

University Health, Inc.

Consolidated Financial Statements and Other Financial Information

Years Ended December 31, 2017 and 2016

Table of Contents

Independent Auditors' Report	1
Consolidated Financial Statements:	
Consolidated Balance Sheets	3
Consolidated Statements of Operations	5
Consolidated Statements of Changes in Net Assets.....	6
Consolidated Statements of Cash Flows	7
Notes to Consolidated Financial Statements	8
Independent Auditors' Report on Supplementary Information	35
Supplementary Information:	
Consolidating Balance Sheet Information (2017).....	36
Consolidating Statements of Operations Information (2017)	38
Consolidating Statements of Changes in Net Assets Information (2017)	39
Consolidating Balance Sheet Information (2016).....	40
Consolidating Statement of Operations Information (2016).....	42
Consolidating Statement of Changes in Net Assets Information (2016).....	43



Independent Auditors' Report

The Board of Trustees
University Health, Inc.

We have audited the accompanying consolidated financial statements of University Health, Inc. (the Corporation), which comprise the consolidated balance sheets as of December 31, 2017 and 2016, and the related consolidated statements of operations, changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We did not audit the financial statements of Walton Way Indemnity, SPC (WWI), a wholly owned subsidiary, which statements reflect total assets of approximately \$21,206,000 and \$28,423,000 as of December 31, 2017 and 2016, respectively, and total revenues of \$4,952,000 and \$4,024,000, respectively, for the years then ended. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for WWI, is based solely on the report of the other auditors. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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



Opinion

In our opinion, based on our audits and the report of the other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of University Health, Inc. at December 31, 2017 and 2016, and the consolidated results of their operations, changes in net assets, and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Dixon Hughes Goodman LLP

**Charlotte, North Carolina
April 26, 2018**

University Health, Inc.
Consolidated Balance Sheets
December 31, 2017 and 2016

	December 31	
	2017	2016
Assets		
Current assets:		
Cash and cash equivalents	\$ 28,720,394	\$ 25,200,656
Short-term investments	2,787,655	2,308,846
Patient accounts receivable, less allowances for uncollectible accounts of \$49,981,000 in 2017 and \$38,671,000 in 2016	100,182,168	86,898,039
Other receivables	12,256,630	11,803,308
Inventories	12,316,911	10,393,488
Prepaid expenses	9,379,482	9,519,904
Total current assets	<u>165,643,240</u>	<u>146,124,241</u>
Property and equipment, net	365,903,160	338,298,842
Other assets:		
Assets limited as to use	93,068,001	63,386,457
Investments	463,979,202	448,404,846
Other	10,322,262	10,597,464
Total assets	<u>\$ 1,098,915,865</u>	<u>\$ 1,006,811,850</u>

University Health, Inc.
Consolidated Balance Sheets, continued
December 31, 2017 and 2016

	December 31	
	2017	2016
Liabilities and net assets		
Current liabilities:		
Accounts payable and accrued expenses	\$ 33,235,734	\$ 28,905,524
Accrued compensation, benefits, and withholdings	31,988,987	31,019,290
Other current liabilities	21,154,963	23,178,134
Estimated third-party payor settlements	13,621,102	22,404,915
Current maturities of long-term debt	39,864,974	31,807,235
Current portion of capital lease obligations	2,022,686	1,737,750
Short-term accrued postretirement benefit cost	1,785,608	1,890,425
Total current liabilities	<u>143,674,054</u>	<u>140,943,273</u>
Long-term debt, less current maturities	232,392,900	217,225,426
Long-term capital lease obligations, less current portion	3,996,085	4,600,395
Other long-term obligations	31,078,443	30,461,734
Reserve for contingent losses	15,270,816	15,727,874
Accrued postretirement benefit cost, less short-term obligation	35,267,615	30,710,704
Total liabilities	<u>461,679,913</u>	<u>439,669,406</u>
Net assets:		
Unrestricted	593,473,095	528,272,455
Temporarily restricted	22,228,763	17,816,088
Permanently restricted	21,534,094	21,053,901
Total net assets	<u>637,235,952</u>	<u>567,142,444</u>
Total liabilities and net assets	<u>\$ 1,098,915,865</u>	<u>\$ 1,006,811,850</u>

See accompanying notes.

University Health, Inc.
Consolidated Statements of Operations
December 31, 2017 and 2016

	Year Ended December 31	
	2017	2016
Unrestricted revenues and other support:		
Patient service revenue (net of contractual allowances and discounts)	\$ 660,969,355	\$ 615,584,528
Provision for bad debts	<u>(38,045,319)</u>	<u>(29,270,336)</u>
Net patient service revenue less provision for bad debts	622,924,036	586,314,192
Other operating revenues	19,735,558	17,713,626
Net assets released from restriction	<u>2,361,683</u>	<u>2,285,643</u>
Total unrestricted revenues and other support	645,021,277	606,313,461
Operating expenses:		
Salaries and benefits	324,101,504	309,118,567
Other operating expenses	255,100,744	230,436,671
Depreciation	44,180,322	40,525,109
Interest	<u>7,915,024</u>	<u>9,315,399</u>
Total operating expenses	<u>631,297,594</u>	<u>589,395,746</u>
Income from operations	13,723,683	16,917,715
Nonoperating income (loss):		
Investment income	56,612,940	32,149,695
Loss on early extinguishment of debt	-	(16,385,954)
Other components of net benefit cost	<u>(1,505,491)</u>	<u>(100,680,185)</u>
Total nonoperating income (loss)	55,107,449	(84,916,444)
Excess (deficiency) of revenues, other support, and gains over expenses and losses	68,831,132	(67,998,729)
Change in pension and postretirement plans funded status	(4,258,043)	78,990,769
Other	(27,176)	(1,858,093)
Transfer from temporarily/permanently restricted net assets	654,727	446,871
Increase in unrestricted net assets	<u>\$ 65,200,640</u>	<u>\$ 9,580,818</u>

See accompanying notes.

University Health, Inc.
Consolidated Statements of Changes in Net Assets
December 31, 2017 and 2016

	Year Ended December 31	
	2017	2016
Unrestricted net assets:		
Excess (deficiency) of revenues, other support, and gains over expenses and losses	\$ 68,831,132	\$ (67,998,729)
Change in pension and postretirement plans funded status	(4,258,043)	78,990,769
Other	(27,176)	(1,858,093)
Transfer from temporarily/permanently restricted net assets	654,727	446,871
Increase in unrestricted net assets	<u>65,200,640</u>	<u>9,580,818</u>
Temporarily restricted net assets:		
Contributions and other	2,801,536	2,006,298
Investment income	4,703,970	2,572,817
Net assets released from restriction	(2,361,683)	(2,285,643)
Transfer to unrestricted/permanently restricted net assets	(731,148)	(532,230)
Increase in temporarily restricted net assets	<u>4,412,675</u>	<u>1,761,242</u>
Permanently restricted net assets:		
Contributions and other	403,772	345,171
Transfer from unrestricted/temporarily restricted net assets	76,421	85,359
Increase in permanently restricted net assets	<u>480,193</u>	<u>430,530</u>
Increase in net assets	<u>70,093,508</u>	<u>11,772,590</u>
Net assets at beginning of year	<u>567,142,444</u>	<u>555,369,854</u>
Net assets at end of year	<u>\$ 637,235,952</u>	<u>\$ 567,142,444</u>

University Health, Inc.
Consolidated Statements of Cash Flows
December 31, 2017 and 2016

	Year Ended December 31	
	2017	2016
Operating activities:		
Change in net assets	\$ 70,093,508	\$ 11,772,590
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Change in pension and postretirement plans funded status	4,258,043	(78,990,769)
Depreciation	44,180,322	40,525,109
Provision for bad debts	38,045,319	29,270,336
Loss on extinguishment of debt	-	16,385,954
Other	(881,746)	1,794,762
Changes in operating assets and liabilities:		
Patient accounts receivable	(51,329,448)	(39,299,358)
Other receivables	(453,322)	(2,804,794)
Inventories	(1,923,423)	(1,166,526)
Prepaid expenses	140,422	(113,324)
Investments and assets limited as to use classified as trading	(45,734,709)	(313,948)
Other assets	275,202	(637,919)
Accounts payable and accrued expenses	4,330,210	(1,481,094)
Accrued compensation, benefits, and withholdings	969,697	4,333,939
Other current liabilities	(2,023,171)	296,435
Other long-term obligations	616,709	636,000
Estimated third-party payor settlements	(8,783,813)	1,513,772
Reserve for contingent losses	(457,058)	1,613,686
Accrued pension and postretirement benefit cost	194,051	52,966,999
Net cash provided by operating activities	<u>51,516,793</u>	<u>36,301,850</u>
Investing activities:		
Purchases of property and equipment, net	<u>(70,173,305)</u>	<u>(36,190,298)</u>
Net cash used in investing activities	<u>(70,173,305)</u>	<u>(36,190,298)</u>
Financing activities:		
Proceeds from bond refundng, net of premium	-	154,488,348
Proceeds used to refund bonds	-	(152,829,732)
Debt issuance costs used in refunding	(109,435)	(1,685,960)
Proceeds from bank term loans	61,550,298	-
Scheduled principal payments on long-term debt	(37,333,904)	(29,182,358)
Principal payments on capital lease obligations	(1,930,709)	(1,739,157)
Net cash provided by (used in) financing activities	<u>22,176,250</u>	<u>(30,948,859)</u>
Net increase (decrease) in cash and cash equivalents	<u>3,519,738</u>	<u>(30,837,307)</u>
Cash and cash equivalents at beginning of year	<u>25,200,656</u>	<u>56,037,963</u>
Cash and cash equivalents at end of year	<u>\$ 28,720,394</u>	<u>\$ 25,200,656</u>
Supplemental schedule of cash flow information:		
Cash paid for interest	<u>\$ 6,902,864</u>	<u>\$ 10,077,213</u>
Noncash investing and financing activities:		
Property leased under capital lease obligations	<u>\$ 1,611,335</u>	<u>\$ 1,627,066</u>

Notes to Consolidated Financial Statements

1. Organization and Significant Accounting Policies

The significant accounting policies adopted by University Health, Inc. (the Parent or Corporation) are set forth below.

Reporting Entity and Corporate Reorganization

As part of a corporate reorganization during 1984, University Health, Inc., a not-for-profit corporation, was formed to conduct long-range health planning, public health education, and resource allocation for University Health Services, Inc. and other affiliated corporations. Effective December 31, 1984, Richmond County Hospital Authority (the Authority) approved the restructuring of the Hospital, whereby it was leased to University Health Services, Inc., an affiliate of University Health, Inc., for two lease terms of 30 years each expiring on February 1, 2045.

