

Children's Hospital and Health System, Inc., and Affiliates

Consolidated Financial Statements as of and for
the Years Ended December 31, 2017 and 2016,
Supplementary Consolidating Information as of
and for the Year Ended December 31, 2017, and
Independent Auditors' Reports

CHILDREN'S HOSPITAL AND HEALTH SYSTEM, INC., AND AFFILIATES

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Children's Hospital and Health System, Inc. and Affiliates:

We have audited the accompanying consolidated financial statements of Children's Hospital and Health System, Inc. and Affiliates (the "Organization"), which comprise the consolidated statements of financial position as of December 31, 2017 and 2016, and the related consolidated statements of operations and changes in net assets, and of 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 accounting principles generally accepted in the United States of America; 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 auditor's 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 Organization'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 Organization'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 Children's Hospital and Health System, Inc. and Affiliates as of December 31, 2017 and 2016, and the results of their operations and changes in net assets and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Deloitte & Touche LLP

April 18, 2018

CHILDREN'S HOSPITAL AND HEALTH SYSTEM, INC., AND AFFILIATES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS OF DECEMBER 31, 2017 AND 2016 (Dollars in thousands)

	2017	2016
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 186,057	\$ 207,855
Patient accounts receivable—less allowance for uncollectible accounts of approximately \$3,200 in 2017 and \$4,000 in 2016	89,086	79,478
Other receivables	38,517	24,917
Inventory of supplies	10,312	9,150
Prepaid expenses	<u>12,582</u>	<u>13,094</u>
Total current assets	<u>336,554</u>	<u>334,494</u>
INVESTMENTS	<u>860,244</u>	<u>713,828</u>
ASSETS LIMITED AS TO USE:		
Limited under bond indentures for capital additions	100,042	-
Temporarily restricted by donors	57,039	60,298
Permanently restricted by donors	<u>183,692</u>	<u>151,994</u>
Total assets limited as to use	<u>340,773</u>	<u>212,292</u>
PROPERTY AND EQUIPMENT—Net	<u>456,037</u>	<u>465,265</u>
OTHER ASSETS	<u>19,825</u>	<u>16,248</u>
TOTAL	<u>\$2,013,433</u>	<u>\$1,742,127</u>

(Continued)

CHILDREN'S HOSPITAL AND HEALTH SYSTEM, INC., AND AFFILIATES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS OF DECEMBER 31, 2017 AND 2016 (Dollars in thousands)

	2017	2016
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable	\$ 41,032	\$ 35,831
Accrued expenses:		
Salaries and benefits	43,643	42,719
Personal leave benefits	24,113	22,287
Interest	622	4,951
Estimated third-party payor settlements	1,534	2,636
Current installments of long-term debt	6,295	7,697
Claims payable and other current liabilities	<u>44,583</u>	<u>43,129</u>
Total current liabilities	161,822	159,250
OTHER LONG-TERM LIABILITIES	46,028	35,746
ACCRUED PENSION	33,414	35,160
LONG-TERM DEBT—Less current installments	<u>359,371</u>	<u>245,019</u>
Total liabilities	<u>600,635</u>	<u>475,175</u>
COMMITMENTS AND CONTINGENCIES (Note 8)		
NET ASSETS:		
Unrestricted	1,172,067	1,054,660
Temporarily restricted	57,039	60,298
Permanently restricted	<u>183,692</u>	<u>151,994</u>
Total net assets	<u>1,412,798</u>	<u>1,266,952</u>
TOTAL	<u>\$2,013,433</u>	<u>\$1,742,127</u>

See notes to consolidated financial statements.

(Concluded)

CHILDREN'S HOSPITAL AND HEALTH SYSTEM, INC., AND AFFILIATES

CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016 (Dollars in thousands)

	2017	2016
OPERATING REVENUE:		
Patient service revenue (net of contractual allowances and discounts)	\$ 691,506	\$ 650,543
Provision for uncollectible accounts	<u>(5,639)</u>	<u>(5,643)</u>
Net patient service revenue	685,867	644,900
Premium revenue and other capitated arrangements	278,347	252,636
Other	<u>103,154</u>	<u>95,985</u>
Total operating revenue	<u>1,067,368</u>	<u>993,521</u>
OPERATING EXPENSES:		
Salaries	331,110	308,431
Employee benefits	86,995	81,931
Medical supplies	81,325	78,647
Non-medical supplies and other	27,941	27,686
Net medical claims expenses	214,467	197,237
Provider tax	10,867	11,343
Purchased services and professional fees	113,757	108,544
Operation and maintenance of facilities	37,332	33,389
Medical College of Wisconsin and resident fees	46,664	41,374
Depreciation	60,552	59,203
Interest	<u>13,374</u>	<u>13,539</u>
Total operating expenses	<u>1,024,384</u>	<u>961,324</u>
OPERATING INCOME	<u>42,984</u>	<u>32,197</u>
NONOPERATING INCOME (EXPENSES)		
Investment income	35,866	20,019
Change in net unrealized gains and losses on investments	54,827	28,620
Change in fair value of interest rate swap agreements	-	(3,240)
Loss on early extinguishment of debt	(16,061)	-
Other	<u>319</u>	<u>(972)</u>
Net nonoperating income	<u>74,951</u>	<u>44,427</u>
EXCESS OF REVENUE OVER EXPENSES	<u>\$ 117,935</u>	<u>\$ 76,624</u>

(Continued)

CHILDREN'S HOSPITAL AND HEALTH SYSTEM, INC., AND AFFILIATES

CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016 (Dollars in thousands)

	2017	2016
UNRESTRICTED NET ASSETS:		
Excess of revenue over expenses	\$ 117,935	\$ 76,624
Net assets released from restrictions—capital acquisitions	4,689	4,183
Pension-related changes other than net periodic pension cost	(217)	(4,861)
Assets restricted for donor match	<u>(5,000)</u>	<u>-</u>
Increase in unrestricted net assets	<u>117,407</u>	<u>75,946</u>
TEMPORARILY RESTRICTED NET ASSETS:		
Contributions	11,152	12,725
Investment income	878	435
Net assets released from restrictions—capital acquisitions	(4,689)	(4,183)
Net assets released from restrictions—operations	(17,407)	(16,990)
Change in net unrealized gains and losses on restricted investments	1,910	1,244
Endowment fund—annual allocation	<u>4,897</u>	<u>4,717</u>
Decrease in temporarily restricted net assets	<u>(3,259)</u>	<u>(2,052)</u>
PERMANENTLY RESTRICTED NET ASSETS:		
Contributions	11,461	899
Investment income	6,358	2,962
Change in net unrealized gains and losses on restricted investments	13,776	6,604
Endowment fund—annual allocation	(4,897)	(4,717)
Assets restricted for donor match	<u>5,000</u>	<u>-</u>
Increase in permanently restricted net assets	<u>31,698</u>	<u>5,748</u>
INCREASE IN NET ASSETS	145,846	79,642
NET ASSETS—Beginning of year	<u>1,266,952</u>	<u>1,187,310</u>
NET ASSETS—End of year	<u>\$1,412,798</u>	<u>\$1,266,952</u>

See notes to consolidated financial statements.

(Concluded)

CHILDREN'S HOSPITAL AND HEALTH SYSTEM, INC., AND AFFILIATES

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016 (Dollars in thousands)

	2017	2016
OPERATING ACTIVITIES:		
Increase in net assets	\$ 145,846	\$ 79,642
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Restricted contributions and pledges for capital projects, investment income, and permanently restricted contributions	(18,080)	(4,989)
Pension-related changes other than net periodic pension cost	217	4,861
Change in net unrealized gains and losses on investments	(70,513)	(36,468)
Change in fair value of interest rate swap agreements	-	3,240
Realized gain on sale of investments	(22,782)	(4,069)
Depreciation of property and equipment	60,552	59,203
Amortization and other	4,795	1,813
Provision for uncollectible accounts	5,639	5,643
Changes in operating assets and liabilities:		
Patient accounts receivable	(15,247)	(7,996)
Other receivables	(13,600)	967
Inventory, prepaid and deferred expenses, and other assets	(7,194)	(6,630)
Accounts payable	4,317	3,798
Estimated third-party payor settlements	(1,102)	(1,932)
Other accrued expenses and liabilities	10,157	(4,769)
Accrued pension	(1,963)	(4,944)
Net cash provided by operating activities	<u>81,042</u>	<u>87,370</u>
INVESTING ACTIVITIES:		
Capital expenditures	(51,094)	(66,354)
Purchases of investments	(620,322)	(310,616)
Proceeds from sales of investments	<u>443,016</u>	<u>287,580</u>
Net cash used in investing activities	<u>(228,400)</u>	<u>(89,390)</u>
FINANCING ACTIVITIES:		
Proceeds from long-term borrowings	368,210	-
Payment of debt issuance costs	(2,580)	-
Payments on long-term borrowings	(256,012)	(4,523)
Proceeds from contributions for capital projects and endowments	<u>15,942</u>	<u>7,293</u>
Net cash provided by financing activities	<u>125,560</u>	<u>2,770</u>

