

COMBINED FINANCIAL STATEMENTS

Premier Health Partners and Affiliates
Years Ended December 31, 2017 and 2016
With Report of Independent Auditors

Ernst & Young LLP



Building a better
working world

Premier Health Partners and Affiliates

Combined Financial Statements

Years Ended December 31, 2017 and 2016

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Report of Independent Auditors

The Board of Trustees
Premier Health Partners and Affiliates

We have audited the accompanying combined financial statements of Premier Health Partners and Affiliates, which comprise the combined balance sheets as of December 31, 2017 and 2016, the related combined statements of operations and changes in net assets, and cash flows for the years then ended, and the related notes to the combined financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the combined 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 combined 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 combined 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 combined financial statements referred to above present fairly, in all material respects, the combined financial position of Premier Health Partners and Affiliates at December 31, 2017 and 2016, and the combined results of their operations and changes in net assets and their cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

Ernst + Young LLP

March 15, 2018

Premier Health Partners and Affiliates

Combined Balance Sheets
(Dollars in Thousands)

	December 31	
	2017	2016
Assets		
Current assets:		
Cash and cash equivalents	\$ 55,681	\$ 104,335
Net accounts receivable, less allowances for doubtful accounts of \$31,902 and \$22,979 at December 31, 2017 and 2016, respectively	272,880	289,452
Inventories	16,143	16,593
Prepaid expenses	20,996	24,221
Estimated receivable from third parties	961	13,758
Assets held for sale (Note A)	37,635	42,371
Other current assets	21,103	17,148
Total current assets	<u>425,399</u>	<u>507,878</u>
Assets limited as to use (Note C):		
Board-designated investments	1,125,097	1,090,715
Other investments	135,472	126,944
Total assets limited as to use	<u>1,260,569</u>	<u>1,217,659</u>
Property and equipment, net (Note E)	987,235	1,089,537
Intangible assets, net (Note L)	30,777	18,022
Other assets	138,720	113,927
Total assets	<u>\$ 2,842,700</u>	<u>\$ 2,947,023</u>

Premier Health Partners and Affiliates

Combined Balance Sheets (continued)

(Dollars in Thousands)

	December 31	
	2017	2016
Liabilities and net assets		
Current liabilities:		
Accounts payable	\$ 61,459	\$ 53,675
Accrued expenses	92,958	101,043
Current portion of long-term debt (Note G)	14,116	32,507
Estimated payable to third-parties	2,482	3,584
Liabilities held for sale (Note A)	22,133	26,972
Other current liabilities	35,824	40,183
Total current liabilities	<u>228,972</u>	<u>257,964</u>
Long-term debt, less current portion (Note G)	922,884	916,884
Reserve for professional liability (Note F)	43,591	39,516
Pension obligation (Note H)	34,271	54,548
Interest rate swap liability (Note I)	42,714	45,601
Other liabilities	107,761	98,310
Total liabilities	<u>1,380,193</u>	<u>1,412,823</u>
Net assets:		
Unrestricted	1,399,665	1,477,750
Temporarily restricted	29,744	26,561
Permanently restricted	33,098	29,889
Total net assets	<u>1,462,507</u>	<u>1,534,200</u>
Total liabilities and net assets	<u>\$ 2,842,700</u>	<u>\$ 2,947,023</u>

See accompanying notes.

Premier Health Partners and Affiliates

Combined Statements of Operations and Changes in Net Assets

(Dollars in Thousands)

	Year Ended December 31	
	2017	2016
Operating revenue		
Net patient service revenue	\$ 1,692,332	\$ 1,767,900
Provision for uncollectible accounts	41,905	37,333
Net patient service revenue less provision for uncollectible accounts	1,650,427	1,730,567
Other operating revenue	85,067	95,234
Joint venture profits	3,450	3,289
Total operating revenue	<u>1,738,944</u>	<u>1,829,090</u>
Operating expenses		
Salaries and wages	853,825	835,286
Employee benefits	172,431	196,544
Supplies	302,398	309,131
Purchased services, insurance and other	333,195	323,470
Hospital franchise tax	24,726	24,557
Depreciation and amortization	144,452	146,728
Interest	28,939	23,928
Total operating expenses	<u>1,859,966</u>	<u>1,859,644</u>
Loss from operations before asset impairment and other	(121,022)	(30,554)
Asset impairment and other	(67,020)	(28,958)
Loss from operations	<u>(188,042)</u>	<u>(59,512)</u>
Non-operating gains, net (Note J)	<u>133,456</u>	17,478
Deficiency of revenue over expenses	(54,586)	(42,034)
Change in plan assets and benefit obligations of pension plans	(3,595)	59,699
Net gains on temporarily restricted and permanently restricted net assets, and other	7,082	3,590
Discontinued operations (Note A)	<u>(20,594)</u>	<u>(32,240)</u>
Decrease in net assets	(71,693)	(10,985)
Net assets at beginning of year	1,534,200	1,545,185
Net assets at end of year	<u>\$ 1,462,507</u>	<u>\$ 1,534,200</u>

Premier Health Partners and Affiliates

Combined Statements of Cash Flows

(Dollars in Thousands)

	Year Ended December 31	
	2017	2016
Operating activities		
Decrease in net assets	\$ (71,693)	\$ (10,985)
Adjustments to reconcile decrease in net assets to net cash provided by (used in) operating activities:		
Loss on discontinued operations	20,594	32,240
Depreciation and amortization	144,452	146,728
Provision for uncollectible accounts	41,905	37,333
Impairment of long-lived assets	66,036	604
Change in the valuation of swap agreements	(2,976)	(1,719)
Change in plan assets and benefit obligations of pension plans	3,595	(59,699)
Change in unrealized gains on assets limited as to use	(92,162)	(14,503)
Gains on disposal of assets	(230)	(8,171)
Loss on extinguishment of debt	-	315
Gains from alternative investments	(34,729)	(9,689)
Purchase of alternative investments	(70,278)	(46,637)
Distribution from alternative investments	86,972	18,740
Pension plan contribution	(36,000)	(217,000)
Net change in assets and liabilities:		
Accounts receivable	(25,333)	(33,274)
Assets limited as to use	67,287	(21,933)
Other assets	(33,556)	(2,582)
Accounts payable and other accruals	132	21,419
Estimated receivable/payable with third parties	11,695	2,049
Pension plan liability	12,128	54,500
Other liabilities	9,233	58,758
Net cash provided by (used in) continuing operations	97,072	(53,506)
Net cash used in discontinued operations	(20,697)	(33,802)
Net cash provided by (used in) operating activities	76,375	(87,308)
Investing activities		
Proceeds from the sale of assets	4,405	17,152
Purchases of property and equipment	(106,004)	(99,283)
Net cash used in investing activities	(101,599)	(82,131)
Financing activities		
Proceeds from long-term debt	-	300,000
Proceeds from refinancing long-term debt	15,000	264,533
Debt issuance costs	-	(4,006)
Interest rate swap collateral	(5,650)	(7,780)
Defeasance and repayment of long-term debt relating to refinancing	(15,000)	(265,335)
Repayment of long-term debt and capital leases	(17,780)	(112,193)
Net cash used in financing activities	(23,430)	175,219
(Decrease) increase in cash and cash equivalents	(48,654)	5,780
Cash and cash equivalents at beginning of year	104,335	98,555
Cash and cash equivalents at end of year	\$ 55,681	\$ 104,335

See accompanying notes.

Premier Health Partners and Affiliates

Notes to Combined Financial Statements

December 31, 2017

A. Organization and Significant Accounting Policies

Premier Health Partners exists under a Joint Operating Agreement (the Agreement) between MedAmerica Health Systems Corporation (MAHS); Miami Valley Hospital (MVH); Samaritan Health Partners (SHP); Catholic Health Initiatives (CHI), a tax-exempt organization and sole corporate member of SHP; Good Samaritan Hospital (GSH); Atrium Health System (AHS); Atrium Medical Center (AMC); Upper Valley Medical Center and Controlled Affiliates (UVMC). Premier Health Partners also owns and operates Premier Health Holding Company (PHHC), Premier Health Group, LLC (PHG), Premier Health Plan, Inc. (PHPlan), Premier Health Insuring Corporation (PHIC) and Premier Health Accountable Care Organization (ACO) of Ohio (PHACO). The Agreement provides for the creation of Premier Health Partners (PHP), a not-for-profit corporation, to operate and jointly manage MAHS, SHP, AHS, and UVMC (the Affiliates), PHHC, PHG, PHPlan, PHIC and PHACO.

The combined financial statements include the results of PHP, the Affiliates, and their respective subsidiaries. Within these notes, PHP will refer to all of its Affiliates, respectively and altogether, unless the context indicates otherwise. Discussions or areas of these notes that specifically pertain to only MAHS, SHP, AHS, or UVMC will be noted in the applicable section.

The combined PHP deficiency of revenue over expenses, as defined by the Agreement, is allocated 55.4% to MAHS, 31.1% to SHP, 6.5% to AHS, and 7.0% to UVMC in the income allocation process. For 2017, as defined by the Agreement, the (loss) income allocation was \$(69.4) million for MAHS, \$59.3 million for SHP, \$13.7 million for AHS and \$(3.6) million for UVMC. For 2016, as defined by the Agreement, the (loss) income allocation was \$(30.7) million for MAHS, \$16.1 million for SHP, \$25.1 million for AHS and \$(10.5) million for UVMC. These amounts are eliminated upon combination of MAHS, SHP, AHS, and UVMC into PHP. The foundations supporting all four organizations and other certain amounts, as defined in the Agreement, are excluded from the income allocation process.

PHP

MedAmerica Health Systems

MAHS was incorporated in 1982 for the purpose of conducting activities that will promote health care and education services in the greater Dayton area and surrounding counties in southwestern Ohio.

Premier Health Partners and Affiliates

Notes to Combined Financial Statements (continued)

A. Organization and Significant Accounting Policies (continued)

MAHS includes the accounts of MedAmerica Health Systems Corporation (MAHSC) and its subsidiaries (collectively, MAHS). Consolidated subsidiaries include MVH with Dialysis Centers of Dayton, LLC; Premier Plaza LLC; Premier Community Health; Fidelity Health Care; and Miami Valley Hospital Foundation. On January 1, 2016, Premier Health Specialists, Inc. and MVHE, Inc. were transferred to Premier Health Holding Company.

Samaritan Health Partners

SHP was incorporated in 1983 for the purpose of conducting activities that will promote health care in the greater Dayton area and surrounding counties in southwestern Ohio. As an active sponsoring congregation of CHI (accepting the mission and vision of CHI), the Sisters of Charity hold certain reserve powers for the governance of CHI.

SHP includes the accounts of Samaritan Health Partners and its subsidiaries. Consolidated subsidiaries include GSH, including Samaritan North Surgery Center and the Heart Institute of Dayton; Good Samaritan Hospital Foundation – Dayton (formerly Samaritan Health Foundation); and Samaritan Behavioral Health. On January 1, 2016, Samaritan Family Care was transferred to Premier Health Holding Company.

Atrium Health System

AHS was incorporated in 1983 for the purpose of conducting activities that will promote health care in the Middletown area and surrounding counties in southwestern Ohio.

Consolidated subsidiaries include AMC; Atrium Medical Center Foundation; Southwest Surgery Center and Bidwell Surgery Center.

UVMC and Controlled Affiliates

UVMC was incorporated in 1997 for the purpose of conducting activities that will promote health care in the Miami and surrounding county area.

UVMC includes the accounts of UVMC and its subsidiaries. Consolidated subsidiaries include Upper Valley Medical Center; UVMC Foundation; UVMC Nursing Care, Inc.; UVMC Management Corporation; and Upper Valley Professional Corporation, which includes After Hours Family Care, Inc., and UVPC Specialists, Inc.

Premier Health Partners and Affiliates

Notes to Combined Financial Statements (continued)

A. Organization and Significant Accounting Policies (continued)

Premier Health Holding Company

In January 2016, Premier Health Holding Company was formed to hold the interests of Premier Health Specialists; MVHE, Inc.; and Samaritan Family Care. The net assets of each of these companies were transferred to Premier Health Holding Company during 2016.

Premier Health Group, LLC

PHG was incorporated in 2013 for the purpose of conducting activities that promote health care in the greater Dayton area and surrounding counties in southwestern Ohio through population management. PHG contracts with providers across the region as the providers for PHP self-insured health benefits plan for its employees. PHG also contracts with PHPlan and PHIC to provide quality and credentialing services for their insurance products in the future.

Premier Health Plan, Inc.

PHPlan was incorporated in 2013 for the purpose of providing point of service plans (such as the self-insured health plan for PHP employees) and to provide commercial health insurance products beginning in 2015. PHPlan received approval of its health insurance license from the Ohio Department of Insurance in March 2014.

Premier Health Insuring Corporation

PHIC was incorporated as a not-for-profit, taxable entity for federal tax purposes in 2014. It was formed for the purpose of providing Medicare Advantage products beginning in 2015. PHIC received approval of its health insurance license from the Ohio Department of Insurance in April 2014.

Premier Health ACO of Ohio

PHACO was incorporated as a not-for-profit, taxable entity for federal tax purposes in 2015. It was formed for the purpose of applying for the Centers for Medicare & Medicaid Services' (CMS) Next Generation Accountable Care Organization (NGACO). In 2015, this entity received approval from CMS to enter into a NGACO contract to be effective for calendar year 2017.