Principles of Consolidation

The consolidated financial statements include the accounts of University Health, Inc., University Health Services, Inc. (UHS), University Health Care Foundation, Inc. (the Foundation), Walton Way Indemnity, SPC (WWI), University Extended Care, Inc. (UEC), University Health Resources, Inc. (UHR), University Healthcare Physicians, LLC (UHCP), University McDuffie County Regional Medical Center (McDuffie), and Augusta Resource Center on Aging, Inc. (ARCOA). ARCOA does business as "Brandon Wilde", a continuing care retirement community. All significant intercompany accounts and transactions have been eliminated.

Use of Estimates

The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, and disclosures of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash Equivalents

The Corporation considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. Deposits with banks are generally federally insured in limited amounts.

Patient Accounts Receivable

Patient accounts receivable are reduced by an allowance for doubtful accounts. In evaluating the collectability of accounts receivable, the Corporation 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, the Corporation analyzes contractually due amounts and provides an allowance for doubtful accounts and a provision for bad debts, if necessary.

University Health, Inc.
Notes to Consolidated Financial Statements

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), the Corporation 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 (or the discounted rates) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for doubtful accounts. Recoveries of accounts previously written off are recorded as a reduction to the provision for bad debt expense when received.

Allowance for Uncollectible Accounts

The allowance for uncollectible accounts is based upon management's assessment of historical and expected net collections, considering business and economic conditions, trends in health care coverage, and other collection indicators. Periodically, management assesses the adequacy of the allowance for uncollectible accounts based upon historical write-off experience by payor category. The results of this review are then used to make any modifications to the provision for bad debts to establish an appropriate allowance for uncollectible accounts. The Corporation's allowance for doubtful accounts was 77% and 81% of self-pay accounts receivable and patient liability portion of other accounts at December 31, 2017 and 2016, respectively.

Investments

Investments in other enterprises whereby the Parent does not have control but does exert significant influence are accounted for under the equity method of accounting. The Parent has equity investments in the following enterprises:

- Phoenix Health Care Management Services, Inc.
- Medical Resource Network, L.L.C.
- PHO d/b/a University Health Link
- Surgery Center of Columbia County, LLC
- PresGar Imaging of Augusta, LLC
- Evans Imaging Center
- Mobile Sonography Service Partnership
- Orthopedics Associates Surgery Center
- Augusta Back Properties, LLC

Investments in marketable securities are measured at fair market value. The Corporation's investment portfolio is classified as trading. As such, all investment income or loss (including realized and unrealized gains and losses on investments, interest, and dividends) is included in the deficiency of revenue, other support, and gains over expenses and losses.

Inventories

Inventories (primarily pharmaceuticals and medical supplies) are stated at the lower of cost (first-in, first-out and average cost methods) or market.

Assets Limited as to Use

Assets limited as to use consist of Foundation investments limited as to use by donors and UHS investments limited as to use by other third parties in accordance with debt agreements (see Note 4) and are measured at fair value.

Property and Equipment

Property and equipment are stated at cost. Major renewals and betterments are charged to the property accounts while maintenance and repairs which do not improve or extend the life of the respective assets are charged to operations. Upon disposal of properties, the related costs and accumulated depreciation are removed from the respective accounts. Any resulting gain or loss is reflected as other operating revenue or expenses.

The Corporation follows the policy of providing for depreciation by charging against operations amounts sufficient to amortize the cost of properties over their estimated useful lives principally using the straight-line method. Principal lives used are: 20 to 50 years for buildings and improvements; 5 to 20 years for fixed equipment; and 3 to 10 years for major moveable equipment. Equipment under capital lease obligations is amortized on the straight-line method over the useful life of the asset or the lease term, whichever is less. Amortization of assets recorded under capital lease obligations is included in depreciation expense.

Vacation and Sick Pay

The Corporation accrues vacation and sick pay as earned by the employees.

Deferred Revenues from Entrance Fees

Deferred revenues from entrance fees relate to amounts paid by residents but not yet earned related to the continuing care retirement community (see Note 5). An advance fee is classified as deferred revenue when a continuing care retirement community has a resident contract that provides for payment of the refundable advance fee upon re-occupancy by a subsequent resident, which is limited to the proceeds of re-occupancy. Refundable advance fees that are contingent upon re-occupancy by a subsequent resident but are not limited to the proceeds of re-occupancy are accounted for and reported as a liability.

UHI's Residency Agreement does not explicitly limit the amount of the refund to the amount of proceeds collected from re-occupancy. As such, the refundable portion of the entrance fees is recorded as a liability.

Asset Retirement Obligation

A conditional asset retirement obligation is an unconditional legal obligation to perform an asset retirement activity in which the timing and (or) method of settlement are conditional on a future event that may or may not be within the control of the entity. The Corporation recognizes a liability for the fair value of a conditional asset retirement obligation if the fair value of the liability can be reasonably estimated. The Corporation has determined that conditional legal obligations exist for its facilities related primarily to asbestos materials. The Corporation has recorded a liability of approximately \$3,408,000 and \$3,441,000 for the estimated present value for the conditional asset retirement obligation at December 31, 2017 and 2016, respectively. A related amount is recorded in property and equipment of approximately \$268,000 and \$315,000, representing the remaining un-depreciated cost of the asset retirement obligation at December 31, 2017 and 2016, respectively.

Pension Plan and Post-Retirement Health Care Benefits

The Corporation sponsors a post-retirement health care plan. The Corporation recognizes the underfunded status of postretirement plans in its consolidated balance sheets. Changes in the funded status are recorded in the year in which the changes occurred through changes in unrestricted net assets. Benefit obligations are measured as of the date of the fiscal year-end balance sheet. The defined benefit pension plan was terminated during 2016 (see Note 8).

Net Patient Service Revenue

Net patient service revenue is reported at estimated net realizable amounts from patients, third-party payors, and others for services rendered and include estimated retroactive revenue adjustments due to future audits, reviews, and investigations. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered, and such amounts are adjusted in future periods as adjustments become known or as cost report years are no longer subject to such audits, reviews, and investigations. Net patient service revenue increased approximately \$7,429,000 and \$359,000 in 2017 and 2016, respectively, due to changes in amounts previously estimated as a result of final settlements, growth of patient revenues due to physician practice acquisitions and changes in estimates.

The Medicare program pays prospectively determined rates for inpatient and outpatient operating and capital related services. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Revenue for services rendered under Medicare third-party payor programs has been recorded at estimated settlement amounts. Final determination of the settlement amounts is subject to review by appropriate authorities or their agents and to the extent that ultimate settlement amounts differ from amounts previously estimated, related adjustments are reflected in the financial statements in the period of final settlement. Final settlement has been reached through the fiscal year ended December 31, 2009, for Medicare services.

The Medicaid program pays prospectively determined rates for inpatient operations and capital related services. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Outpatient services are paid on a cost reimbursement basis. Final settlement has been reached through the fiscal year ended December 31, 2013, for Georgia Medicaid services.

The Medicare Prescription Drug, Improvement, and Modernization Act of 2003 created the Recovery Audit Contractors (RAC) program to detect and correct improper payments in the Medicare program. The RAC reviews began in late 2009 and continued in 2017. Although management believes its billing policies do not result in overpayments, the RAC reviews could materially affect the operations of the Corporation.

Gross patient service charges under the Medicare and Medicaid programs amounted to approximately \$1,176,018,000 and \$1,161,246,000 for the years ended December 31, 2017 and 2016, respectively, representing approximately 65% of total gross patient service charges in both years.

Laws and regulations governing Medicare and Medicaid programs are complex and subject to interpretation. As a result, there is a reasonable possibility that recorded estimates may change by a material amount in the near term. The Corporation believes that it is in compliance with all applicable laws and regulations. The Corporation is not aware of any pending or threatened investigations involving allegations of potential wrongdoing that would have a material effect on the Corporation's consolidated financial statements. Compliance with such laws and regulations can be subject to future government review and interpretation. Non-compliance can result in significant regulatory action including fines, penalties, and exclusion from the Medicare and Medicaid programs.

The Corporation also has entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment to the Corporation under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates. Revenue is recognized as services are provided for these payors.

Charity Care

UHS and McDuffie provide care to patients who meet certain criteria under its charity care policy without charge or for payments less than its established rates. Payments from public assistance programs on behalf of patients who meet UHS' and McDuffie's charity care criteria are reported as net patient service revenue. Because UHS and McDuffie do not expect collection of amounts determined as charity care, they are not reported as net patient service revenue. Gross charges forgone based on established rates for charity care services rendered were approximately \$94,384,000 and \$74,447,000 for the years ended December 31, 2017 and 2016, respectively.

University Health, Inc.
Notes to Consolidated Financial Statements

The costs to provide charity services were approximately \$27,911,000 and \$21,504,000 for the years ended December 31, 2017 and 2016, respectively. These costs are estimated based on UHS' cost to charge ratio for each respective fiscal year.

HITECH Incentive Funding for Meaningful Use of Electronic Health Records

The American Recovery and Reinvestment Act of 2009 (ARRA) established incentive payments under the Medicare and Medicaid programs for certain healthcare providers that use certified electronic health records (EHR) technology. The program is commonly referred to as the Health Information Technology for Economic and Clinical Health (HITECH) Act. To qualify for incentives under the HITECH Act, healthcare providers must meet designated EHR meaningful use criteria as defined by the Centers for Medicare and Medicaid Services (CMS). Incentive payments are awarded to healthcare providers who have attested to CMS that applicable meaningful use criteria have been met. Compliance with meaningful use criteria is subject to audit by the federal government or its designee and incentive payments are subject to adjustment in a future period.

The Corporation recognizes revenue for EHR incentive payments in the period in which it has attested that it is in compliance with the applicable EHR meaningful use requirements. Accordingly, the Corporation recognized other operating revenues of approximately \$887,000 and \$2,201,000 in the consolidated statements of operations for the years ended December 31, 2017 and 2016, respectively.

Excess (Deficiency) of Revenues, Other Support, and Gains Over Expenses and Losses

The consolidated statements of operations include excess (deficiency) of revenues, other support, and gains over expenses and losses. Changes in unrestricted net assets which are excluded from excess (deficiency) of revenues, other support, and gains over expenses and losses, consistent with industry practice, include changes in unfunded pension and postretirement liability, permanent transfers of assets for other than goods and services, and contributions of long-lived assets (including assets acquired using contributions which by donor restriction were to be used for the purposes of acquiring such assets).

Accounting for Income Taxes

The Parent, UHS, the Foundation, ARCOA, McDuffie, and University Extended Care, Inc. are exempt from federal income tax under Section 501(a) as organizations described in Section 501(c)(3) of the Internal Revenue Code of 1986, as amended. University Health Resources, Inc. is a taxable entity and files a corporate tax return. UHCP is organized under Georgia law and the Internal Revenue Code as a limited liability company (LLC). The members of an LLC report taxable income or loss on their corporate or individual tax returns.