(Continued)

CHILDREN'S HOSPITAL AND HEALTH SYSTEM, INC., AND AFFILIATES

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016 (Dollars in thousands)

	2017	2016
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	\$ (21,798)	\$ 750
CASH AND CASH EQUIVALENTS:		
Beginning of year	<u>207,855</u>	<u>207,105</u>
End of year	<u>\$186,057</u>	<u>\$207,855</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION—Cash paid during the year for interest	<u>\$ 17,407</u>	<u>\$ 13,327</u>
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITY—Capital acquisitions funded through accounts payable	<u>\$ 2,332</u>	<u>\$ 1,448</u>
See notes to consolidated financial statements.		(Concluded)

CHILDREN'S HOSPITAL AND HEALTH SYSTEM, INC., AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016 (Dollars in thousands)

1. ORGANIZATION

Children's Hospital and Health System, Inc., and Affiliates (CHHS) is committed to ensuring a healthier future for children by providing an integrated health services network for infants, children, and adolescents, advocating on their behalf, and discovering new ways to keep kids healthy. CHHS' consolidated financial statements include the following:

Children's Hospital and Health System, Inc.—A not-for-profit organization that delivers outpatient health care services, administers a foster care medical home, and provides operational support services, research, and health education services. Children's Hospital and Health System, Inc., is the sole corporate member, or sole shareholder of the for-profit corporation where applicable, of the following entities:

Children's Hospital of Wisconsin, Inc. (the Hospital), which consists of the following:

- Children's Hospital of Wisconsin—Milwaukee, a 298-bed, independent pediatric hospital
- Children's Hospital of Wisconsin—Fox Valley, a 42-bed, independent pediatric hospital, which includes a 22-bed neonatal intensive care unit, located on the campus of Theda Clark Medical Center

Organizationally, these independently licensed, not-for-profit hospitals operate under the Hospital's corporate entity and federal tax identification number.

Children's Hospital of Wisconsin Foundation, Inc. (the Foundation)—A not-for-profit foundation that solicits funds for the maintenance and benefit of the Hospital and CHHS, their programs and activities, and other affiliated not-for-profit organizations within the state of Wisconsin.

Children's Medical Group, Inc.—A not-for-profit organization established for the purpose of providing pediatric physician primary care services.

Children's Service Society of Wisconsin (CSSW)—A statewide not-for-profit organization that provides child well-being services. CSSW provides services to children and their families in the areas of child welfare, foster care case management, counseling and case management, prevention services, and out-of-home care.

Children's Community Health Plan, Inc. (CCHP)—A nonstock, not-for-profit health insurance organization licensed in the state of Wisconsin under Chapter 613 of the Wisconsin Statutes, *Service Insurance Corporations*. CCHP offers both a Medicaid HMO and commercial exchange product to its members.

Surgicenter of Greater Milwaukee, LLC (the Surgicenter)—A Wisconsin limited liability company wholly owned by Children's Hospital and Health System, Inc., that consists of an ambulatory surgery center and a medical office building.

Obligated Group—The Hospital and Foundation are the only members of the obligated group (the Obligated Group) for purposes of the issuance of bonds through the Wisconsin Health and Educational Facilities Authority (WHEFA) (see Note 7).

Children's Specialty Group, Inc. (CSG)—A joint venture between CHHS and the Medical College of Wisconsin (MCW) that provides pediatric specialty health care services. CHHS accounts for its interest in CSG under the equity method of accounting, however, pursuant to an operating agreement, as amended, between CHHS and MCW, all earnings and any material distributions flow to MCW or are retained in CSG for future program development. Therefore, there was no investment recorded in CSG as of December 31, 2017 and 2016.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation—The consolidated financial statements of CHHS have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP). All intercompany accounts and transactions have been eliminated in consolidation.

Use of Estimates—The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the consolidated financial statements. Estimates also affect the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. Significant estimated amounts in the consolidated financial statements include contractual allowances, pension obligation, and claims payable.

Cash and Cash Equivalents—Cash and cash equivalents include highly liquid investments purchased with original maturities of three months or less.

Inventory of Supplies—Inventory of supplies is stated at the lower of cost or market, determined using the first-in, first-out method.

Investments—Investments are reported at fair value based primarily upon quoted market prices in active markets, other observable inputs, or unobservable inputs. Both realized and unrealized gains and losses are included in the consolidated statements of operations and changes in net assets, and the change in net unrealized gains or losses on unrestricted investments is included within the excess of revenue over expenses. Investment income on funds is allocated between unrestricted and restricted net assets based on amounts invested and donor restrictions. CHHS continues to elect the fair value option for all fixed-income, equity, and mutual fund purchases. A portion of unrestricted investments is not intended to be used for current operations, and therefore, is classified as noncurrent assets.

Assets Limited as to Use—Assets limited as to use include assets restricted by donors and assets held by trustees under indenture agreements.

Pledges—Pledges are recorded based on written instructions from donors. Pledges, less allowances for estimated uncollectible amounts, are recorded as receivables in the year received. Unrestricted pledges are recorded as contributions within other operating revenue, and restricted pledges are recorded as increases in temporarily or permanently restricted net assets depending on the donor restrictions received with the pledge.

Property and Equipment—Property and equipment are recorded at cost. Depreciation is provided on the straight-line method over the estimated useful lives of the assets, which range from three to 40 years, using American Hospital Association guidelines. Amortization of capital leases is provided using the straight-line method over the shorter of the term of the lease or the economic useful lives of the assets. Interest costs incurred on borrowed funds during the period of construction are capitalized as a component of the costs of acquiring these assets. Costs of computer software developed or obtained for internal use (including external direct costs of materials and services, payroll, and payroll-related costs for employees directly associated with internal use software development projects incurred during the development period) are expensed or capitalized depending on whether the costs are incurred in the preliminary project stage, development stage, or operational stage. These assets are included in major movable equipment.

CHHS periodically evaluates the carrying value of land, property, equipment, and other intangible assets for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. There were no impairment charges recorded for the years ended December 31, 2017 and 2016.

Temporarily and Permanently Restricted Net Assets—Donor restrictions on the use of temporarily restricted net assets are for various health-related services, capital projects, child welfare services, research, and for time-restricted remainderman trusts and estates. Donor restrictions on permanently restricted net assets restrict the use of funds released for expenditure to various health-related services, child welfare services, and research.

When a donor restriction expires, such as when a stipulated time restriction ends or a purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the consolidated statements of operations and changes in net assets as other operating revenue (if used for operating purposes) or as net assets released from restrictions—capital acquisitions. Unrestricted contributions are reported as other operating revenue.

Excess of Revenue over Expenses—The consolidated statements of operations and changes in net assets include excess of revenue over expenses. Changes in unrestricted net assets, which are excluded from excess of revenue over expenses, include contributions of long-lived assets (including assets acquired using contributions that, by donor restriction, were to be used for the purposes of acquiring such assets), pension-related changes other than net periodic pension cost, and other items in accordance with industry practice.

Net Patient Service Revenue—CHHS has agreements with third-party payors that provide for payments to CHHS at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, indexed amounts per visit, discounted charges, and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. 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.

Premium Revenue and Other Capitated Arrangements—Premium revenue is recognized during the period in which CCHP or CHHS is obligated to provide services.

Other Operating Revenue—Other operating revenue comprises grants, unrestricted contributions, net assets released from restrictions for operations, rental income, cafeteria revenue, and other revenue. This includes awards from the Department of Health and Human Services for medical education, net of estimated retroactive adjustments.

Donated Goods and Services—CHHS has recorded the estimated fair market value of donated goods and services as revenue and expenses in the consolidated statements of operations and changes in net assets. The amount recorded was \$275 and \$271 for the years ended December 31, 2017 and 2016, respectively. Included in the value of donated goods and services are materials, such as raffle items, auction items, food and beverages, printing, and videotaping services.

CHHS also receives various donated goods and services for which no comparable fair market value is readily determinable. Accordingly, these items are not recorded in the consolidated financial statements.

Professional Liability Insurance—CHHS, along with substantially all Wisconsin health care providers, has professional liability insurance through the Injured Patients and Families Compensation Fund (the "Fund"). CHHS maintains an occurrence basis policy that covers professional liability claims occurring during the policy term, with insurance coverage limits of \$1,000 for each occurrence and \$3,000 for all occurrences in any policy year. The Fund is responsible for paying claims in excess of these limits. CHHS is required to pay an annual assessment to the Fund for the purpose of providing the Fund with monies for payment of claims.

