

Management's Discussion and Analysis of Historical Operations and Results

The following discussion and analysis provides information that management believes is relevant to an assessment and understanding of the Renown Health and Renown Health Obligated Group's consolidated financial results of operations. This discussion should be read in conjunction with the financial statements.

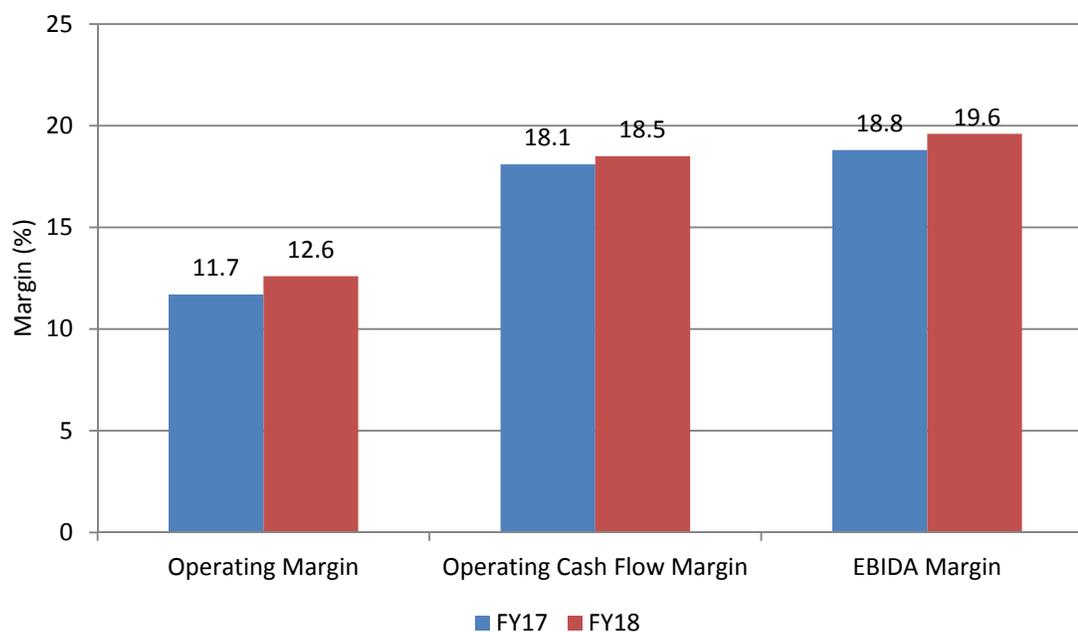
Renown Health - Fiscal Year to Date June 30, 2018 compared to Fiscal Year to Date June 30, 2017

Renown Health's net revenue grew by 9.4% due to continued volume growth and revenue cycle performance. The organization recorded operating income of \$52.9 million with an operating margin of 3.8%. Total capital equipment and construction spend by the organization totaled \$40.5 million. Investments included continued relocations to two newly renovated office locations, Electronic Medical Record (EMR) system upgrade, lab expansion and a Pediatric Outpatient Infusion Center.

Renown Health continues to focus on enhancing key community relationships, which included deepening relationships and program collaboration with the University Of Nevada School Of Medicine. In August 2017, Hometown Health partnered with SilverSummit to provide health insurance coverage to 14 of 17 Nevada counties that would have been without insurance through Nevada's Exchange. In early 2018, Renown Health and Desert Research Institute (DRI) launched a second phase in their community based population health study by partnering with Helix, a personal genomics company, to open the study to another 40,000 participants. At the end of the fiscal year, Renown Health partnered with Charles and Stacie Mathewson to establish a Behavioral Health & Addiction Institute as Nevada has the highest prevalence of mental illness and substance abuse.

Obligated Group - Fiscal Year to Date June 30, 2018 compared to Fiscal Year to Date June 30, 2017

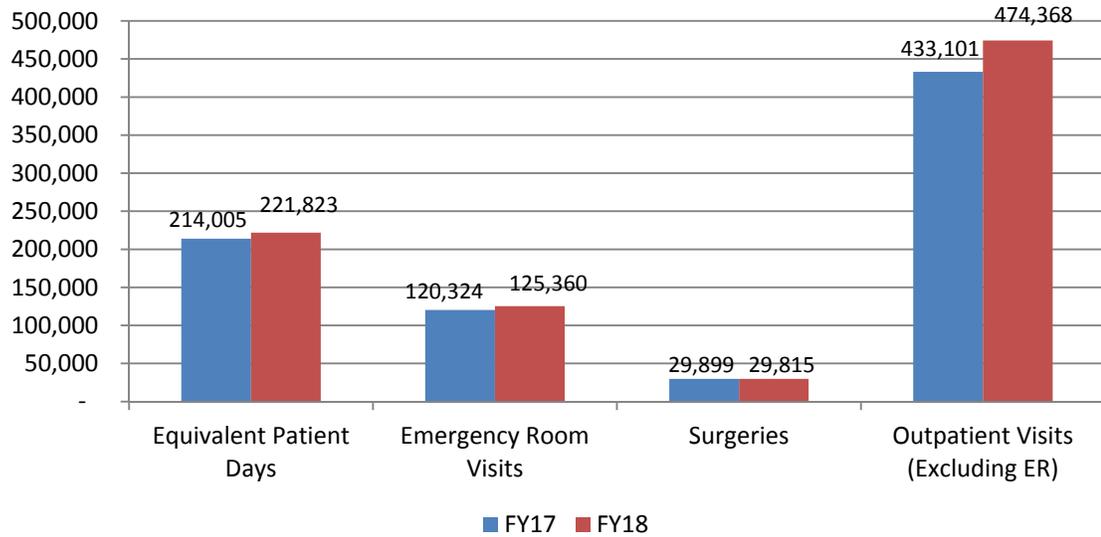
Profitability



- Operating margin of 12.6% increased by 1% from prior year driven primarily by increased revenues while fixed operating expenses remained relatively stable.
- Operating revenue growth of 9.2% was higher than operating expense growth of 8.0%.
- Operating revenue was \$921 million which was an improvement of \$77 million. The improvement was driven by hospital inpatient and outpatient volume increases.

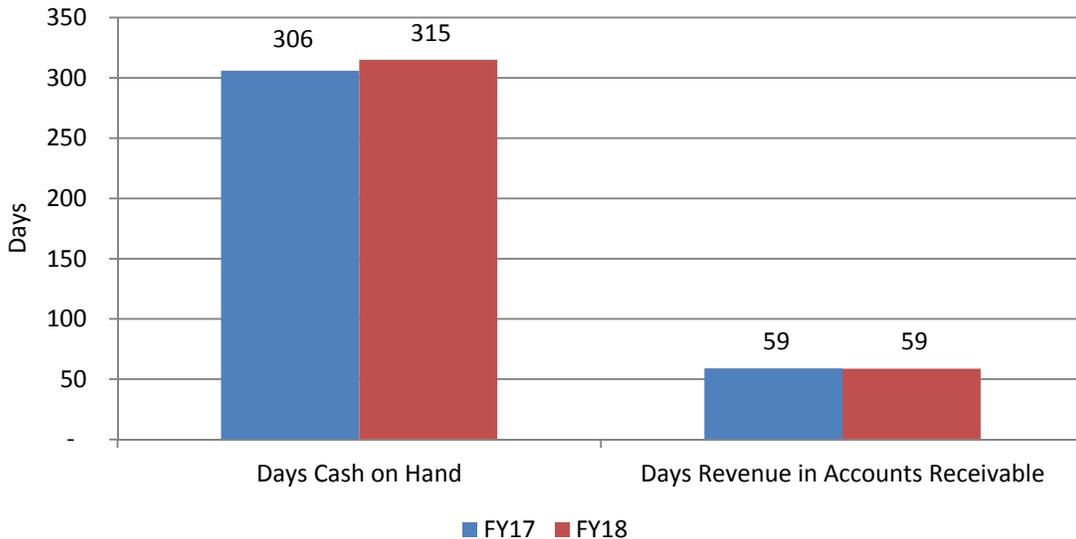
- Operating expenses increased by \$60 million, reflecting increased volume and increases in contract labor for nursing and administrative expenses, offset by continued cost management efforts.

Growth



- Inpatient volumes grew, led by an increase of 4% in equivalent patient days, including observations. Equivalent admissions, including observations, increased by 6%. Length of stay, including observations, decreased to 4.2 days, a decrease of 3%.
- Outpatient volumes grew by an increase of 10% in outpatient visits. Emergency room visits also grew 4%. Outpatient surgeries were 18,031, a slight decrease of 3%.

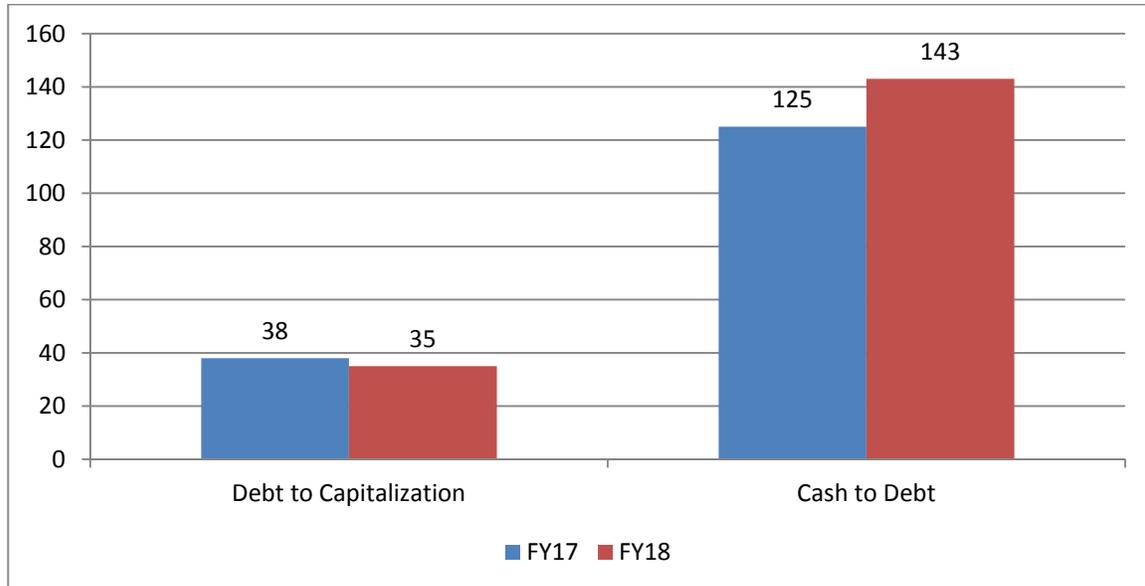
Liquidity



- Days Cash on Hand, increased by 9 days from prior year and continues to exceed rating agency and covenant requirements. The increase was mainly driven by cash generated from operations.