With respect to its for-profit entities, as well as any unrelated business income generated by the tax-exempt entities, the Parent records income taxes using the liability method under which deferred tax assets and liabilities are determined based on the differences between the financial accounting and tax bases of assets and liabilities. Deferred tax assets or liabilities at the end of each period are determined using the currently enacted tax rate expected to apply to taxable income in the period that the deferred tax asset or liability is expected to be realized or settled.

There is presently no taxation imposed by the government of the Cayman Islands on income or premiums of WWI. As a result, no tax liability or expense has been recorded.

The Corporation has evaluated its tax positions and has determined that it does not have any material unrecognized tax benefits or obligations as of December 31, 2017.

Donor-Restricted Gifts

Unconditional promises to give cash and other assets to the Corporation are reported at fair value at the date the promise is received. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the consolidated statement of operations as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reported as unrestricted contributions in the accompanying consolidated financial statements.

Fair Value of Financial Instruments

Fair value as defined under GAAP is an exit price, representing the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. GAAP establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value. These tiers include:

- Level 1: Observable inputs such as quoted prices in active markets.
- Level 2: Inputs other than quoted prices in active markets that are either directly or indirectly observable.
- Level 3: Unobservable inputs about which little or no market data exists, therefore requiring an entity to develop its own assumptions.

Adoption of New Accounting Standards Updates

During the year ended December 31, 2017, the Corporation implemented FASB Accounting Standard Update 2015-07 *Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities that Calculate Net Asset Value per Share (or Its Equivalent)*. This update removes the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value per share practical expedient. As a result of the retroactive application of this guidance, certain disclosures previously reported in Note 13 for 2016 have been reclassified to conform to the 2017 presentation. These reclassifications had no impact on the recognition or measurement of any amounts reported in the consolidated financial statements.

Commitment

On October 1, 2017, the Corporation entered into a five year agreement with Novant Health, Inc. (Novant Health) for certain contracted services. A base annual fee of \$5,265,968 is paid in quarterly installments, increasing on each anniversary of the effective date of the agreement by 1.5%.

Subsequent Events

The Corporation evaluated the effect subsequent events would have on the consolidated financial statements from January 1, 2018 through April 26, 2018 which is the date the consolidated financial statements were issued.

University Health, Inc.
Notes to Consolidated Financial Statements

2. Investments

Short-Term Investments

The composition of short-term investments at December 31, 2017 and 2016, is set forth in the following table:

	<u>2017</u>	<u>2016</u>
Cash and cash equivalents	\$ 2,787,655	\$ 2,308,846

Assets Limited as to Use

The composition of assets limited as to use at December 31, 2017 and 2016, is set forth in the following table:

	<u>2017</u>	<u>2016</u>
Cash and cash equivalents	\$ 3,360,464	\$ 3,860,336
Equities	24,748,805	14,654,621
Limited partnerships	3,128,437	2,606,089
Fixed income securities	13,914,883	9,051,337
Alternative investments	<u>47,915,412</u>	<u>33,214,074</u>
	<u>\$ 93,068,001</u>	<u>\$ 63,386,457</u>

Long-Term Investments

The composition of long-term investments at December 31, 2017 and 2016, is set forth in the following table:

	<u>2017</u>	<u>2016</u>
Cash and cash equivalents	\$ 7,276,675	\$ 7,488,669
Equities	112,477,437	89,052,327
Limited partnerships	14,773,354	17,790,960
Fixed income securities	69,459,287	69,918,396
Alternative investments	256,597,159	259,559,588
Other	<u>3,395,290</u>	<u>4,594,906</u>
	<u>\$ 463,979,202</u>	<u>\$ 448,404,846</u>

Investment income, gains, and losses for short-term investments, assets limited as to use, long-term investments, and cash and cash equivalents are comprised of the following for the years ended December 31, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Interest and dividend income	\$ 8,781,542	\$ 6,989,955
Net realized gains/(losses) on investments	8,395,980	5,795,951
Change in net unrealized losses on investments, trading securities	<u>44,139,388</u>	<u>21,936,606</u>
	<u>\$ 61,316,910</u>	<u>\$ 34,722,512</u>

3. Property and Equipment

Property and equipment consist of the following:

	<u>2017</u>	<u>2016</u>
Land	\$ 28,102,777	\$ 26,269,727
Land improvements	8,626,535	8,219,701
Buildings and improvements	428,930,365	401,707,163
Major moveable equipment	365,418,486	328,983,747
Fixed equipment	<u>19,005,716</u>	<u>19,007,357</u>
	850,083,879	784,187,695
Less accumulated depreciation	<u>(498,126,041)</u>	<u>(458,883,829)</u>
	351,957,838	325,303,866
Construction in progress	<u>13,945,322</u>	<u>12,994,976</u>
	<u>\$ 365,903,160</u>	<u>\$ 338,298,842</u>

Equipment under capital lease obligations is included in major movable equipment and accumulated depreciation. The carrying value and related accumulated depreciation at December 31, 2017 are approximately \$10,298,000 and \$4,425,000, and at December 31, 2016 are approximately \$8,881,000 and \$2,650,000, respectively.

Estimated cost to complete existing construction in progress under contract, which relates primarily to facility renovation and expansion projects, is approximately \$27,902,000 at December 31, 2017.

4. Long-Term Debt

Long-term debt is summarized as follows:

	<u>2017</u>	<u>2016</u>
Revenue Anticipation Certificates, Series 2016	\$ 130,965,000	\$ 135,745,000
Bank Loans (Bank of America, TD Bank and GA Bank and Trust)	<u>125,391,522</u>	<u>96,395,129</u>
Total	256,356,522	232,140,129
Less current maturities	<u>(39,864,974)</u>	(31,807,235)
Plus unamortized bond issue premium	17,585,240	18,562,198
Less unamortized bond issuance costs	<u>(1,683,888)</u>	<u>(1,669,666)</u>
	<u>\$ 232,392,900</u>	<u>\$ 217,225,426</u>

On October 1, 2016, the Authority issued \$135,745,000 of tax-exempt Series 2016 revenue anticipation certificates (the 2016 Certificates) for the purpose of advance refunding the Series 2009 revenue anticipation certificates, in order to refinance the costs of acquiring, constructing, and equipping of hospital and health care facilities. The 2016 Certificates consist of Serial Certificates payable annually in varying principal amounts ranging from \$3,000,000 to \$10,465,000 through 2036 and bear interest at fixed rates ranging from 2.00% to 5.00%, payable annually.

The gross revenue and property of the Obligated Group are pledged as security for the 2016 Certificates. The Obligated Group consists of UHS, UHI, and UEC and affiliates of these corporations. The related loan agreements and master trust indenture contain certain covenants on the part of the Obligated Group, including limitations on the

University Health, Inc.
Notes to Consolidated Financial Statements

incurrence of additional indebtedness, transfers of assets, maintenance of certain amounts of insurance, and certain other financial covenants.

On November 24, 2009, the Authority issued \$152,460,000 of tax-exempt Series 2009 revenue anticipation certificates (the 2009 Certificates) for the purpose of refunding the Series 1999, 2003, and 2008 revenue anticipation certificates, in order to refinance the costs of acquiring, constructing, and installing certain additions, improvements, and renovations to UHS. The 2009 Certificates consisted of both Serial and Term Certificates. The 2009 Serial Certificates totaling \$23,725,000 were payable annually in varying principal amounts ranging from \$925,000 to \$2,935,000 through 2019 and bore interest at fixed rates ranging from 3.00% to 5.00%, payable annually. The 2009 Term Certificates totaling \$23,280,000, \$35,840,000, and \$69,615,000 were due 2024, 2029, and 2036, respectively, at interest rates ranging from 5.00% to 5.50%, payable annually. The 2009 Certificates were refunded in 2016 as noted above.

Beginning March 27, 2013, UHS entered into a financing agreement in the amount of approximately \$63,266,000 with Banc of America Leasing & Capital, LLC. to retroactively finance the Epic system conversion and other capital equipment. These funds were borrowed over the course of the year and each note schedule consists of a term of seven years with interest rates varying from 2.20% to 2.67%. The Note is secured by equipment purchased with the funds. In 2014, funds of approximately \$23,356,000 were borrowed from Banc of America to finance additional capital equipment. In 2015, funds of approximately \$20,955,000 were borrowed from Banc of America to finance additional capital equipment. Each note schedule related to 2014 and 2015 borrowings consists of a term of five years with interest rates varying from 2.36% to 2.43%. On February 3, 2017, \$16,550,298 was borrowed from Banc of America Leasing & Capital, LLC. to finance additional capital equipment. The additional debt has a term of five years with an interest rate of 2.86%. On May 24, 2017, \$10,000,000 was borrowed to finance additional capital equipment with a term of seven year with an interest rate of 3.09%.

On May 22, 2015, UHS entered into a promissory note in the amount of \$36,000,000 with Banc of America Leasing & Capital, LLC (the "Note") related to financing the termination of the pension plan. The Note is payable in sixty consecutive monthly installments of principal and interest at a fixed annual interest rate of 2.26%. The Note is secured by certain financial instruments. Under the terms of the agreement, these certain financial instruments must maintain a minimum market value that is greater than 125% of the then outstanding principal amount under the agreement which are classified as assets limited as to use in the accompanying balance sheets. The Note also has certain financial and other covenants for which UHS must comply.

On July 11, 2017, UHS entered into a promissory note in the amount of \$25,000,000 with TD Bank N.A. related to financing the purchase of certain assets of Trinity Hospital. The Note is payable in eighty-four consecutive monthly installments of principal and interest at a fixed annual interest rate of 2.63%. The Note is secured by certain financial instruments. Under the terms of the agreement, these certain financial instruments must maintain a minimum market value that is at least 100% of the then outstanding principal amount under the agreement which are classified as assets limited as to use in the accompanying balance sheets. The Note also has certain financial and other covenants for which UHS must comply.

On July 28, 2017, UHS entered into a promissory note in the amount of \$10,000,000 with Banc of America Leasing & Capital, LLC (the "Note"). The Note is payable in eighty-four consecutive monthly installments of principal and interest at a fixed annual interest rate of 2.99%. The Note is secured by certain financial instruments. Under the terms of the agreement, these certain financial instruments must maintain a minimum market value that is greater than 125% of the then outstanding principal amount under the agreement which are classified as assets limited as to use in the accompanying balance sheets. The Note also has certain financial and other covenants for which UHS must comply.