Laws and Regulations—CHHS is subject to numerous laws and regulations of federal, state, and local governments. Compliance with these laws and regulations, specifically those relating to the Medicare and Medicaid programs, can be subject to government review and interpretation, as well as regulatory actions unknown and unasserted at this time. Management believes that CHHS is in substantial compliance with current laws and regulations.

Litigation—CHHS is involved in litigation arising in the normal course of business. After consultation with legal counsel, it is management's opinion that these matters will be resolved without material adverse effect on the consolidated financial position or consolidated results of operations.

Income Taxes—The CHHS not-for-profit organizations (see Note 1) are tax-exempt organizations under Sections 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. Surgicenter is treated as a partnership for income tax purposes, and since it is owned by a tax-exempt entity, it is treated as a disregarded entity of Children's Hospital and Health System, Inc. CCHP is exempt from federal income taxes, but is subject to state income taxes as the State of Wisconsin does not recognize CCHP's federal tax-exempt status. CHHS evaluates its uncertain tax positions on an annual basis, and there have been no uncertain tax positions recorded for the years ended December 31, 2017 and 2016.

New Accounting Pronouncements—In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, Revenue from Contracts with Customers, which outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry specific guidance, and requires significantly expanded disclosures about revenue recognition. The core principal of the

revenue model is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services.

CHHS is currently evaluating the requirements of the new standard to ensure that processes, systems and internal controls are in place to collect the necessary information to implement the standard, which is effective for CHHS as of January 1, 2018. The guidance may be adopted using either a full retrospective or modified retrospective approach. CHHS currently anticipates using the modified retrospective method to adopt this ASU. CHHS also intends to utilize the portfolio approach practical expedient to analyze contracts within CHHS's core service lines. This practical expedient allows CHHS to evaluate the criteria for revenue recognition over a portfolio of similar contracts as opposed to evaluating each individual contract for alignment with the ASU. The adoption of this ASU will result in significant changes to the presentation and disclosures related to revenue within CHHS's consolidated financial statements. The primary change will be a reduction in the provision for bad debts which relates to self-pay patients and amounts due from patients for co-pays and deductibles. Under the ASU, these amounts will be a direct reduction to patient service revenue. CHHS is still in the process of analyzing the impact of the ASU on reserve methodologies and revenue recognition for various reimbursement programs. We do not anticipate that this ASU will materially impact our financial position, results of operations, or cash flows.

In February 2016, the FASB issued ASU No. 2016-02, *Leases*, which is intended to improve financial reporting related to leasing transactions. This ASU requires a lessee to recognize on the balance sheet assets and liabilities for rights and obligations created by leased assets with lease terms of more than 12 months. The new guidance will also require disclosures to help users of the financial statements better understand the amount, timing, and uncertainty of cash flows arising from leases. These disclosures include qualitative and quantitative requirements, providing additional information about the amounts recorded in the financial statements. The new standard is effective for CHHS as of January 1, 2019 and early application is permitted. CHHS is evaluating the effect that the guidance will have on its consolidated financial statement and related disclosures. We expect the standard will significantly increase short-term and long-term assets and liabilities upon adoption. The effect on the results of operations is not expected to be significant.

In August 2016, the FASB issued ASU 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*, which is intended to simplify how a not-for-profit entity presents net assets and other information in the financial statements. This ASU will be effective for CHHS as of January 1, 2018. CHHS is evaluating the effect that the guidance will have on its consolidated financial statements and related disclosures.

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows—Classification of Certain Cash Receipts and Cash Payments*, which addresses the following eight specific cash flow issues in order to limit diversity in practice: debt prepayment or debt extinguishment costs; settlement of zero-coupon debt instruments or other debt instruments with coupon interest rates that are insignificant in relation to the effective interest rate of the borrowing; contingent consideration payments made after a business combination; proceeds from the settlement of insurance claims; proceeds from the settlement of corporate-owned life insurance policies, including bank-owned life insurance policies; distributions received from equity method investees; beneficial interests in securitization transactions; and separately identifiable cash flows and application of the

predominance principle. This ASU will be effective for CHHS as of January 1, 2019. Early adoption is permitted. CHHS is evaluating the effect that the guidance will have on its consolidated financial statements.

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows—Restricted Cash*, which requires that the statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. This ASU will be effective for CHHS as of January 1, 2019. Early adoption is permitted. CHHS is evaluating the effect that the guidance will have on its consolidated financial statements.

In January 2017, the FASB issued ASU 2017-07, *Compensation—Retirement Benefits: Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*. ASU 2017-07 addresses how employers that sponsor defined benefit pension and/or other postretirement benefit plans present the net periodic benefit cost in the income statement. Employers will be required to present the service cost component of net periodic benefit cost in the same income statement line item as other employee compensation costs arising from services rendered during the period. Employers will present the other components of the net periodic benefit cost separately from the line item that includes the service cost and outside of any subtotal of operating income, if one is presented. This ASU will be effective for CHHS as of January 1, 2019. Early adoption is permitted. Adoption of ASU 2017-07 will require CHHS to include the service cost component of net periodic benefit cost related to its defined benefit pension plans within employee benefits on the consolidated statements of operations and changes in net assets and to present all other components as a separate line item outside of operating income. Total net periodic benefit cost is recorded currently as a component of salaries and benefits on the consolidated statements of operations and changes in net assets.

Subsequent Events—CHHS has evaluated subsequent events through April 18, 2018, the date the consolidated financial statements were issued.

3. CASH, CASH EQUIVALENTS, INVESTMENTS, AND ASSETS LIMITED AS TO USE

Cash, cash equivalents, investments, and assets limited as to use as of December 31, 2017 and 2016, consisted of the following:

	2017	2016
Cash	\$ 151,232	\$ 193,236
Investments at fair value:		
Money market funds (cash equivalent)	60,124	14,619
Accrued investment income	3,517	2,909
U.S. government securities	239,180	100,777
U.S. government agency mortgage-backed securities	127,759	139,932
Corporate fixed-income securities	154,122	128,631
International fixed-income securities	49,264	46,102
Municipal fixed-income securities	3,165	4,115
Pooled fixed-income mutual funds	54,403	32,690
Alternative investments-equities	2,511	-
Domestic equity securities and mutual funds	404,120	360,946
International equity securities and mutual funds	<u>110,630</u>	<u>88,074</u>
Total	<u>\$1,360,027</u>	<u>\$1,112,031</u>

These assets are classified on the consolidated statements of financial position as of December 31, 2017 and 2016, as follows:

	2017	2016
Cash and cash equivalents	\$ 186,057	\$ 207,855
Investments	860,244	713,828
Assets limited as to use:		
Limited under bond indentures for capital additions	100,042	-
Temporarily restricted by donors	44,755	44,122
Permanently restricted by donors	<u>168,929</u>	<u>146,226</u>
Total	<u>\$ 1,360,027</u>	<u>\$ 1,112,031</u>

Unrestricted and restricted return on investments for the years ended December 31, 2017 and 2016, comprises the following:

	2017	2016
Interest income and dividends	\$ 20,320	\$ 19,347
Realized gains on investments	22,782	4,069
Change in net unrealized gains and losses on investments	<u>70,513</u>	<u>36,468</u>
Total return on investments	<u>\$113,615</u>	<u>\$ 59,884</u>
Reported as:		
Nonoperating gains—investment income	\$ 35,866	\$ 20,019
Temporarily restricted investment income	878	435
Permanently restricted investment income	6,358	2,962
Change in net unrealized gains and losses on investments:		
Nonoperating gains	54,827	28,620
Temporarily restricted net assets	1,910	1,244
Permanently restricted net assets	<u>13,776</u>	<u>6,604</u>
Total	<u>\$113,615</u>	<u>\$ 59,884</u>

4. ASSETS LIMITED AS TO USE

CHHS has assets that are temporarily or permanently restricted by donors. Temporarily restricted net assets are those for which use has been limited by donors to a specific time period or purpose and represent amounts that are to be used for capital acquisitions or operating purposes. Permanently restricted net assets are maintained in accordance with the donor's wishes, and accordingly, may be maintained in perpetuity or may allow for the annual release of funds for expenditure. As of December 31, 2017 and 2016, restricted net assets are held for the following purposes:

	Temporarily Restricted		Permanently Restricted	
	2017	2016	2017	2016
Health care and other hospital services	\$ 50,092	\$ 50,648	\$ 182,520	\$ 150,930
Capital projects	3,143	5,489	-	-
Children's health education	2,551	2,909	300	276
Children's social services	<u>1,253</u>	<u>1,252</u>	<u>872</u>	<u>788</u>
Total	<u>\$57,039</u>	<u>\$60,298</u>	<u>\$183,692</u>	<u>\$151,994</u>

As of December 31, 2017 and 2016, the assets of CHHS designated for restricted purposes include the following:

	<u>Temporarily Restricted</u>		<u>Permanently Restricted</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Investments	\$44,755	\$44,122	\$168,929	\$146,226
Pledges receivable—net	11,550	15,470	11,406	2,154
Charitable trusts and bequests	<u>734</u>	<u>706</u>	<u>3,357</u>	<u>3,614</u>
Total	<u>\$57,039</u>	<u>\$60,298</u>	<u>\$183,692</u>	<u>\$151,994</u>

Assets Limited as to Use—Endowment Investments—The Foundation manages one investment portfolio and allocates a portion of the investments to assets limited as to use based on the amount of temporarily and permanently restricted net assets, less outstanding pledges and trusts. The Foundation follows the direction set forth by the donor to determine the preservation of the historic value of endowment funds. Restricted investments are adjusted for fair value changes or investment returns when specifically required by the donor’s wishes.