- Total collateral posted on interest rate swaps was \$4.6 million compared to \$10.5 million and represents 2.2 days not included in the Days Cash on Hand calculation.

Capital Structure



- Strong operating results and regular principal payments on long-term debt contributed to a 14% improvement in Cash to Debt while Debt to Capitalization remained relatively flat.
- Maximum Annual Debt Service Coverage increased to 5.8x from 4.8x.
- The obligated group completed \$74 million in interaffiliate transfers that reduced the amount owed from affiliates on the balance sheet and had zero impact on profitability or cash balances.



Combined Financial Statements
June 30, 2018 and 2017

Renown Health

Independent Auditor’s Report.....	1
Combined Financial Statements	
Combined Balance Sheets.....	3
Combined Statements of Operations	4
Combined Statements of Changes in Net Assets.....	6
Combined Statements of Cash Flows	7
Notes to Combined Financial Statements	9
Independent Auditor’s Report on Combining and Supplementary Information	37
Combining Information	
Renown Health Obligated Group	
Combined Balance Sheets, June 30, 2018 and 2017	38
Combined Statements of Operations and Changes in Net Assets, Years Ended June 30, 2018 and 2017.....	39
Combined Statements of Cash Flows, Years Ended June 30, 2018 and 2017	40
Supplementary Information	
Selected Utilization Statistics (Unaudited)	41
Historical Performance Financial Ratios (Unaudited).....	42



Independent Auditor's Report

The Board of Directors
Renown Health
Reno, Nevada

Report on the Financial Statements

We have audited the accompanying combined financial statements of Renown Health, which comprise the combined balance sheets as of June 30, 2018 and 2017, and the related combined statements of operations, 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 preparation and fair presentation of these combined financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of combined financial statements that are free from 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 of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the combined financial statements are free from 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 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.

What inspires you, inspires us. | eidebailly.com

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 Renown Health as of June 30, 2018 and 2017, and the results of its combined operations, changes in net assets, and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

A handwritten signature in black ink that reads "Eide Bailly LLP". The signature is written in a cursive, flowing style.

Oklahoma City, Oklahoma
September 4, 2018

(This page left blank intentionally.)

	<u>2018</u>	<u>2017</u>
	(In Thousands)	
Assets		
Current Assets		
Cash and cash equivalents	\$ 174,624	\$ 142,148
Marketable securities	663,014	608,304
Receivables		
Patient, net of allowance for uncollectible accounts of \$55,456 in 2018 and \$41,687 in 2017	134,347	127,521
Other	30,448	25,996
Inventory	33,820	28,512
Prepaid expenses and other	15,452	10,907
Total current assets	<u>1,051,705</u>	<u>943,388</u>
Funds Held in Trust	<u>7,746</u>	<u>13,650</u>
Property and Equipment, Net	<u>604,544</u>	<u>620,743</u>
Other Assets		
Goodwill and intangible assets	7,986	7,941
Investments in affiliated companies	31,148	28,452
Other	14,001	12,098
Total other assets	<u>53,135</u>	<u>48,491</u>
Total assets	<u>\$ 1,717,130</u>	<u>\$ 1,626,272</u>

See Notes to Combined Financial Statements

Renown Health
 Combined Balance Sheets
 June 30, 2018 and 2017

	2018	2017
	(In Thousands)	
Liabilities and Net Assets		
Current Liabilities		
Current maturities of long-term debt	\$ 27,637	\$ 13,369
Accounts payable		
Trade	50,852	43,055
Estimated third-party payor settlements and other	50,489	37,803
Accrued compensation, benefits and other	79,760	75,624
Total current liabilities	208,738	169,851
Other	18,021	13,414
Interest Rate Swaps	33,991	43,883
Long-Term Debt, Less Current Maturities, Unamortized Discount and Premium, and Unamortized Bond Costs	456,790	484,029
Total liabilities	717,540	711,177
Net Assets		
Unrestricted	971,037	892,661
Noncontrolling interest in combined subsidiary	4,329	3,723
Total unrestricted	975,366	896,384
Temporarily restricted	20,750	15,286
Permanently restricted	3,474	3,425
Total net assets	999,590	915,095
Total liabilities and net assets	\$ 1,717,130	\$ 1,626,272

Renown Health
Combined Statements of Operations
Years Ended June 30, 2018 and 2017

	2018	2017
	(In Thousands)	
Unrestricted Revenues, Gains, and Other Support		
Net patient service revenues	\$ 963,219	\$ 898,159
Provision for bad debts	(78,787)	(70,946)
Net patient service revenues less provision for bad debts	884,432	827,213
Premium revenues	442,587	384,394
Other revenues	47,127	44,045
	1,374,146	1,255,652
Expenses		
Salaries and wages	517,904	471,071
Employee benefits	65,381	59,026
Supplies	196,403	178,263
Professional fees	36,445	32,553
Health care expenses	248,481	212,383
Purchased services	101,212	89,211
Repairs and maintenance	7,238	6,048
Utilities and telephone	9,742	8,418
Insurance	2,710	3,359
Provision for depreciation/amortization	56,498	54,362
Interest	22,180	21,527
Rental and lease	10,540	10,327
Other	46,528	42,528
	1,321,262	1,189,076
Operating Income	52,884	66,576
Other Income (Loss)		
Investment income	14,097	8,426
Change in unrealized gains and losses on investments	(7,236)	(1,145)
Income tax benefit (provision)	(2,084)	788
Impairment loss	-	(696)
Gain on interest rate swaps	8,027	14,104
Loss on advance refunding of long-term debt	-	(22,413)
	12,804	(936)
Revenues in Excess of Expenses	65,688	65,640

	2018	2017
	(In Thousands)	
Revenues in Excess of Expenses	\$ 65,688	\$ 65,640
Change in Unrealized Gains and Losses on Investments	16,484	21,034
Change in Unrealized Gains and Losses on Interest Rate Swaps	1,865	1,517
Other Changes	(7,861)	(5,299)
Contributions and Grants for Property Acquisitions	2,806	408
Increase in Unrestricted Net Assets	\$ 78,982	\$ 83,300

Renown Health
Combined Statements of Changes in Net Assets
Years Ended June 30, 2018 and 2017

	2018	2017
	(In Thousands)	
Unrestricted Net Assets		
Revenues in excess of expenses	\$ 65,688	\$ 65,640
Change in unrealized gains and losses on investments	16,484	21,034
Change in unrealized gains and losses on interest rate swaps	1,865	1,517
Other changes	(7,861)	(5,299)
Contributions and grants for property acquisitions	2,806	408
	78,982	83,300
Temporarily Restricted Net Assets		
Contributions and related investment income	10,893	3,065
Net assets released from restrictions	(5,429)	(3,080)
	5,464	(15)
Permanently Restricted Net Assets		
Contributions and related investment income	49	230
	84,495	83,515
Increase in Net Assets		
Net Assets, Beginning of Year	915,095	831,580
	\$ 999,590	\$ 915,095

Renown Health
Combined Statements of Cash Flows
Years Ended June 30, 2018 and 2017

	2018	2017
	(In Thousands)	
Operating Activities		
Change in net assets	\$ 84,495	\$ 83,515
Adjustments to reconcile change in net assets to net cash from operating activities		
Provision for bad debts	78,787	70,946
Provision for depreciation/amortization	56,498	54,362
Contributions and grants for property acquisition	(2,806)	(408)
Realized loss on sale of property and equipment	418	423
Net gain on marketable securities	(9,259)	(20,213)
Change in fair value on interest rate swaps	(9,892)	(15,621)
Loss on advance refunding of long-term debt	-	22,413
Permanently restricted contributions and interest income	(49)	(45)
Amortization of debt issuance costs and bond discounts/premiums	35	15
Gain on equity investment in joint ventures	(2,696)	(2,472)
Acquisition of entity	(45)	(37)
Changes in assets and liabilities		
Receivables	(89,889)	(90,370)
Inventory	(5,308)	(2,445)
Prepaid expenses and other	(6,448)	1,438
Accounts payable and accrued expenses	11,933	21,046
Other liabilities	17,293	(3,084)
Net Cash from Operating Activities	123,067	119,463
Investing Activities		
Purchase of property and equipment	(40,804)	(66,936)
Proceeds from sales of property and equipment	87	104
Purchase of marketable securities	(497,112)	(465,031)
Sales of marketable securities	451,485	435,897
Decrease (increase) in funds held in trust	(37)	7,152
Net Cash used for Investing Activities	(86,381)	(88,814)
Financing Activities		
Additions to long-term debt	-	162,518
Principal payments on long-term debt	(13,006)	(12,428)
Advance refunding of long-term debt	-	(168,533)
Decrease in swap collateral	5,941	8,368
Restricted contributions and related interest income	2,855	453
Net Cash used for Financing Activities	(4,210)	(9,622)

	2018	2017
	(In Thousands)	
Net Increase in Cash and Cash Equivalents	\$ 32,476	\$ 21,027
Cash and Cash Equivalents, Beginning of Year	142,148	121,121
Cash and Cash Equivalents, End of Year	\$ 174,624	\$ 142,148
 Supplemental Disclosure of Cash Flow Information		
Cash paid during the year for interest, net of interest capitalized of (\$151) in 2018 and (\$238) in 2017	\$ 21,588	\$ 21,180

Note 1 - Organization and Significant Accounting Policies

Organization

Renown Health is a tax-exempt comprehensive integrated health care delivery network located in Reno, Nevada, and includes the operations of the following subordinate corporations:

Renown Regional Medical Center (Regional) is a tax-exempt 501(c)(3) Nevada nonprofit corporation that operates an 808 licensed bed general acute care facility. Regional provides a full range of medical services to both inpatients and outpatients.

Renown South Meadows Medical Center (South Meadows) is a tax-exempt 501(c)(3) Nevada nonprofit corporation that owns and operates a 76-bed acute-care community hospital. South Meadows also has a 40-bed assisted living facility and operates a 62-bed rehabilitation hospital under the name Renown Rehabilitation Hospital (Rehab Hospital).

Renown Businesses is a taxable Nevada for profit corporation that operates professional office buildings. It also owns Northern Sierra Dialysis Center, a taxable dialysis company. In addition, Renown Businesses operates various commercial businesses to provide services to patients, physicians, and employees under the following d/b/a's: Artisans Market and Bistro, The Inn at Renown, The Shops at Renown, Materiel Solutions, Starbucks and Subway.

Hometown Health Plan, Inc. (Hometown Plan) is a tax-exempt 501(c)(4) Nevada nonprofit corporation that operates a health maintenance organization (HMO).

Hometown Health Management Company (Hometown Management) is a taxable Nevada nonprofit corporation that provides management services to Hometown Plan and a fully owned subsidiary, Hometown Health Providers Insurance Company (Hometown Providers), a taxable Nevada nonprofit corporation that operates a preferred provider organization (PPO). In addition, Hometown Management has interests in other health care related businesses in the form of medical groups (d/b/a Renown Health Medical Group), urgent care and specialty clinics.