Premier Health Partners and Affiliates

Notes to Combined Financial Statements (continued)

A. Organization and Significant Accounting Policies (continued)

Premier Health Partners Obligated Group

In 2016, PHP formed the Premier Health Partners Obligated Group (PHPOG) which is comprised of the following members: Miami Valley Hospital, Atrium Medical Center and Upper Valley Medical Center. Members of the PHPOG are jointly and severally liable for all outstanding obligations, except for the notes payable described in this Note G.

Principles of Combination

The combined financial statements of PHP include the accounts of MAHS, SHP, AHS, UVMC, PHG, PHPlan, PHIC, PHACO and PHHC. Some of these entities have various ownership interests in joint ventures, some of which at the combined level are greater than 50%. Joint ventures at the combined level of PHP greater than 50% are combined in the PHP financial statements. Joint ventures that are 50% or less at the combined level of PHP are not combined in the PHP financial statements. These investments are accounted for using the equity method of accounting and are included in other assets on the combined balance sheets. All material intercompany accounts and transactions are eliminated between affiliates upon combination of the PHP combined financial statements.

Fair Value Measurements

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

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

Premier Health Partners and Affiliates

Notes to Combined Financial Statements (continued)

A. Organization and Significant Accounting Policies (continued)

own assumptions about market participants. The fair value hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows:

- Level 1 – Inputs utilize quoted market prices in active markets for identical assets or liabilities.
- Level 2 – Inputs may include quoted prices for similar assets and liabilities in active markets, as well as inputs that are observable for the asset and liability (other than quoted prices), such as interest rates, foreign exchange rates, and yield curves that are observable at commonly quoted intervals.
- Level 3 – Inputs are unobservable inputs for the asset or liability, which is typically based on an entity's own assumptions, as there is little, if any, related market activity.

In instances where the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls is based on the lowest level of input that is significant to the fair value measurement in its entirety. PHP's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the asset or liability.

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

Premier Health Partners and Affiliates

Notes to Combined Financial Statements (continued)

A. Organization and Significant Accounting Policies (continued)

Cash and Cash Equivalents

PHP considers all highly liquid investments with a maturity of three months or less when purchased to be cash and cash equivalents, excluding the short-term investments within assets limited as to use.

Net Accounts Receivable and Net Patient Service Revenue

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

PHP has agreements with third-party payors that provide for payments at amounts different from its established rates. The basis for payment under these agreements includes prospectively determined rates, cost reimbursement, negotiated discounts from established rates, 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 due to future audits, reviews, and investigations. The differences between the estimated and actual adjustments are recorded as part of net patient service revenue in future periods, as the amounts become known or as years are no longer subject to such audits, reviews and investigations.

For uninsured patients who do not qualify for charity care, PHP recognizes revenue based on established rates, subject to certain discounts as determined by PHP. An estimated provision for uncollectible accounts is recorded that results in net patient service revenue being reported at the net amount expected to be received. PHP has determined, based on an assessment, that net patient service revenue is recorded prior to assessing the patient's ability to pay, and as such, the entire provision for uncollectible accounts related to net patient service revenue is recorded as a deduction from net patient service revenue in the accompanying combined statements of operations and changes in net assets.

Premier Health Partners and Affiliates

Notes to Combined Financial Statements (continued)

A. Organization and Significant Accounting Policies (continued)

Net Premium Revenue

Net premium revenue includes premiums from individuals and Medicare. Premium revenue is recognized over the period in which members are entitled to insurance coverage for health care services. Premium revenue also includes amounts to reflect a portion of the health care costs for low-income Medicare beneficiaries and a risk-sharing arrangement to limit the exposure to unexpected expenses. Medicare revenue is subject to governmental audits and potential payment adjustments. Premiums collected in advance are deferred and recorded within other current liabilities. Premium revenue is adjusted to reflect estimates of collectability, including retrospective membership adjustment trends and economic conditions.

Reserve for Medical Claims

Reserve for medical claims consists of unpaid health care expenses. Unpaid health care expenses include an estimate of the cost of services provided to members by third-party providers that have been incurred but not reported. The estimate for incurred but not reported claims was based on actuarial projections of costs using historical paid claims and other relevant data. Estimates are monitored and reviewed and, as settlements are made or estimates revised, adjustments are reflected in current periods. These estimates are subject to the impact of changes in the regulatory environment and economic conditions. Given the inherent variability of such estimates, the actual liability could differ significantly from the amounts provided. While the ultimate amount of paid claims is dependent on future developments, management is of the opinion that the reserves for claims are adequate to cover such claims.

Inventories

Inventories, carried at average cost, include pharmacy and other medical supplies that are used in the hospital operations.

Premier Health Partners and Affiliates

Notes to Combined Financial Statements (continued)

A. Organization and Significant Accounting Policies (continued)

Assets Limited as to Use

MedAmerica Health Systems, Atrium Health System, and Upper Valley Medical Center

Assets limited as to use consist of Board Designated and other investments, which are used to support capital and operating needs of the organization. PHP created a collective investment program in which MAHS, AHS, and UVMC participate. Investments consist of cash and short-term investments, equity securities, mutual funds, common trust funds, corporate and other bonds, U.S. government securities, and alternative investments in limited liability companies, hedge funds, and private equities.

PHP has elected to account for common trust funds at fair value as allowed under ASC 825, *Financial Instruments*, due to the nature of these investments and their similarity to exchange-traded mutual funds.

The carrying value of limited liability companies, hedge funds, and private equities, collectively alternative investments, are based on valuations provided by the administrators of the specific financial instruments. Alternative investments are accounted for using the equity method of accounting based on the net asset value (NAV) provided by the administrators. The underlying investments in these financial instruments may include marketable debt and equity securities, commodities, foreign currencies, derivatives, and private equity investments. The underlying investments are subject to various risks including market, credit, liquidity, and foreign exchange risk. MAHS, AHS, and UVMC believe the carrying amount of these financial instruments in the combined balance sheets is a reasonable estimate of its ownership interest in the alternative investments. Because some of these financial instruments are not readily marketable, the estimated carrying value is subject to uncertainty, and therefore, may differ from the value that would have been used had a public market for such financial instruments existed. Such differences could be material. MAHS, AHS, and UVMC's risk related to alternative investments is limited to its carrying value plus amounts committed to private equity as disclosed in Note C.

Some of MAHS's, AHS's, and UVMC's alternative investments have liquidity restrictions, meaning amounts can be divested only at specific times based on the terms of the respective partnership agreements. Certain general resources are designated by the governing board for capital and other expenditures or are limited under the terms of the bond indenture and are reported as other investments on the combined balance sheets.

Premier Health Partners and Affiliates

Notes to Combined Financial Statements (continued)

A. Organization and Significant Accounting Policies (continued)

Samaritan Health Partners

Assets limited as to use include assets set aside for future long-term purposes, including capital improvements and amounts contributed by donors with stipulated restrictions. A portion of SHP's assets limited as to use are held in the CHI Operating Investment Program Limited Partnership (CHI Investment Program). The CHI Investment Program is structured under a limited partnership agreement with CHI, as managing general partner and numerous limited partners, most sponsored by CHI. All assets limited as to use in the CHI Investment Program are professionally managed under the administration of CHI. SHP's investments in the CHI Investment Program are represented by pooled units rather than specific securities. These proportionate units are accounted in a similar manner to the equity method of accounting, which are not subject to fair value measurement. For the years ended December 31, 2017 and 2016, SHP held 1.2% and 1.3%, respectively, of the total CHI Investment Program.

The CHI Investment Committee of the Board of Stewardship Trustees (CHI Investment Committee) is responsible for determining asset allocations among marketable fixed-income securities, marketable equity securities, and alternative investments. Alternative investments consist of hedge funds, private equity funds, and other securities organized as limited liability companies and partnerships. At least annually, the CHI Investment Committee reviews targeted allocations and, if necessary, makes adjustments to targeted asset allocations. The CHI investment portfolio that SHP participates in includes derivative financial instruments that are subject to changes in value due to fluctuations in the financial markets. Subsequent to December 31, 2017, SHP liquidated the CHI Investment Program and transferred all investments to the Premier Investment Program.

Assets limited as to use and investments held outside the CHI Investment Program include cash and short-term investments, equity securities, mutual funds, corporate and other bonds, and U.S. government securities.

MedAmerica Health Systems, Samaritan Health Partners, Atrium Health System, and Upper Valley Medical Center

Gains and losses consist of realized gains and losses on the sale of investments, the market valuation changes in investments, as well as dividend and interest income. These gains and losses are included in the deficiency of revenue over expenses unless the income or loss is restricted by donor or law. Investment income or loss that is restricted by donor or law is included

Premier Health Partners and Affiliates

Notes to Combined Financial Statements (continued)

A. Organization and Significant Accounting Policies (continued)

in the changes in temporarily or permanently restricted net assets, as appropriate. Changes in unrealized gains and losses on investments that have been designated as trading securities are also included in the deficiency of revenue over expenses as investment income or loss.

The global financial markets and the banking system are subject to volatility, which could adversely affect PHP. Certain PHP assets and liabilities are exposed to various risks such as interest rate, market, and credit risks.

The Affiliates participate in PHP's collective investment program relating to its self-insurance program for professional liability claims. These trust assets provide funds for professional liability claims under a self-insurance program and are reported as an asset limited as to use.

Premier Health Plan, Inc.; Premier Health Insuring Corporation; and Premier Health ACO of Ohio

Assets limited as to use include assets set aside for the payment of all future participant benefits and the insurance company operating costs. Investments consist of cash, corporate bonds and U.S. government securities as approved by the Ohio Department of Insurance in accordance with the guidelines established by the National Association of Insurance Commissioners to meet statutory liquidity and capital reserve requirements. These investments are generally shorter term in nature and can be easily converted to meet liquidity needs.

Property and Equipment

Property and equipment are stated at historical cost or, if donated, fair value at the date of receipt. Depreciation and amortization are calculated on a straight-line basis over the estimated asset lives. Depreciation taken on assets recorded as capital leases is determined over the shorter of the period of the lease term or the useful life of the underlying asset and is included as a component of allowances for depreciation and depreciation expense in the combined balance sheets and combined statements of operations and changes in net assets, respectively. Interest on construction-in-process is capitalized and amortized over the estimated lives of the related depreciable assets. Depreciation expense was \$143.1 million and \$145.0 million for the years ended December 31, 2017 and 2016, respectively, and is included in depreciation and amortization expense in the combined statements of operations and changes in net assets.

Premier Health Partners and Affiliates

Notes to Combined Financial Statements (continued)

A. Organization and Significant Accounting Policies (continued)

PHP evaluates the carrying value of long-lived assets, including property and equipment, and the related estimated remaining lives when events or changes in circumstances indicate that the carrying amount may not be recoverable or the useful life has changed. PHP may evaluate its business operations from time to time and determine that certain organization changes are required to meet the future strategic goals of PHP. Any resulting impairment losses or additional required depreciation due to shortened useful lives are recorded in the accompanying combined statements of operations and changes in net assets if those long-term assets, are related to continuing operations.

Asset Impairment and Other

Management continually evaluates its business and will implement cost savings initiatives and reorganization efforts to react to changes affecting the business to better align its operations to its strategic plan. As such, management made the decision to close GSH in January 2018. This decision required management to assess GSH and the surrounding campus for impairment at the balance sheet date. Management completed a test of recoverability and determined that the estimated future cash flows were less than the carrying value of GSH and surrounding campus, indicating impairment. Management engaged a third-party valuation firm to evaluate GSH and surrounding campus in accordance with ASC 820. The valuation indicates that the fair value of GSH and surrounding campus was impaired. As a result, an impairment loss of \$66.0 million was recorded, which is reflected in asset impairment and other in the combined statement of operations and changes in net assets for the year ended December 31, 2017.

In addition, during 2017 and 2016, PHP recorded total charges of \$1.0 million and \$28.9 million, respectively, for lease terminations, voluntary retirements and other related costs.

Goodwill and Intangible Assets, Net

Intangible assets consist of goodwill and other identifiable intangible assets such as non-compete agreements. Definite-lived intangible assets are amortized using the straight-line method, which allocates the cost over the estimated useful lives of generally three to five years. Goodwill is tested annually for impairment. PHP performed its goodwill impairment test on October 1, 2017, its annual goodwill evaluation test date. The evaluation by management determined no events or circumstances existed to conclude that it is more likely than not that the fair value of a reporting unit is less than its carrying amount.

Premier Health Partners and Affiliates

Notes to Combined Financial Statements (continued)

A. Organization and Significant Accounting Policies (continued)

Derivative Financial Instruments

PHP uses derivative financial instruments (interest rate swaps) in managing its capital costs. The interest rate swaps are recorded at fair market value based on the contractual terms, including the period to maturity, and observable market-based inputs are used to value the swaps (see Note I).

The net cost and change in fair value of such interest rate swaps is recognized as a component of non-operating gains in the combined statements of operations and changes in net assets. The interest rate swap agreements are exposed to counterparty risk, which is the risk that contractual obligations of the counterparty will not be fulfilled. Collateralization requirements mitigate some of the credit risk associated with PHP's interest rate swap agreements.