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or the law requires the Foundation to retain as a fund of perpetual duration. There were no deficiencies of this nature for the years ended December 31, 2017 and 2016.

The Foundation does not limit its spending of purpose-restricted donations based on its investment portfolio and return objectives. Purpose-restricted funds become available for expenditure once cash is received from the donor and the circumstances requested by the donor occur. Certain donors have elected to follow the Foundation’s endowment policy whereby the endowment funds retain their related investment returns and release an annual allocation for spending based on each fund’s historical value. All other endowment funds are maintained in perpetuity, while the related investment income is released for spending based on the donor’s wishes. In order to preserve Foundation assets and plan annual grants in support of pediatric activities in accordance with the Foundation’s articles of incorporation, expenditures of unrestricted Foundation assets are limited to 5% of the trailing three-year fair market value of unrestricted cash and investments. This policy can be adjusted with the approval of the board of directors.

The Foundation’s primary objective for endowment funds is to optimize the total return of Foundation funds and preserve capital within stated parameters, and secondarily to generate current income. The Investment Subcommittee of the CHHS Board of Directors (the “Investment Subcommittee”) evaluates an investment manager’s performance against their respective benchmark.

The Foundation targets a long-term asset allocation mix of approximately 65% risk assets (defined as the sum of equities and alternatives) with the balance in fixed-income securities. The Investment Subcommittee monitors and controls the distribution of investments among its selected investment managers to maintain a maximum-minimum range of 70% to 50% for equities, 10%–0% for alternative investments, and 50%–20% for fixed-income securities. The diversification of securities held in each investment manager’s portfolio, among sectors and issuers, is the responsibility of each investment manager, consistent with the market objectives identified at the time of the initial

investment. Each investment manager is expected to diversify the portfolio sufficiently to minimize the risk of a large loss from a single security or from the securities of a single issuer.

Board of directors-designated quasi-endowment funds, included as unrestricted net assets in the consolidated statements of financial position, include funds maintained by the Foundation within its investment portfolio and a quasi-endowment fund maintained by the Hospital in a separate investment account. The Hospital quasi-endowment fund invests in fixed-income securities based on criteria outlined by the Investment Subcommittee.

Information regarding the composition of the Foundation endowment fund activity as of and for the years ended December 31, 2017 and 2016, is as follows:

	Total	Board- Designated Unrestricted	Donor - Donor- Temporarily Restricted Earnings on Endowments	Donor- Restricted Permanently
Balances—January 1, 2016	\$ 372,100	\$ 224,541	\$ 7,568	\$ 139,991
Investment return:				
Investment income	3,467	-	504	2,963
Change in net unrealized gains and losses	<u>7,726</u>	<u>-</u>	<u>1,122</u>	<u>6,604</u>
Total investment return	<u>11,193</u>	<u>-</u>	<u>1,626</u>	<u>9,567</u>
Contributions	2,197	812	-	1,385
Transfers to Board Designated	25,000	25,000	-	-
Annual endowment allocation	-	-	4,717	(4,717)
Net assets released from restrictions	<u>(6,263)</u>	<u>-</u>	<u>(6,263)</u>	<u>-</u>
Balances—December 31, 2016	<u>404,227</u>	<u>250,353</u>	<u>7,648</u>	<u>146,226</u>
Investment return:				
Investment income	21,656	14,447	851	6,358
Change in net unrealized gains and losses	<u>47,313</u>	<u>31,694</u>	<u>1,843</u>	<u>13,776</u>
Total investment return	<u>68,969</u>	<u>46,141</u>	<u>2,694</u>	<u>20,134</u>
Contributions	2,917	451	-	2,466
Transfers to Board Designated	109,444	109,444	-	-
Transfers from Board Designated	-	(5,000)	-	5,000
Annual endowment allocation	-	-	4,897	(4,897)
Net assets released from restrictions	<u>(5,970)</u>	<u>-</u>	<u>(5,970)</u>	<u>-</u>
Balances—December 31, 2017	<u>\$ 579,587</u>	<u>\$ 401,389</u>	<u>\$ 9,269</u>	<u>\$ 168,929</u>

The information above reflects the activity of the Foundation's endowment investable funds. The above information excludes pledge receivables and charitable trusts and bequests of \$14,763, \$5,768, and \$6,255, from permanently restricted funds as of December 31, 2017, 2016, and 2015, respectively.

Assets Limited as to Use—Pledges—As of December 31, 2017 and 2016, pledges receivable of \$23,088 and \$17,859, respectively, were recorded. Pledges receivable in excess of one year are discounted at the risk-free rate in the year the pledge is received. Discount rates ranged from 0.7% to 2.2% as of December 31, 2017 and 2016. Such discounts amounted to \$1,073 and \$658 as of December 31, 2017 and 2016, respectively. Allowances for uncollectible pledges totaled \$851 and \$1,359 as of December 31, 2017 and 2016, respectively. The maturities of the pledges receivable as of December 31, 2017 and 2016, are as follows:

	2017	2016
Pledges—less than one year	\$ 8,786	\$ 7,233
Pledges—one to five years	12,650	9,197
Pledges—over five years	1,652	1,429

Assets Limited as to Use—Charitable Trusts and Bequests—As of December 31, 2017 and 2016, \$4,091 and \$4,320, respectively, of charitable trusts and bequests have been recorded where the Foundation is an irrevocable beneficiary. Such assets are recorded as temporarily or permanently restricted net assets until the stipulations of the donors have been satisfied. These charitable trusts and bequests are recorded at estimated fair value. Assumptions used to determine the fair values as of December 31, 2017 and 2016, include an investment rate of return of 5.50% and 6.00%, and a discount rate using the federally published rate in effect at the time the gift was received.

The Foundation has a policy whereby charitable trusts are recorded when the trust is irrevocable, and the current value of the trust assets is available. The Foundation is aware of certain trusts for which it may be the beneficiary, which do not meet these criteria. Estimates of the value of such trusts are not recorded in the consolidated financial statements.

5. PROPERTY AND EQUIPMENT

As of December 31, 2017 and 2016, property and equipment consisted of the following:

	2017	2016
Cost of property and equipment:		
Land	\$ 1,723	\$ 1,723
Buildings and improvements	637,261	599,161
Major movable equipment	260,994	257,439
Projects in progress	<u>15,602</u>	<u>33,529</u>
Total cost of property and equipment	915,580	891,852
Less accumulated depreciation and amortization	<u>(459,543)</u>	<u>(426,587)</u>
Property and equipment—net	<u>\$ 456,037</u>	<u>\$ 465,265</u>

Projects in progress as of December 31, 2017 relate primarily to renovation and expansion projects at the Hospital.

6. EMPLOYEE BENEFIT PLANS

Defined Contribution Plans—CHHS sponsors the Shared Retirement Savings Plans, defined contribution plans that include a discretionary employer match of one-half of employee contributions up to 8% of eligible employee compensation and a service-based contribution for eligible employees. During the years ended December 31, 2017 and 2016, the combined CHHS matching and service-based contribution was approximately \$16,546 and \$15,418, respectively, which is included in employee benefits expense on the consolidated statements of operations and changes in net assets.

Pension Plans—CHHS maintains a multiple-employer noncontributory, defined-benefit pension plan (the “CHHS pension plan”). The CHHS pension plan includes only certain employees of CHHS, and substantially all plan participants were employees of the Hospital. The Hospital makes all employer contributions, records the accrued pension liability and pension-related changes other than net periodic pension cost, and allocates the annual net periodic pension cost to the participating CHHS affiliates. The CHHS board of directors approved the curtailment of the CHHS pension plan effective December 31, 2009.

CSSW sponsors a defined-benefit pension plan (the “CSSW pension plan”) that covered substantially all CSSW employees employed prior to its curtailment. The CSSW pension plan calls for benefits to be paid to eligible employees at retirement, based primarily upon each eligible employee’s years of service with CSSW and compensation rate near retirement. The CSSW board of directors approved the curtailment of the CSSW pension plan effective December 31, 2004.

CHHS’ policy is to fund the amounts necessary to meet the requirements of Department of Labor’s Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974 (ERISA), as amended, for each of the pension plans.