Renown Transitional Care Services is a tax-exempt 501(c)(3) Nevada nonprofit corporation that acts as the cash repository for Renown Health. In addition, Renown Transitional Care Services operates an obstetrics clinic to improve access to care.

Renown Skilled Nursing is a tax-exempt 501(c)(3) Nevada nonprofit corporation that owns a 160-bed skilled nursing facility.

Renown Health Foundation is a tax-exempt 501(c)(3) Nevada nonprofit corporation that was organized for the purpose of raising funds for Renown Health and its related entities to benefit the community.

Nevada Health Care Cooperative (Nevada Cooperative) is a taxable Nevada nonprofit purchasing cooperative established to enhance the contract terms and conditions for its members, which include certain corporations within Renown Health.

Routt Dialysis, LLC is a joint venture between Renown Businesses (16%), Northern Sierra Dialysis Center (36%) and other partners (48%) for the purposes of providing dialysis services.

Principles of Combination

The combined financial statements include the accounts of Renown Health and its subordinate corporations and subsidiaries. All significant intercompany accounts and transactions have been eliminated in combination.

Tax-exempt Status

Renown Health and its members are organized as Nevada nonprofit entities and have been recognized by the Internal Revenue Service (IRS) as exempt from federal income taxes under Internal Revenue Code Section 501(c)(3) or 501(c)(4), except for Renown Businesses and its subsidiaries, Nevada Health Care Cooperative and Hometown Management and its subsidiaries. Those entities recognized by the IRS as tax exempt must annually file Returns of Organizations Exempt from Income Tax (Form 990) with the IRS. In addition, the tax exempt entities are subject to income tax on net income derived from business activities that are unrelated to their tax exempt purposes. In those cases, those entities would file an Exempt Organization Business Income Tax Return (Form 990T) with the IRS to report any unrelated business taxable income.

Renown Health believes that it has appropriate support for any tax positions taken affecting its annual filing requirements, and as such, does not have any uncertain tax positions that are material to the combined financial statements. Renown Health would recognize future accrued interest and penalties related to unrecognized tax benefits and liabilities in income tax expense if such interest and penalties are incurred.

Income Taxes

Renown Health records income taxes using the liability method. Under this method, deferred income tax assets and liabilities are determined based on differences between the financial reporting and tax basis of assets and liabilities and are measured using the currently enacted tax rates and laws that are scheduled to be in effect when the differences are expected to reverse.

Use of Estimates

The preparation of the combined financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the combined financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents include all highly liquid investments with original maturities of three months or less, excluding funds held in trust.

Marketable Securities and Investment Income

Marketable securities include equity and debt securities which are measured at fair value in the combined balance sheets. Investment income or loss (including realized gains and losses on investments, interest, and dividends) is included in revenues in excess of expenses unless the income or loss is restricted by donor or law. Unrealized gains and losses on investments are excluded from revenues in excess of expenses unless the investments are trading securities. Renown Health uses the average cost method to compute realized gains and losses on securities sold.

Patient Receivables

Patient receivables are uncollateralized patient and third-party payor obligations. Renown Health does not charge interest on past due accounts. Payments of patient receivables are allocated to the specific claims identified on the remittance advice or, if unspecified, are applied to the earliest unpaid claim.

Patient accounts receivable are reduced by an allowance for doubtful accounts. In evaluating the collectability of accounts receivable, Renown Health analyzes its past history and identifies trends for each of its major payor sources of revenue to estimate the appropriate allowance for doubtful accounts and provision for bad debts. Management regularly reviews data about these major payor sources of revenue in evaluating the sufficiency of the allowance for doubtful accounts.

For receivables associated with services provided to patients who have third party coverage, Renown Health analyzes contractually due amounts and provides an allowance for doubtful accounts and a provision for bad debts, if necessary (for example, for expected uncollectible deductibles and copayments on accounts for which the third-party payor has not yet paid, or for payors who are known to be having financial difficulties that make the realization of amounts due unlikely). For receivables associated with self-pay patients (which includes both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill), Renown Health analyzes the patients' ability to pay and reduces the patients' balance to the amount for which they are determined by policy to be financially responsible. Renown Health records a provision for bad debts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the standard rates, the patient balance for which the patient is determined by policy to be financially responsible, or the discounted rates, if negotiated, and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for doubtful accounts.

Renown Health's process for calculating the allowance for doubtful accounts for self-pay patients has not significantly changed from June 30, 2017 to June 30, 2018. Renown Health does not maintain a material allowance for doubtful accounts from third-party payors, nor did it have significant write offs from third-party payors. Renown Health has not significantly changed its charity care or uninsured discount policies during fiscal years 2017 or 2018.

Contributions Receivable

Contributions receivable are unconditional promises to give that are recognized as contributions when the promise is received. Contributions receivable that are expected to be collected in less than one year are reported at net realizable value. Contributions receivable that are expected to be collected in more than one year are recorded at fair value at the date of promise. The fair value is computed using a present value technique applied to anticipated cash flows. Amortization of the resulting discount is recognized as additional contribution revenue. The allowance for uncollectible contributions receivable is determined based on management's evaluation of the collectability of individual promises.

Inventory

Inventory is stated at the lower of average cost or net realizable value.

Funds Held in Trust

Funds held in trust include cash and cash equivalents and money market mutual funds which are measured at amortized cost which approximates fair value. Funds held in trust include amounts held by trustees under indenture agreements for debt service and amounts held by the counterparty to Renown Health's interest rate swap contracts in accordance with the related collateral agreement. Funds held in trust that are available for obligations classified as current liabilities are reported as current assets.

Property and Equipment

Property and equipment acquisitions in excess of \$2,500 (not in thousands) are capitalized and recorded at cost. Depreciation is provided over the estimated useful life of each depreciable asset and is computed using the straight-line method. Equipment under capital lease obligations is amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment. Such amortization is included in depreciation and amortization in the combined financial statements. Interest on amounts borrowed to finance the construction of assets is capitalized. The estimated useful lives of property and equipment are as follows:

Buildings and improvements	15-40 years
Equipment	3-20 years

Gifts of long-lived assets such as land, buildings, or equipment are reported as additions to unrestricted net assets and are excluded from revenues in excess of expenses unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when donated or when acquired long-lived assets are placed in service.

Property and equipment is tested for recoverability whenever events or changes in circumstances indicate that its carrying value may not be recoverable. There were impairment losses of \$0 and \$696 recorded on the accompanying combined statements of operations as a result of this review for the years ended June 30, 2018 and 2017.

Unamortized Debt Issuance Costs and Bond Premiums and Discounts

Debt issuance costs and bond premiums and discounts are amortized to interest expense over the period the related obligation is outstanding using the straight-line method, which is a reasonable estimate of the effective interest method. Debt issuance costs and bond premiums and discounts are included within long-term debt on the combined balance sheet.

Goodwill and Intangible Assets

Goodwill represents the excess of cost over fair value of assets acquired from business combinations. On an annual basis and at interim periods when circumstances require, Renown Health tests the recovery of its goodwill. Renown Health recognizes an impairment charge for the amount by which the carrying amount of goodwill exceeds its fair value. There were no impairment losses recognized for the years ended June 30, 2018 and 2017.

Intangible assets consist of patient records and non-compete agreements associated with business combinations. Intangible assets are amortized over their economic life which range from 2 to 15 years. Intangible assets are considered annually for indicators of impairment. There were no impairment losses recognized for the years ended June 30, 2018 and 2017.

Investments in Affiliated Organizations

Investments in affiliated organizations in which Renown Health has the ability to exercise significant influence over operating and financial policies but does not have control are recorded under the equity method of accounting. Under the equity method, the initial investment is recorded at cost and adjusted annually to recognize Renown Health's share of earnings and losses of those entities, net of any additional investments or distributions. Renown Health's share of net earnings or losses of the entities is included in other revenues.

Premium Deficiency Reserve

When the expected claim payments and administrative expenses exceed the premiums to be collected for the remainder of the contract period, a premium deficiency reserve is recorded for the deficiency, with a corresponding charge to operations. Renown Health does not utilize anticipated investment income as a factor in the premium deficiency calculation. The premium deficiency reserve is included in estimated third-party payor settlements and other in the combined balance sheets. The premium deficiency reserves for the Hometown Health insurance business at June 30, 2018 and 2017 was \$7,110 and \$0.

Other Noncurrent Liabilities

Other noncurrent liabilities consist of an estimated liability for professional and general liability losses, deferred revenues, and estimated liabilities for postretirement health care benefits and contributory defined benefit plan.

Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are those whose use by Renown Health has been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained by Renown Health in perpetuity.

Revenues in Excess of Expenses

Revenues in excess of expenses excludes unrealized gains and losses on investments other than trading securities, transfers of assets to and from related parties for other than goods and services, change in net unrealized gains and losses on the effective portion of interest rate swaps, change in net unrealized gains and losses from pension and other postretirement benefit obligations, and contributions of long-lived assets, including assets acquired using contributions which were restricted by donors. Revenues in excess of expenses as reflected in the combined statements of operations is considered the performance indicator.

Net Patient Service Revenue

Renown Health has agreements with third-party payors that provide for payments to Renown Health at amounts different from its established rates. Payment arrangements include prospectively determined rates, reimbursed costs, discounted charges, and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

Renown Health recognizes patient service revenue associated with services provided to patients who have third-party payor coverage on the basis of contractual rates for the services rendered, as noted above. For uninsured patients that do not qualify for charity care, Renown Health recognizes revenue on the basis of its standard rates for services provided or on the basis of discounted rates, if negotiated or provided by policy. On the basis of historical experience, a significant portion of Renown Health's uninsured patients will be unable or unwilling to pay for the services provided. Thus, Renown Health records a significant provision for bad debts related to uninsured patients in the period the services are provided.

Net patient service revenue before the provision for bad debts recognized for the years ended June 30, 2018 and 2017 from these major payor sources is as follows:

	2018	2017
Net patient service revenue		
Third-party payors	\$ 946,403	\$ 885,170
Self-pay	16,816	12,989
Total all payors	\$ 963,219	\$ 898,159

Premium Revenue

Premium revenues are recognized as income during the period in which health care coverage is provided. Premium revenue billed and/or collected in advance is deferred as unearned premium revenue, which is included in third-party settlements and other in the combined balance sheets.

Charity Care

To fulfill its mission of community service, Renown Health provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because Renown Health does not pursue collection of amounts determined to qualify as charity care, they are not reported as net patient service revenue.

Donor-restricted Gifts

Unconditional promises to give cash and other assets are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the gift 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 donor stipulated time restrictions or purpose restrictions are met or accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the combined statement of operations as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reflected as unrestricted contributions in the combined statements of operations.