Net Assets

Unrestricted net assets consist of those assets whose use has not been restricted by donors or for which restrictions have expired. Temporarily restricted net assets are those whose use by PHP has been limited by donors to a specific time period or purpose. Temporarily restricted net assets that have met their restriction and the income from permanently restricted net assets are used primarily to support health care services and capital needs. Permanently restricted net assets have been restricted by donors to be maintained by PHP in perpetuity.

Unconditional promises to give cash and other assets are reported at fair value at the date the promise is received. 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 combined statements of operations and changes in net assets.

Medicare and Medicaid Reimbursement Activities

Reimbursement for the majority of Medicare and Medicaid inpatient services is based on a prospectively determined fixed price, which varies based on the illness or diagnostic-related group. PHP receives reimbursement for Medicare outpatient services on a prospective basis and Medicaid on a fixed-fee basis. Amounts earned under these contractual arrangements are subject to review and final determination by Medicare and Medicaid intermediaries, other appropriate governmental

Premier Health Partners and Affiliates

Notes to Combined Financial Statements (continued)

A. Organization and Significant Accounting Policies (continued)

authorities or their agents and the amounts earned may be adjusted in future periods as settlements are determined. The estimated payable due from (to) third parties includes an amount representing management's best estimate of the ultimate resolution of these matters. During 2017 and 2016, PHP settled prior years' Medicare and Medicaid liabilities for amounts less than previously estimated. The effect of these settlements was recognition of net revenue of \$3.6 million and \$6.0 million in 2017 and 2016, respectively. In the opinion of management, adequate provision has been made in the combined financial statements for any adjustments resulting from the respective intermediary reviews.

As a percentage of PHP's net patient service revenue, Medicare and Medicaid programs accounted for 34.7% and 15.0%, respectively, for the year ended December 31, 2017, and accounted for 32.4% and 14.0%, respectively, for the year ended December 31, 2016.

Charity Care

In the ordinary course of business, PHP renders services to patients who are financially unable to pay for hospital care. Included in deductions from revenue is the value (at PHP's standard charges) of these services to patients who are unable to pay that is eliminated from net operating revenue when it is expected they may qualify under PHP's charity care policy. The estimated cost incurred by PHP to provide these services to patients who are unable to pay was \$47.0 million and \$43.0 million for the years ended December 31, 2017 and 2016, respectively. The estimated cost of these charity care services was determined using a ratio of cost to gross charges and applying that ratio to the gross charges associated with providing care to charity patients for the period. Gross charges associated with providing care to charity patients includes only the related charges for those patients who are financially unable to pay and that do not otherwise qualify for reimbursement from a governmental program.

PHP recorded charity care subsidies of \$19.2 million and \$16.1 million for the years ended December 31, 2017 and 2016, respectively, which were recognized as a component of net patient service revenue in the combined statements of operations and changes in net assets. Charity care subsidies comprise the Ohio Hospital Care Assurance program and the Montgomery County Human Service Levy.

Premier Health Partners and Affiliates

Notes to Combined Financial Statements (continued)

A. Organization and Significant Accounting Policies (continued)

Pension

PHP utilizes an approach that discounts the individual expected cash flows underlying interest and service costs using the applicable spot rates derived from the yield curve used to determine the benefit obligation to the relevant projected cash flows. This method provides a more precise measurement of service and interest costs by improving the correlation between projected benefit cash flows and the corresponding spot yield curve rates. The use of disaggregated discount rates results in a different amount of weightings given to each subset of payments. The use of disaggregated discount rates affects the amount of service cost, because the benefit payments associated with new service credits for active employees tend to be of longer duration than the overall benefit payments associated with the plan's benefit obligation. As a result, the payments are associated with longer-term spot rates on the yield curve, resulting in lower present values than the calculations using the traditional single weighted-average discount rate.

In 2015, PHP changed the method used to estimate the service and interest components of net periodic benefit cost for pension to the method described above from the traditional single weighted-average discount rate method. This change did not affect the measurement of the total benefit obligation, but resulted in a decrease in the service and interest components of benefit for 2016. As a result of this change, the service cost and interest cost of the affected plan was reduced by \$4.3 million for the year ended December 31, 2016. PHP accounted for this as a change in accounting estimate that is inseparable from a change in accounting principle and, accordingly accounted for it on a prospective basis.

Hospital Franchise Tax

The Ohio Hospital Franchise Fee program requires Ohio hospitals to pay a provider tax to the State in order to draw down federal Medicaid matching funds. During 2017 and 2016, PHP recorded as expense, \$24.7 million and \$24.6 million, respectively, for the hospital franchise tax.

The upper payment limit (UPL) payments are recorded as other operating revenue. During 2017 and 2016, PHP recorded revenue related to UPL payments of \$29.9 million and \$34.2 million, respectively.

Premier Health Partners and Affiliates

Notes to Combined Financial Statements (continued)

A. Organization and Significant Accounting Policies (continued)

Functional Expenses

PHP provides general health care services to residents within its geographic location. Total expenses were \$1,860.0 million during 2017 and \$1,859.6 million during 2016. General and administrative expenses were \$193.3 million during 2017 and \$191.4 million during 2016.

Deficiency of Revenue Over Expenses

The combined statements of operations and changes in net assets include the line deficiency of revenue over expenses, which represents the operating indicator for PHP. Consistent with industry practice, changes in net assets that are excluded from the deficiency of revenue over expenses include change in plan assets and benefit obligations of pension plans, net gains (losses) on temporarily restricted and permanently restricted net assets, and other and discontinued operations.

Income Taxes

PHP, MAHS, AHS, and UVMC have been determined by the Internal Revenue Service to be tax-exempt nonprofit corporations and public charities under Sections 501(c)(3) and 509(a), respectively, of the Internal Revenue Code. SHP is tax-exempt under Section 501(c)(3) and is a public charity under Section 509(a). As tax-exempt organizations, their income is exempt from federal income tax except to the extent of any unrelated business activities. PHP, SHP and UVMC also own or control certain subsidiaries, which are for-profit corporations subject to federal income taxes. These are:

- PHIC, PHHC, and PHACO of Ohio (wholly owned subsidiaries of PHP),
- PHPlan (a wholly owned subsidiary of PHIC),
- MVHE, Inc., Samaritan Family Care, Premier Health Specialists, Inc. and Premier Health Urgent Care (subsidiaries of PHHC),
- Samaritan North Surgery Center, Ltd. (a joint venture partnership with which GSH is an 80% owner), and
- UVMC Management Corporation and After Hours Family Care, Inc. (subsidiaries of UVMC).

Premier Health Partners and Affiliates

Notes to Combined Financial Statements (continued)

A. Organization and Significant Accounting Policies (continued)

Taxes payable at December 31, 2017 and 2016 for such unrelated business activities are not significant. Management annually reviews the tax positions and has determined that there are no material uncertain tax positions.

Use of Estimates

The preparation of combined financial statements in conformity with generally accepted accounting principles (GAAP) requires management to make estimates and judgments that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the combined financial statements, and the revenue and expenses of the periods reported. PHP records liabilities for probable estimated losses based on the likelihood that the future event or events will confirm the loss or impairment of an asset or the incurrence of a liability. The existence of a loss contingency can range from probable to remote. An estimated loss from a loss contingency shall be accrued if information available prior to the issuance of the combined financial statements indicates that it is probable that an asset has been impaired or a liability has been incurred at the date of the combined financial statements and the amount of loss can be reasonably estimated. PHP evaluates the potential liability related to probable losses throughout the year and may revise its estimates as more information becomes available. Judgments and uncertainties affecting the application of these estimates may result in materially different amounts being reported under different conditions or circumstances that may affect the financial condition and results of operations. Significant items subject to such estimates and judgments include contractual allowances and the valuation of allowances for accounts receivable; the carrying value of property and equipment; the valuation of investments, interest rate swaps, and intangibles; the valuation of insurance and claims costs; and reserves recorded for litigation, other contingencies, and assets and liabilities related to employee benefits.

Claims and Contingencies

In the normal course of business, PHP is subject to various lawsuits, actions, proceedings, claims, and other matters asserted under laws and regulations. Management believes the amounts recorded in its combined financial statements, are adequate in light of the probable and estimable contingencies. However, there can be no assurances that the actual amounts required to satisfy alleged liabilities from various legal proceedings, claims, and other matters and to comply with applicable laws and regulations will not exceed the amounts reflected in its combined financial statements and, therefore, it is possible that recorded estimates may change by a material amount.

Premier Health Partners and Affiliates

Notes to Combined Financial Statements (continued)

A. Organization and Significant Accounting Policies (continued)

Health Care Regulatory Environment

The health care industry 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 review and interpretation, as well as regulatory actions unknown and unasserted at this time. Federal government activity continues with respect to investigations and allegations concerning possible violations of regulations by health care providers, which could result in the imposition of significant fines and penalties, as well as significant repayment of previous billed and collected revenue from patient services. Management believes that PHP is in compliance, in all material respects, with current laws and regulations. PHP has recorded reserves for routine regulatory compliance issues and believes these reserves are adequate to cover any potential repayment of previous billed and collected revenue from patient services.

PHP was subject to a Corporate Integrity Agreement with the United States Department of Health and Human Services Office of the Inspector General, which had a five-year term that ended in January 2018. The Corporate Integrity Agreement requires that PHP maintain its compliance program in accordance with the terms of the Corporate Integrity Agreement. The agreement contains specific requirements regarding billing, including developing policies and procedures to ensure compliance with federal law relating to such arrangements, and the general training of certain PHP employees as to the requirements of PHP's compliance program and the Corporate Integrity Agreement. The requirements of the Corporate Integrity Agreement have resulted in increased costs to maintain PHP's compliance program and could result in greater scrutiny by federal regulatory authorities. Violations of the Corporate Integrity Agreement could subject PHP to significant monetary and/or administrative penalties, including the possibility of exclusion from the Medicare, Medicaid, and other federal health care programs. Management has implemented the terms of the Corporate Integrity Agreement and believes that PHP is in compliance in all material respects.

Discontinued Operations

During 2017, PHP made the decision to exit the Medicare and Commercial insurance companies PHIC and PHPlan, as well as its accountable care organization, PHACO. Based on the criteria in FASB ASC 360, *Impairment or Disposal of Long-Lived Assets*, management has determined that the assets and liabilities of PHIC and PHPlan should be reflected and disclosed in the combined financial statements as held for sale at December 31, 2017. As required by ASC 360,

Premier Health Partners and Affiliates

Notes to Combined Financial Statements (continued)

A. Organization and Significant Accounting Policies (continued)

PHP adjusted the carrying amounts of the PHIC and PHPlan assets and liabilities included in assets or liabilities held for sale, to the lower of carrying value or fair value, less cost to sell at December 31, 2017. The assets for PHACO were disposed of other than by sale effective December 31, 2017. PHP reclassified the assets and liabilities of PHIC and PHPlan as held for sale at December 31, 2016 for consistent presentation.

The following is a summary of assets and liabilities held for sale related to PHIC and PHPlan at December 31:

	2017			2016		
	PHIC	PHPlan	Total	PHIC	PHPlan	Total
Cash and cash equivalents	\$ 8,946	\$ 9,847	\$ 18,793	\$ 7,510	\$ 5,633	\$ 13,143
Due from affiliates	–	–	–	2,228	8,044	10,272
Other current assets	3,616	4,235	7,851	3,514	4,501	8,015
Total current assets	12,562	14,082	26,644	13,252	18,178	31,430
Assets limited as to use:						
Other investments	10,542	449	10,991	10,495	446	10,941
Assets held for sale	\$ 23,104	\$ 14,531	\$ 37,635	\$ 23,747	\$ 18,624	\$ 42,371
Reserve for medical expenses	\$ 10,041	\$ 4,253	\$ 14,294	\$ 9,991	\$ 5,062	\$ 15,053
Accounts payable	322	896	1,218	803	635	1,438
Premium deficiency reserve	1,847	–	1,847	2,176	95	2,271
Other current liabilities	719	503	1,222	1,636	6,574	8,210
Due to affiliates	2,400	1,152	3,552	–	–	–
Liabilities held for sale	\$ 15,329	\$ 6,804	\$ 22,133	\$ 14,606	\$ 12,366	\$ 26,972

Based on the criteria in ASC 205, *Discontinued Operations*, it was determined that the Medicare and Commercial insurance companies PHIC and PHPlan, as well as the accountable care organization, PHACO, met the criteria for discontinued operations treatment for the year ended December 31, 2017. Consequently, the results of operations for PHIC, PHPlan and PHACO have been classified as a single consolidated financial statement line within changes in net assets for all periods presented.