Information regarding the benefit obligations and assets of the pension plans as of and for the years ended December 31, 2017 and 2016, is as follows:

	CHHS		CSSW	
	2017	2016	2017	2016
Change in benefit obligation:				
Benefit obligation—beginning of year	\$ 270,900	\$ 254,793	\$ 10,076	\$ 10,059
Service cost	-	-	37	38
Interest cost	12,151	11,976	461	465
Actuarial loss (gain)	23,327	11,727	715	45
Expenses	-	-	(32)	(33)
Benefit payments	<u>(7,507)</u>	<u>(7,596)</u>	<u>(540)</u>	<u>(498)</u>
Benefit obligation—end of year	<u>298,871</u>	<u>270,900</u>	<u>10,717</u>	<u>10,076</u>
Reconciliation of fair value of plan assets:				
Fair value of plan assets—beginning of year	237,832	221,633	7,984	7,976
Actual return on plan assets	34,591	18,795	946	539
Employer contributions	2,900	5,000	-	-
Benefit payments	(7,507)	(7,596)	(540)	(498)
Expenses	<u>-</u>	<u>-</u>	<u>(32)</u>	<u>(33)</u>
Fair value of plan assets—end of year	<u>267,816</u>	<u>237,832</u>	<u>8,358</u>	<u>7,984</u>
Unfunded status—end of year	<u>\$ 31,055</u>	<u>\$ 33,068</u>	<u>\$ 2,359</u>	<u>\$ 2,092</u>
Change in net amount recognized:				
Accrued pension—prior year	\$ 33,068	\$ 33,160	\$ 2,092	\$ 2,083
Net periodic pension cost (credit)	900	(3)	37	59
Employer contributions	(2,900)	(5,000)	-	-
Pension-related changes other than net periodic pension cost	<u>(13)</u>	<u>4,911</u>	<u>230</u>	<u>(50)</u>
Accrued pension—current year	<u>\$ 31,055</u>	<u>\$ 33,068</u>	<u>\$ 2,359</u>	<u>\$ 2,092</u>
Discount rate—January 1	4.56 %	4.77 %	4.56 %	4.77 %
Discount rate—December 31	3.92	4.56	3.92	4.56
Expected return on plan assets	6.00	6.25	7.50	7.50

As a result of the curtailment of both pension plans, the projected benefit obligation equals the accumulated benefit obligation.

Total expense for the CHHS and CSSW pension plans for the years ended December 31, 2017 and 2016 was \$939 and \$56, respectively. The expense is included in employee benefits in the accompanying consolidated statements of operations and changes in net assets.

To develop the expected long-term rate of return on asset assumptions, CHHS and CSSW considered the historical returns and future expectations for returns in each asset class, as well as targeted asset allocation percentages within the respective pension portfolios. Pension investments are managed in accordance with each pension plan's statement of investment objectives and policy guidelines, as established and maintained by the Investment Subcommittee. The Investment Subcommittee selects investment managers

based on the investment objectives and regularly evaluates each manager's performance based on industry benchmarks. The investment policy guidelines establish asset allocation, quality targets, and performance expectations, as well as regular reporting requirements. With the adoption of a Liability Driven Investment (LDI) strategy for the CHHS pension plan, the Investment Subcommittee established a target asset allocation of 40% equity securities and 60% fixed-income securities. This allocation may be more heavily weighted to fixed-income securities depending on future market interest rates and the resulting funded status of the CHHS pension plan. In 2017, the target allocation was changed to 25% equity and 75% fixed-income securities as a result of market conditions. For the CSSW pension plan, the Investment Subcommittee has established a target asset allocation of 50% equity securities and 50% fixed-income securities. Within each plan, each class is diversified with multiple managers with differing styles of management.

The fair value of pension plan assets measured using quoted prices in active markets for identical assets (Level 1 of the fair value hierarchy) and significant other observable inputs (Level 2 of the fair value hierarchy), using techniques consistent with those listed in Note 13, as of December 31, 2017 and 2016, are as follows:

	Total		Fair Value Measurements Using			
			(Level 1)		(Level 2)	
	2017	2016	2017	2016	2017	2016
CHHS pension plan assets:						
Money market accounts	\$ 9,376	\$ 7,947	\$ 9,376	\$ 7,947	\$ -	\$ -
Fixed-income securities:						
U.S. government	65,269	41,301	-	-	65,269	41,301
U.S. government agency mortgage-backed	1,971	290	-	-	1,971	290
Corporate	100,892	80,737	-	-	100,892	80,737
International	17,155	13,006	-	-	17,155	13,006
Municipal	1,120	1,045	-	-	1,120	1,045
Equity securities and funds:						
Large cap	37,767	50,614	37,767	50,614	-	-
Mid cap	9,041	11,953	9,041	11,953	-	-
Small cap	4,653	7,230	4,653	7,230	-	-
International	13,839	16,761	13,839	16,761	-	-
Emerging markets	<u>4,162</u>	<u>5,280</u>	<u>4,162</u>	<u>5,280</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 265,245</u>	<u>\$ 236,164</u>	<u>\$ 78,838</u>	<u>\$ 99,785</u>	<u>\$ 186,407</u>	<u>\$ 136,379</u>
CSSW pension plan assets:						
Money market accounts	\$ 598	\$ 349	\$ 598	\$ 349	\$ -	\$ -
Equity securities and funds:						
Large cap	1,678	1,659	1,678	1,659	-	-
Mid cap	844	863	844	863	-	-
Small cap	419	439	419	439	-	-
International	880	784	880	784	-	-
Real Estate Investment Trust	<u>406</u>	<u>388</u>	<u>406</u>	<u>388</u>	<u>-</u>	<u>-</u>
Total	<u>4,825</u>	<u>4,482</u>	<u>\$ 4,825</u>	<u>\$ 4,482</u>	<u>\$ -</u>	<u>\$ -</u>
Investments measured at net asset value	<u>3,533</u>	<u>3,502</u>				
Total	<u>\$ 8,358</u>	<u>\$ 7,984</u>				

Transfers between Level 1 and Level 2 are recognized at the end of the reporting period. During 2017, certain emerging market securities with a total value of \$20 were transferred from a Level 2 to a Level 1 measurement due to a change in pricing technique. During

2016, certain emerging market and large cap equity securities with a total value of \$262 and \$54 were transferred from a Level 2 to a Level 1 measurement due to a change in pricing technique.

The components of net periodic pension cost that are included in employee benefits expense and pension-related changes other than net periodic pension cost, which are included as a change in unrestricted net assets in the consolidated statements of operations and changes in net assets for the years ended December 31, 2017 and 2016, are as follows:

	CHHS		CSSW	
	2017	2016	2017	2016
Components of net periodic pension cost:				
Service cost	\$ -	\$ -	\$ 37	\$ 38
Interest cost	12,151	11,976	461	465
Expected return on plan assets	(14,352)	(14,112)	(601)	(578)
Amortization of net loss	<u>3,101</u>	<u>2,133</u>	<u>140</u>	<u>134</u>
Net periodic pension cost (credit)	<u>\$ 900</u>	<u>\$ (3)</u>	<u>\$ 37</u>	<u>\$ 59</u>
Pension-related changes other than net periodic pension cost:				
Accumulated (gain) loss	\$ 3,088	\$ 7,044	\$ 370	\$ 84
Amortization of net loss	<u>(3,101)</u>	<u>(2,133)</u>	<u>(140)</u>	<u>(134)</u>
Total recognized as changes in unrestricted net assets	<u>\$ (13)</u>	<u>\$ 4,911</u>	<u>\$ 230</u>	<u>\$ (50)</u>

A summary of the pension-related items recorded in unrestricted net assets and not yet recognized as a component of net periodic pension cost as of December 31, 2017 and 2016, is as follows:

	CHHS		CSSW	
	2017	2016	2017	2016
Amounts not yet reflected in net periodic pension cost—accumulated loss	<u>\$ (59,879)</u>	<u>\$ (59,892)</u>	<u>\$ (3,034)</u>	<u>\$ (2,804)</u>

A summary of the expected amortization amounts to be included in net periodic pension cost for 2018 is as follows:

	CHHS	CSSW
Net actuarial loss	<u>\$4,567</u>	<u>\$ 165</u>

The benefit payments are expected to be paid as follows:

Years Ending December 31	CHHS	CSSW
2018	\$ 9,592	\$ 607
2019	10,501	633
2020	11,385	626
2021	12,287	624
2022	13,264	629
2023 and thereafter	76,699	3,136

The expected CHHS contribution in 2018 is \$2,500.