Health Care Expenses and Incurred but Not Paid Liability

Renown Health maintains provider contracts with health care service providers, including hospitals, physician groups and pharmacies. These providers are paid primarily on a capitation or fee-for-service basis. These costs are recognized in the month in which services are provided and are included as part of health care expenses. Coordination of benefits recoveries are netted against these amounts.

Estimated claims payable includes claims reported as of the combined balance sheet date and estimates (based on projections from historical data) of health care expenses incurred but not paid. These amounts are included as part of third-party settlements and other in the combined balance sheets. Estimates are continually monitored and reviewed, and as settlements are made or estimates adjusted, differences are reflected in current operations. Losses are also recognized when it is probable that expected future health care expenses and maintenance costs related to the contract term of certain existing contracts will exceed anticipated future premiums from the related contracts. Due to the subjective nature of these reserves, there is a reasonable possibility that recorded estimates could differ from actual results in the future.

Derivative Financial Instruments

Renown Health records derivatives on the combined balance sheets at fair value. Derivatives that are not hedges must be adjusted to fair value through income. If the derivative qualifies as a hedge, depending on the nature of the hedge, changes in the fair value of derivatives will either be offset against the change in net assets or income. The ineffective portion of a derivative's change in fair value is immediately recognized in earnings. Amounts previously recognized as a change in net assets are recognized into earnings/income consistent with the underlying derivative instrument.

Reclassifications

Reclassifications have been made to the prior year financial information to make it conform to the current year presentation. The reclassifications had no effect on previously reported operating results or changes in net assets.

Note 2 - Charity Care

Renown Health provides health care services to patients who meet certain criteria under its charity care policy at amounts less than established rates. Since Renown Health does not pursue collection of these amounts, they are not reported as patient service revenue. The estimated cost of providing these services was \$16,780 and \$19,280 for the years ended June 30, 2018 and 2017, calculated by multiplying the ratio of cost to gross charges for Renown Health by the gross uncompensated charges associated with providing charity care to its patients. Renown Health does not receive funds to offset or subsidize charity care services.

Note 3 - Net Patient Service Revenue

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

Medicare: Inpatient acute care and outpatient services rendered to Medicare program beneficiaries are generally paid at prospectively determined rates per encounter. These rates vary according to a patient classification system based on clinical, diagnostic, and other factors. Renown Health is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the hospitals and audits thereof by the Medicare fiscal intermediary. Renown Health's Medicare cost reports have been audited by the Medicare fiscal intermediary through the year ended June 30, 2015.

Medicaid: Inpatient and outpatient services rendered to Medicaid program beneficiaries are reimbursed based on prospectively determined rates per length of stay and/or a fee schedule.

Other Insurers: Renown Health also has entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations for commercial, Medicaid and Medicare Advantage programs. The basis for payment to Renown Health under these agreements includes capitation, prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

Net revenues from the Medicare, Medicaid, and other insurers accounted for the following percentages of Renown Health's patient service revenues for the years ended June 30, 2018 and 2017:

	2018	2017
Medicare	38%	36%
Medicaid	14%	12%
PPO/HMO	41%	45%
Other	7%	7%

Laws and regulations governing Medicare, Medicaid, and other programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. Net patient service revenue increased approximately \$6,977 and \$6,333 for the years ended June 30, 2018 and 2017 due to differences in estimated and actual cost report settlements and due to the removal of allowances previously estimated that are no longer necessary as a result of final settlements and years that are no longer likely subject to audits, reviews, and investigations. In addition, Renown Health's 2017 net patient service revenue includes a \$4,072 third-party settlement received from Routt Dialysis, LLC.

The Centers for Medicare and Medicaid Services (CMS) has implemented a Recovery Audit Contractor (RAC) program under which claims are reviewed by contractors for validity, accuracy, and proper documentation. A demonstration project completed in several other states resulted in the identification of potential overpayments, some being significant. The potential exists that Renown Health may incur a liability for a claims overpayment at a future date. Renown Health is unable to determine the extent of the liability of overpayments, if any. As the outcome of such reviews is unknown and cannot be reasonably estimated, it is Renown Health's policy to adjust revenue for deductions from overpayment amounts or additions from underpayment amounts determined under the RAC audits at the time a change in reimbursement is agreed upon between Renown Health and CMS.

Note 4 - Funds Held in Trust, Marketable Securities and Investment Income

Funds Held in Trust

The composition of funds held in trust at June 30, 2018 and 2017, is shown in the following table.

	<u>2018</u>	<u>2017</u>
Funds held in trust		
For debt service		
Money market mutual funds	\$ 3,156	\$ 3,120
Interest rate swap collateral		
Cash and cash equivalents	<u>4,590</u>	<u>10,530</u>
	<u>\$ 7,746</u>	<u>\$ 13,650</u>

Investment Income

Investment income and gains and losses on funds held in trust, marketable securities, and cash equivalents consist of the following for the years ended June 30, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Other income		
Interest and dividends	\$ 10,996	\$ 10,173
Realized gain on sales of securities	<u>3,533</u>	<u>(1,370)</u>
	14,529	8,803
Less amounts included in changes in temporarily restricted net assets	<u>(432)</u>	<u>(377)</u>
	.	.
Amounts included in investment income	<u>\$ 14,097</u>	<u>\$ 8,426</u>

Fair Value

Renown Health has determined the fair value of certain assets and liabilities in accordance with generally accepted accounting principles, which provides a framework for measuring fair value.

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Valuation techniques should maximize the use of observable inputs and minimize the use of unobservable inputs.

A fair value hierarchy has been established, which prioritizes the valuation inputs into three broad levels. Level 1 inputs consist of quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the related asset or liability. Level 3 inputs are unobservable inputs related to the asset or liability.

The fair value of Renown Health's marketable securities measured on a recurring basis at June 30, 2018 and 2017, consists of the following:

	Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	Total Balance
<u>June 30, 2018</u>				
U.S. federal agency securities	\$ -	\$ 81,662	\$ -	\$ 81,662
U.S. equity mutual funds	139,361	-	-	139,361
U.S. federal agency mortgage-backed securities	-	58,013	-	58,013
U.S. government securities	73,718	-	-	73,718
U.S. corporate fixed income securities	-	82,015	-	82,015
U.S. fixed income mutual funds	4,960	-	-	4,960
U.S. corporate fixed income asset-backed securities	-	12,224	-	12,224
U.S. municipal bonds	-	1,452	-	1,452
Foreign equity mutual funds	38,771	-	-	38,771
U.S. equity securities	407	-	-	407
	<u>257,217</u>	<u>235,366</u>	<u>-</u>	<u>492,583</u>
U.S. fixed income comingled funds (A)	-	-	-	70,733
Foreign fixed income comingled funds (A)	-	-	-	69,153
Foreign equity commingled funds (A)	-	-	-	30,545
	<u>-</u>	<u>-</u>	<u>-</u>	<u>170,431</u>
Total marketable securities	<u>\$ 257,217</u>	<u>\$ 235,366</u>	<u>\$ -</u>	<u>\$ 663,014</u>

	Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	Total Balance
<u>June 30, 2017</u>				
U.S. federal agency securities	\$ -	\$ 82,900	\$ -	\$ 82,900
U.S. equity mutual funds	120,573	-	-	120,573
U.S. federal agency mortgage-backed securities	-	51,426	-	51,426
U.S. government securities	73,628	-	-	73,628
U.S. corporate fixed income securities	-	52,443	-	52,443
U.S. fixed income mutual funds	5,563	-	-	5,563
U.S. corporate fixed income asset-backed securities	-	17,671	-	17,671
U.S. municipal bonds	-	1,509	-	1,509
Foreign equity mutual funds	34,533	-	-	34,533
U.S. equity securities	434	-	-	434
	<u>234,731</u>	<u>205,949</u>	<u>-</u>	<u>440,680</u>
U.S. fixed income comingled funds (A)	-	-	-	70,972
Foreign fixed income comingled funds (A)	-	-	-	67,426
Foreign equity commingled funds (A)	-	-	-	29,226
	<u>-</u>	<u>-</u>	<u>-</u>	<u>167,624</u>
Total marketable securities	<u>\$ 234,731</u>	<u>\$ 205,949</u>	<u>\$ -</u>	<u>\$ 608,304</u>

(A) 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 statement of financial position.

Commingled and other funds are reported at fair value as reported by the fund managers based on discounted cash flows, estimated market values, and other unobservable inputs. Each of the commingled funds report fair value using a calculated net asset value per share (NAV). There are no redemption limitations, except as noted below, or unfunded commitments at June 30, 2018 and 2017.

Commingled Fund	Redemption	Redemption Notice Period	Redemption Availability
			Partial Redemptions within 2 business days after the trade date (subject to liquidity limitations). Full redemptions - 90% of the redemption will be sent on the settle date and the remaining 10% will be sent pending final reconciliation of valuations.
U.S. fixed income commingled fund	Any business day of each month	2 business days prior to trade date	
Foreign fixed income commingled fund	First business day of each month	15th of the month	80% available on 1st business day and remaining within 10 business days
Foreign equity commingled fund	First business day of each month	15th of the month	80% available on 1st business day and remaining within 10 business days

Note 5 - Property and Equipment

A summary of property and equipment at June 30, 2018 and 2017 is as follows:

	2018	2017
Land used in operations	\$ 74,627	\$ 71,405
Land held for future expansion	14,627	21,205
Land held for sale	3,230	3,230
Buildings and improvements	728,178	708,700
Equipment	478,838	464,742
Construction in progress	3,382	6,116
	<u>1,302,882</u>	<u>1,275,398</u>
Less allowance for depreciation	<u>(698,338)</u>	<u>(654,655)</u>
Net property and equipment	<u>\$ 604,544</u>	<u>\$ 620,743</u>

The gross amount recorded for assets under capital leases was \$2,920 and \$10,610 at June 30, 2018 and 2017. The accumulated depreciation recorded for assets under capital leases was \$2,169 and \$9,046 at June 30, 2018 and 2017.

Construction in progress at June 30, 2018 represents Regional campus renovations and various other projects. The estimated costs to complete these projects are \$16,873, which will be financed with Renown Health's funds.

Note 6 - Investments in Affiliated Organizations

Investments of \$31,148 and \$28,452 in various related health care ventures are being recorded on the equity method, with Renown Health's 50% investment in Carson Valley Medical Center (CVMC) accounting for 88% of the total for the years ended June 30, 2018 and 2017. The net gain on these investments, totaling \$3,442 in 2018 and \$2,920 in 2017, is included in other revenue. Renown Health received distributions of \$746 and \$448 from these investments in 2018 and 2017.

