidating Statement of Changes in Net Assets Information

Year ended June 30, 2017

(Dollars in thousands)

		St. Elizabeth's Belleville, Illinois	St. Joseph's Breese, Illinois	St. Mary's Decatur, Illinois	St. Anthony's Effingham, Illinois
Unrestricted net assets:					
Revenues and gains in excess (deficient) of expenses and losses	$	(30,812)	16,093	5,199	37,937
Other changes in unrestricted net assets:					
Net assets released from restrictions used for the purchase of property, plant, and equipment		413	169	269	130
Recognition of changes in pension funded status		1	—	14	3
Transfer from (to) affiliate		(13,488)	(1,688)	(10,257)	(3,382)
Change in unrestricted net assets		(43,886)	14,574	(4,775)	34,688
Temporarily restricted net assets:					
Investment income (losses)		(19)	(7)	98	28
Contributions		3,071	779	1,594	56
Contribution of Good Shepherd restricted net assets		—	—	—	—
Transfer from (to)affiliate		135	52	224	169
Net assets released from restrictions		(418)	(171)	(283)	(130)
Change in temporarily restricted net assets		2,769	653	1,633	123
Permanently restricted net assets:					
Investment income		—	—	—	—
Contributions		—	(2)	—	—
Contribution of Good Shepherd restricted net assets		—	—	—	—
Change in permanently restricted net assets		—	(2)	—	—
Change in net assets		(41,117)	15,225	(3,142)	34,811
Net assets (deficit) at beginning of year		(110,621)	115,640	48,065	343,856
Net assets (deficit) at end of year	$	(151,738)	130,865	44,923	378,667

See accompanying independent auditors' report.

Holy Family Greenville, Illinois	St. Joseph's Highland, Illinois	St. Francis Litchfield, Illinois	Good Shepherd Shelbyville, Illinois	St. John's Springfield, Illinois	St. Mary's Streator, Illinois	St. Joseph's Chippewa Falls, Wisconsin	Sacred Heart Eau Claire, Wisconsin
248	3,018	16,667	19,349	26,633	4,420	13,521	66,624
24	49	3	—	766	—	380	458
—	—	—	—	16	—	—	14
(84)	(953)	(982)	46	(39,369)	6,950	(407)	(1,313)
188	2,114	15,688	19,395	(11,954)	11,370	13,494	65,783
32	(18)	88	—	257	—	231	408
86	97	202	—	1,684	—	185	209
—	—	—	1,258	—	—	—	—
—	276	78	—	758	—	226	476
(29)	(50)	(27)	—	(2,083)	—	(380)	(458)
89	305	341	1,258	616	—	262	635
20	—	—	—	—	—	—	1
—	—	—	—	70	—	12	203
—	—	—	60	—	—	—	—
20	—	—	60	70	—	12	204
297	2,419	16,029	20,713	(11,268)	11,370	13,768	66,622
1,237	(3,531)	39,671	—	281,351	(11,370)	91,107	486,187
1,534	(1,112)	55,700	20,713	270,083	—	104,875	552,809

Schedule 6

St. Mary's Green Bay, Wisconsin	St. Vincent Green Bay, Wisconsin	St. Clare Oconto Falls Wisconsin	St. Nicholas Sheboygan, Wisconsin	Hospital Sisters Services, Inc.	Eliminations	Total
18,040	71,387	(4,460)	9,566	581	—	274,011
300	1,982	16	26	—	—	4,985
11	35	—	—	—	—	94
(651)	(2,077)	(170)	(394)	—	—	(68,219)
17,700	71,327	(4,614)	9,198	581	—	210,871
211	395	2	102	—	—	1,808
432	1,388	25	98	—	—	9,906
—	—	—	—	—	—	1,258
238	402	139	83	—	—	3,256
(300)	(1,982)	(16)	(26)	—	—	(6,353)
581	203	150	257	—	—	9,875
—	—	—	—	—	—	21
—	69	—	—	—	—	352
—	—	—	—	—	—	60
—	69	—	—	—	—	433
18,281	71,599	(4,464)	9,455	581	—	221,179
126,215	445,079	10,199	84,101	8,207	—	1,955,393
144,496	516,678	5,735	93,556	8,788	—	2,176,572