University Health, Inc.
Notes to Consolidated Financial Statements

Scheduled principal payments on all long-term debt obligations are as follows (excluding premium):

<u>Fiscal Year</u>	<u>Total</u>
2018	\$ 39,864,974
2019	40,038,924
2020	26,971,906
2021	13,066,377
2022	12,536,828
Thereafter	<u>123,877,513</u>
Total	<u>\$ 256,356,522</u>

5. Entrance Fees

Entrance fees are amounts paid by residents to ARCOA for admission to the continuing care retirement community, for future services to be rendered to the resident, and for use of the facility as specified in the contract. The refundable portion of entrance fees will be refunded to the resident or their estate upon the re-occupancy of the resident unit. These amounts are included in other current liabilities.

Nonrefundable entrance fees are included in other long-term obligations in the consolidated balance sheets as of December 31, 2017 and 2016.

Nonrefundable and refundable entrance fees are summarized as follows:

	<u>2017</u>	<u>2016</u>
Nonrefundable entrance fees	\$ 50,657,588	\$ 49,181,460
Less accumulated amortization	<u>(22,987,059)</u>	<u>(22,160,881)</u>
	<u>\$ 27,670,529</u>	<u>\$ 27,020,579</u>
Refundable entrance fee liability	<u>\$ 14,455,015</u>	<u>\$ 15,303,459</u>

The nonrefundable fees are amortized over the life expectancy of each specific resident based on actuarially determined life expectancies as of the date when the resident takes occupancy. ARCOA has not recorded an obligation to provide future health care services to its current residents because future revenues are expected to exceed costs related to these services.

6. Reserve for Contingent Losses

WWI, a wholly owned subsidiary of UHS, was incorporated as an exempted segregated portfolio company on August 23, 2002, under the laws of the Cayman Islands, B.W.I., to provide professional and general liability coverage for UHS and its sister corporations effective July 1, 2002. WWI provides prior acts professional liability coverage for UHI, UHS, UEC, UHR, UHM and the employed physicians for claims incurred but not reported from January 1, 1992 through July 1, 2002; and for claims incurred and reported from July 1, 2002 to the end of the current policy period, January 1, 2018.

WWI currently insures the Corporation, UHS, UHR and UHM for professional and general liabilities under a \$25 million policy on a claims made basis. WWI is directly responsible for up to \$5 million per claim with a policy aggregate of \$14 million. The \$20 million excess coverage is ceded in two tiers of \$10 million each to "A" rated outside insurance providers with WWI remaining liable for \$150,000 each and every claim, in the excess layer.

WWI currently insures UEC and ARCOA with a separate claims made policy of \$2 million per claim with a \$4 million annual aggregate, retroactive to January 1, 1992 for professional and general liability claims. In 2016, 100% of the professional exposure for the full time employed physicians was placed with a commercial carrier without any self-insured liability retained by UHS.

In 2012, the captive, under approval of the Cayman Island Monetary Authority, expanded coverage to address the workers compensation claims of University Health Services, Inc. WWI has a SIR of \$400,000/claim for workers compensation with excess coverage of \$2M provided by a commercial carrier. By 2016, all Georgia based employees were insured under the Walton Way workers compensation policy. All South Carolina based employees remain covered by a commercial policy.

The estimated liability and expenses related to the professional, general liability and workers compensation risks insured by WWI are based on incurred losses and expenses and expected future losses and expenses which are evaluated annually with an actuarial analysis performed by Willis Towers Watson which include the individual case reserves for identified and reported claims as well as aggregate liability for incurred but not reported losses.

UHI is subject to certain claims and regulatory reviews that arise in the ordinary course of business. Further, like other healthcare providers, UHI's operations are subject to a variety of federal, state, and local regulatory risks, including without limitation, the federal Anti-Kickback statute. It is also not possible at the present time to estimate the ultimate legal and financial liability, if any, with respect to certain claims or regulatory reviews. In the opinion of management, the eventual outcome of claims and regulatory reviews is not expected to have a material adverse effect on the UHI's financial position. However, depending on the amounts and timing of such resolution, an unfavorable outcome could materially affect the results of operations or cash flows in a particular period.

7. Concentrations of Credit Risk

UHS grants credit without collateral to its patients, most of who are local residents of Augusta, Georgia, and the surrounding region and are insured under various third-party payor agreements. The mix of receivables from patients and third-party payors at December 31, 2017 and 2016, was as follows:

	<u>2017</u>	<u>2016</u>
Medicare	42%	42%
Medicaid	6%	10%
Other third-party payor	37%	36%
Patients	<u>15%</u>	<u>12%</u>
	<u>100%</u>	<u>100%</u>

8. Retirement Benefits

UHS sponsors a defined benefit health care plan providing medical benefits to retirees. Prior to June 30, 2016, UHS sponsored a defined benefit pension plan.

UHS sponsored a defined benefit pension plan covering substantially all of UHS' eligible employees hired prior to January 1, 2005. The benefits were based on years of service and the employee's average compensation for the five consecutive calendar years during the last ten years of service which produces the highest average. Benefits were frozen as of December 31, 2006. UHS' funding policy was to contribute an amount at least equal to the minimum required ERISA contribution, but no less than the net periodic benefit cost.

On April 23, 2016, the Board authorized an amendment to the defined benefit pension plan to terminate the plan effective June 30, 2016. From August to November 2016, lump sum distributions were made or annuities were purchased for all remaining participants of the plan. Plan assets were liquidated by the end of 2016. A settlement loss of approximately \$103,000,000 was recognized in non-operating expense in the accompanying statements of operations for the year ended December 31, 2016.

Net periodic benefit cost includes the following components:

	<u>2016</u>
Interest cost	\$ 8,267,781
Service cost	808,172
Expected return on plan assets	(14,121,842)
Amortization of prior service cost	567,754
Amortization of net loss	1,661,256
Settlement loss	<u>102,931,533</u>
	<u>\$ 100,114,654</u>

The components of net periodic postretirement benefit cost other than the service cost component are included in the line item other components of net benefit cost in the accompanying consolidated statements of operations.

The actuarial assumptions used to determine net periodic benefit cost for the plan for the year ended December 31, 2016, were as follows:

	<u>2016</u>
Discount rate	4.55%
Expected long-term rate of return on plan assets	7.50%

University Health, Inc.
Notes to Consolidated Financial Statements

The following table presents a reconciliation of the beginning and ending balances of the plan's projected benefit obligation, the fair value of plan assets, and the funded status of the plan:

	<u>2016</u>
Change in benefit obligation:	
Projected benefit obligation, beginning of year	\$ 219,508,878
Service cost	808,172
Interest cost	8,267,781
Actuarial loss (gain)	21,151,778
Administrative expenses	(3,325,494)
Benefits paid	<u>(246,411,115)</u>
Projected benefit obligation, end of year	<u>\$ -</u>
Change in plan assets:	
Fair value of plan assets, beginning of year	\$ 190,808,895
Actual return on plan assets	11,374,623
Contributions of plan sponsor	47,553,091
Administrative expenses	(3,325,494)
Benefits paid	<u>(246,411,115)</u>
Fair value of plan assets, end of year	<u>\$ -</u>
Funded status of the plan recognized as a noncurrent liability in the balance sheets	<u>\$ -</u>

The gain in unrestricted net assets during the year is attributable to:

	<u>2016</u>
Amortization of prior service cost	\$ 567,754
Net gain during the year	<u>80,693,792</u>
	<u>\$ 81,261,546</u>

UHS sponsors a defined benefit health care plan that provides postretirement medical benefits to full-time employees hired prior to January 1, 2005, who have worked ten years and attained age 55 while in service with UHS. Effective January 1, 2011, the plan requires the employee to work twenty years and attain the age of 60. Effective January 1, 2010, the plan no longer provides a dental supplement to the participants. The plan is contributory with retiree contributions adjusted annually, and contains other cost-sharing features such as deductibles and coinsurance. The accounting for the plan anticipates future cost-sharing changes to the plan that are consistent with UHS' expressed intent to increase the retiree contribution rate annually for the expected increases in the health trend rates. UHS' policy is to fund benefits as they are actually submitted for payment by plan participants, rather than build a segregated reserve to finance future benefit payments.

University Health, Inc.
Notes to Consolidated Financial Statements

Net periodic postretirement benefit cost includes the following components:

	<u>2017</u>	<u>2016</u>
Service cost	\$ 578,985	\$ 561,148
Interest cost	1,215,446	1,177,481
Amortization of prior service cost	(1,010,881)	(1,010,881)
Amortization of actuarial loss	<u>1,300,926</u>	<u>1,207,103</u>
	<u>\$ 2,084,476</u>	<u>\$ 1,934,851</u>

The components of net periodic postretirement benefit cost other than the service cost component are included in the line item other components of net benefit cost in the accompanying consolidated statements of operations.

The following table presents a reconciliation of the beginning and ending balances of the plan's accumulated postretirement benefit obligation, and the funded status of the plan:

	<u>2017</u>	<u>2016</u>
Change in benefit obligation:		
Accumulated postretirement benefit obligation, beginning of year	\$ 32,601,129	\$ 29,924,916
Service cost	578,985	561,148
Interest cost	1,215,446	1,177,481
Actuarial loss (gain)	4,548,088	2,466,999
Net claims paid	<u>(1,890,425)</u>	<u>(1,529,415)</u>
Accumulated postretirement benefit obligation, end of year	<u>\$ 37,053,223</u>	<u>\$ 32,601,129</u>
Plan assets, end of year	<u>\$ -</u>	<u>\$ -</u>
Funded status of the plan recognized in the balance sheets	<u>\$ (37,053,223)</u>	<u>\$ (32,601,129)</u>

Amounts recognized in the consolidated balance sheets at December 31 consist of:

	<u>2017</u>	<u>2016</u>
Current liabilities	\$ (1,785,608)	\$ (1,890,425)
Noncurrent liabilities	<u>(35,267,615)</u>	<u>(30,710,704)</u>
Net amount recognized	<u>\$ (37,053,223)</u>	<u>\$ (32,601,129)</u>

Amounts recognized in unrestricted net assets at December 31 consist of:

	<u>2017</u>	<u>2016</u>
Net actuarial loss	\$ (19,360,422)	\$ (16,113,260)
Prior service credit	<u>2,446,334</u>	<u>3,457,215</u>
	<u>\$ (16,914,088)</u>	<u>\$ (12,656,045)</u>

University Health, Inc.
Notes to Consolidated Financial Statements

The gain (loss) in unrestricted net assets during the year is attributable to:

	<u>2017</u>	<u>2016</u>
Amortization of prior service credit	\$ (1,010,881)	\$ (1,010,881)
Amortization of loss	1,300,926	1,207,103
Net gain (loss) during the year	<u>(4,548,088)</u>	<u>(2,466,999)</u>
	<u>\$ (4,258,043)</u>	<u>\$ (2,270,777)</u>

The net actuarial loss and prior service credit included in unrestricted net assets and expected to be recognized in net periodic postretirement benefit cost during the fiscal year ending December 31, 2018, are \$1,701,641 and (\$1,010,881), respectively.