The total assets, total liabilities, and revenues in excess of expenses for the affiliated organizations as of and for the years ended June 30, 2018 and 2017 was as follows:

	2018	2017
Assets		
CVMC	\$ 67,538	\$ 63,204
All other	17,135	17,309
Total assets	\$ 84,673	\$ 80,513
Liabilities		
CVMC	\$ 12,614	\$ 13,173
All other	20,962	21,210
Total liabilities	\$ 33,576	\$ 34,383
Revenues in Excess of Expenses		
CVMC	\$ 4,894	\$ 4,115
All other	1,213	945
Revenues in excess of expenses	\$ 6,107	\$ 5,060

Note 7 - Contributions Receivable (or Promises to Give)

Contributions receivable are unconditional promises to give that Renown Health has received from corporations, private foundations and individuals in the community. Certain promises are receivable over a period of time. The following is a summary of contributions receivable at June 30, 2018 and 2017:

	2018	2017
Amounts due in less than one year	\$ 3,395	\$ 2,152
Amounts due in one to five years	5,537	3,617
	8,932	5,769
Less discount to net present value	(925)	(662)
Contributions receivable, net	\$ 8,007	\$ 5,107

Based on management's evaluation of collectability of contributions receivable, these receivables are deemed fully collectible and no allowance for doubtful contributions receivable was recorded at June 30, 2018 and 2017. At June 30, 2018, two donors accounted for approximately 78% of contributions receivable and at June 30, 2017, one donor accounted for approximately 87% of contributions receivable.

Note 8 - Operating Leases

Renown Health leases various buildings, office space, and equipment under noncancelable long-term agreements. The leases expire at various times and have various renewal options and lease payment escalation provisions. Total lease expense for the years ended June 30, 2018 and 2017 was \$10,540 and \$10,327.

Future minimum lease payments at June 30, 2018, by year and in the aggregate, under noncancellable operating leases with initial terms of one year or more consist of the following:

<u>Year Ending June 30,</u>	<u>Amount</u>
2019	\$ 9,142
2020	5,414
2021	3,756
2022	3,264
2023	2,944
Thereafter	<u>9,401</u>
Total minimum lease payments	<u><u>\$ 33,921</u></u>

Note 9 - Long-Term Debt

Long-term obligations consist of the following:

	<u>2018</u>	<u>2017</u>
Public Finance Authority, Nevada Hospital Revenue Refunding Bonds (Renown Regional Medical Center Project) Series 2016A, interest ranging from 3.00% to 5.00% payable monthly; annual principal installments ranging from \$3,225 in 2019 to \$15,845 in 2040	\$ 137,180	\$ 137,180
Unamortized debt issuance costs based on imputed interest rate of 4.70% and unamortized bond premium	<u>24,306</u>	<u>24,247</u>
	161,486	161,427
Public Finance Authority, Nevada Hospital Revenue Refunding Bonds (Renown Regional Medical Center Project) Series 2015A, interest ranging from 4.00% to 5.00% payable monthly; annual principal installments ranging from \$2,645 in 2019 to \$7,330 in 2041	138,560	141,090
Unamortized debt issuance costs based on imputed interest rate of 4.23% and unamortized bond premium	<u>6,256</u>	<u>6,528</u>
	144,816	147,618

	2018	2017
City of Reno, Nevada Hospital Revenue Bonds (Renown Regional Medical Center Project):		
Series 2009 A&B, variable interest ranging from .75% to 1.84% payable monthly; annual principal installments ranging from \$325 in 2019 to \$7,185 in 2039	\$ 60,545	\$ 60,840
Unamortized debt issuance costs based on imputed interest rate of 3.93%	(1,447)	(1,516)
	59,098	59,324
Series 2008 A&B, variable interest ranging from .75% to 1.84% payable monthly; annual principal installments ranging from \$1,550 in 2018 to \$22,400 in 2041	75,850	77,400
Unamortized debt issuance costs based on imputed interest rate of 3.80%	(1,192)	(1,242)
	74,658	76,158
City of Reno, Nevada Hospital Revenue Bonds (Renown Health Project):		
Series 2006 remaining unamortized debt issuance costs	(810)	(845)
Series 2005 A&B, interest ranging from 4.63% to 6.25% payable semi-annually; annual principal installments ranging from \$190 in 2019 to \$1,785 in 2040	7,485	9,435
Unamortized debt issuance costs based on imputed interest rate of 5.47% and unamortized bond premium	(416)	(438)
	7,069	8,997
City of Reno, Nevada Hospital Revenue Bonds (Renown Regional Medical Center Project):		
Series 2004A, interest at 5.50% payable semi-annually; annual principal installments ranging from \$140 in 2019 to \$190 in 2028	1,650	3,100
Unamortized debt issuance costs based on imputed interest rate of 5.63% and unamortized bond premium	(141)	(143)
	1,509	2,957
Series 2004C (converted 2010), interest ranging from 5.00% to 5.38% payable semi-annually; annual principal installments ranging from \$2,160 in 2019 to \$935 in 2039	12,835	14,805
Unamortized debt issuance costs based on imputed interest rate of 5.23% and unamortized bond premium	(546)	(544)
	12,289	14,261

	2018	2017
Series 2004C (converted 2008), interest ranging from 4.50% to 5.50% payable semi-annually; annual principal installments ranging from \$20 in 2019 to \$475 in 2039	\$ 4,235	\$ 4,435
Unamortized debt issuance costs based on imputed interest rate of 5.40% and unamortized bond premium	(301)	(321)
	3,934	4,114
Guaranteed Insured Notes, Series 1995, interest at 7.58%; payable semi-annually; annual principal installments ranging from \$2,200 in 2019 to \$3,500 in 2025	19,800	21,900
Unamortized debt issuance costs	(355)	(406)
	19,445	21,494
Equipment lease, interest rate ranging from 2.87% to 3.00%; principal and interest payable monthly, due from September 2018 to June 2019	877	1,729
Vendor equipment note	56	164
	484,427	497,398
Less current maturities	(27,637)	(13,369)
	\$ 456,790	\$ 484,029

The Series 2016A, 2015A, 2009A&B, 2008A&B, 2007A, 2005A&B, and 2004A&C Hospital Revenue Bonds have been issued under a Master Indenture Agreement that secures the indebtedness by a pledge of the gross revenues of the Obligated Group. Under the Master Trust, Renown Health is required to comply with certain restrictive financial and other covenants. As of June 30, 2018 and 2017, management has asserted that Renown Health was in compliance with all debt covenants.

In July 2016, the Obligated Group issued the 2016A series revenue bonds for the purpose of advance refunding a portion of the 2004A, 2004C, 2005A and 2005B bonds totaling \$137,180. The advance refunding was treated as an extinguishment and a loss of \$22,413 was recorded for the year ended June 30, 2017.

The Series 2008A&B and 2009A&B Hospital Revenue Bonds are variable rate demand bonds that are guaranteed by liquidity facilities (principally letters of credit). Should the liquidity facilities terminate or fail to renew, the bonds are considered due on demand. Renown Health is able to leverage the payment terms provided in the liquidity facilities, including extended payment terms upon draw or termination. The maturities of these bonds are classified based on the stated maturities of the bonds or the termination provisions of the liquidity facilities, as appropriate. At June 30, 2018 and 2017, approximately \$15,495 and \$1,845 of Renown Health's variable rate demand bonds were classified as current liabilities.

Aggregate principal maturities of long-term obligations, including capital leases, at June 30, 2018, excluding unamortized bond discounts and premiums and unamortized debt issuance costs, are as follows:

<u>Years Ending June 30,</u>	<u>Amount</u>
2019	\$ 27,008
2020	26,680
2021	27,335
2022	27,990
2023	28,725
Thereafter	<u>321,335</u>
Total	<u>\$ 459,073</u>

Note 10 - Temporarily and Permanently Restricted Net Assets

Temporarily and permanently restricted net assets are available for the following purposes at June 30, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Temporarily restricted		
Children's services	\$ 10,191	\$ 11,613
Behavioral health center	5,735	-
Women's services	901	1
Post-operative rehabilitation services	591	559
Other programs	<u>3,332</u>	<u>3,113</u>
Total temporarily restricted net assets	<u>20,750</u>	<u>15,286</u>
Permanently restricted		
Nursing education	1,228	1,200
Healing garden/arts	588	588
Other programs	<u>1,658</u>	<u>1,637</u>
Total permanently restricted net assets	<u>3,474</u>	<u>3,425</u>
Total temporarily and permanently restricted net assets	<u>\$ 24,224</u>	<u>\$ 18,711</u>

In 2018 and 2017, net assets were released from donor restrictions by incurring expenditures satisfying the restricted purposes in the amounts of \$5,429 and \$3,080. These amounts are included in net assets released from restrictions and other revenues in the combined financial statements.

Note 11 - Retirement Plans

Contributory Defined Benefit Plan

Renown Health sponsors a contributory defined benefit plan (Retirement Plan). The Retirement Plan is not available to employees who did not elect to participate in the plan as of November 17, 1985. Those employees who did elect to participate in the Retirement Plan as of November 17, 1985 are required to contribute 2.5% of their annual earnings. Normal retirement benefits under the Retirement Plan are based on the three highest years of compensation and the employee's years of service. Benefits are reduced for specified benefits received under the Nevada Public Employees' Retirement System. Participants in this plan are fully vested. Renown Health's total retirement benefit expense was not material.

The Retirement Plan was partially funded as of June 30, 2018 and 2017. Renown Health's measurement date for plan assets, pension obligations and net periodic pension cost associated with the retirement plan is June 30. The changes in benefit obligations and plan assets for Renown Health's Retirement Plan are as follows:

	2018	2017
Projected benefit obligation at beginning of year	\$ 12,033	\$ 13,186
Interest cost	378	396
Plan participants' contributions	1	1
Actuarial loss	(653)	(546)
Benefits paid	(904)	(1,004)
Projected benefit obligation at measurement date	10,855	12,033
Fair value of plan assets at beginning of year	11,324	11,178
Actual gain on plan assets	1,001	1,149
Plan participants' contributions	1	1
Benefits paid	(904)	(1,004)
Fair value of plan assets at measurement date	11,422	11,324
Funded status at end of year	\$ 567	\$ (709)

The accumulated benefit obligation for Renown Health's retirement plan was \$10,855 and \$12,033 at June 30, 2018 and 2017. The asset for the funded status of \$567 at June 30, 2018 is included in other noncurrent assets and the liability for the funded status of \$709 at June 30, 2017 is included in other noncurrent liabilities in the accompanying combined financial statements. Renown Health recognized a decrease in unrestricted net assets of \$1,127 and \$1,262 for the years ended June 30, 2018 and 2017 related to the Retirement Plan. This is included in other changes in unrestricted net assets in the accompanying combined financial statements.