7. LONG-TERM DEBT

As of December 31, 2017 and 2016, long-term debt is as follows:

	2017	2016
WHEFA Revenue Bonds ("Bonds"):		
Fixed-rate Series 2017—net of unamortized premium and debt issuance costs of \$13,861 and \$0 in 2017 and 2016, respectively, principal payable in annual installments from 2023 through 2047 in amounts ranging from \$4,935 to \$19,615, interest payable semiannually at rates ranging from 3.25%–5.0%	\$ 315,400	\$ -
Series 2008A—refunded in 2017	-	101,505
Series 2008B—refunded in 2017	-	151,139
Fixed-rate taxable bank loan, payable in monthly installments from 2018 through 2023 including principal amounts ranging from \$290 to \$630, and 2.38% interest	36,405	-
Capital lease obligations	<u>-</u>	<u>72</u>
Total long-term debt	351,805	252,716
Less current installments	<u>(6,295)</u>	<u>(7,697)</u>
Long-term debt—net	<u>\$ 345,510</u>	<u>\$ 245,019</u>

The Hospital and Foundation are the only members of the Obligated Group for purposes of the Bonds. Payment of scheduled principal and interest is secured by a pledge of the Hospital's and Foundation's gross unrestricted receivables.

The Obligated Group must meet a debt service coverage ratio financial covenant required by the bond trustee. The Obligated Group was in compliance with its financial covenant at December 31, 2017.

Scheduled annual principal payments on the Bonds and taxable bank loan for the next five years and thereafter are as follows:

**Years Ending
December 31**

2018	\$ 6,295
2019	6,690
2020	6,845
2021	7,015
2022	7,185
Thereafter	<u>317,775</u>
 Total	 <u><u>\$351,805</u></u>

In 2017, the Hospital issued Series 2017 Bonds of \$315,400 and took out a taxable bank loan of \$36,405. The proceeds were used to repay \$248,315 of Series 2008A and 2008B Bonds, to fund \$100,000 of construction projects, and to fund the cost of issuance. The portion of the proceeds used to repay the Series 2008A and 2008B Bonds was deposited in a trust with an escrow agent to provide for all remaining future debt payments on the Series 2008A and 2008B Bonds. These transactions resulted in a loss on extinguishment of debt of \$16,061, which is included as a nonoperating expense in the 2017 consolidated statement of operations and changes in net assets.

8. LEASES

CHHS and affiliates lease certain land, building space, and medical and other equipment under operating leases having terms of more than one year. Rent expense was approximately \$16,818 and \$15,838 for the years ended December 31, 2017 and 2016, respectively. These amounts are included in operation and maintenance of facilities or non-medical supplies and other in the consolidated statements of operations and changes in net assets.

The main campus of the Hospital, located in Wauwatosa, Wisconsin, is on approximately seven acres of land leased from Milwaukee County. The lease has a term of 100 years, which commenced March 1, 1985, with nominal rent expense for the first 50 years. The Hospital leased an additional 42 acres of land on Milwaukee County grounds in 2001. This 100-year lease with Milwaukee County provides the Hospital with adequate space and parking to meet local and regional needs for pediatric health care, education, and research.

CHHS leases a portion of its facilities to other providers. Rental income was \$5,403 and \$5,420 for the years ended December 31, 2017 and 2016, respectively. These amounts are included in other operating revenue in the consolidated statements of operations and changes in net assets.

Aggregate commitments under operating leases that have initial or remaining lease terms in excess of one year, less rental income, are as follows:

Years Ending December 31	Operating Leases
2018	\$ 13,414
2019	14,219
2020	13,500
2021	12,685
2022	11,354
Thereafter	<u>44,891</u>
Total commitments under leases	110,063
Less rental income from noncancelable leases	<u>(17,235)</u>
Net commitments under operating leases	<u>\$ 92,828</u>

9. NET PATIENT SERVICE REVENUE AND ACCOUNTS RECEIVABLE

The mix of patient service revenue, net of contractual allowances and discounts (but before the provision for uncollectible accounts), recognized during the years ended December 31, 2017 and 2016, by major payor source, was as follows:

	<u>2017</u>		<u>2016</u>	
Commercial and managed care	\$479,192	69 %	\$456,157	70 %
Medicaid and Medicaid HMO	199,514	29	182,877	28
Medicare and other government	7,798	1	7,155	1
Self pay and other	<u>5,002</u>	<u>1</u>	<u>4,354</u>	<u>1</u>
Total patient service revenue	<u>\$691,506</u>	<u>100 %</u>	<u>\$650,543</u>	<u>100 %</u>

CHHS recognizes net patient service revenue associated with services provided to patients who have third-party payor coverage on the basis of contractual rates for the services rendered. Provisions for adjustments to patient service revenue are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. For uninsured patients that do not qualify for charity care, CHHS recognizes revenue based on its standard rates (or on the basis of discounted rates, if negotiated or provided by policy). In addition, on the basis of historical experience, a portion of CHHS' uninsured patients will be unable or unwilling to pay for the services provided. Thus, CHHS records a provision for uncollectible accounts related to uninsured patients in the period the services are provided.

Patient accounts receivable are based on gross charges and stated at net realizable value. Patient accounts receivable are reduced by an allowance for contractual adjustments, based on expected payment rates from payors under current reimbursement methodologies, and also by an allowance for uncollectible accounts. In evaluating the collectibility of patient accounts receivable, CHHS analyzes its past history and identifies trends for each of its major payor sources of revenue to estimate an appropriate allowance

for uncollectible accounts and provision for uncollectible accounts based upon management’s assessment of historical and expected net collections considering business and economic conditions, trends in health care coverage, and other collection indicators. Management regularly reviews data about these major payor sources of revenue in evaluating the sufficiency of the allowance for contractual adjustments and allowance for uncollectible accounts.

For receivables associated with self-pay patients (which includes both patients without insurance and patients with deductible and co-payment balances due for which third-party coverage exists for part of the bill), CHHS records a provision for uncollectible accounts 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. CHHS does not maintain a material allowance for doubtful accounts from third-party payors, nor did it have significant write-offs from third-party payors for the years ended December 31, 2017 and 2016.

The difference between the standard rates and the amounts actually collected after all reasonable collection efforts have been exhausted is written off against the allowance for uncollectible accounts in the period the accounts are determined uncollectible.

During 2009, the State of Wisconsin enacted legislation that created a tax assessment on hospital revenue. Funds collected under the tax assessment are used to increase federal funding for the Wisconsin Medicaid program. The Hospital recognized \$66,339 and \$57,271 of Medicaid and Medicaid HMO reimbursement for the years ended December 31, 2017 and 2016, respectively, which is included in net patient service revenue in the consolidated statements of operations and changes in net assets, as well as \$10,762 and \$11,075 of provider tax expense as a result of the law for the years ended December 31, 2017 and 2016, respectively. During 2011, the State of Wisconsin enacted legislation that created a tax assessment on ambulatory surgical centers. As a result, the Surgicenter paid \$105 and \$268 of provider tax and recognized \$124 and \$366 of additional Medicaid reimbursement for the years ended December 31, 2017 and 2016, respectively.

10. CHARITY AND UNREIMBURSED CARE

CHHS has a policy of providing free health care services to those unable to pay all or a portion of their charges and who meet certain eligibility criteria established in CHHS’ charity care policy.

CHHS maintains records and monitors the level of charity and unreimbursed care it provides. The costs of charity and unreimbursed care, which are estimated using the ratio of total patient care cost to charges, for the years ended December 31, 2017 and 2016, are as follows:

	2017	2016
Medicaid, Medicaid HMO, and other government	\$86,994	\$94,063
Charity care	<u>788</u>	<u>730</u>
Total	<u>\$87,782</u>	<u>\$94,793</u>

11. CONCENTRATIONS OF CREDIT RISK

The Hospital grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of receivables net of bad debt and contractual allowances from patients and third-party payors to the Hospital as of December 31, 2017 and 2016, is as follows:

	2017	2016
Commercial and managed care	56 %	52 %
Medicaid and Medicaid HMO	35	40
Patients	8	7
Medicare and other government	<u>1</u>	<u>1</u>
Total	<u>100 %</u>	<u>100 %</u>

12. FUNCTIONAL EXPENSES

CHHS exists for the purpose of providing an organized system for the delivery and management of pediatric health care and related services. Expenses related to providing these services for the years ended December 31, 2017 and 2016, are as follows:

	2017	2016
Inpatient nursing services	\$ 125,151	\$117,048
Ancillary services	196,782	187,132
Clinic and emergency room services	155,991	143,147
Child welfare services	31,082	33,657
Research	11,889	12,479
Net medical claims expenses	214,467	197,237
Support services and administration	271,575	253,918
Provider tax	10,867	11,343
Fundraising	<u>6,580</u>	<u>5,363</u>
Total	<u>\$1,024,384</u>	<u>\$961,324</u>

13. FAIR VALUE OF FINANCIAL INSTRUMENTS

Financial instruments consist primarily of cash and cash equivalents, investments, derivative instruments, accounts receivable, pledges receivable, accounts payable, and long-term debt. Except for long-term debt, which is recorded at historic cost, the fair values of these instruments approximate their carrying amounts as of December 31, 2017 and 2016. The fair values of financial assets and liabilities are measured on a recurring basis using quoted prices in active markets for identical assets (Level 1 of the fair value hierarchy), significant other observable inputs (Level 2 of the fair value hierarchy), and significant unobservable inputs (Level 3 of the fair value hierarchy). Based on current rates available for debt of similar institutions and maturities (Level 2 type measurements), the bonds outstanding as of December 31, 2017 and 2016, are estimated to have a fair value of \$341,178 and \$273,429, respectively.