The discount rates used to determine net periodic postretirement benefit cost for the plan for the years ended December 31, 2017 and 2016 were as follows:

	<u>2017</u>	<u>2016</u>
Discount rate	4.54%	4.69%

The discount rate used to determine benefit obligations for the plan as of December 31, 2017 and 2016 were as follows:

	<u>2017</u>	<u>2016</u>
Discount rate	3.80%	4.54%

The initial and health care trend rates for determining benefit obligations at year-end are shown below. The initial rate decreases gradually to the ultimate trend rate.

	<u>2017</u>	<u>2016</u>
Medical benefits:		
Initial trend rate	6.50%/6.50%	6.90/6.80%
Ultimate trend rate	4.40%/4.50%	4.40/4.50%
Year ultimate rate reached	2038	2038

The health care cost trend rate assumption has a significant effect on the amounts reported. For example, increasing the assumed health care cost trend rate by one percentage point in each year would increase the accumulated postretirement benefit obligation as of December 31, 2017 by approximately \$6,290,000 and the aggregate of the service and interest cost components of net periodic postretirement benefit cost by approximately \$352,000 for 2017. A one percentage point decrease in each year would decrease the accumulated postretirement benefit obligation as of December 31, 2017, by approximately \$4,997,000 and the aggregate of the service cost and interest cost components of net periodic postretirement benefit cost by approximately \$274,000 for 2017.

University Health, Inc.
Notes to Consolidated Financial Statements

Based on current data and assumptions, the following benefit payments are expected to be paid over the next ten years:

Year ending:

2018	\$	1,785,608
2019		1,578,488
2020		1,407,532
2021		1,294,829
2022		1,304,202
2023-2027		7,721,155

The measurement dates used are December 31, 2017 and 2016.

ARCOA has a defined contribution retirement plan covering all employees. The plan is a tax-deferred annuity plan which allows employee contributions upon employment and employer contributions after one year of service. Discretionary employer contributions are made at fixed rates of participants' compensation and contributions to the plan. ARCOA incurred \$77,177 and \$196,240 of expenses related to the plan during the years ended December 31, 2017 and 2016, respectively.

9. Endowment and Other Donor Restricted Funds

The Corporation has 127 donor restricted endowment funds and 74 other donor restricted funds established for a variety of purposes. As required by GAAP, net assets associated with endowment funds, and other donor restricted funds, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

The State Prudent Management of Institutional Funds Act (SPMIFA) requires the preservation of the fair value of the original gift as of the gift date of the donor restricted endowment funds absent explicit donor stipulations to the contrary. As such, the Corporation classifies donor restricted endowment funds as permanently restricted net assets (a) at the original value of gifts donated to the permanent endowment, (b) at the original value of subsequent gifts to the permanent endowment, and (c) through accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the organization in a manner consistent with the standard of prudence prescribed by SPMIFA.

In accordance with SPMIFA, the Corporation considers the following factors in making a determination to appropriate or accumulate donor restricted endowment funds:

1. The duration and preservation of the fund
2. The purpose of the Corporation and the donor restricted endowment fund
3. General economic conditions
4. The possible effect of inflation and deflation
5. The expected total return from income and the appreciation of investments
6. Other resources of the organization
7. The investment policies of the organization

University Health, Inc.
Notes to Consolidated Financial Statements

The composition of donor restricted endowment funds and other donor restricted funds by type and restriction as of December 31, 2017, is summarized as follows:

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total Funds</u>
Donor restricted endowment funds	\$ 15,764,806	\$ 21,534,094	\$ 37,298,900
Other donor restricted funds	<u>6,463,957</u>	<u>-</u>	<u>6,463,957</u>
Total donor restricted funds	<u>\$ 22,228,763</u>	<u>\$ 21,534,094</u>	<u>\$ 43,762,857</u>

The composition of donor restricted endowment funds and other donor restricted funds by type and restriction as of December 31, 2016, is summarized as follows:

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total Funds</u>
Donor restricted endowment funds	\$ 12,193,941	\$ 21,053,901	\$ 33,247,842
Other donor restricted funds	<u>5,622,147</u>	<u>-</u>	<u>5,622,147</u>
Total donor restricted funds	<u>\$ 17,816,088</u>	<u>\$ 21,053,901</u>	<u>\$ 38,869,989</u>

The changes in donor restricted funds for the year ended December 31, 2017 are summarized as follows:

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total Funds</u>
Donor restricted funds, beginning of year	\$ 17,816,088	\$ 21,053,901	\$ 38,869,989
Investment gain:			
Investment income	786,550	-	786,550
Net appreciation (realized and unrealized)	<u>3,917,420</u>	<u>-</u>	<u>3,917,420</u>
Total investment gain	4,703,970	-	4,703,970
New gifts	2,801,536	403,772	3,205,305
Appropriation of endowment assets for expenditure	(2,361,683)	-	(2,361,683)
Transfers	<u>(731,148)</u>	<u>76,421</u>	<u>(654,724)</u>
Donor restricted funds, end of year	<u>\$ 22,228,763</u>	<u>\$ 21,534,094</u>	<u>\$ 43,762,857</u>

University Health, Inc.
Notes to Consolidated Financial Statements

The changes in donor restricted funds for the year ended December 31, 2016 are summarized as follows:

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total Funds</u>
Donor restricted funds, beginning of year	\$ 16,054,846	\$ 20,623,371	\$ 36,678,217
Investment gain:			
Investment income	655,154	-	655,154
Net appreciation (realized and unrealized)	<u>1,917,663</u>	<u>-</u>	<u>1,917,663</u>
Total investment gain	2,572,817	-	2,572,817
New gifts	2,006,298	345,171	2,351,469
Appropriation of endowment assets for expenditure	(2,285,643)	-	(2,285,643)
Transfers	<u>(532,230)</u>	<u>85,359</u>	<u>(446,871)</u>
Donor restricted funds, end of year	<u>\$ 17,816,088</u>	<u>\$ 21,053,901</u>	<u>\$ 38,869,989</u>

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor or SPMIFA requires the Corporation to retain as a fund of perpetual duration. There were no significant deficiencies as of December 31, 2017 and 2016.

Return Objectives and Risk Parameters

The Corporation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the organization must hold in perpetuity or for a donor-specified period(s). The Corporation expects its endowment funds, over time, to provide an average rate of return of approximately 8 percent annually. Actual returns in any given year may vary from this amount.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the Corporation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Corporation targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy

During 2009, the Corporation adopted a policy of appropriating for distribution each year 4 percent of its endowment fund's three year moving average as of September 30 preceding the fiscal year in which the distribution is planned. In establishing this policy, the Corporation considered the long-term expected return on its endowment. Accordingly, over the long term, the Corporation expects the current spending policy to allow its endowment to grow at an average of 4 percent annually. This is consistent with the Corporation's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

University Health, Inc.
Notes to Consolidated Financial Statements

10. Income Taxes

Deferred income taxes, which as of December 31, 2017 and 2016, have no net carrying value, reflect the net tax effect of temporary differences between the carrying amounts of assets and liabilities for financial reporting and the amounts used for income tax purposes. As of December 31, 2017 and 2016, the Corporation had deferred tax assets of approximately \$11,608,000 and \$11,377,000, respectively, relating principally to net operating loss carryovers of UHR. GAAP requires a valuation allowance to reduce the deferred tax assets reported if, based on the weight of the evidence, it is more likely than not that some portion or all of the deferred tax assets will not be realized. After consideration of all the evidence, both positive and negative, management determined that a \$11,608,000 and \$11,377,000 allowance at December 31, 2017 and 2016, respectively, was necessary to reduce the deferred tax assets to the amount that would more likely than not be realized to zero. At December 31, 2017, the Corporation has available net operating loss carryforwards of approximately \$30,579,000, which began expiring during the 2006 tax year.

11. Leases

The Corporation leases office space and equipment from various parties. Future minimum payments, by year and in the aggregate, at December 31, 2017, are as follows:

	<u>Capital Leases</u>	<u>Operating Leases</u>
2018	\$ 2,173,414	\$ 4,560,587
2019	1,948,722	3,384,100
2020	1,664,753	2,616,938
2021	354,500	2,526,449
2022	172,640	2,409,641
Thereafter	-	1,475,349
Total minimum lease payments	<u>6,314,029</u>	<u>16,973,064</u>
Less amounts representing interest	<u>(295,258)</u>	
Present value of net minimum lease payments (including current portion of \$2,022,686)	<u>\$ 6,018,771</u>	<u>\$ 16,973,064</u>

Rental expense incurred for 2017 and 2016 amounted to \$7,600,000 and \$6,500,000, respectively.

12. Functional Expenses

The Corporation provides inpatient, outpatient, emergency care services, and long-term care primarily for residents of the Augusta, Georgia area. Expenses related to providing these services for the years ended December 31, 2017 and 2016, are approximately:

	<u>2017</u>	<u>2016</u>
Patient care services	<u>\$ 602,889,202</u>	\$ 578,315,106
General and administrative	<u>28,408,392</u>	<u>11,080,640</u>
Total operating expenses	<u>\$ 631,297,594</u>	<u>\$ 589,395,746</u>

13. Fair Values of Financial Instruments

Assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The Corporation's assessment of the significance of a particular input to the fair value measurement requires judgment, and may affect the valuation of fair value assets and liabilities and their placement within the fair value hierarchy levels. There were no changes in valuation techniques during the current year.

When quoted prices are available in active markets for identical instruments, investment securities are classified within Level 1 of the fair value hierarchy. Level 1 investments include common stocks and certain equity mutual funds.

Level 2 investment securities include money market funds, corporate bonds, U.S. government backed securities, mortgage-backed securities, certain equity mutual funds, and non-publicly traded common stocks for which quoted prices are not available in active markets for identical instruments. The Corporation utilizes a third party pricing service to determine the fair value of each of these investment securities. Because quoted prices in active markets for identical assets are not available, these prices are determined using observable market information such as quotes from less active markets and/or quoted prices of securities with similar characteristics.