Premier Health Partners and Affiliates

Notes to Combined Financial Statements (continued)

A. Organization and Significant Accounting Policies (continued)

The following is a summary of the components of loss on discontinued operations for the years ended December 31:

	2017				2016			
	PHIC	PHPlan	PHACO	Total	PHIC	PHPlan	PHACO	Total
Revenues								
Premium revenues	\$ 91,790	\$ 31,749	\$ –	\$123,539	\$ 77,981	\$ 22,252	\$ –	\$100,233
Other operating revenues	–	6,663	300	6,963	–	6,799	–	6,799
Total revenues	<u>91,790</u>	<u>38,412</u>	<u>300</u>	<u>130,502</u>	<u>77,981</u>	<u>29,051</u>	<u>–</u>	<u>107,032</u>
Operating expenses								
Medical expenses	85,618	26,914	–	112,532	78,726	26,199	–	104,925
Purchased services and other	19,111	12,032	7,510	38,653	19,704	12,980	1,788	34,472
Total operating expenses	<u>104,729</u>	<u>38,946</u>	<u>7,510</u>	<u>151,185</u>	<u>98,430</u>	<u>39,179</u>	<u>1,788</u>	<u>139,397</u>
Operating margin	(12,939)	(534)	(7,210)	(20,683)	(20,449)	(10,128)	(1,788)	(32,365)
Investment income	74	3	12	89	121	4	–	125
Deficiency of revenue over expenses	<u>\$ (12,865)</u>	<u>\$ (531)</u>	<u>\$ (7,198)</u>	<u>\$ (20,594)</u>	<u>\$ (20,328)</u>	<u>\$ (10,124)</u>	<u>\$ (1,788)</u>	<u>\$ (32,240)</u>

Recently Adopted Accounting Standard

In January 2016, the FASB issued Accounting Standards Update (ASU) 2016-01, *Financial Instruments – Overall (Subtopic 815-10)*, to enhance the reporting model for financial instruments to provide users of financial statements with more decision-useful information. ASU 2016-01 provides additional guidance on classifying and measuring financial instruments. For entities other than public business entities, which includes not-for-profit (NFP) organizations, ASU 2016-01 eliminates the requirement in ASC 825, to disclose the fair values of financial instruments measured at amortized cost on the balance sheet. The guidance within ASU 2016-01 is effective for entities other than public business entities for fiscal years beginning after December 15, 2018, and interim periods beginning after December 15, 2019. However, ASU 2016-01 allows for entities other than public business entities to early adopt the provision that eliminates the fair value disclosures for financial instruments not recognized at fair value. PHP elected to adopt ASU 2016-01 early and has made the relevant changes in the combined financial statements.

Premier Health Partners and Affiliates

Notes to Combined Financial Statements (continued)

A. Organization and Significant Accounting Policies (continued)

Pending Accounting Pronouncements

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*. The guidance in ASU 2016-02 supersedes the lease recognition requirements in ASC Topic 840, *Leases* (FAS 13). ASU 2016-02 requires an entity to recognize assets and liabilities arising from a lease for both financing and operating leases, along with additional qualitative and quantitative disclosures. ASU 2016-02 is effective for fiscal years beginning after December 15, 2018, with early adoption permitted. PHP is currently evaluating the effect this new standard will have on its combined financial statements.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers*, to clarify the principles for recognizing revenue and to improve financial reporting by creating common revenue recognition guidance for GAAP and International Financial Reporting Standards. The core principle of the new guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASU 2014-09 is now effective for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period by applying either the full retrospective method or the cumulative catch-up transition method. The full retrospective method requires application of the provisions of ASU 2014-09 for all periods presented while the cumulative catch-up transition method requires the application of the provisions of ASU 2014-09 as of the date of adoption with the cumulative effect of the retrospective application of the provisions as an adjustment through unrestricted net assets. PHP has chosen to adopt the provisions of ASU 2014-09 using the cumulative catch-up transition method.

PHP management has evaluated the anticipated impacts ASU 2014-09 will have on its revenue recognition policies, procedures, combined financial position, combined results of operations, combined cash flows, and combined financial statement disclosures. Specifically, PHP has evaluated its population of revenue sources to determine an appropriate level of stratification, as well as assessed the potential effects ASU 2014-09 will have on variable consideration arising from settlements with third-party payors, disproportionate share hospital payments and bundled payments. PHP has determined that the levels of stratification used and the methods for calculating variable consideration are consistent with the new standard. PHP adopted ASU 2014-09 as of January 1, 2018. PHP has determined the impact to income was not material, because the analysis of the contracts under the new standard is consistent with the current revenue recognition model.

Premier Health Partners and Affiliates

Notes to Combined Financial Statements (continued)

A. Organization and Significant Accounting Policies (continued)

The immaterial impact of adopting the new standard primarily relates to recognizing certain credit and collection issues not known at the date of service, including bankruptcy, in the provision for uncollectible accounts included in expenses in the combined statements of operations and changes in net assets, which were previously recorded as a deduction from net patient service revenue.

In August 2016, the FASB issued ASU 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*, which will change certain financial statement requirements for NFP entities. NFPs will no longer be required to distinguish between resources with temporary and permanent restrictions on the face of their financial statements, meaning they will present two classes of net assets (with donor restrictions and without donor restrictions), instead of three classes. The guidance also will change how NFPs report certain expenses and provide information about their available resources and liquidity. ASU 2016-14 is effective for fiscal years beginning after December 15, 2017, and interim periods thereafter. The guidance will be applied retrospectively, but NFPs will have the option to omit certain information for comparative periods presented in the year of adoption. Early application is permitted. PHP is currently evaluating the impact that ASU 2016-14 will have on its combined financial statements.

In March 2017, the FASB issued ASU 2017-07, *Compensation-Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*, which changes how employers that sponsor defined benefit pension plans present the net periodic benefit cost in the statement of operations. ASU 2017-07 requires employers to present the service cost component of net periodic benefit cost in the same statement of operations line items as other employee compensation costs arising from services rendered during the period. Employers are to present the other components of net periodic benefit cost separately from the line items that include the service cost and outside of any subtotal of operating income, if one is presented. Employers will have to disclose the lines used to present the other components of net periodic benefit cost, if the components are not presented separately in the statement of operations. ASU 2017-07 is effective for fiscal years beginning after December 15, 2018, and interim periods therein. Early adoption is permitted as of the beginning of an annual period for which financial statements (interim or annual) have not been issued or made available for issuance. The guidance provides a practical expedient for disaggregating the service cost component and other components for comparative periods. PHP is currently evaluating the impact that ASU 2017-07 will have on its combined financial statements.

Premier Health Partners and Affiliates

Notes to Combined Financial Statements (continued)

B. Net Patient Service Revenue and Patient Receivables

Revenues are recorded during the period the health care services are provided, based upon the estimated amounts due from the patients and third-party payors. Third-party payors include federal and state agencies (under the Medicare, Medicaid, and other programs), managed care health plans, commercial insurance companies, and employers. Estimates of contractual allowances under managed care health plans are based upon the payment terms specified in the related contractual agreements. PHP also records a provision for uncollectable accounts related to uninsured accounts to record the net self-pay accounts receivable at the estimated amounts PHP expects to collect.

Net patient service revenue before the provision for uncollectible accounts by major payor source for the years ended December 31, 2017 and 2016, is as follows:

	<u>2017</u>		<u>2016</u>	
	<i>(Dollars in Thousands)</i>			
Medicare	\$ 587,248	35%	\$ 572,286	32%
Medicaid	254,243	15	246,680	14
Managed care and commercial	828,405	49	930,940	53
Self-pay	22,436	1	17,994	1
	<u>\$ 1,692,332</u>	<u>100%</u>	<u>\$ 1,767,900</u>	<u>100%</u>

PHP's estimation of the allowance for doubtful accounts is based primarily upon the type and age of the patient accounts receivable and the effectiveness of its collection efforts. PHP's policy is to reserve a portion of all self-pay receivables, including amounts due from the uninsured and amounts related to co-payments and deductibles, as these charges are recorded. On a monthly basis, PHP reviews its accounts receivable balances, the effectiveness of its reserving policies, and various analytics to support the basis for its estimates. These efforts primarily consist of reviewing the following: (1) Historical write-off and collection experience using a hindsight or look-back approach; (2) Revenue and volume trends by payor, particularly the self-pay components; (3) Changes in the aging and payor mix of accounts receivable, including increased focus on accounts due from the uninsured and accounts that represent co-payments and deductibles due from patients; (4) Cash collections; (5) Trending of days revenue in accounts receivable; and (6) Various allowance coverage statistics.

Premier Health Partners and Affiliates

Notes to Combined Financial Statements (continued)

B. Net Patient Service Revenue and Patient Receivables (continued)

If deemed appropriate, management will adjust the allowance for doubtful accounts based on the findings of these analyses. During 2017 and 2016, no material adjustments were made to the method to compute the allowance for doubtful accounts.

The allowance for doubtful accounts was \$31.9 million and \$23.0 million as of December 31, 2017 and 2016, respectively. These balances as a percent of accounts receivable, net of contractual adjustments were 7.4% and 5.5% as of December 31, 2017 and 2016, respectively. PHP's combined allowance for doubtful accounts and charity care, for uninsured and self-pay after insurance accounts, covered 83.2% and 81.0% of the respective receivables as of December 31, 2017 and 2016, respectively.

The following table represents the changes in the allowance for doubtful accounts for the years ended December 31, 2017 and 2016:

	Beginning Balance	Provision Before Change in Estimate	Change in Estimate	Total Provision	Write-offs, Net of Recoveries and Other	Ending Balance
	<i>(Dollars in Thousands)</i>					
Allowance for doubtful accounts:						
Year ended December 31, 2016	\$ 20,529	\$ 37,818	\$ (485)	\$ 37,333	\$ (34,883)	\$ 22,979
Year ended December 31, 2017	\$ 22,979	\$ 43,793	\$ (1,888)	\$ 41,905	\$ (32,982)	\$ 31,902

Premier Health Partners and Affiliates

Notes to Combined Financial Statements (continued)

C. Assets Limited as to Use

Assets limited as to use consist of the following as of December 31:

	2017	2016
	<i>(Dollars in Thousands)</i>	
Cash and short-term investments	\$ 25,966	\$ 95,156
Equity securities	54,569	46,190
Mutual funds:		
Domestic large cap	46,481	39,942
Domestic small cap	13,769	11,646
International	214,744	186,778
Fixed income	258,120	212,447
Common trust funds	223,366	214,473
Corporate and other bonds:		
Corporate and other bonds	22,667	24,463
Asset-backed securities	24,449	23,210
U.S. government securities:		
U.S. government securities	11,863	8,069
U.S. government agencies	7,247	8,506
Alternative investments:		
Limited liability companies	139,685	64,446
Hedge funds	97,446	164,008
Private equity ^(a)	47,005	37,648
CHI Investment Program	73,192	80,677
Total assets limited as to use	<u>\$ 1,260,569</u>	<u>\$ 1,217,659</u>

^(a) PHP has committed capital yet to be called of \$38.5 million and \$38.7 million at December 31, 2017 and 2016, respectively, to private equity funds over the next one to three years.

Premier Health Partners and Affiliates

Notes to Combined Financial Statements (continued)

C. Assets Limited as to Use (continued)

PHP maintains diversification in its investment programs by allocating assets to various asset classes and market segments and retaining multiple professional investment firms with different philosophies, styles, and approaches. Accordingly, based on this diversification, management does not believe there are any material concentrations of credit risk at December 31, 2017 and 2016.

The asset allocation specific to the PHP Investment Program is as follows for the year ended December 31:

	<u>2017</u>	<u>2016</u>
Marketable equity securities	60%	56%
Marketable fixed-income securities	30	29
Alternative investments	5	3
Real assets	4	3
Cash	1	9
	<u>100%</u>	<u>100%</u>

Funds restricted by donors for charitable purposes, included in cash and cash equivalents, investments, and assets whose use is limited, were \$66.1 million and \$62.4 million at December 31, 2017 and 2016, respectively.

Samaritan Health Partners

A portion of SHP's assets limited as to use are held in the CHI Investment Program. The carrying value of the assets held by participants is an allocation of the underlying carrying value of the assets in the CHI Investment Program, based on the asset allocation specific to each participant and its relative percentage allocation.

Premier Health Partners and Affiliates

Notes to Combined Financial Statements (continued)

C. Assets Limited as to Use (continued)

The asset allocation specific to the CHI Investment Program is as follows for the year ended December 31:

	<u>2017</u>	<u>2016</u>
Marketable equity securities	44%	42%
Marketable fixed-income securities	38	39
Alternative investments	18	19
	<u>100%</u>	<u>100%</u>

SHP investments held in the CHI Investment Program are represented by pool units valued monthly under a custodian accounting system. Investment income from the CHI Investment Program, including interest income, realized gains or losses on investments, unrealized gains or losses on investments, CHI assessment, and other expenses, are distributed to participants based on the earnings per pool unit. Gains or losses are realized by participants when pool units are sold, representing the difference between the cost basis and the market value of the pool units sold. The value of the assets held is an allocation of the underlying carrying value of the assets in the CHI Investment Program, based upon pool units held by the participants.

D. Fair Value of Assets and Liabilities

The carrying amount reported in the combined balance sheets for current assets (other than investments, which are separately disclosed) and current liabilities are reasonable estimates of fair value due to the short-term nature of these financial instruments. These financial instruments are not required to be marked to fair value on a recurring basis, and therefore are not disclosed in the accompanying table. The CHI Investment Program and alternative investments are accounted for similar to the equity method of accounting. The CHI Investment Program and alternative investments are not required to be marked to fair value on a recurring basis, and therefore are not disclosed in the accompanying table within this note. The carrying amount of the CHI Investment Program and alternative investments approximates fair value based on the nature of the underlying assets.