The fair values of financial assets and liabilities that are measured on a recurring basis as of December 31, 2017 and 2016, are as follows:

	Fair Value Measurements Using							
	Total		(Level 1)		(Level 2)		(Level 3)	
	2017	2016	2017	2016	2017	2016	2017	2016
Assets—investments at fair value:								
Money market funds	\$ 60,124	\$ 14,619	\$ 60,124	\$ 14,619	\$ -	\$ -	\$ -	\$ -
Fixed-income securities:								
U.S. government	239,180	100,777	-	-	239,180	100,777	-	-
U.S. government agency mortgage-backed	127,759	139,932	-	-	127,759	139,932	-	-
Corporate	154,122	128,631	-	-	154,122	128,631	-	-
International	49,264	46,102	-	-	49,264	46,102	-	-
Municipal	3,165	4,115	-	-	3,165	4,115	-	-
Pooled mutual funds	54,403	32,690	54,403	32,690	-	-	-	-
Equity securities and funds:								
Large cap	325,786	286,700	325,786	286,700	-	-	-	-
Mid cap	50,703	45,603	50,703	45,603	-	-	-	-
Small cap	27,631	28,643	27,631	28,643	-	-	-	-
International	79,416	65,676	79,416	65,676	-	-	-	-
Alternative investments	2,511	-	-	-	-	-	2,511	-
Emerging markets	31,214	22,398	31,214	22,262	-	136	-	-
Total	<u>\$1,205,278</u>	<u>\$915,886</u>	<u>\$629,277</u>	<u>\$496,193</u>	<u>\$573,490</u>	<u>\$419,693</u>	<u>\$2,511</u>	<u>\$ -</u>

Transfers between Level 1 and Level 2 are recognized at the end of the reporting period. During 2017, certain emerging market securities with a total value of \$127 were transferred from a Level 2 to a Level 1 measurement due to a change in pricing technique. During 2016, certain emerging market and large cap equity securities with a total value of \$1,119 and \$229, respectively, were transferred from a Level 2 to a Level 1 measurement due to a change in pricing technique.

Money Market and Mutual Funds—Valued at net asset value (NAV) of shares held at year-end. For funds that are publicly traded, quoted market prices are used. Mutual funds are classified based on the underlying assets of the fund.

Fixed-Income Securities—Valued based on a compilation of observable market information or broker quote in an inactive market.

Equity Securities—Valued at the closing price reported on the active markets on which the individual securities are traded. Certain equities are valued at the bid price.

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SUPPLEMENTARY CONSOLIDATING INFORMATION

INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY CONSOLIDATING INFORMATION

To the Board of Directors of
Children's Hospital and Health System, Inc. and Affiliates:

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The 2017 supplementary consolidating information on pages 32-34 is presented for the purpose of additional analysis of the consolidated financial statements rather than to present the financial position or results of operations of the individual companies, and is not a required part of the consolidated financial statements. This supplementary information is the responsibility of Children's Hospital and Health System, Inc. and Affiliates' management and was derived from and relates directly to the underlying accounting and other records used to prepare the 2017 consolidated financial statements. Such information has been subjected to the auditing procedures applied in our audit of the 2017 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, such information is fairly stated in all material respects in relation to the 2017 consolidated financial statements as a whole.

Deloitte & Touche LLP

April 18, 2018

CHILDREN'S HOSPITAL AND HEALTH SYSTEM, INC., AND AFFILIATES

**CONSOLIDATING STATEMENT OF FINANCIAL POSITION INFORMATION
AS OF DECEMBER 31, 2017
(Dollars in thousands)**

	Obligated Group				Children's Hospital and Health System, Inc.	Children's Medical Group, Inc.	Children's Physician Group, P.C.	Children's Service Society of Wisconsin	Children's Community Health Plan, Inc.	Surgicenter of Greater Milwaukee, LLC	Eliminations	Consolidated
	Children's Hospital of Wisconsin, Inc.	Children's Hospital of Wisconsin Foundation, Inc.	Eliminations	Combined								
ASSETS												
CURRENT ASSETS:												
Cash and cash equivalents	\$ 99,750	\$ 40,529	\$ -	\$ 140,279	\$ 750	\$ 497	\$ -	\$ 773	\$ 40,920	\$ 2,838	\$ -	\$ 186,057
Patient accounts receivable—net	88,277	-	-	88,277	2,132	3,744	-	125	7	1,021	(6,220)	89,086
Other receivables	7,950	108	-	8,058	846	103	-	5,706	23,804	-	-	38,517
Inventory of supplies	8,316	-	-	8,316	-	1,434	-	-	-	562	-	10,312
Prepaid expenses	3,287	323	-	3,610	8,019	486	-	211	246	10	-	12,582
Intercompany receivable	75,813	-	(33,711)	42,102	-	-	100	-	-	773	(42,975)	-
Total current assets	<u>283,393</u>	<u>40,960</u>	<u>(33,711)</u>	<u>290,642</u>	<u>11,747</u>	<u>6,264</u>	<u>100</u>	<u>6,815</u>	<u>64,977</u>	<u>5,204</u>	<u>(49,195)</u>	<u>336,554</u>
INVESTMENTS	<u>274,232</u>	<u>553,668</u>	<u>-</u>	<u>827,900</u>	<u>14,396</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>21,259</u>	<u>11,085</u>	<u>(14,396)</u>	<u>860,244</u>
ASSETS LIMITED AS TO USE:												
Limited under bond indentures for capital additions	100,042	-	-	100,042	-	-	-	-	-	-	-	100,042
Temporarily restricted by donors	-	57,039	-	57,039	-	-	-	-	-	-	-	57,039
Permanently restricted by donors	-	183,692	-	183,692	-	-	-	-	-	-	-	183,692
Total assets limited as to use	<u>100,042</u>	<u>240,731</u>	<u>-</u>	<u>340,773</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>340,773</u>
PROPERTY AND EQUIPMENT—Net	<u>398,432</u>	<u>726</u>	<u>-</u>	<u>399,158</u>	<u>30,524</u>	<u>13,534</u>	<u>-</u>	<u>2,665</u>	<u>554</u>	<u>9,602</u>	<u>-</u>	<u>456,037</u>
OTHER ASSETS	<u>2,822</u>	<u>30</u>	<u>-</u>	<u>2,852</u>	<u>11,315</u>	<u>5,175</u>	<u>190</u>	<u>-</u>	<u>293</u>	<u>-</u>	<u>-</u>	<u>19,825</u>
BENEFICIAL INTEREST IN NET ASSETS OF CHILDREN'S HOSPITAL OF WISCONSIN FOUNDATION, INC.	<u>633,348</u>	<u>-</u>	<u>(633,348)</u>	<u>-</u>	<u>2,851</u>	<u>-</u>	<u>-</u>	<u>2,125</u>	<u>-</u>	<u>-</u>	<u>(4,976)</u>	<u>-</u>
TOTAL	<u>\$ 1,692,269</u>	<u>\$ 836,115</u>	<u>\$(667,059)</u>	<u>\$ 1,861,325</u>	<u>\$ 70,833</u>	<u>\$ 24,973</u>	<u>\$ 290</u>	<u>\$ 11,605</u>	<u>\$ 87,083</u>	<u>\$ 25,891</u>	<u>\$(68,567)</u>	<u>\$ 2,013,433</u>

See notes to supplementary consolidating information.