University Health, Inc.
Notes to Consolidated Financial Statements

The following table set forth by level within the fair value hierarchy the Corporation's assets accounted for at fair value on a recurring basis at December 31, 2017:

	<u>Level 1</u>	<u>Level 2</u>	<u>Total</u>
<u>Short-term investments</u>			
Cash and cash equivalents:			
Money market funds	\$ -	\$ 2,787,655	\$ 2,787,655
<u>Assets limited as to use</u>			
Cash and cash equivalents:			
Money Market Fund	\$ -	\$ 1,346,347	\$ 1,346,347
STIF-type instrument	-	<u>2,014,117</u>	<u>2,014,117</u>
Total Cash and cash equivalents	-	3,360,464	3,360,464
Equities:			
Common stocks	5,007,035	-	5,007,035
Mutual Funds:			
Domestic	3,297,200	-	3,297,200
International	13,999,992	1,765,146	15,765,138
Commodity	213,622	-	213,622
Preferred stocks	182,589	-	182,589
REIT	<u>283,221</u>	-	<u>283,221</u>
Total equities	22,983,659	1,765,146	24,748,805
Limited partnerships	3,128,437	-	3,128,437
Fixed Income securities:			
Corporate bonds	-	2,842,739	2,842,739
Mutual funds	10,882,950	-	10,882,950
U.S. government backed and other securities	-	<u>189,194</u>	<u>189,194</u>
Total fixed income securities	<u>10,882,950</u>	<u>3,031,933</u>	<u>13,914,883</u>
Total assets limited as to use in the fair value hierarchy	<u>\$ 36,995,046</u>	<u>\$ 8,157,543</u>	45,152,589
Total assets limited as to use measured at net asset value (a)			<u>47,915,412</u>
Total assets limited as to use			<u>\$ 93,068,001</u>

(a) In accordance with Topic 820, certain investments that were measured at NAV per share (or its equivalent) 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 line items presented in the consolidated balance sheets.

University Health, Inc.
Notes to Consolidated Financial Statements

	<u>Level 1</u>	<u>Level 2</u>	<u>Total</u>
<u>Long-term investments</u>			
Cash and cash equivalents:			
Money Market Funds	\$ -	\$ 2,749,845	\$ 2,749,845
STIF-type instrument	-	<u>4,526,830</u>	<u>4,526,830</u>
Total Cash and cash equivalents	-	7,276,675	7,276,675
Equities:			
Common stocks	21,457,233		21,457,233
Mutual funds:			
Domestic	10,672,931	-	10,672,931
International	70,034,693	8,998,355	79,033,048
REIT	<u>1,314,225</u>		<u>1,314,225</u>
Total equities	103,479,082	8,998,355	112,477,437
Limited partnerships	14,773,354	-	14,773,354
Fixed income securities:			
Corporate bonds	-	13,015,760	13,015,760
Mutual funds	55,479,056	-	55,479,056
U.S. government backed and other securities	-	<u>964,471</u>	<u>964,471</u>
Total fixed income securities	<u>55,479,056</u>	<u>13,980,231</u>	<u>69,459,287</u>
Total long-term investments	<u>\$173,731,492</u>	<u>\$ 30,255,261</u>	203,986,753
Total long-term investments measured at net asset value (a)			<u>256,597,159</u>
Total long-term investments			<u>\$ 460,583,912</u>
Cost and equity investments, not considered financial instruments			<u>3,395,290</u>
Total long-term investments			<u>\$ 463,979,202</u>

(a) In accordance with Topic 820, certain investments that were measured at NAV per share (or its equivalent) 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 line items presented in the consolidated balance sheets.

University Health, Inc.
Notes to Consolidated Financial Statements

The following table set forth by level within the fair value hierarchy the Corporation's assets accounted for at fair value on a recurring basis at December 31, 2016:

	<u>Level 1</u>	<u>Level 2</u>	<u>Total</u>
<u>Short-term investments</u>			
Cash and cash equivalents:			
Money market funds	\$ -	\$ 2,308,846	\$ 2,308,846
<u>Assets limited as to use</u>			
Cash and cash equivalents:			
STIF-type instrument	\$ 156,700	\$ 3,703,636	\$ 3,860,336
Equities:			
Common stocks	5,066,334	-	5,066,334
Mutual Funds:			
Domestic	2,521,647	-	2,521,647
International	6,509,457	-	6,509,457
Commodity	177,419	-	177,419
Preferred stocks	179,385	-	179,385
REIT	<u>200,379</u>	<u>-</u>	<u>200,379</u>
Total equities	14,654,621	-	14,654,621
Limited partnerships	2,606,089	-	2,606,089
Fixed Income securities:			
Corporate bonds	-	2,274,837	2,274,837
Mutual funds	6,689,698	-	6,689,698
U.S. government backed and other securities	<u>-</u>	<u>86,802</u>	<u>86,802</u>
Total fixed income securities	<u>6,689,698</u>	<u>2,361,639</u>	<u>9,051,337</u>
Total assets limited as to use in the fair value hierarchy	<u>\$ 24,107,108</u>	<u>\$ 6,065,275</u>	30,172,383
Total assets limited as to use measured at net asset value (a)			<u>33,214,074</u>
Total assets limited as to use			<u>\$ 63,386,457</u>

(a) In accordance with Topic 820, certain investments that were measured at NAV per share (or its equivalent) 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 line items presented in the consolidated balance sheets.

University Health, Inc.
Notes to Consolidated Financial Statements

	<u>Level 1</u>	<u>Level 2</u>	<u>Total</u>
<u>Long-term investments</u>			
Cash and cash equivalents:			
STIF-type instrument	\$ 1,145,488	\$ 6,343,181	\$ 7,488,669
Equities:			
Common stocks	29,974,051	-	29,974,051
Mutual funds:			
Domestic	10,158,055	-	10,158,055
International	46,580,799	1,115,967	47,696,766
REIT	<u>1,223,455</u>	<u>-</u>	<u>1,223,455</u>
Total equities	87,936,360	1,115,967	89,052,327
Limited partnerships	17,790,960	-	17,790,960
Fixed income securities:			
Corporate bonds	-	14,032,574	14,032,574
Mutual funds	48,902,273	6,349,007	55,251,280
U.S. government backed and other securities	<u>-</u>	<u>634,542</u>	<u>634,542</u>
Total fixed income securities	<u>48,902,273</u>	<u>21,016,123</u>	<u>69,918,396</u>
Total long-term investments	<u>\$155,775,081</u>	<u>\$ 28,475,271</u>	184,250,352
Total long-term investments measured at net asset value (a)			<u>259,559,588</u>
Total long-term investments			<u>\$ 443,809,940</u>
Cost and equity investments, not considered financial instruments			<u>4,594,906</u>
Total long-term investments			<u>\$ 448,404,846</u>

(a) In accordance with Topic 820, certain investments that were measured at NAV per share (or its equivalent) 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 line items presented in the consolidated balance sheets.

University Health, Inc.
Notes to Consolidated Financial Statements

The carrying values of cash, accounts receivable and accounts payable are reasonable estimates of their fair value due to the short-term nature of these financial instruments. Fair values of UHI's revenue certificates are based on currently traded values. The carrying amounts and fair values of UHI's long-term debt at December 31, 2017, are as follows:

	2017		2016	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Long-term debt	\$273,941,763	\$288,516,977	\$250,702,326	\$260,972,911

Investment securities are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, the possibility is reasonable that changes in the values of investment securities will occur in the near term and that these changes could materially affect the amounts reported in the consolidated balance sheets.

UHI invests in alternative investments that are defined as venture capital, international and domestic private equity investments, and absolute return (hedge) funds. Long-term investments are alternative investment funds, primarily comprised of real estate funds that require seven to ten year fund terms before the investments can be liquidated.

The recorded market price for alternative investments is estimated by the individual investment manager taking into account such factors as the financial condition of each investee, economic and market conditions affecting their operations, any changes in management, the length of time since the initial investment, recent transactions involving the securities of the investee, the value of similar securities issued by companies in the same or similar businesses, and limited marketability of the portfolio. Valuations provided by the general partners and investment managers are evaluated by management through accounting and financial reporting processes to review and monitor existence and valuation assertions. Due to the inherent uncertainty of valuation of alternative investments, the fair values estimated by the individual investment manager, in the absence of readily ascertainable market values, may not necessarily represent the amounts that could be realized from sales or other dispositions of investments, and the differences may be material.

UHI's alternative investments are measured at net asset value as a practical expedient for fair value and are accordingly excluded from the fair value hierarchy. The table below sets forth a summary of the alternative investments including a description of the investments and any unfunded commitments or restrictions associated with the investments.

University Health, Inc.
Notes to Consolidated Financial Statements

	<u>Fair Value At 12/31/2017</u>	<u>Fair Value at 12/31/2016</u>	<u>Unfunded Commitments</u>	<u>Other Redemption Restrictions</u>	<u>Redemption Notice Period (v)</u>
Included in assets Limited as to use:					
Energy funds (i)	\$ 1,107,318	\$ 1,931,045	\$ 1,081,300	Not permitted	-
Real estate investment funds (ii)	4,371,964	3,077,824	416,302	Not permitted	-
Master funds and fund of funds (iii)	4,104,591	2,511,694	-	No Restrictions	90 day written notice, monthly
Private funds (iv)	<u>38,331,539</u>	<u>25,693,511</u>	1,695,110	Some Not Permitted	0-90 day written notice, monthly
	<u>\$ 47,915,412</u>	<u>\$ 33,214,074</u>			
Included in long-term investments:					
Energy funds (i)	\$ 5,644,879	\$ 9,844,072	\$ 10,217,349	Not Permitted	-
Real estate investment Funds (ii)	22,287,378	22,499,170	3,933,698	Not Permitted	-
Master funds and fund of funds (iii)	20,924,368	20,879,950	-	No Restrictions	90 day written notice, monthly
Private funds (iv)	<u>207,740,534</u>	<u>206,336,396</u>	16,017,316	Some not permitted	0-90 day written notice, monthly
	<u>\$256,597,159</u>	<u>\$259,559,588</u>			

- i. The objective of these investments is to capitalize on investment opportunities in the energy industry. These investments include but are not limited to energy-related assets, securities or instruments, including loans, participations in loans, loan assignments and other forms of debt secured by energy-related assets.
- ii. The objective of these investments is to achieve long-term growth of capital by investing in a wide range of real estate investments. These investments include portfolio companies, portfolio investments, and real estate assets.
- iii. The objective of these investments is to achieve long-term growth of capital by investing in various funds that focus on a wide range of investments. These investments include but are not limited to equity securities.
- iv. The objective of these investments is to achieve long-term growth of capital by investing in a wide range of investments. These investments include but are not limited to debt, equities, derivatives, assets that carry exposure to insurance risk, and real estate.

University Health, Inc.
Notes to Consolidated Financial Statements

- v. If the aggregate amount requested by investors to be redeemed on any redemption date is greater than 25% of the net asset value of the total fund, the Fund Board may reduce the amount of shares to be redeemed pro rata among investors so that the aggregate amount to be withdrawn equals 25% of the net asset value of the fund.

Supplementary Information

Independent Auditors' Report on Supplementary Information

The Board of Trustees
University Health, Inc.