Premier Health Partners and Affiliates

Notes to Combined Financial Statements (continued)

D. Fair Value of Assets and Liabilities (continued)

Assets and liabilities measured at fair value on a recurring basis as of December 31, 2017 are as follows:

	Total	Fair Value Measurements at Reporting Date Using ^(a)		
		(Level 1)	(Level 2)	(Level 3)
<i>(Dollars in Thousands)</i>				
Assets				
Cash and cash equivalents	\$ 55,681	\$ 55,681	\$ –	\$ –
Assets limited as to use:				
Cash and short-term investments	25,966	25,966	–	–
Equity securities	54,569	54,569	–	–
Mutual funds:				
Domestic large cap	46,481	46,481	–	–
Domestic small cap	13,769	13,769	–	–
International	214,744	214,744	–	–
Fixed income	258,120	258,120	–	–
Corporate and other bonds:				
Corporate and other bonds	22,667	–	22,667	–
Asset-backed securities	24,449	–	24,449	–
U.S. government securities:				
U.S. government securities	11,863	–	11,863	–
U.S. government agencies	7,247	–	7,247	–
Assets limited as to use before CTFs	679,875	613,649	66,226	–
CTFs measured at NAV ^(b)	223,366	–	–	–
Total assets limited as to use	903,241	613,649	66,226	–
Total assets	\$ 958,922	\$ 669,330	\$ 66,226	\$ –
Liabilities				
Interest rate swap liability	\$ 42,714	\$ –	\$ –	\$ 42,714

^(a) There were no securities transferred between Level 1, 2, or 3 during 2017.

^(b) In accordance with ASC 820-10, certain investments that are measured at fair value using the net asset value per share (or its equivalent) practical expedient have not been classified 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 combined balance sheets.

Premier Health Partners and Affiliates

Notes to Combined Financial Statements (continued)

D. Fair Value of Assets and Liabilities (continued)

The following table represents financial instruments at fair value and at other than fair value that reconcile to the combined balance sheets of PHP as of December 31, 2017:

	Financial Instruments at Fair Value	Assets and Liabilities at Other Than Fair Value	Total
	<i>(Dollars in Thousands)</i>		
Assets			
Cash and cash equivalents	\$ 55,681	\$ —	\$ 55,681
Assets limited as to use and investments	903,241	357,328	1,260,569
Total assets	<u>\$ 958,922</u>	<u>\$ 357,328</u>	<u>\$ 1,316,250</u>
Liabilities			
Interest rate swap liability	<u>\$ 42,714</u>	<u>\$ —</u>	<u>\$ 42,714</u>

Premier Health Partners and Affiliates

Notes to Combined Financial Statements (continued)

D. Fair Value of Assets and Liabilities (continued)

Assets and liabilities measured at fair value on a recurring basis as of December 31, 2016 are as follows:

	Total	Fair Value Measurements at Reporting Date Using ^(a)		
		(Level 1)	(Level 2)	(Level 3)
<i>(Dollars in Thousands)</i>				
Assets				
Cash and cash equivalents	\$ 104,335	\$ 104,335	\$ –	\$ –
Assets limited as to use:				
Cash and short-term investments	95,156	95,156	–	–
Equity securities	46,190	46,190	–	–
Mutual funds:				
Domestic large cap	39,942	39,942	–	–
Domestic small cap	11,646	11,646	–	–
International	186,778	186,778	–	–
Fixed income	212,447	212,447	–	–
Corporate and other bonds:				
Corporate and other bonds	24,463	–	24,463	–
Asset-backed securities	23,210	–	23,210	–
U.S. government securities:				
U.S. government securities	8,069	–	8,069	–
U.S. government agencies	8,506	–	8,506	–
Assets limited as to use before CTFs	656,407	592,159	64,248	–
CTFs measured at NAV ^(b)	214,473	–	–	–
Total assets limited as to use	870,880	592,159	64,248	–
Total assets	\$ 975,215	\$ 696,494	\$ 64,248	\$ –
Liabilities				
Interest rate swap liability	\$ 45,601	\$ –	\$ –	\$ 45,601

^(a) There were no securities transferred between Level 1, 2, or 3 during 2016.

^(b) In accordance with ASC 820-10, certain investments that are measured at fair value using the net asset value per share (or its equivalent) practical expedient have not been classified 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 combined balance sheets.

Premier Health Partners and Affiliates

Notes to Combined Financial Statements (continued)

D. Fair Value of Assets and Liabilities (continued)

The following table represents financial instruments at fair value and at other than fair value that reconcile to the combined balance sheets of PHP as of December 31, 2016:

	Financial Instruments at Fair Value	Assets and Liabilities at Other Than Fair Value	Total
	<i>(Dollars in Thousands)</i>		
Assets			
Cash and cash equivalents	\$ 104,335	\$ –	\$ 104,335
Assets limited as to use and investments	870,880	346,779	1,217,659
Total assets	<u>\$ 975,215</u>	<u>\$ 346,779</u>	<u>\$ 1,321,994</u>
Liabilities			
Interest rate swap liability	<u>\$ 45,601</u>	<u>\$ –</u>	<u>\$ 45,601</u>

Cash and Cash Equivalents and Assets Limited as to Use

PHP's cash and cash equivalents and assets limited as to use comprise cash and short-term investments, money market, equity securities, mutual funds (domestic, international and fixed), corporate bonds and other bonds, asset-backed securities, U.S. government securities, and U.S. government agencies, with the exception of alternative investments, which are accounted for using the equity method of accounting, are generally classified within Level 1 or Level 2 of the fair value hierarchy because they are valued using quoted market prices, broker or dealer quotations, or alternative pricing sources, primarily matrix pricing, with reasonable levels of price transparency. Matrix pricing, primarily used for marketable fixed-income securities, is based on quoting prices for securities with similar coupons, ratings, and maturities, rather than on specific bids and offers for the specific security. The types of financial instruments based on quoted market prices in active markets include most cash and short-term investments, equity securities, mutual funds and money market securities. Such instruments are generally classified within Level 1 of the fair value hierarchy. PHP does not adjust the quoted market price for such financial instruments.

The types of financial instruments valued based on quoted market prices in markets that are not active, broker or dealer quotations, or alternative pricing sources with reasonable levels of price transparency include corporate and other bonds, asset-backed securities, U.S. government

Premier Health Partners and Affiliates

Notes to Combined Financial Statements (continued)

D. Fair Value of Assets and Liabilities (continued)

securities, and U.S. governmental agencies. Such financial instruments are generally classified within Level 2 of the fair value hierarchy. Primarily all of PHP's corporate and other bonds, asset-backed securities, U.S. government securities, and U.S. government agencies are actively traded, and the recorded fair value reflects current market conditions. However, due to the inherent volatility in the investment market, there is at least a possibility that recorded investment values may change by a material amount in the near term.

Following is the summary of the inputs and valuation techniques as of December 31, 2017 and 2016, used for valuing Level 2 securities in the portfolio:

Securities	Input	Valuation Technique
Corporate and other bonds	Broker/dealer	Market
Asset-backed securities	Broker/dealer	Market/income
U.S. government securities	Broker/dealer	Market
U.S. government agencies	Broker/dealer	Market

The common trust funds are valued at NAV provided by the respective fund administrators. Management has determined that the NAV is an appropriate estimate of fair value of the common trust funds at December 31, 2017 and 2016, based on the fact that the common trust funds are audited and accounted for at fair value by the administrators of the respective common trust funds. There are no restrictions on the ability of PHP to redeem any of the common trust funds at December 31, 2017 or 2016.

Interest Rate Swap Agreements

PHP uses interest rate swaps to manage its exposure to fluctuations in interest rates and the overall long-term debt portfolio. PHP's interest rate swap agreements are not traded on an exchange. The valuation of interest rate swap agreements is determined using widely accepted valuation techniques, including discounted cash flow analysis on the expected cash flows of each interest rate swap agreement based on the London Interbank Offered Rate (LIBOR), Securities Industry and Financial Markets Association (SIFMA) yield curve or five-year Constant Maturity Swap (5YCMS) and respective fixed rates. The valuation of PHP's interest rate swap agreements is performed by PHP's counterparty and validated through the use of independent third-party valuation, including the unobservable inputs used in the calculation.

Premier Health Partners and Affiliates

Notes to Combined Financial Statements (continued)

D. Fair Value of Assets and Liabilities (continued)

The following is a summary of key inputs used to determine the fair value for each interest rate swap agreement at December 31:

Interest Rate Swap Agreement	Receiving Floating Rate		Paying Fixed/ Floating Rate		Discount Rate
	2017	2016	2017	2016	
May 2011	67% of LIBOR	67% of LIBOR	3.23	3.23	Avg. of LIBOR curve
May 2011	67% of LIBOR⁽¹⁾	67% of LIBOR ⁽¹⁾	SIFMA	SIFMA	Avg. of LIBOR curve
May 2011	67% of LIBOR	67% of LIBOR	3.23	3.23	Avg. of LIBOR curve
May 2011	67% of LIBOR⁽¹⁾	67% of LIBOR ⁽¹⁾	SIFMA	SIFMA	Avg. of LIBOR curve
December 2012	70% of LIBOR	70% of LIBOR	1.748	1.748	Avg. of LIBOR curve
December 2012	70% of LIBOR	70% of LIBOR	1.733	1.733	Avg. of LIBOR curve
April 2007	67% of 5YCMS⁽²⁾	67% of 5YCMS ⁽²⁾	3.12	3.12	Avg. of LIBOR curve
August 2016	70% of LIBOR⁽³⁾	70% of LIBOR ⁽⁴⁾	5.00	5.00	Avg. of LIBOR curve

⁽¹⁾ Receiving rate is 67% of LIBOR plus a spread of 0.6395%.

⁽²⁾ Receiving rate is 67% of 5YCMS less a spread of 0.458%.

⁽³⁾ Paying rate is 70% of LIBOR plus a spread of 0.63%.

⁽⁴⁾ Paying rate is 70% of LIBOR plus a spread of 0.53%.

The discounted cash flow analysis reflects the contractual terms of the interest rate swap agreement, including the period to maturity, and uses observed market-based inputs, including interest rate curves and implied volatilities. Valuation adjustments are required to be considered in the determination of fair value. This includes amounts to reflect counterparty credit quality and liquidity risk. Although PHP has determined that certain inputs used to value the interest rate swap agreements fall within Level 2 of the fair value hierarchy, certain inputs and the credit valuation adjustment associated with the interest rate swap agreements utilize Level 3 inputs, such as estimates of current credit spreads to evaluate the likelihood of default by MAHS, AHS or the counterparty. As a result, PHP has determined that certain interest rate swap agreements will be classified in Level 3 of the fair value hierarchy.

Premier Health Partners and Affiliates

Notes to Combined Financial Statements (continued)

D. Fair Value of Assets and Liabilities (continued)

Level 3 Liabilities

The following table represents the changes in fair value of PHP's Level 3 liabilities (interest rate swap liability) for the years ended December 31:

	<u>2017</u>	<u>2016</u>
	<i>(Dollars in Thousands)</i>	
Balance at January 1	\$ (45,601)	\$ (48,249)
Total unrealized gains (losses) and adjustments included in net income:		
Mark-to-market adjustment	4,221	2,255
Credit valuation adjustment	(1,334)	393
Balance at December 31	<u>\$ (42,714)</u>	<u>\$ (45,601)</u>

All realized and unrealized gains (losses) on interest rate swap agreements, including payments due to and from a counterparty, are presented net and included in the combined statements of operations and changes in net assets as non-operating gains, net.

E. Property and Equipment

The composition of property and equipment is as follows as of December 31:

	<u>Average Life</u>	<u>2017</u>	<u>2016</u>
		<i>(Dollars in Thousands)</i>	
Land		\$ 75,884	\$ 70,514
Land improvements	8–10 years	44,412	44,754
Buildings	25–40 years	1,427,451	1,408,720
Equipment	3–7 years	889,044	912,491
Capital lease		26,526	25,976
Construction-in-process		45,749	30,126
		<u>2,509,066</u>	<u>2,492,581</u>
Less allowances for depreciation and asset impairment		1,521,831	1,403,044
Property and equipment, net		<u>\$ 987,235</u>	<u>\$ 1,089,537</u>

Premier Health Partners and Affiliates

Notes to Combined Financial Statements (continued)

E. Property and Equipment (continued)

PHP had construction commitments of \$92.8 million and \$36.2 million outstanding at December 31, 2017 and 2016, respectively.

Capitalized computer software development costs of \$92.2 million and \$93.5 million at December 31, 2017 and 2016, respectively, related to a clinical information system and enterprise resource planning software implementations are included in equipment. The related amortization included in depreciation expense in the combined statements of operations and changes in net assets was \$6.4 million and \$8.1 million for the years ended December 31, 2017 and 2016, respectively.