(Continued)

CHILDREN'S HOSPITAL AND HEALTH SYSTEM, INC., AND AFFILIATES

CONSOLIDATING STATEMENT OF FINANCIAL POSITION INFORMATION

AS OF DECEMBER 31, 2017

(Dollars in thousands)

	<u>Obligated Group</u>				Children's Hospital and Health System, Inc.	Children's Medical Group, Inc.	Children's Physician Group, P.C.	Children's Service Society of Wisconsin	Children's Community Health Plan, Inc.	Surgicenter of Greater Milwaukee, LLC	Eliminations	Consolidated
	Children's Hospital of Wisconsin, Inc.	Children's Hospital of Wisconsin Foundation, Inc.	Eliminations	Combined								
LIABILITIES AND NET ASSETS												
CURRENT LIABILITIES:												
Accounts payable	\$ 28,410	\$ 380	\$ -	\$ 28,790	\$ 6,949	\$ 2,941	\$ -	\$ 714	\$ 1,485	\$ 153	\$ -	\$ 41,032
Intercompany payable	-	33,711	(33,711)	-	30,150	8,862	-	3,528	435	-	(42,975)	-
Accrued expenses:												
Salaries and benefits	32,569	484	-	33,053	5,590	3,537	-	886	500	77	-	43,643
Personal leave benefits	15,662	300	-	15,962	5,315	1,020	-	1,324	339	153	-	24,113
Interest	622	-	-	622	-	-	-	-	-	-	-	622
Estimated third-party payor settlements	1,534	-	-	1,534	-	-	-	-	-	-	-	1,534
Current installments of long-term debt	6,295	-	-	6,295	-	-	-	-	-	-	-	6,295
Claims payable and other current liabilities	805	-	-	805	6,071	374	-	675	42,689	189	(6,220)	44,583
Total current liabilities	85,897	34,875	(33,711)	87,061	54,075	16,734	-	7,127	45,448	572	(49,195)	161,822
OTHER LONG-TERM LIABILITIES	22,521	605	-	23,126	13,907	8,225	190	576	4	-	-	46,028
ACCRUED PENSION	31,055	-	-	31,055	-	-	-	2,359	-	-	-	33,414
LONG-TERM DEBT—Less current installments	359,371	-	-	359,371	-	-	-	-	-	-	-	359,371
Total liabilities	498,844	35,480	(33,711)	500,613	67,982	24,959	190	10,062	45,452	572	(49,195)	600,635
NET ASSETS:												
Unrestricted	957,670	559,904	(397,593)	1,119,981	-	14	100	(582)	41,631	25,319	(14,396)	1,172,067
Temporarily restricted	53,235	57,039	(53,235)	57,039	2,551	-	-	1,253	-	-	(3,804)	57,039
Permanently restricted	182,520	183,692	(182,520)	183,692	300	-	-	872	-	-	(1,172)	183,692
Total net assets	1,193,425	800,635	(633,348)	1,360,712	2,851	14	100	1,543	41,631	25,319	(19,372)	1,412,798
TOTAL	\$ 1,692,269	\$ 836,115	\$ (667,059)	\$ 1,861,325	\$ 70,833	\$ 24,973	\$ 290	\$ 11,605	\$ 87,083	\$ 25,891	\$ (68,567)	\$ 2,013,433

See notes to supplementary consolidating information.

(Concluded)

CHILDREN'S HOSPITAL AND HEALTH SYSTEM, INC., AND AFFILIATES

CONSOLIDATING STATEMENT OF OPERATIONS AND CHANGES IN UNRESTRICTED NET ASSETS INFORMATION

FOR THE YEAR ENDED DECEMBER 31, 2017

(Dollars in thousands)

	Obligated Group				Children's Hospital and Health System, Inc.	Children's Medical Group, Inc.	Children's Physician Group, P.C.	Children's Service Society of Wisconsin	Children's Community Health Plan, Inc.	Surgicenter of Greater Milwaukee, LLC	Eliminations	Consolidated
	Children's Hospital of Wisconsin, Inc.	Children's Hospital of Wisconsin Foundation, Inc.	Eliminations	Combined								
OPERATING REVENUE:												
Patient service revenue (net of contractual allowances and discounts)	\$ 652,228	\$ -	\$ -	\$ 652,228	\$ 8,351	\$ 57,264	\$ (9)	\$ 1,799	\$ 70	\$ 8,116	\$ (36,313)	\$ 691,506
Provision for uncollectible accounts	(4,533)	-	-	(4,533)	(200)	(842)	1	(65)	-	-	-	(5,639)
Net patient service revenue	647,695	-	-	647,695	8,151	56,422	(8)	1,734	70	8,116	(36,313)	685,867
Premium revenue and other capitated arrangements	-	-	-	-	2,892	-	-	-	275,455	-	-	278,347
Other	47,936	28,576	(6,921)	69,591	101,935	1,810	25	35,414	1,112	1,204	(107,937)	103,154
Total operating revenue	695,631	28,576	(6,921)	717,286	112,978	58,232	17	37,148	276,637	9,320	(144,250)	1,067,368
OPERATING EXPENSES:												
Salaries	189,154	3,972	-	193,126	70,281	39,311	25	19,836	6,398	2,133	-	331,110
Employee benefits	51,747	894	-	52,641	16,867	7,507	-	7,599	1,846	535	-	86,995
Medical supplies	69,780	-	-	69,780	286	10,446	-	2	2	1,695	(886)	81,325
Non-medical supplies and other	13,736	19,975	(6,921)	26,790	9,038	1,120	-	2,521	723	259	(12,510)	27,941
Net medical claims expenses	-	-	-	-	(116)	-	-	-	250,896	-	(36,313)	214,467
Provider tax	10,762	-	-	10,762	-	-	-	-	-	105	-	10,867
Purchased services and professional fees	131,324	2,952	-	134,276	40,220	4,359	-	6,379	20,038	1,849	(93,364)	113,757
Operation and maintenance of facilities	22,737	30	-	22,767	6,663	5,332	-	2,401	407	939	(1,177)	37,332
Medical College of Wisconsin and resident fees	44,074	-	-	44,074	1,408	690	-	-	492	-	-	46,664
Depreciation	54,323	56	-	54,379	2,897	1,686	-	553	107	930	-	60,552
Interest	13,372	-	-	13,372	-	-	-	-	-	2	-	13,374
Total operating expenses	601,009	27,879	(6,921)	621,967	147,544	70,451	25	39,291	280,909	8,447	(144,250)	1,024,384
OPERATING INCOME (EXPENSE)	94,622	697	-	95,319	(34,566)	(12,219)	(8)	(2,143)	(4,272)	873	-	42,984
NONOPERATING INCOME (EXPENSES):												
Investment income	9,161	26,165	-	35,326	-	-	-	6	264	270	-	35,866
Change in net unrealized gains and losses on investments	(1,983)	56,697	-	54,714	-	-	-	-	(41)	154	-	54,827
Change in fair value of interest rate swap agreements	-	-	-	-	-	-	-	-	-	-	-	-
Loss on early extinguishment of debt	(16,061)	-	-	(16,061)	-	-	-	-	-	-	-	(16,061)
Other	(506)	2	-	(504)	541	(5)	-	(2)	289	-	-	319
Net nonoperating income (expenses)	(9,389)	82,864	-	73,475	541	(5)	-	4	512	424	-	74,951
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENSES	85,233	83,561	-	168,794	(34,025)	(12,224)	(8)	(2,139)	(3,760)	1,297	-	117,935
INCREASE (DECREASE) IN BENEFICIAL INTEREST IN UNRESTRICTED NET ASSETS OF CHILDREN'S HOSPITAL OF WISCONSIN FOUNDATION, INC.												
	73,434	-	(73,434)	-	-	-	-	(10)	-	-	10	-
TRANSFERS (TO) FROM AFFILIATED ORGANIZATIONS												
	(76,082)	26,000	-	(50,082)	34,017	12,238	-	3,837	-	-	(10)	-
NET ASSETS RELEASED FROM RESTRICTIONS—Capital acquisitions												
	4,681	-	-	4,681	8	-	-	-	-	-	-	4,689
PENSION-RELATED CHANGES OTHER THAN NET PERIODIC PENSION COST												
	13	-	-	13	-	-	-	(230)	-	-	-	(217)
ASSETS RESTRICTED DUE TO DONOR MATCH												
	-	(5,000)	-	(5,000)	-	-	-	-	-	-	-	(5,000)
INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS	\$ 87,279	\$ 104,561	\$ (73,434)	\$ 118,406	\$ -	\$ 14	\$ (8)	\$ 1,458	\$ (3,760)	\$ 1,297	\$ -	\$ 117,407

See notes to supplementary consolidating information.

CHILDREN'S HOSPITAL AND HEALTH SYSTEM, INC., AND AFFILIATES

NOTE TO SUPPLEMENTARY CONSOLIDATING INFORMATION AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2017 (Dollars in thousands)

1. OBLIGATED GROUP AND BASIS OF REPORTING

Obligated Group—Children's Hospital of Wisconsin, Inc., and Children's Hospital of Wisconsin Foundation, Inc., are the only members of the obligated group (the "Obligated Group") for purposes of the issuance of bonds through the Wisconsin Health and Educational Facilities Authority.

Basis of Reporting—In accordance with financial statement presentation under the bond agreements, the consolidating statement of financial position information and consolidating statement of operations and changes in unrestricted net assets information as of and for the year ended December 31, 2017, exclude the effects of consolidating subsidiaries controlled by members of the Obligated Group and the effects of recording the beneficial interest in the net assets held by certain affiliated entities on behalf of members of the Obligated Group.

Parent-Only Financial Statements—The primary financial statements of Children's Hospital and Health System, Inc., are the consolidated financial statements. The amounts reflected in the supplementary consolidating information for Children's Hospital and Health System, Inc., are the financial position and operations of only the parent corporation and do not reflect the parent's interest in controlled entities.

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