The benefits expected to be paid from Renown Health's Retirement Plan in each of the next five years, and in the aggregate for the next five years are as follows:

<u>Years Ending June 30,</u>	<u>Amount</u>
2019	\$ 1,064
2020	1,030
2021	993
2022	955
2023	920
2024-2028	<u>3,968</u>
Total	<u>\$ 8,930</u>

The actuarial assumptions used by Renown Health's Retirement Plan are as follows:

	<u>2018</u>	<u>2017</u>
Weighted average discount rates for calculating pension expense	3.3%	3.2%
Weighted average discount rates for calculating projected benefit obligation	3.7%	3.3%
Weighted average rates of compensation increase for calculating pension expense	4.0%	4.0%
Weighted average rates of compensation increase for calculating projected benefit obligation	4.0%	4.0%
Expected long-term rates of return on plan assets for calculating pension expense	7.0%	7.0%

The components of Renown Health's Retirement Plan's net periodic benefit cost for the years ended June 30, 2018 and 2017 are as follows:

	<u>2018</u>	<u>2017</u>
Interest cost	\$ 378	\$ 395
Expected return on plan assets	(751)	(738)
Recognized gains	<u>224</u>	<u>305</u>
Benefit cost	<u>\$ (149)</u>	<u>\$ (38)</u>

The Retirement Plan weighted average asset allocations at June 30, 2018 and 2017, by asset category are as follows:

Asset Category	Target	Percentage of Plan Assets at	
	2018	June 30, 2018	2017
Interest-bearing cash	0%	1%	3%
Equity securities	60%	63%	60%
Fixed income	40%	36%	37%
Total	100%	100%	100%

Renown Health's investment strategy for the retirement plan assets is to balance the liquidity needs of the Retirement Plan with the long-term return goals necessary to satisfy future obligations. The target asset allocation seeks to reduce volatility while capturing the equity premium from the capital markets over the long-term and maintain security of principal to meet near term expenses and obligations through the fixed income allocation.

Renown Health's Retirement Plan portfolio return assumption of 7% is based on the weighted average return of comparative market indices for the asset classes represented in the portfolio and discounted for retirement plan expenses.

A fair value hierarchy has been established with three levels that prioritize the valuation inputs into each level (see Note 1). The fair value of the Retirement Plan's assets consists of the following as of June 30, 2018 and 2017, except for money market funds, which are valued at historical cost:

	Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	Total Balance
<u>June 30, 2018</u>				
Mutual funds				
U.S. equities funds	\$ 1,742	\$ -	\$ -	\$ 1,742
Index funds	7,818	-	-	7,818
Foreign equity funds	1,755	-	-	1,755
Cash and cash equivalents - at cost	-	-	-	107
Total Retirement Plan	\$ 11,315	\$ -	\$ -	\$ 11,422
<u>June 30, 2017</u>				
Mutual funds				
U.S. equities funds	\$ 1,765	\$ -	\$ -	\$ 1,765
Index funds	7,531	-	-	7,531
Foreign equity funds	1,726	-	-	1,726
Cash and cash equivalents - at cost	-	-	-	302
Total Retirement Plan	\$ 11,022	\$ -	\$ -	\$ 11,324

Defined Contribution Plan

The Renown Health sponsored defined contribution 401(k) plan is Renown Health's primary retirement plan and covers substantially all employees. The plan has a discretionary matching contribution. For fiscal year 2018 and 2017, Renown Health matched 100% of the first 3% of the employee's contribution and 50% of the next 2% of the employee's contribution. Participants vest in any employer matching contributions at the rate of 25% per year after two years of service, and are fully vested after five years. The total cost of the defined contribution 401(k) plan was \$9,871 and \$8,546 for the years ended June 30, 2018 and 2017.

Note 12 - Concentrations of Credit Risk

Renown Health grants credit without collateral to its patients, most of whom are insured under third-party payor agreements. The mix of receivables from third-party payors and patients at June 30, 2018 and 2017 was as follows:

	2018	2017
Medicare fee for service	20%	21%
Medicaid	6%	5%
PPO/HMO	43%	42%
Other	31%	32%
	100%	100%

Deposit concentration risk is managed by placing cash, money market accounts and investments with financial institutions believed to be creditworthy. At times, amounts on deposit may exceed insured limits or include uninsured investments in money market mutual funds. To date, Renown Health has not experienced losses in any of these accounts. Although the fair values of investments are subject to fluctuation on a year-to-year basis, management believes that the investment policies and guidelines are prudent for the long-term welfare of Renown Health.

Note 13 - Functional Expenses

Renown Health provides health care services to residents within its geographic location. Expenses related to providing these services by functional class for the years ended June 30, 2018 and 2017 are as follows:

	2018	2017
Patient health care services	\$ 1,017,504	\$ 934,150
General and administrative	303,758	254,926
	\$ 1,321,262	\$ 1,189,076

Note 14 - Income Taxes

Renown Health's taxable corporations file tax returns as required under current tax regulations. The tax benefit for the years ended June 30, 2018 and 2017 was (\$457) and (\$788).

Deferred income taxes reflect the net tax effect of temporary differences between the carrying amounts of assets and liabilities for financial reporting and the amount used for income tax purposes. The significant components of Renown Health's taxable corporation's deferred taxes as of June 30, 2018 and 2017 are as follows:

	2018	2017
Deferred tax assets/liabilities		
Net operating loss carryover	\$ 38,426	\$ 53,015
Allowance for uncollectible accounts	37	(5)
Accrued vacation and incentives	1,891	4,208
Depreciation and amortization	98	(3,607)
Other	(219)	(1,070)
	40,233	52,541
Less valuation allowance	(39,776)	(51,551)
Net deferred tax asset	\$ 457	\$ 990

Net operating loss carryforwards total approximately \$183,030 and will expire through 2037.

The valuation allowance decreased \$11,775 during the year ended June 30, 2018 and increased \$13,323 during the year ended June 30, 2017.

Note 15 - Reinsurance Agreements

Renown Health purchases reinsurance for losses on certain inpatient hospital, physician and pharmacy claims from a reinsurance company. Under the terms of this agreement, the reinsurance company will reimburse Renown Health up to a maximum amount in excess of a \$400 deductible for fully-insured commercial and \$300 deductible for Medicare members, as accumulated on an incurred basis (as defined in the reinsurance agreement) subject to certain limits and coinsurance payments.

Note 16 - Interest Rate Swaps

As of June 30, 2018 and 2017, Renown Health has five interest rate swap agreements, as follows:

	Notional Amount			Interest Paid
	Original	2018	2017	
Series 2004C	\$ 15,325	\$ 5,900	\$ 6,650	3.697%
Series 2004C	44,000	42,225	42,413	3.897%
Series 2009	15,325	5,900	6,650	3.697%
Series 2009	44,000	42,225	42,413	3.897%
Series 2008	80,000	70,137	71,546	3.788%

For each of these swaps Renown Health receives a floating rate of 60% of 1-month LIBOR, plus 36 basis points, in return for the fixed rates outlined above. The swaps expire between 2031 and 2041.

Series 2004C – Renown Health executed the series 2004C swap contracts in June 2004, designated them to the Series 2004C Bonds and achieved hedge treatment. In September 2009, Renown Health determined the two Series 2004C Swaps no longer qualified for hedge treatment. Prospectively, all changes in fair value of the Series 2004C Swaps are included in the performance indicator. In March 2010, Renown Health converted the Series 2004C Bonds from auction rate mode to fixed rate mode.

Series 2009 (was Series 2004B) – Renown Health executed the Series 2009 swap contracts in June 2004, designated them to the Series 2004B Bonds and achieved hedge treatment. In January 2009, the Series 2004B Bonds were extinguished and refunded with the Series 2009 A&B bonds. The 2004B Swap with an original notional amount of \$15,325 was re-designated from the 2004B Series to the 2009 Series and qualified for hedge treatment at the date of refunding. The 2004B Swap with an original notional amount of \$44,000 qualified for hedge treatment in October 2010. At September 30, 2016, the Series 2009 swap no longer maintained hedge treatment. Prospectively, all changes in fair value of the Series 2009 swap are included in the performance indicator.

Series 2008 (was Series 2006) – Renown Health executed the series 2008 swap contract in April 2006, designated it to the Series 2006 Bonds and achieved hedge treatment. In June 2008, the Series 2006 Bonds were extinguished and refunded with the Series 2008 Bonds, which resulted in Renown Health no longer maintaining hedge treatment for the Series 2006 Swap. In August 2008, Renown Health re-designated the Series 2006 Swap to the Series 2008 Bonds and achieved hedge accounting. At June 30, 2016, the Series 2008 Swap no longer maintained hedge treatment. Prospectively, all changes in fair value of the Series 2008 swap are included in the performance indicator.

The previously recognized effective portion of the change in fair value of the swaps is included as a component of net assets below the performance indicator. The cumulative effective portion included in net assets was a net unrealized loss of \$32,888 and \$34,753 at June 30, 2018 and 2017. The ineffective portion and the amount of change in fair value not attributable to hedging instruments is included above the performance indicator in non-operating income and losses, and was a gain of \$8,027 and \$14,104 for the years ended June 30, 2018 and 2017. The amount of unrealized loss amortized from net assets to income during the years ended June 30, 2018 and 2017 totaled \$1,865 and \$1,835. The fair market value of the swaps is determined using quoted market prices based upon observable interest rates and yield curves (Level 2 inputs), and each of the swaps was a liability totaling \$33,991 and \$43,883 at June 30, 2018 and 2017, and were included in noncurrent liabilities.

Note 17 - Commitments and Contingencies

Self-Insurance Plans

Renown Health is self-insured for health insurance, workers' compensation, vision, and dental care. The claims under these plans continue to be accrued as the incidents that give rise to them occur. Unpaid claim accruals are based on the estimated ultimate cost of the claims, including claim administration expenses, in accordance with Renown Health's past experience. Renown Health has entered into a reinsurance agreement with insurance companies to limit its losses on claims for health insurance and workers' compensation, with a reinsurance receivable being recorded for \$918 and \$2,115 at June 30, 2018 and 2017. Reserves for self-insured plans were \$9,009 and \$7,251 as of June 30, 2018 and 2017 and are included in accrued salaries, wages, and benefits in the combined balance sheets.

Professional and General Liability Insurance

Effective March 1, 2018, Renown Health is self-insured for professional liability claims up to \$3,000 per occurrence and maintains professional liability insurance coverage on a claims-made basis for all claims in excess of \$3,000 per occurrence. In addition, effective March 1, 2018, Renown Health is self-insured for general liability claims up to \$1,000 per occurrence and maintains general liability insurance coverage on a claims-made basis for all claims in excess of \$1,000 per occurrence. Prior to March 1, 2018, Renown Health was self-insured for professional and general liability claims up to \$2,000 per occurrence and maintained professional and general liability insurance coverage on a claims-made basis for all claims in excess of \$2,000 per occurrence. Any claims made and accepted by the insurance provider prior to March 1, 2018 are subject to the previous retention limits.