We have audited the consolidated financial statements of University Health, Inc. as of and for the years ended December 31, 2017 and 2016, and have issued our separate report thereon dated April 26, 2018, which contained an unmodified opinion on the consolidated financial statements. Our audits were performed for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating information in the accompanying schedules is presented for the purpose of additional analysis of the consolidated financial statements rather than to present the financial position and results of operations of the individual affiliates and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, which insofar as it relates to Walton Way Indemnity, SPC (WWI) is based on the report of other auditors, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Dixon Hughes Goodman LLP

Charlotte, North Carolina
April 25, 2018

University Health, Inc.
Consolidating Balance Sheet Information
December 31, 2017

	University Health Services, Inc.	University Extended Care, Inc.	University Health Resources, Inc.	University Health, Inc.	Augusta Resource Center on Aging, Inc.	University Health Care Physicians, Physicians,	University Hospice, Inc.	University McDuffie County Regional Medical Medical Center,	Eliminations	Consolidated
Assets										
Cash and cash equivalents	\$ 12,462,491	\$ 4,482,837	\$ 1,574,538	\$ -	\$ 3,962,040	\$ 2,700,844	\$ -	\$ 3,537,644	\$ -	\$ 28,720,394
Short-term investments	-	-	-	-	2,787,655	-	-	-	-	2,787,655
Patient accounts receivable, net	88,412,394	2,738,332	-	-	1,485,142	3,712,763	-	3,833,537	-	100,182,168
Other receivables	12,249,115	6,273	631,602	-	35,431	332,824	-	21,442	(1,020,057)	12,256,630
Inventories	11,765,652	-	-	-	50,946	-	-	500,313	-	12,316,911
Prepaid expenses	8,355,566	153,189	12,968	-	42,950	573,650	-	241,159	-	9,379,482
Total current assets	<u>133,245,218</u>	<u>7,380,631</u>	<u>2,219,108</u>	<u>-</u>	<u>8,364,164</u>	<u>7,320,081</u>	<u>-</u>	<u>8,134,095</u>	<u>(1,020,057)</u>	<u>165,643,240</u>
Property and equipment, net	267,864,522	3,250,815	8,151,936	-	46,480,490	11,040,608	-	29,114,789	-	365,903,160
Other assets:										
Amounts due from affiliates	31,869,248	5,475,319	-	32,484,352	-	286,837	-	10,505	(70,126,261)	-
Assets limited as to use	93,068,001	-	-	-	-	-	-	-	-	93,068,001
Investments	394,862,273	36,603,144	554,084	46,649,190	30,909,109	-	-	-	(45,598,598)	463,979,202
Other	9,513,406	223,611	-	-	-	522,900	-	62,345	-	10,322,262
	<u>\$ 930,422,668</u>	<u>\$ 52,933,520</u>	<u>\$ 10,925,128</u>	<u>\$ 79,133,542</u>	<u>\$ 85,753,763</u>	<u>\$ 19,170,426</u>	<u>\$ -</u>	<u>\$ 37,321,734</u>	<u>\$ (116,744,916)</u>	<u>\$1,098,915,865</u>

See independent auditors' report on supplementary information.

University Health, Inc.
Consolidating Balance Sheet Information (continued)
December 31, 2017

	University Health Services, Inc.	University Extended Care, Inc.	University Health Resources, Inc.	University Health, Inc.	Augusta Resource Center on Aging, Inc.	University Health Care Physicians, Physicians,	University Hospice, Inc.	University McDuffie County Regional Medical Center,	Eliminations	Consolidated
Liabilities and net assets										
Current liabilities:										
Accounts payable and accrued expenses	\$ 29,531,985	\$ 1,771,330	\$ 969	\$ -	\$ 130,617	\$ 1,217,573	\$ -	\$ 583,260	\$ -	\$ 33,235,734
Accrued compensation, benefits, and withholdings	24,173,481	711,326	-	-	318,580	6,366,273	-	419,327	-	31,988,987
Other current liabilities	2,640,492	-	-	-	18,328,045	-	-	186,426	-	21,154,963
Estimated third-party payor settlements	11,907,761	360,365	-	-	-	-	-	1,352,976	-	13,621,102
Current maturities of long-term debt	37,819,788	-	-	2,045,186	-	-	-	1,020,057	(1,020,057)	39,864,974
Current portion of capital lease obligations	1,927,812	-	-	-	-	-	-	94,874	-	2,022,686
Short-term accrued postretirement benefit cost	1,785,608	-	-	-	-	-	-	-	-	1,785,608
Total current liabilities	109,786,927	2,843,021	969	2,045,186	18,777,242	7,583,846	-	3,656,920	(1,020,057)	143,674,054
Long-term debt, less current maturities	228,114,750	-	-	4,278,150	-	-	-	26,521,495	(26,521,495)	232,392,900
Long-term capital lease obligations, less current portion	3,842,911	-	-	-	-	-	-	153,174	-	3,996,085
Other long-term obligations	3,407,914	-	-	-	27,670,529	-	-	-	-	31,078,443
Amounts due to affiliates	5,475,179	13,112	29,571,614	1,668,805	6,515,394	-	-	360,662	(43,604,766)	-
Reserve for contingent losses	15,270,816	-	-	-	-	-	-	-	-	15,270,816
Accrued pension cost	-	-	-	-	-	-	-	-	-	-
Accrued postretirement benefit cost, less short-term obligation	35,267,615	-	-	-	-	-	-	-	-	35,267,615
Total liabilities	401,166,112	2,856,133	29,572,583	7,992,141	52,963,165	7,583,846	-	30,692,251	(71,146,318)	461,679,913
Net assets:										
Unrestricted	485,493,699	50,077,387	-	71,141,401	32,790,598	-	-	3,378,032	(49,408,022)	593,473,095
Temporarily restricted	22,228,763	-	-	-	-	-	-	-	-	22,228,763
Permanently restricted	21,534,094	-	-	-	-	-	-	-	-	21,534,094
Total net assets	529,256,556	50,077,387	-	71,141,401	32,790,598	-	-	3,378,032	(49,408,022)	637,235,952
Contributed capital	-	-	50,484,022	-	-	172,649,200	2,202,880	3,251,451	(228,587,553)	-
Retained (deficit) earnings	-	-	(69,131,477)	-	-	(161,062,620)	(2,202,880)	-	232,396,977	-
	<u>\$ 930,422,668</u>	<u>\$ 52,933,520</u>	<u>\$ 10,925,128</u>	<u>\$ 79,133,542</u>	<u>\$ 85,753,763</u>	<u>\$ 19,170,426</u>	<u>\$ -</u>	<u>\$ 37,321,734</u>	<u>\$ (116,744,916)</u>	<u>\$ 1,098,915,865</u>

University Health, Inc.
Consolidating Statement of Operations Information
Year Ended December 31, 2017

	University Health Services, Inc.	University Extended Care, Inc.	University Health Resources, Inc.	University Health, Inc.	Augusta Resource Center on Aging, Inc.	University Health Care Physicians, Physicians,	University Hospice, Inc.	University McDuffie County Regional Medical Center,	Eliminations	Consolidated
Unrestricted revenues and other support:										
Patient service revenue (net of contractual allowances and discounts)	\$ 527,331,594	\$ 35,076,130	\$ -	\$ -	\$ 13,707,366	\$ 60,012,164	\$ -	\$ 24,842,101	\$ -	\$ 660,969,355
Provision for bad debts	(32,733,965)	(1,049,651)	-	-	-	-	-	(4,261,703)	-	(38,045,319)
Net patient service revenue less provision for bad debts	494,597,629	34,026,479	-	-	13,707,366	60,012,164	-	20,580,398	-	622,924,036
Other operating revenues	15,737,573	22,576	4,751,133	94,532	5,640,964	12,749,204	-	19,282	(19,279,706)	19,735,558
Net assets released from restriction	2,361,683	-	-	-	-	-	-	-	-	2,361,683
Total unrestricted revenues and other support	512,696,885	34,049,055	4,751,133	94,532	19,348,330	72,761,368	-	20,599,680	(19,279,706)	645,021,277
Operating expenses:										
Salaries and benefits	209,128,640	13,239,423	-	-	6,702,362	81,535,659	-	7,341,300	6,154,120	324,101,504
Other operating expenses	228,668,428	15,332,521	3,515,695	27,101	6,394,060	16,814,621	-	8,949,859	(24,601,541)	255,100,744
Depreciation	35,350,220	557,767	1,412,138	-	2,569,660	2,295,674	-	1,994,863	-	44,180,322
Interest	7,686,806	-	-	221,397	219,283	-	-	839,106	(1,051,568)	7,915,024
Total operating expenses	480,834,094	29,129,711	4,927,833	248,498	15,885,365	100,645,954	-	19,125,128	(19,498,989)	631,297,594
Income (Loss) from operations	31,862,791	4,919,344	(176,700)	(153,966)	3,462,965	(27,884,586)	-	1,474,552	219,283	13,723,683
Nonoperating income:										
Investment income	48,971,031	4,103,849	25,551	7,188,358	3,489,588	-	-	6,399	(7,171,836)	56,612,940
Loss on early extinguishment of debt	-	-	-	-	-	-	-	-	-	-
Other components of net benefit cost	(1,505,491)	-	-	-	-	-	-	-	-	(1,505,491)
Total nonoperating income	47,465,540	4,103,849	25,551	7,188,358	3,489,588	-	-	6,399	(7,171,836)	55,107,449
Excess (deficiency) of revenues, other support, and gains over expenses and losses	79,328,331	9,023,193	(151,149)	7,034,392	6,952,553	(27,884,586)	-	1,480,951	(6,952,553)	68,831,132
Change in pension and postretirement plans funded status	(4,258,043)	-	-	-	-	-	-	-	-	(4,258,043)
Other	(27,176)	-	-	-	-	-	-	-	-	(27,176)
Transfer (to) from affiliate	(25,874,625)	-	-	-	-	25,874,625	-	-	-	-
Transfer from temporarily/permanently restricted net assets	654,727	-	-	-	-	-	-	-	-	654,727
Increase (decrease) in unrestricted net assets	\$ 49,823,214	\$ 9,023,193	\$ (151,149)	\$ 7,034,392	\$ 6,952,553	\$ (2,009,961)	\$ -	\$ 1,480,951	\$ (6,952,553)	\$ 65,200,640

University Health, Inc.
Consolidating Statement of Changes in Net Assets Information
Year Ended December 31, 2017