F. Liability Insurance

PHP and its Affiliates maintain professional liability coverage through Premier Health International Insurance Limited (PHIIL). PHIIL was formed to provide professional liability, general liability, directors and officers, and employment insurance coverage to the Affiliates. The liability represents the estimated ultimate cost of all asserted and unasserted claims incurred through the combined balance sheet date. The reserve for unpaid losses and loss adjustment expenses is estimated using individual case-based valuations, statistical analyses, and the expertise of an independent actuary. The reserve is undiscounted and based on management's best estimate, which is subject to change. The professional liability, general liability, directors and officers, and employment insurance coverage accrual of \$43.6 million and \$39.5 million at December 31, 2017 and 2016, respectively, is included in the reserve for professional liability in the combined balance sheets. PHIIL has excess insurance through a commercial carrier for claims in excess of \$10 million up to \$50 million in the aggregate.

PHP recorded a decrease in insurance expense of approximately \$2.9 million and \$6.3 million in 2017 and 2016, respectively, related to changes in actuarial estimates reflecting lower claim activity, closed claims, tort reform and other environmental factors, and improved claim resolution history.

Premier Health Partners and Affiliates

Notes to Combined Financial Statements (continued)

G. Long-Term Debt

The details of long-term debt, net of original issue discount/premium and issuance costs, are as follows:

	December 31	
	2017	2016
	<i>(Dollars in Thousands)</i>	
Bonds		
City of Middletown, Ohio, Fixed Rate Revenue Bonds – 2016 Series A, final maturity in 2045, average interest rate was 5.00% (net of unamortized issue cost of \$362 and \$395 and Bond Premium of \$0 and \$2,871 in 2017 and 2016, respectively)	\$ 82,578	\$ 85,415
County of Miami, Ohio, Floating Rate Revenue Bonds – 2016 Series B, final maturity in 2026, average interest rate was 1.35% and 0.98% in 2017 and 2016 (net of unamortized issue cost of \$86 and \$108, respectively)	30,324	33,102
County of Montgomery, Ohio, Variable Rate Demand Revenue Bonds – 2016 Series C, final maturity in 2039, average interest rate was 0.78% and 0.58% in 2017 and 2016 (net of unamortized issue cost of \$153 and \$174, respectively)	29,282	29,261
County of Montgomery, Ohio, Variable Rate Demand Revenue Bonds – 2016 Series D, final maturity in 2039, average interest rate was 0.78% and 0.58% in 2017 and 2016 (net of unamortized issue cost of \$152 and \$168, respectively)	27,693	27,677
County of Montgomery, Ohio, Variable Rate Demand Revenue Bonds – 2016 Series E, final maturity in 2045, average interest rate was 0.78% and 0.58% in 2017 and 2016 (net of unamortized issue cost of \$230 and \$264, respectively)	43,595	43,561
County of Montgomery, Ohio, Variable Rate Demand Revenue Bonds – 2016 Series F, final maturity in 2045, average interest rate was 0.78% and 0.58% in 2017 and 2016 (net of unamortized issue cost of \$230 and \$264, respectively)	43,595	43,561
County of Montgomery, Ohio, Fixed Rate Revenue Bonds – 2016 Series G, final maturity in 2046, average interest rate was 3.09% (net of unamortized issue cost of \$2,355 and \$2,526 in 2017 and 2016, respectively)	297,645	297,474
County of Montgomery, Ohio, Variable Rate Revenue Bonds – 2012 Series A, final maturity in 2039, average interest rate was 1.77% and 1.28% in 2017 and 2016, respectively (net of unamortized issue cost of \$170 and \$178, respectively)	77,965	77,957
County of Montgomery, Ohio, Variable Rate Revenue Bonds – 2012 Series B, final maturity in 2039, average interest rate was 1.73% and 1.33% in 2017 and 2016, respectively (net of unamortized issue cost of \$167 and \$175, respectively)	47,338	47,330
County of Montgomery, Ohio, Fixed Rate Revenue Bonds – 2011 Series A, final maturity in 2023, fixed interest rate was 5.56% in 2017 and 2016 (net of unamortized premium of \$2,356 and \$2,958, respectively, and unamortized issue cost of \$482 and \$581, respectively)	98,454	99,677
County of Montgomery, Ohio, Variable Rate Revenue Bonds – 2009 Series B, final maturity in 2039, average interest rate was 1.52% and 0.94% in 2017 and 2016, respectively	15,000	15,000

Premier Health Partners and Affiliates

Notes to Combined Financial Statements (continued)

G. Long-Term Debt (continued)

	December 31	
	2017	2016
	<i>(Dollars in Thousands)</i>	
County of Montgomery, Ohio, Fixed Rate Revenue Bonds – 2008 Series A, final maturity in 2022, fixed interest rate was 5.80% (net of unamortized discount of \$89 and \$108, respectively)	\$ 16,151	\$ 21,207
City of Middletown, Ohio, Variable Rate Demand Revenue Bonds – 2008 Series A, final maturity in 2039, average interest rate was 0.84% and 0.48% in 2017 and 2016, respectively	42,800	44,125
City of Middletown, Ohio, Variable Rate Demand Revenue Bonds – 2008 Series B, final maturity in 2039, average interest rate was 0.84% and 0.48% in 2017 and 2016, respectively	42,500	43,825
Total debt, including current portion	<u>894,920</u>	<u>909,172</u>
Notes payable		
Various notes payable, fixed interest rates ranging from 0% to 4.084%, including current portion	21,735	17,710
Capitalized lease obligations		
Total capitalized lease obligations, including current portion	20,345	22,509
Less current portion of debt and capital leases		
Total current portion of debt and capital leases	14,116	32,507
Total long-term debt	<u>\$ 922,884</u>	<u>\$ 916,884</u>

Premier Health Partners and Affiliates

Notes to Combined Financial Statements (continued)

G. Long-Term Debt (continued)

Maturities of long-term debt and capitalized leases for the five years succeeding December 31, 2017 and thereafter are as follows (dollars in thousands):

	Combined PHP
Bonds:	
2018	\$ 11,705
2019	23,645
2020	12,935
2021	44,845
2022	44,105
Thereafter	<u>759,805</u>
Minimum payments before premiums and issue costs	897,040
Premiums	2,267
Issue costs	<u>(4,387)</u>
Minimum payments on bonds	894,920
Notes payable:	
2018	460
2019	984
2020	1,611
2021	1,659
2022	1,708
Thereafter	<u>15,313</u>
Minimum payments on notes payable	21,735
Capital leases:	
2018	3,872
2019	3,610
2020	2,712
2021	2,477
2022	2,425
Thereafter	<u>28,728</u>
Minimum capital lease payments including interest	43,824
Less interest	<u>23,479</u>
Minimum payments on capital leases	20,345
Total minimum payments	937,000
Less current portion	<u>14,116</u>
Total long-term debt	<u><u>\$ 922,884</u></u>

Premier Health Partners and Affiliates

Notes to Combined Financial Statements (continued)

G. Long-Term Debt (continued)

On August 1, 2016, Premier Health Partners amended and restated its Master Trust Indenture with the Bank of New York Mellon Trust Company, N.A. (Master Trustee), and formed the Premier Health Partners Obligated Group (PHPOG), which comprises MVH, AMC and UVMC (Members). Under terms of the master indenture, substantially all of the MVH, AMC and UVMC properties, buildings and equipment are leased from the governmental issuer (County of Montgomery, Ohio, City of Middletown, Ohio and County of Miami, Ohio) of all outstanding bonds. Members of the PHPOG are jointly and severally liable for all outstanding obligations, except for the notes payable described in this note. PHPOG is also responsible for the performance of all debt covenants.

PHPOG novated the MVH County of Montgomery, Ohio Revenue Bonds Series 2008A, 2009B, 2011A, 2012A and 2012B bonds and the AMC City of Middletown, Ohio Revenue Bonds Series 2008A and 2008B under this newly formed PHPOG. The novated bonds are secured by a gross revenue pledge by PHPOG. In addition to novating these bonds, PHPOG also issued new Series 2016 A/B/C/D/E/F Revenue Bonds to extinguish prior issued Series 2006, 2010A, Series 2011B and 2011C Revenue Bonds and defease Series 2008B and 2008C bonds, which resulted in a non-operating loss of \$0.3 million being recorded in the 2016 combined statement of operations and changes in net assets. PHP also issued new Series 2016G Revenue Bonds.

On August 31, 2016, PHPOG issued \$82,940,000 of the City of Middletown, Ohio Hospital Facilities Revenue Bonds, Series 2016A fixed rate bonds, which included a premium in the form of a short-term loan of \$3,452,792. The premium was paid in three payments with the final payment occurring on November 15, 2017. The Series 2016A bonds were issued pursuant to a Bond Trust Indenture dated as of August 1, 2016 between PHPOG and The Bank of New York Mellon Trust Company, and underwritten by Barclays Bank PLC. The 2016A bonds were used to call and extinguish the City of Middletown, Ohio variable rate Series 2010A revenue bonds issued by Wells Fargo, in the amount of \$86,000,000, and to pay certain costs related to the issuance of the bonds and the extinguishment of the Series 2010A Bonds. PHPOG paid an average coupon rate of 5.00% in 2016. The 2016A bonds have an embedded put option that will expire on November 15, 2023.

Premier Health Partners and Affiliates

Notes to Combined Financial Statements (continued)

G. Long-Term Debt (continued)

On August 31, 2016, PHPOG issued \$33,210,000 of the County of Miami, Ohio Hospital Facilities Revenue Bonds, Series 2016B floating rate bonds. The Series 2016B bonds were issued pursuant to a Bond Trust Indenture dated as of August 1, 2016 between PHPOG and The Bank of New York Mellon Trust Company, and were privately placed with and underwritten by Bank of America Merrill Lynch. The 2016B Bonds along with the Series 2006 Service Reserve Fund of \$5,406,568 were used to call and extinguish the County of Miami, Ohio variable rate Series 2006 revenue bonds issued by U.S. Bank, in the amount of \$38,505,000, and pay certain costs related to the issuance of the bonds and the refunding of the Series 2006 Bonds.

On August 31, 2016, PHPOG issued \$29,435,000 of the County of Montgomery, Ohio Hospital Facilities Revenue Bonds, Series 2016C and \$27,845,000 of the County of Montgomery, Ohio Revenue Bond, Series 2016D variable rate demand bonds. The Series 2016C and 2016D bonds were issued pursuant to a Bond Trust Indenture dated as of August 1, 2016 between PHPOG and The Bank of New York Mellon Trust Company, and underwritten by Barclays Bank PLC. The 2016C and 2016D Bonds were used to defease the County of Montgomery, Ohio variable rate Series 2008B revenue bonds issued by Barclays Bank PLC and 2008C revenue bonds issued by Wells Fargo, in the amount of \$28,830,000 and \$27,000,000, respectively, as well as pay certain costs related to the issuance of the bonds and the defeasement of the Series 2008B and 2008C Bonds. These Series 2016 C and D Bonds are backed by Barclay's Letter of Credit and will expire on August 29, 2020.

On August 31, 2016, PHPOG issued \$43,825,000 of the County of Montgomery, Ohio Hospital Facilities Revenue Bonds, Series 2016E and \$43,825,000 of the County of Montgomery, Ohio Revenue Bond, Series 2016F variable rate demand bonds. The Series 2016E and 2016F bonds were issued pursuant to a Bond Trust Indenture dated as of August 1, 2016 between PHPOG and The Bank of New York Mellon Trust Company, and underwritten by Barclays Bank PLC. The 2016E and 2016F Bonds were used to extinguish the County of Montgomery, Ohio variable rate Series 2011B and 2011C revenue bonds issued by Barclays Bank PLC, in the amount of \$42,500,000 and \$42,500,000, respectively, as well as pay certain costs related to the issuance of the bonds and the refunding of the Series 2011B and 2011C Bonds. These Series 2016 E and F Bonds are backed by Barclay's Letters of Credit and will expire on August 29, 2020.

Premier Health Partners and Affiliates

Notes to Combined Financial Statements (continued)

G. Long-Term Debt (continued)

On August 31, 2016, PHPOG issued \$300,000,000 of the County of Montgomery, Ohio Taxable Hospital Revenue Bonds, Series 2016G fixed rate bonds. The Series 2016G bonds were issued pursuant to a Bond Trust Indenture dated as of August 1, 2016 between PHPOG and The Bank of New York Mellon Trust Company, and underwritten by Barclays Bank PLC. The 2016G Bonds were used to fund certain pension liabilities of PHP and pay various capital expenditures, current operating expenses and certain costs related to the issuance of the 2016G Bonds. PHPOG will pay a taxable rate of 2.911% on \$250 million and a taxable rate of 3.992% on the remaining \$50 million. The 2016G bond agreement has \$250 million that will expire November 15, 2026 and \$50 million that will expire on November 15, 2046.

The 2012A Series Bonds were privately placed with PNC Bank, and were issued and secured under the terms of the agreement, dated November 1, 2012. The 2012A bond agreement has an embedded put option on November 15, 2022.

The 2012B Series Bonds were privately placed with Fifth Third Bank, and were issued and secured under the terms of the agreement, dated November 1, 2012. The 2012B bond agreement has an embedded put option on November 15, 2019.

The 2011A Series Bonds were issued and secured under the terms of a Bond Trust Indenture dated as of April 1, 2011, between the MAHS obligated group and the Bank of New York Mellon Trust Company. PHPOG paid a fixed rate of 5.56% for the 2011A bonds for 2017 and 2016, respectively. The 2011A bond agreement has a final maturity date of November 15, 2023.