Reserves for reported professional and general liability claims and incurred but not reported claims are based on actuarial studies. Management is aware of no potential professional and general liability claims whose settlement, if any, would be in excess of amounts provided for or would otherwise have a material adverse effect on Renown Health's combined financial position. Renown Health has not changed its process for calculating the reserve for reported and incurred but not reported claims from June 30, 2017 to 2018. Reserves for reported and incurred but not reported claims, which are discounted using a rate of 3.00% were \$9,865 and \$7,598 as of June 30, 2018 and 2017 and are included in other noncurrent liabilities in the combined balance sheets. As of June 30, 2018 and 2017, receivables of \$3,000 and \$0 have been recorded for expected insurance recoveries related to the professional liability claims, and are included in other noncurrent assets on the combined balance sheet.

Litigation, Claims, and Disputes

Renown Health is subject to the usual contingencies in the normal course of operations relating to the performance of its task under its various services it offers. In the opinion of management and after consultation with legal counsel, the ultimate settlement of litigation, claims, and disputes in process will not be material to the combined financial position of Renown Health. However, there can be no guarantee that such will be the case.

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 government review and interpretation, as well as regulatory actions unknown and unasserted at this time. Federal government activity with respect to investigations and allegations concerning possible violations by health care providers of regulations could result in the imposition of significant fines and penalties, as well as significant repayments of previously billed and collected revenues from patient services.

Compliance Liability

Through its compliance program, Renown Health identified an arrangement which raised potential issues with respect to compliance with Stark (42 U.S.C. §1395nn) and Anti-Kickback Statutes (42 U.S.C. §1320a-7b(b)) requirements. Renown Health self-disclosed this issue to the Office of Inspector General (OIG) on June 27, 2013 utilizing the Self-Referral Disclosure Protocol (SRDP). The OIG retained the disclosure related to a lease and service agreement and referred the physician contract agreements to the Center for Medicare and Medicaid Services (CMS), Division of Technical Payment Policy. In accordance with the OIG instruction, Renown Health self-disclosed the physician contract agreement issue to CMS on August 2, 2013 and January 7, 2014, utilizing the CMS Self-Referral Disclosure Protocol. Lastly, on March 13, 2013, Renown Health supplemented its CMS disclosure to include payment to a physician for travel related expenses.

The OIG has concluded on its review of the disclosure discussed above and reached a settlement with Renown Health on December 21, 2015. CMS has not concluded its respective review of the remaining disclosure. However, any settlement monies will be the responsibility of Renown Health and, accordingly, an accrual of approximately \$206 has been recorded in the combined financial statements for the years ended June 30, 2018 and 2017. Because there is limited information about and experience with the settlement of matters disclosed under the respective protocols, the ultimate outcome is difficult to estimate and it is at least reasonably possible that a change in the estimated liability could occur in the near term. However, Renown Health believes that it has adequately provided for the most likely outcome from the self-disclosure based on the information available at this time.

Collective Bargaining Agreement

Approximately 20% of Renown Health's labor force is represented by a collective bargaining agreement. The most recent labor agreement expires on June 30, 2020.

Purchase Commitments

During 2018, Renown Health entered into an agreement with a vendor to purchase a minimum amount of laboratory supplies over the next eight years. In connection with the agreement, Renown Health also acquired certain equipment. As of June 30, 2018, the remaining commitment totaled \$12,517.

In 2017, Renown Health entered into a noncancelable contractual commitment, primarily related to software license maintenance. As of June 30, 2018, the remaining commitment totaled \$2,125 and is due within the next year.

Note 18 - New Accounting Pronouncement

ASU 2018-08, *Contributions Received and Contributions Made*

In June 2018, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2018-08, *Contributions Received and Contributions Made (Subtopic 958-605)*. This update provides guidance on whether a transfer of assets (or the reduction, settlement, or cancellation of liabilities) is a contribution or an exchange transaction. Additionally, the guidance provides clarity on how an entity determines whether a resource provider is participating in an exchange transaction by evaluating whether the resource provider is receiving commensurate value in return for the resources transferred. The guidance became effective for contributions received for annual or interim periods beginning after June 15, 2018, and will become effective for contributions made for annual and interim periods beginning after December 15, 2018. Early adoption is permitted. Management has not yet estimated the potential impact that the adoption will have on its combined financial condition or results of operations.

ASU 2016-02, *Leases*

In February 2016, the FASB issued Accounting Standards Update No. 2016-02, *Leases (Topic 842)*. This update provides guidance on a new lessee model that includes the recognition of assets and liabilities arising from lease transactions on the balance sheet. Additionally, the guidance provides clarity on the definition of a lease and the distinction between finance and operating leases. Furthermore, the guidance requires certain qualitative and quantitative disclosures pertaining to the amounts recorded in the financial statements. This guidance becomes effective for annual and interim periods beginning after December 15, 2018 and early adoption is permitted. Management has not yet estimated the potential impact that the adoption will have on its combined financial condition or results of operations.

ASU 2016-01, *Recognition and Measurement of Financial Assets and Financial Liabilities*

In January 2016, the FASB issues Accounting Standards Update No. 2016-01 (ASU 2016-01), *Recognition and Measurement of Financial Assets and Financial Liabilities (Subtopic 825-10)*. This guidance replaces guidance to classify equity securities with readily determinable fair values into different categories (trading or available-for-sale) and requires equity securities to be measured at fair value with changes in fair value recognized through net income. Additionally, this guidance eliminates the method and significant assumptions used to estimate the fair value of financial instruments measured at amortized cost. It requires financial instruments to be measured at fair value using the exit price notion. This update becomes effective for fiscal years beginning after December 15, 2017. Management has not yet estimated the potential impact that the adoption will have on its combined financial condition or results of operations. Management did elect to early adopt a specific provision of ASU 2016-01 as of June 30, 2016, that removed the requirement to disclose the fair value of financial instruments not measured at fair value on the combined balance sheets.

ASU 2014-09, *Revenue from Contracts with Customers*

In May 2014, the FASB issued Accounting Standards Update No. 2014-09 (ASU 2014-09), *Revenue from Contracts with Customers (Topic 606)*. The guidance provides a principles-based approach for determining revenue recognition and supersedes all existing guidance, such as current transaction and industry-specific revenue recognition guidance. The core principle of ASU 2014-09 is that an entity will recognize revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration (payment) to which the entity expects to be entitled in exchange for those goods or services. ASU 2014-09 identifies a five-step process in order to recognize revenue. In addition, there are also enhanced disclosures and more comprehensive guidance for transactions such as service revenue, contract modifications, and multiple-element arrangements.

The effective date of this guidance was delayed due to the issuance of ASU 2015-14, *Revenue from Contracts with Customers (Topic 606) – Deferral of the Effective Date*. The guidance is now in effect for years beginning after December 15, 2017. Management has not yet estimated the potential impact that the adoption will have on its combined financial condition or results of operations.

ASU 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*

In August 2016, the FASB issues Accounting Standards Update No. 2016-14 (ASU 2016-14), *Presentation of Financial Statements of Not-for-Profit Entities*, with the stated purpose of improving financial reporting by not-for-profit entities. Among other provisions, ASU 2016-14 reduces the number of classes of net assets from three to two, required the presentation of expenses in both natural and functional classifications, and eliminates the requirement to prepare a reconciliation in the statement of cash flows when applying the direct method. This guidance becomes effective for fiscal years beginning after December 15, 2017 and for interim periods within fiscal years beginning after December 15, 2018. Management has not yet estimated the potential impact that the adoption will have on its combined financial condition or results of operations.

Note 19 - Unpaid Claims

Renown Health medical claims reserves are developed using an actuarial model to estimate incurred medical benefit liabilities for Commercial HMO, PPO and Senior Care Plus products. The model is built on historical claims data that are reported in claims triangles split by incurred and paid months. For a given reporting period, the base reserve estimates are developed beginning five months prior to the current month using a completion factor methodology that is based on a rolling twelve month averaging period. The most current month's reserve is estimated using a projection methodology that develops an average cost per member per month. The projection method average is usually based on a rolling twelve months with the appropriate trend applied to each period used in the development of average costs. For each of the prior month's estimates, the model allows the user to weight each estimate using a combination of completion and projection methods. Medical claims are assumed to be complete within twelve to thirteen months of incurred date.

Renown Health's medical claims activity and unpaid claims liabilities, prior to intercompany eliminations in order to present the complete insurance operations, as of and for the years ended June 30, 2018 and 2017 are as follows:

	2018	2017
Unpaid claims liabilities, at beginning of year	\$ 42,161	\$ 36,883
Reinsurance recoverables, at beginning of year	(1,815)	(1,367)
Unpaid claims liabilities, net of reinsurance recoverables	40,346	35,516
Add provision for claims, net of reinsurance, occurring in:		
Current year	390,824	332,224
Prior years	(3,592)	(1,716)
Net incurred losses during current year	387,232	330,508
Deduct payments for claims, net of reinsurance		
Occurring in:		
Current year	337,189	291,900
Prior years	37,274	33,778
Net claims payments during current year	374,463	325,678
Unpaid claims liabilities, net of reinsurance recoverables	53,115	40,346
Reinsurance recoverables, end of year	5,210	1,815
Unpaid claims liabilities at end of year	\$ 58,325	\$ 42,161

The favorable development in 2018 and 2017 was a result of changes in estimates of insured events in prior years. Net claims incurred were decreased by \$3,592 and \$1,716 in 2018 and 2017 due to better than estimated claim development and adequate margin established in the prior years' reserves. Due to uncertainties inherent in the reserving process, there is at least a reasonable possibility that actual claims paid could differ materially from amounts accrued.

In addition to the base reserve, there is a 10% margin for adverse claims development added to the base reserve estimates. The margin for adverse claims development is monitored and reviewed monthly and is also discussed with Renown Health's appointed actuary on a regular basis. Management believes the additional 10% reserve amounts beyond the base reserves are reasonable and appropriate. The only assumption change in the current year was a reduction to margin from 12% to 10% based on consistent favorable development. There were no other changes in methodology and assumptions used to calculate medical claims reserves for the years ended June 30, 2018 and 2017.

Note 20 - Subsequent Events

Renown Health has evaluated subsequent events through September 4, 2018, the date which the combined financial statement were issued.



Supplementary Information
June 30, 2018 and 2017

Renown Health



Independent Auditor's Report on Combining and Supplementary Information

The Board of Directors
Renown Health
Reno, Nevada

We have audited the combined financial statements of Renown Health as of and for the years ended June 30, 2018 and 2017, and our report thereon dated September 4, 2018, which expressed an unmodified opinion on those combined financial statements, appears on pages 1 and 2. Our audits were performed for the purpose of forming an opinion on the combined financial statements taken as a whole. The obligated group combining schedules as of and for the years ended June 30, 2018 and 2017 on pages 38 to 40 are presented for the purposes of additional analysis and are not a required part of the combined financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the combined financial statements. The information has been subjected to the auditing procedures applied in the audit of the combined financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the combined financial statements or to the combined financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the combined financial statements as a whole.

The statistical and other information, on page 41 to 43, which are the responsibility of management, have not been subjected to the auditing procedures applied in the audit of the combined financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

A handwritten signature in black ink that reads "Eide Bailly LLP".

Oklahoma City, Oklahoma
September 4, 2018

What inspires you, inspires us. | eidebailly.com



June 30, 2018 and 2017

Renown Health Obligated Group

(This page left blank intentionally.)

	<u>2018</u>	<u>2017</u>
	(In Thousands)	
Assets		
Current Assets		
Cash and cash equivalents	\$ 72,377	\$ 53,417
Marketable securities	592,617	541,916
Receivables		
Patient, net of allowance for uncollectible accounts of \$53,613 in 2018 and \$39,496 in 2017	145,988	132,996
Other	2,133	1,685
Inventory	31,260	26,295
Prepaid expenses and other	3,202	2,462
Total current assets	<u>847,577</u>	<u>758,771</u>
Funds Held in Trust	<u>7,746</u>	<u>13,650</u>
Property and Equipment, Net	<u>411,708</u>	<u>424,718</u>
Due from Renown Health	<u>137,970</u>	<u>153,203</u>
Other Assets		
Goodwill	6,662	6,662
Other	11	13
Total other assets	<u>6,673</u>	<u>6,675</u>
Total assets	<u>\$ 1,411,674</u>	<u>\$ 1,357,017</u>

Renown Health Obligated Group
 Combined Balance Sheets
 June 30, 2018 and 2017

	2018	2017
	(In Thousands)	
Liabilities and Net Assets		
Current Liabilities		
Current maturities of long-term debt	\$ 25,052	\$ 10,897
Accounts payable		
Trade	19,889	19,556
Estimated third-party payor settlements and other	6,350	9,841
Accrued compensation, benefits and other	21,486	19,516
Total current liabilities	72,777	59,810
Other	33,991	43,883
Long-Term Debt, Less Current Maturities, Unamortized Discount and Premium, and Unamortized Bond Costs	439,547	464,251
Total liabilities	546,315	567,944
Unrestricted Net Assets	865,359	789,073
Total liabilities and net assets	\$ 1,411,674	\$ 1,357,017

Renown Health Obligated Group
 Combined Statements of Operations and Changes in Net Assets
 Years Ended June 30, 2018 and 2017

	2018	2017
	(In Thousands)	
Unrestricted Revenues, Gains, and Other Support		
Net patient service revenues	\$ 978,142	\$ 891,271
Provision for bad debts	(72,141)	(62,077)
Net patient service revenue less provision for bad debts	906,001	829,194
Other revenues	15,246	14,559
Total unrestricted revenues, gains, and other support	921,247	843,753
Expenses		
Salaries and wages	287,045	255,964
Employee benefits	52,600	47,844
Supplies	182,051	163,755
Professional fees	55,108	48,570
Purchased services	148,242	150,856
Purchased charity care	3,409	3,240
Repairs and maintenance	5,263	4,829
Utilities and telephone	4,901	4,671
Insurance	752	894
Provision for depreciation/amortization	33,857	34,485
Interest	20,373	19,763
Rental and lease	5,222	4,667
Other	6,570	5,908
Total expenses	805,393	745,446
Operating Income	115,854	98,307
Other Income (Loss)		
Investment income	12,848	7,108
Change in unrealized gains and losses on investments	(6,720)	(665)
Gain on interest rate swaps	8,027	14,104
Loss on advance refunding of long-term debt	-	(22,413)
Other income (loss)	14,155	(1,866)
Revenues in Excess of Expenses	130,009	96,441
Change in Unrealized Gains and Losses on Investments	15,859	20,083
Change in Unrealized Gains and Losses on Interest Rate Swaps	1,865	1,517
Interaffiliate Transfers	(74,125)	(82,563)
Other Changes	237	(2)
Contributions and Grants for Property Acquisitions	2,441	1,398
Increase in Unrestricted Net Assets	76,286	36,874
Net Assets, Beginning of Year	789,073	752,199
Net Assets, End of Year	\$ 865,359	\$ 789,073

Renown Health Obligated Group
Combined Statements of Cash Flows
Years Ended June 30, 2018 and 2017

	2018	2017
	(In Thousands)	
Operating Activities		
Change in net assets	\$ 76,286	\$ 36,874
Adjustments to reconcile change in net assets to net cash from by operating activities		
Provision for bad debts	72,141	62,077
Provision for depreciation/amortization	33,857	34,485
Contributed equipment	(2,441)	(1,398)
Realized loss on sale of property	337	339
Net gains and losses on marketable securities	(9,139)	(19,419)
Change in fair value on interest rate swaps	(9,892)	(15,622)
Loss on advance refunding of long-term debt	-	22,413
Amortization of debt issuance costs and bond discounts/premiums	(17)	(36)
Interaffiliate transfers	74,125	82,563
Changes in operating assets and liabilities		
Patient accounts receivable and other receivables, less interest receivable	(85,405)	(69,557)
Inventory	(4,965)	(2,682)
Prepaid expenses and other	(738)	912
Due from Renown Health	(58,892)	(90,924)
Accounts payable and accrued expenses	(1,188)	10
Net Cash from Operating Activities	84,069	40,035
Investing Activities		
Purchase of property, plant and equipment	(18,768)	(13,786)
Sales of property, plant and equipment	25	104
Purchase of marketable securities	(480,909)	(442,477)
Sales of marketable securities	439,171	414,722
Decrease (increase) in funds held in trust	(36)	7,150
Net Cash used for Investing Activities	(60,517)	(34,287)
Financing Activities		
Additions to long-term debt	-	161,367
Principal payments on long-term debt	(10,532)	(10,033)
Advance refunding of long-term debt	-	(168,533)
Decrease in swap collateral	5,940	8,370
Net Cash used for Financing Activities	(4,592)	(8,829)
Net Change in Cash and Cash Equivalents	18,960	(3,081)
Cash and Cash Equivalents, Beginning of Year	53,417	56,498
Cash and Cash Equivalents, End of Year	\$ 72,377	\$ 53,417
Supplemental Disclosure of Cash Flow Information		
Cash paid during the year for interest, net of interest capitalized of (\$75) in 2018 and (\$66) in 2017	\$ 19,529	\$ 18,952

Renown Health Obligated Group
Selected Utilization Statistics (Unaudited)

	2014	2015	2016	2017	2018
Renown Regional Medical Center					
Licensed beds	808	808	808	808	808
Available beds	643	643	659	649	661
Patient Days	136,590	145,823	152,947	173,713	182,844
Observation Days	12,949	18,520	17,816	12,727	11,745
Equivalent Patient Days	149,539	164,343	170,763	186,440	194,589
Admissions	27,021	27,003	28,083	30,826	33,538
Observations	13,350	15,557	15,501	11,782	11,631
Equivalent Admissions	40,371	42,560	43,584	42,608	45,169
Average length of stay	5.1	5.4	5.4	5.6	5.5
Average daily census (1)	410	450	467	511	533
Occupancy percent (1) (2)	63.7%	70.0%	70.8%	78.7%	80.7%
Case mix index - total	1.6552	1.8100	1.8300	1.8610	1.7891
Case mix index - Medicare	1.8705	2.0900	2.0300	2.0261	1.9847
Number of surgeries	19,862	20,828	22,019	22,611	24,513
Emergency room visits	88,899	93,383	93,520	95,077	98,883
Deliveries	4,146	4,060	4,063	4,065	4,487
Outpatient visits	292,225	310,380	367,185	397,301	436,166
Renown South Meadows Medical Center					
Licensed beds	76	76	76	76	76
Available beds	76	76	76	76	76
Patient Days	8,701	8,843	9,564	12,285	12,548
Observation Days	1,623	2,096	2,568	2,065	2,202
Equivalent Patient days	10,324	10,939	12,132	14,350	14,750
Admissions	2,913	2,896	3,087	4,070	4,357
Observations	2,005	2,337	2,678	2,200	2,478
Equivalent Admissions	4,918	5,233	5,765	6,270	6,835
Average length of stay	3.0	3.1	3.1	3.0	2.9
Average daily census (1)	28	30	33	39	40
Occupancy percent (1) (2)	37.2%	39.4%	43.6%	51.7%	53.2%
Number of surgeries	7,782	7,678	7,400	7,288	5,302
Emergency room visits	21,705	23,979	24,415	25,247	26,477
Outpatient visits	28,507	28,811	35,433	35,800	38,202
Renown Rehabilitation Hospital					
Licensed beds	62	62	62	62	62
Available beds	62	62	62	62	62
Patient days	13,550	13,590	13,361	13,216	12,484
Admissions	899	879	807	819	824
Average length of stay	15.1	15.5	16.6	16.1	15.2
Average daily census	37	37	37	36	34
Occupancy percent (2)	59.9%	60.1%	58.9%	58.4%	55.2%

(1) Based on equivalent admissions & equivalent days

(2) Based on available beds

Renown Health Obligated Group
Historical Performance Financial Ratios (Unaudited)
As of and For The Years Ended June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Days Revenue in Accounts Receivable, Net	58.8	58.5
Days Cash on Hand	314.7	305.8
Cash to Debt (%)	143.1	125.3
Debt to Capitalization (%)	34.9	37.6
Maximum Annual Debt Service Coverage	5.8	4.8
Debt to Cash Flow	2.9	3.4
Net Operating Margin (%)	12.6	11.7
Operating Cash Flow Margin (%)	18.5	18.1
EBITDA Margin	19.6	18.8

Renown Health Obligated Group Financial Ratio Definitions:

Days Revenue in Accounts Receivable, Net: Net patient accounts receivable divided by (net patient revenue divided by the days in the year).

Days Cash on Hand: Cash and marketable securities divided by [total operating expenses — provisions for depreciation — (gain)/loss on disposal of equipment (divided by the days in the year)].

Cash to Debt: Cash and marketable securities divided by long-term debt.

Debt to Cash Flow: Long-term debt divided by (income + provisions for depreciation).

Maximum Annual Debt Service Coverage: (Income + provision for depreciation + interest expense + (gain)loss on disposal of equipment + loss(gain) on interest rate swaps + unrealized loss(gain) on investments + loss on extinguishment of debt) divided by maximum annual debt service.

Debt to Capitalization: Long-term debt, including current maturities, divided by net assets + long-term debt, including current maturities.

Operating Cash Flow Margin: (Income from operations + interest expense + provision for depreciation) divided by total operating revenues.

Net Operating Margin: Income from operations divided by total operating revenues.

EBITDA Margin: Operating Income + investment income + interest expense + provision for depreciation + provision for taxes divided by total operating revenues + investment income.