On November 15, 2017, PHPOG refinanced \$15,000,000 of the County of Montgomery, Ohio Hospital Facilities Revenue Bonds, Series 2009B bonds, which are secured by a floating rate bond purchase agreement with PNC Bank. The previous purchase agreement was with Fifth Third Bank. The 2009B bond agreement has an embedded put option on November 15, 2024.

The 2008A Series, County of Montgomery, Ohio Hospital Facilities Revenue Bonds, are secured under the terms of Merrill Lynch Bank. The 2008A bond agreements will expire on November 15, 2022.

The 2008A and 2008B Series, City of Middletown, Ohio Hospital Facilities Revenue Bonds, are secured by a Letter of Credit for each series (Letters of Credit) between PHPOG and PNC Bank. The Letters of Credit will expire on March 12, 2019.

Premier Health Partners and Affiliates

Notes to Combined Financial Statements (continued)

G. Long-Term Debt (continued)

The bond agreements and Letters of Credit include certain restrictive covenants, which include among other things, minimum requirements for leverage ratio, cash, and revenues available for debt service. At December 31, 2017 and 2016, PHP was in compliance with its financial debt covenants.

Notes Payable

In May 2012, MAHSC and MVH entered into a financing arrangement, within the guidelines of the Internal Revenue Service's New Market Tax Program, to fund a capital project. The arrangement called for the creation of a new limited liability company (Premier Plaza, LLC) for which 100% interest is owned by MAHSC and MVH. As part of this arrangement, MAHS and a third-party investor were required to loan \$12.5 million and \$5.2 million, respectively, to a group of qualified community development entities (CDEs) through an investment fund. These CDEs subsequently loaned \$17.7 million back to Premier Plaza, LLC for purposes of funding the capital project through four notes with interest rates ranging from 1.0% to 4.1% and 20-year terms. Payment on the CDE notes is guaranteed by MVH in the event of default. The loans are also secured by a collateral security interest in the future stream of lease rental payments to be received by Premier Plaza, LLC.

SHP participated in a unified CHI credit arrangement governed under a capital obligation document (COD). Under the COD, CHI was the sole obligor on all debt. Bondholder security resided both in the unsecured promise by CHI to pay its obligations and in its control of direct affiliates. SHP, as a direct affiliate of CHI, was defined as a participant under the COD and had agreed to certain covenants related to corporate existence, maintenance of insurance and exempt use of bond-financed facilities. Debt under the COD was evidenced by promissory notes between SHP and CHI, which included monthly installments at a variable rate of interest and could be repaid in advance without penalty. SHP was only responsible for debt evidenced under the executed promissory notes. In September 2016, SHP paid off its notes to CHI. As of January 1, 2018, SHP is no longer obligated to participate in the COD. See subsequent event footnote N.

In July 2017, SHP entered into a financing arrangement to purchase land in the amount of \$5.0 million, to be paid in equal annual installments beginning July 31, 2018 to July 31, 2025. This amount is included in notes payable.

Premier Health Partners and Affiliates

Notes to Combined Financial Statements (continued)

G. Long-Term Debt (continued)

For the years ended December 31, 2017 and 2016, interest paid was \$26.7 million and \$24.4 million, respectively.

H. Pension Plan

The Premier Health Partners Employees Retirement Plan (PHP Plan) was formed on January 1, 2013. Participants of the PHP Plan earn benefits using formulas that existed under the defined benefit plans for MAHS Plan, GSH Plan, AHS Plan, and UVMC Plan for employees hired before January 1, 2008. The formulas for MAHS Plan, GSH Plan, AHS Plan, and UVMC Plan are primarily based on the total of retirement income and/or service credits calculated using various percentages of annual earnings depending on the year of employment. Individuals participating under these formulas are 100% vested in all amounts credited to their accounts upon the completion of three vesting years as defined by the PHP Plan.

Individuals hired after January 1, 2008 earn benefits based on a percentage of compensation and with escalating percentages related to years of service (cash balance formula). Individuals earning benefits under this formula shall become 100% vested in all amounts credited to their accounts upon completion of three vesting years, as defined in the PHP Plan. If a participant's employment is terminated, other than by death or disability, prior to such participant becoming 100% vested in his or her account, the account shall be forfeited as of the date of termination. Vested benefits for individuals hired after January 1, 2008, are fully portable upon termination of employment.

In December 2016, PHP's board approved an amendment to the PHP Plan for participants hired prior to January 1, 2008. For these affected participants, their formulas will be frozen as of January 1, 2018, and they will now be covered under the cash balance formula. The effect of this plan amendment was to reduce the projected benefit obligation by \$36.0 million for the year ended December 31, 2016.

PHP's funding policy is to contribute amounts to the PHP Plan sufficient to meet the minimum funding requirements set forth in the Employee Retirement Income Security Act of 1974 (ERISA). PHP recognizes in the combined balance sheets the funded status of its defined benefit pension plans, measured as the difference between the fair value of plan assets and the projected benefit obligation. Further, actuarial gains and losses that arise in subsequent periods and are not recognized as net periodic cost in the same periods will be recognized as a component of unrestricted net assets.

Premier Health Partners and Affiliates

Notes to Combined Financial Statements (continued)

H. Pension Plan (continued)

The Retirement Income Plan of Good Samaritan Hospital (GSH Plan) was frozen on January 1, 2013, which resulted in participants maintaining benefits accrued to date but no longer accruing any benefits in this plan. The participants from the GSH Plan began to participate in the PHP Plan, while maintaining the benefits accrued under the frozen plan. Effective December 31, 2014, there was an amendment to terminate the GSH Plan. In accordance with ASC 715-20, *Defined Benefit Plans*, the settlement of the plan was reflected in the financial statements when management purchased and distributed annuity contracts to the participants. Final settlement occurred in June 2016. For the year ended December 31, 2016, GSH recorded an expense of \$20.7 million within non-operating gains, net in the combined statement of operations and changes in net assets, and transferred the remaining assets of \$26.7 million to the PHP Plan for the benefit of GSH employees.

The following table sets forth the funded status of PHP's pension plan and the amounts recognized in the combined balance sheet for the year ended December 31, 2017:

	PHP Plan
	<i>(Dollars in Thousands)</i>
Accumulated benefit obligation	<u>\$ 720,457</u>
Change in projected benefit obligation	
Projected benefit obligation at beginning of year	\$ 655,347
Service cost	23,134
Interest cost	23,696
Actuarial loss	57,639
Benefits paid	<u>(31,790)</u>
Projected benefit obligation at end of year	728,026
Change in plan assets	
Fair value of plan assets at beginning of year	600,799
Actual return on plan assets	85,104
Contributions	39,642
Benefits paid	<u>(31,790)</u>
Fair value of plan assets at end of year	<u>\$ 693,755</u>
Funded status and net pension liability	<u>\$ (34,271)</u>

Premier Health Partners and Affiliates

Notes to Combined Financial Statements (continued)

H. Pension Plan (continued)

The following table sets forth the funded status of PHP's pension plans and the amounts recognized in the combined balance sheet for the year ended December 31, 2016:

	PHP Plan	GSH Plan	Combined PHP
	<i>(Dollars in Thousands)</i>		
Accumulated benefit obligation	\$ 641,122	\$ —	\$ 641,122
Change in projected benefit obligation			
Projected benefit obligation at beginning of year	\$ 677,379	\$ 106,948	\$ 784,327
Service cost	26,619	102	26,721
Interest cost	25,492	96	25,588
Plan amendments	(35,706)	—	(35,706)
Settlements	—	(106,395)	(106,395)
Actuarial loss (gain)	6,463	(264)	6,199
Expenses paid	—	(487)	(487)
Benefits paid	(44,900)	—	(44,900)
Projected benefit obligation at end of year	655,347	—	655,347
Change in plan assets			
Fair value of plan assets at beginning of year	400,632	132,765	533,397
Actual return on plan assets	28,067	863	28,930
Contributions	217,000	—	217,000
Settlements	—	(106,395)	(106,395)
Expenses paid	—	(487)	(487)
Benefits paid	(44,900)	—	(44,900)
Net transfer out	—	(26,746)	(26,746)
Fair value of plan assets at end of year	\$ 600,799	\$ —	\$ 600,799
Funded status and net pension liability	\$ (54,548)	\$ —	\$ (54,548)

Premier Health Partners and Affiliates

Notes to Combined Financial Statements (continued)

H. Pension Plan (continued)

Included as a reduction in unrestricted net assets are the following amounts that have not yet been recognized in net periodic pension expense as of December 31:

	PHP Plan	
	2017	2016
	<i>(Dollars in Thousands)</i>	
Net prior service credit	\$ 29,793	\$ 32,268
Net actuarial loss	(241,024)	(239,904)
	\$ (211,231)	\$ (207,636)

Net actuarial loss is amortized as a component of net periodic pension cost, only if the losses exceed 10% of the greater of the projected benefit obligation or the fair value of plan assets. Net prior service credit (cost) is amortized on a straight-line basis over the estimated life of the PHP Plan's participants. The net prior service credit and net actuarial loss included as a reduction in unrestricted net assets that is expected to be recognized in net periodic pension expense during the year ending December 31, 2018 are \$3.2 million and \$16.4 million, respectively, for the PHP plan.

The following amounts related to pension benefit activity have been recognized in unrestricted net assets for the years ended December 31:

	2017
	PHP Plan
	<i>(Dollars in Thousands)</i>
Net actuarial loss	\$ (15,031)
Amortization of actuarial loss	13,911
Amortization of unrecognized prior service credit	(2,475)
Decrease in unrestricted net assets	\$ (3,595)

Premier Health Partners and Affiliates

Notes to Combined Financial Statements (continued)

H. Pension Plan (continued)

	2016		
	PHP Plan	GSH Plan	Combined PHP
	<i>(Dollars in Thousands)</i>		
Net actuarial (loss) gain	\$ (11,533)	\$ 747	\$ (10,786)
Prior service credit due to plan amendment	35,706	–	35,706
Amortization of actuarial loss	13,147	17	13,164
Amortization of unrecognized prior service cost	944	–	944
Settlement loss	–	20,671	20,671
Increase in unrestricted net assets	<u>\$ 38,264</u>	<u>\$ 21,435</u>	<u>\$ 59,699</u>

Net pension expense (income) included the following components for the years ended December 31:

	2017 PHP Plan
	<i>(Dollars in Thousands)</i>
Service cost	\$ 23,134
Interest cost	23,696
Expected return on assets	(42,496)
Amortization of unrecognized prior service credit	(2,475)
Amortization of actuarial loss	13,911
Net pension expense	<u>\$ 15,770</u>

Premier Health Partners and Affiliates

Notes to Combined Financial Statements (continued)

H. Pension Plan (continued)

	2016		
	PHP Plan	GSH Plan	Combined PHP
	<i>(Dollars in Thousands)</i>		
Service cost	\$ 26,619	\$ 102	\$ 26,721
Interest cost	25,492	96	25,588
Expected return on assets	(33,137)	(380)	(33,517)
Amortization of unrecognized prior service cost	944	—	944
Amortization of actuarial loss	13,147	17	13,164
Net pension expense (income)	<u>\$ 33,066</u>	<u>\$ (165)</u>	<u>\$ 32,901</u>

Weighted-average assumptions to determine the benefit obligation for the PHP Plan are as follows as of December 31:

	2017	2016
Discount rate	3.73%	4.30%
Average salary increase rate	3.00	3.00

Weighted-average assumptions to determine the net periodic benefit expense for the PHP Plan are as follows for the years ended December 31:

	2017	2016
Discount rate	4.30%	4.61%
Service cost discount rate	4.38	4.62
Interest cost discount rate on benefit obligations	3.65	3.89
Interest cost discount rate on service cost	3.73	3.95
Long-term rate of return	6.75	6.75
Average salary increase rate	3.00	3.00

Premier Health Partners and Affiliates

Notes to Combined Financial Statements (continued)

H. Pension Plan (continued)

In selecting the expected long-term return on plan assets for the PHP Plan, management considered the average rate of earnings on the funds invested or to be invested to provide for the benefits of the plan. This includes the asset allocation and the expected returns that are expected to be earned over the life of the plan. This basis is consistent with the prior year.

Projected benefit payments for the ten years succeeding December 31, 2017 are as follows:

	<u>PHP Plan</u>
2018	\$ 32,635
2019	35,477
2020	38,045
2021	39,826
2022	41,682
2023–2027	228,610
	<u><u>\$ 416,275</u></u>

PHP expects to make a \$9.1 million contribution to its pension plan in 2018.

Premier Health Partners and Affiliates

Notes to Combined Financial Statements (continued)

H. Pension Plan (continued)

The fair values of the PHP Plan's assets at December 31, 2017, by asset category, are as follows:

Asset Category	Total	Fair Value Measurements ^(a)		
		(Level 1)	(Level 2)	(Level 3)
<i>(Dollars in Thousands)</i>				
Cash and short-term investments	\$ 24,741	\$ 24,741	\$ —	\$ —
Mutual funds:				
Domestic small cap	29,019	29,019	—	—
International	69,950	69,950	—	—
CTFs measured at NAV ^(b)	129,951	—	—	—
Corporate and other bonds:				
Corporate and other bonds	141,707	—	141,707	—
U.S. government securities:				
U.S. government securities	162,700	—	162,700	—
Alternative investments measured at NAV ^(b) :				
Limited liability companies	86,958	—	—	—
Hedge funds	48,729	—	—	—
Total PHP Plan assets	\$ 693,755	\$ 123,710	\$ 304,407	\$ —

^(a) There were no securities transferred between Level 1, 2, or 3 during 2017.

^(b) In accordance with ASC 820-10, certain investments that are measured at fair value using the net asset value per share (or its equivalent) practical expedient have not been classified 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 combined balance sheets.

Premier Health Partners and Affiliates

Notes to Combined Financial Statements (continued)

H. Pension Plan (continued)

The fair values of the PHP Plan's assets at December 31, 2016, by asset category, are as follows:

Asset Category	Total	Fair Value Measurements ^(a)		
		(Level 1)	(Level 2)	(Level 3)
<i>(Dollars in Thousands)</i>				
Cash and short-term investments	\$ 79,569	\$ 79,569	\$ —	\$ —
Mutual funds:				
Domestic small cap	33,687	33,687	—	—
International	94,976	94,976	—	—
CTFs measured at NAV ^(b)	137,049	—	—	—
Corporate and other bonds:				
Corporate and other bonds	120,153	—	120,153	—
U.S. government securities:				
U.S. government securities	2,921	—	2,921	—
Alternative investments measured at NAV ^(b) :				
Limited liability companies	35,280	—	—	—
Hedge funds	97,164	—	—	—
Total PHP Plan assets	<u>\$ 600,799</u>	<u>\$ 208,232</u>	<u>\$ 123,074</u>	<u>\$ —</u>

^(a) There were no securities transferred between Level 1, 2, or 3 during 2016.

^(b) In accordance with ASC 820-10, certain investments that are measured at fair value using the net asset value per share (or its equivalent) practical expedient have not been classified 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 combined balance sheets.

There were no plan assets for GSH at December 31, 2016, as the plan was terminated and settled in 2016.

Fair value methodologies for cash and short-term investments, mutual funds including common trust funds, corporate and other bonds, and U.S. government securities sections included in Level 1 and Level 2 are consistent with the inputs described in Note D.

Premier Health Partners and Affiliates

Notes to Combined Financial Statements (continued)

H. Pension Plan (continued)

Following is the summary of the inputs and valuation techniques as of December 31, 2017 and 2016, used for valuing Level 2 securities in the portfolio:

Securities	Input	Valuation Technique
Mutual funds: International	Broker/dealer	Market
Corporate and other bonds	Broker/dealer	Market
U.S. government securities	Broker/dealer	Market

The CTFs are valued at NAV provided by the respective fund administrators. Management has determined that the NAV is an appropriate estimate of the fair value of the CTFs at December 31, 2017 and 2016, based on the fact the CTFs are audited and accounted for at fair value by the administrators of the respective CTFs. There are no restrictions on the ability of PHP to redeem any of the CTFs at December 31, 2017 or 2016.

Alternative investments, which consist of hedge funds and limited liability companies, are not necessarily readily marketable and may include short sales on securities and trading in future contracts, options, foreign currency contracts, other derivative instruments, and private equity investments. However, management has determined that the NAV is an appropriate estimate of the fair value of these investments at December 31, 2017, based on the fact that the alternative investments are audited and accounted for at fair value by the administrators of the respective alternative investments. Alternative investments can be divested only at specified times in accordance with terms of the partnership agreements. Hedge fund and limited liability companies redemptions typically contain restrictions that allow for a portion of the withdrawal proceeds to be held back from distribution while the underlying investments are liquidated. These redemptions are subject to lock-up provisions that are generally imposed upon initial investment in the fund.

PHP's pension plan target asset allocations by asset category are as follows:

	December 31	
	2017	2016
Asset category:		
Equity securities	58%	63%
Fixed income	37	32
Real estate	5	5
	100%	100%

Premier Health Partners and Affiliates

Notes to Combined Financial Statements (continued)

H. Pension Plan (continued)

PHP's objective for the pension plan is to provide the payment of all future participant benefits. To meet this objective, the plan assets are invested in a manner that considers asset and liability movements and prudent efforts are made to exceed growth in liabilities. The PHP Plan is actively invested to achieve growth of capital and capital preservation. PHP maintains diversification in its plan assets by allocating assets to various asset classes and market segments and retaining multiple professional investment firms with different philosophies, styles, and approaches. Consideration is given to variables such as productivity, inflation, global competitiveness, and market risk. PHP's objective for the PHP Plan is to have 30% to 80% invested in equity securities, 15% to 55% invested in fixed income, 0% to 40% invested in alternatives, and 0% to 10% invested in real assets with a specific asset class target disclosed in the table within this note. Accordingly, based on this diversification, management does not believe there are any concentrations of credit at the measurement date.

I. Interest Rate Swaps

The following table summarizes the notional and valuation assets (liabilities) of PHP's interest rate swaps as of December 31 (in millions):

Interest Rate Swap Agreement	Transaction Type	Termination Date	Notional Amount		Valuation Amount	
			2017	2016	2017	2016
December 2006	Fixed Pay	2039	\$ 94.4	\$ 96.2	\$ (19.9)	\$ (19.4)
May 2011	Fixed Pay	2045	42.5	42.5	(12.7)	(12.6)
May 2011	Fixed Pay	2045	42.5	42.5	(13.2)	(13.1)
May 2011	Basis swap	2037	50.0	50.0	1.8	0.8
May 2011	Basis swap	2037	50.0	50.0	2.0	0.8
December 2012	Fixed Pay	2039	78.1	78.1	(0.7)	(0.9)
December 2012	Fixed Pay	2039	47.5	47.5	(0.3)	(0.6)
August 2016	Total Return	2023	82.9	82.9	0.3	(0.6)
Total liability					\$ (42.7)	\$ (45.6)

The cash flow impact and changes to the fair value of the interest rate swap agreements are recorded in non-operating gains, net in the combined statements of operations and changes in net assets. In total, the gains recorded for the years ended December 31, 2017 and 2016 were \$3.0 million and \$1.7 million, respectively.

Premier Health Partners and Affiliates

Notes to Combined Financial Statements (continued)

I. Interest Rate Swaps (continued)

During 2016, PHP entered into a total return swap with Barclays Bank, PLC for the 2016A Series Bonds. Barclays will be paying PHP 5.00% and PHP will be paying Barclays 70% of one-month LIBOR plus 63 basis points.

PHP recorded a loss of \$1.9 million and \$5.0 million for cash settlement, net of expense for the years ended December 31, 2017 and 2016, respectively.

PHP's interest rate swap agreements include certain collateralization requirements based on the market value of these transactions. The amount required for collateral is determined daily based on the current market value of the interest rate swap agreements. PHP has posted collateral with a designated custodian of \$13.4 million at December 31, 2017 (\$7.8 million at December 31, 2016) commensurate with the valuation of the interest rate swap agreements. All collateral posted is in the form of cash and cash equivalents and is included in other assets on the combined balance sheets, restricted for interest rate swap agreements collateral requirements. Interest earned while collateralized funds are held by the custodian is shown in non-operating gains, net on the combined statements of operations and changes in net assets.

J. Non-operating Gains, Net

Non-operating gains, net are as follows:

	Year Ended December 31	
	2017	2016
	<i>(Dollars in Thousands)</i>	
Interest income, net of investment fees	\$ 17,214	\$ 15,777
Realized gains on assets whose use is limited	38,894	30,118
Change in unrealized gains on assets whose use is limited	92,162	14,503
Unrealized gains on interest rate swaps	2,976	1,719
CHI assessment	(3,795)	(3,701)
Pension settlement	–	(20,671)
Other losses	(13,995)	(20,267)
Non-operating gains, net	<u>\$ 133,456</u>	<u>\$ 17,478</u>

Premier Health Partners and Affiliates

Notes to Combined Financial Statements (continued)

K. Concentration of Credit Risk

In most cases, PHP grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of gross receivables from patients and third-party payors was as follows:

	MAHS		SHP		AHS		UVMC	
	December 31 2017	2016						
Medicare	31%	31%	46%	43%	43%	39%	37%	31%
Medicaid	24	24	21	22	20	23	18	22
Anthem	11	10	7	8	9	9	10	10
United HealthCare	2	6	2	4	2	5	2	7
Other third-party payors	17	16	10	11	12	13	14	14
Patients' responsibility	15	13	14	12	14	11	19	16
Total	100%	100%	100%	100%	100%	100%	100%	100%

L. Goodwill and Intangible Assets, Net

Goodwill and intangible assets have been generated primarily from the acquisition of certain businesses. The following table sets forth the related carrying values of goodwill and other intangibles, as of December 31, 2017:

	Combined PHP
Goodwill balance, January 1, 2017	\$ 14,993
Goodwill acquired	12,814
Goodwill balance, December 31, 2017	<u>27,807</u>
Intangible asset, December 31, 2017	7,898
Intangible asset accumulated amortization	(4,928)
Net intangible assets	<u>2,970</u>
Total goodwill and intangible assets, December 31, 2017	<u>\$ 30,777</u>

Premier Health Partners and Affiliates

Notes to Combined Financial Statements (continued)

L. Goodwill and Intangible Assets, Net (continued)

The following table sets forth the related carrying values of goodwill and other intangibles as of December 31, 2016:

	Combined PHP
Goodwill balance, January 1, 2016	\$ 21,179
Reduction in goodwill related to sale of business, net	<u>(6,186)</u>
Goodwill balance, December 31, 2016	14,993
Intangible asset, December 31, 2016	8,844
Intangible asset accumulated amortization	<u>(5,815)</u>
Net intangible assets	3,029
Total goodwill and intangible assets, December 31, 2016	<u>\$ 18,022</u>

Amortization expense for the years ended December 31, 2017 and 2016 was \$1.4 million and \$1.7 million, respectively.

In 2017, PHP acquired an additional ownership interest in a business in which it had an equity interest, giving PHP a controlling interest, resulting in an increase to goodwill of \$12.8 million.

In 2016, PHP sold the remaining units of its dialysis business, resulting in a gain of \$7.9 million included in purchased services, insurance and other in the combined statement of operations and changes in net assets. This sale resulted in a reduction of \$6.5 million in goodwill.

Premier Health Partners and Affiliates

Notes to Combined Financial Statements (continued)

M. Operating Leases

PHP leases certain buildings from third parties in the form of operating leases. The related rental expense for the buildings was \$7.0 million and \$7.5 million for the years ended December 31, 2017 and 2016, respectively. The following is a schedule of aggregate future minimum payments under the operating leases as of December 31, 2017:

2018	\$	6,759
2019		5,506
2020		4,810
2021		3,473
2022		2,404
Thereafter		8,861
Total	\$	<u>31,813</u>

N. Subsequent Events

PHP has evaluated subsequent events through March 15, 2018, which is the date the combined financial statements were issued and made available. The following subsequent event was identified for recognition or disclosure in the combined financial statements.

During 2017, PHP, MAHS, MVH, CHI, SHP, GSH, UVMC, and Upper Valley Medical Center entered into the Definitive System Reorganization Agreement (DSRM) effective January 1, 2018. Under the terms of this agreement, the System Parents (MAHS, CHI, AHS, and UVMC) ceased to be a member of each System Hospital (MVH, GSH, AMC, and Upper Valley Medical Center), MVH Foundation and GSH Foundation. Premier Health Partners became the sole member of each System Hospital, MVH Foundation and GSH Foundation and the owner of related property and equipment, working capital and all other assets associated with the operations. In addition, each System Parent and each System Hospital made all the necessary changes to effectuate the reorganization so the system affiliates are under control and owned by PHP. The System Affiliates and assets excluded from this reorganization include UVMC Foundation, UVMC Special Purposes Fund and AMC Foundation. As a result of the reorganization, each System Parent will transfer their respective hospitals, certain foundations, system affiliates and certain assets at carrying value, as these entities were deemed to be under common control. Upon reorganization, PHP will be owned by the System Parents as follows: MAHS 62.7%, CHI 22.0%, AHS 7.4%, and UVMC 7.9%.

Premier Health Partners and Affiliates

Notes to Combined Financial Statements (continued)

O. Cost of Community Benefits (Unaudited)

Cost of Community Benefit	2017 PHP	PHP % of Operating Expense	2016 PHP	PHP % of Operating Expense
<i>(Dollars in Thousands)</i>				
Charity care and means-tested government programs				
Charity care at cost	\$ 27,817		\$ 26,702	
Unreimbursed Medicaid	109,853		87,239	
Unreimbursed costs – other means-tested government programs	7,122		6,215	
Total charity care and means-tested government programs	144,792	7.8%	120,156	6.4%
Other benefits				
Community health improvement and community benefit operations	2,874		3,358	
Health professions education	4,151		1,783	
Subsidized health services	43,889		46,149	
Cash and in-kind contributions to community groups	6,959		7,353	
Total other benefits	57,873	3.1%	58,643	3.2%
Total quantifiable benefits	202,665	10.9%	178,799	9.6%
Community building activities				
Physical improvements	665		432	
Other	591		660	
Total community building activities	1,256	0.1%	1,092	0.1%
Total Medicare	131,407	7.1%	120,891	6.5%
Total community benefits	\$ 335,328	18.1%	\$ 300,782	16.2%

Medicaid and Medicare include total costs.

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