	University Health Services, Inc.	University Extended Care, Inc.	University Health Resources, Inc.	University Health, Inc.	Augusta Resource Center on Aging, Inc.	University Health Care Physicians, Physicians,	University Hospice, Inc.	University McDuffie County Regional Medical Center,	Eliminations	Consolidated
Unrestricted net assets:										
Excess (deficiency) of revenues, other support, and gains over expenses and losses	\$ 79,328,331	\$ 9,023,193	\$ (151,149)	\$ 7,034,392	\$ 6,952,553	\$ (27,884,586)	\$ -	\$ 1,480,951	\$ (6,952,553)	\$ 68,831,132
Change in pension and postretirement plans funded status	(4,258,043)	-	-	-	-	-	-	-	-	(4,258,043)
Other	(27,176)	-	-	-	-	-	-	-	-	(27,176)
Transfer (to) from affiliate	(25,874,625)	-	-	-	-	25,874,625	-	-	-	-
Transfer from temporarily/permanently restricted net assets	654,727	-	-	-	-	-	-	-	-	654,727
Increase (decrease) in unrestricted net assets	49,823,214	9,023,193	(151,149)	7,034,392	6,952,553	(2,009,961)	-	1,480,951	(6,952,553)	65,200,640
Temporarily restricted net assets:										
Contributions and other	2,801,536	-	-	-	-	-	-	-	-	2,801,536
Investment income	4,703,970	-	-	-	-	-	-	-	-	4,703,970
Net assets released from restriction	(2,361,683)	-	-	-	-	-	-	-	-	(2,361,683)
Transfer to unrestricted/restricted assets	(731,148)	-	-	-	-	-	-	-	-	(731,148)
Increase in temporarily restricted net assets	4,412,675	-	-	-	-	-	-	-	-	4,412,675
Permanently restricted net assets:										
Contributions and other	403,772	-	-	-	-	-	-	-	-	403,772
Transfer from unrestricted/temporarily restricted assets	76,421	-	-	-	-	-	-	-	-	76,421
Increase in permanently restricted net assets	480,193	-	-	-	-	-	-	-	-	480,193
Increase (decrease) in net assets	54,716,082	9,023,193	(151,149)	7,034,392	6,952,553	(2,009,961)	-	1,480,951	(6,952,553)	70,093,508
Net assets at beginning of year	474,540,474	41,054,194	(18,496,306)	64,107,009	25,838,045	13,596,541	-	5,148,532	(38,646,045)	567,142,444
Net assets at end of year	<u>\$ 529,256,556</u>	<u>\$ 50,077,387</u>	<u>\$ (18,647,455)</u>	<u>\$ 71,141,401</u>	<u>\$ 32,790,598</u>	<u>\$ 11,586,580</u>	<u>\$ -</u>	<u>\$ 6,629,483</u>	<u>\$ (45,598,598)</u>	<u>\$ 637,235,952</u>

University Health, Inc.
Consolidating Balance Sheet Information
December 31, 2016

	University Health Services, Inc.	University Extended Care, Inc.	University Health Resources, Inc.	University Health, Inc.	Augusta Resource Center on Aging, Inc.	University Health Care Physicians, Physicians,	University Hospice, Inc.	University McDuffie County Regional Medical Center,	Eliminations	Consolidated
Assets										
Cash and cash equivalents	\$ 9,568,226	\$ 1,856,523	\$ 1,390,866	\$ -	\$ 2,856,657	\$ 6,540,750	\$ -	\$ 2,987,634	\$ -	\$ 25,200,656
Short-term investments	-	-	-	-	2,308,846	-	-	-	-	2,308,846
Patient accounts receivable, net	75,562,510	2,313,746	-	-	1,483,098	3,735,229	-	3,803,456	-	86,898,039
Other receivables	12,295,388	19,918	222,133	-	11,134	387,879	-	186,025	(1,319,169)	11,803,308
Inventories	9,797,976	-	-	-	87,435	-	-	508,077	-	10,393,488
Prepaid expenses	8,576,504	37,452	-	-	24,559	583,401	-	297,988	-	9,519,904
Total current assets	115,800,604	4,227,639	1,612,999	-	6,771,729	11,247,259	-	7,783,180	(1,319,169)	146,124,241
Property and equipment, net	237,425,788	3,529,493	9,194,605	901,030	47,270,284	9,712,053	-	30,265,589	-	338,298,842
Other assets:										
Amounts due from affiliates	36,106,117	3,328,414	242,807	34,469,346	-	98,187	-	-	(74,244,871)	-
Assets limited as to use	63,386,457	-	-	-	-	-	-	-	-	63,386,457
Investments	386,534,856	32,499,457	863,450	39,709,330	27,443,798	-	-	-	(38,646,045)	448,404,846
Other	9,059,676	240,278	-	-	-	1,053,006	-	244,504	-	10,597,464
	<u>\$ 848,313,498</u>	<u>\$ 43,825,281</u>	<u>\$ 11,913,861</u>	<u>\$ 75,079,706</u>	<u>\$ 81,485,811</u>	<u>\$ 22,110,505</u>	<u>\$ -</u>	<u>\$ 38,293,273</u>	<u>\$ (114,210,085)</u>	<u>\$ 1,006,811,850</u>

See independent auditors' report on supplementary information.

University Health, Inc.
Consolidating Balance Sheet Information (continued)
December 31, 2016

	University Health Services, Inc.	University Extended Care, Inc.	University Health Resources, Inc.	University Health, Inc.	Augusta Resource Center on Aging, Inc.	University Health Care Physicians, Inc.	University Hospice, Inc.	University McDuffie County Regional Medical Center,	Eliminations	Consolidated
Liabilities and net assets										
Current liabilities:										
Accounts payable and accrued expenses	\$ 25,035,750	\$ 1,723,117	\$ 402,588	\$ -	\$ 196,432	\$ 1,383,347	\$ -	\$ 463,402	\$ (299,112)	\$ 28,905,524
Accrued compensation, benefits, and withholdings	23,046,273	691,795	-	-	554,899	6,287,153	-	439,170	-	31,019,290
Other current liabilities	3,516,062	-	-	-	19,419,737	-	-	242,335	-	23,178,134
Estimated third-party payor settlements	20,966,187	355,467	-	-	-	-	-	1,083,261	-	22,404,915
Current maturities of long-term debt	29,822,240	-	-	1,984,995	-	-	-	1,020,057	(1,020,057)	31,807,235
Current portion of capital lease obligations	1,643,987	-	-	-	-	-	-	93,763	-	1,737,750
Short-term accrued postretirement benefit cost	1,890,425	-	-	-	-	-	-	-	-	1,890,425
Total current liabilities	105,920,924	2,770,379	402,588	1,984,995	20,171,068	7,670,500	-	3,341,988	(1,319,169)	140,943,273
Long-term debt, less current maturities	210,902,091	-	-	6,323,335	-	-	-	27,541,553	(27,541,553)	217,225,426
Long-term capital lease obligations, less current portion	4,352,347	-	-	-	-	-	-	248,048	-	4,600,395
Other long-term obligations	3,441,155	-	-	-	27,020,579	-	-	-	-	30,461,734
Amounts due to affiliates	3,318,586	708	30,007,579	2,664,367	8,456,119	242,807	-	2,013,152	(46,703,318)	-
Reserve for contingent losses	15,127,217	-	-	-	-	600,657	-	-	-	15,727,874
Accrued pension cost	-	-	-	-	-	-	-	-	-	-
Accrued postretirement benefit cost, less short-term obligation	30,710,704	-	-	-	-	-	-	-	-	30,710,704
Total liabilities	373,773,024	2,771,087	30,410,167	10,972,697	55,647,766	8,513,964	-	33,144,741	(75,564,040)	439,669,406
Net assets:										
Unrestricted	435,670,485	41,054,194	-	64,107,009	25,838,045	-	-	1,897,081	(40,294,359)	528,272,455
Temporarily restricted	17,816,088	-	-	-	-	-	-	-	-	17,816,088
Permanently restricted	21,053,901	-	-	-	-	-	-	-	-	21,053,901
Total net assets	474,540,474	41,054,194	-	64,107,009	25,838,045	-	-	1,897,081	(40,294,359)	567,142,444
Contributed capital	-	-	50,484,022	-	-	146,774,576	2,202,880	3,251,451	(202,712,929)	-
Retained (deficit) earnings	-	-	(68,980,328)	-	-	(133,178,035)	(2,202,880)	-	204,361,243	-
	\$ 848,313,498	\$ 43,825,281	\$ 11,913,861	\$ 75,079,706	\$ 81,485,811	\$ 22,110,505	\$ -	\$ 38,293,273	\$ (114,210,085)	\$ 1,006,811,850

University Health, Inc.
Consolidating Statement of Operations Information
Year Ended December 31, 2016

	University Health Services, Inc.	University Extended Care, Inc.	University Health Resources, Inc.	University Health, Inc.	Augusta Resource Center on Aging, Inc.	University Health Care Physicians, Physicians,	University Hospice, Inc.	University McDuffie County Regional Medical Medical Center,	Eliminations	Consolidated
Unrestricted revenues and other support:										
Patient service revenue (net of contractual allowances and discounts)	\$ 493,963,334	\$ 24,673,405	\$ -	\$ -	\$ 13,713,082	\$ 60,007,850	\$ -	\$ 23,226,857	\$ -	\$ 615,584,528
Provision for bad debts	(24,805,721)	(436,743)	-	-	-	-	-	(4,027,872)	-	(29,270,336)
Net patient service revenue less provision for bad debts	469,157,613	24,236,662	-	-	13,713,082	60,007,850	-	19,198,985	-	586,314,192
Other operating revenues	13,391,829	65,175	4,412,698	-	5,305,086	11,364,259	-	285,004	(17,110,425)	17,713,626
Net assets released from restriction	2,285,643	-	-	-	-	-	-	-	-	2,285,643
Total unrestricted revenues and other support	484,835,085	24,301,837	4,412,698	-	19,018,168	71,372,109	-	19,483,989	(17,110,425)	606,313,461
Operating expenses:										
Salaries and benefits	195,379,681	13,120,099	759,629	-	7,913,084	82,809,659	-	8,844,983	291,432	309,118,567
Other operating expenses	206,889,231	10,689,656	3,448,300	40,588	5,368,104	13,934,491	-	6,606,148	(16,539,847)	230,436,671
Depreciation	32,241,644	467,813	1,115,837	-	2,302,929	1,972,497	-	2,424,389	-	40,525,109
Interest	9,027,793	-	-	280,624	278,572	-	-	868,992	(1,140,582)	9,315,399
Total operating expenses	443,538,349	24,277,568	5,323,766	321,212	15,862,689	98,716,647	-	18,744,512	(17,388,997)	589,395,746
Income (Loss) from operations	41,296,736	24,269	(911,068)	(321,212)	3,155,479	(27,344,538)	-	739,477	278,572	16,917,715
Nonoperating (loss) income:										
Investment income	27,933,738	2,195,797	329,501	5,119,528	1,669,307	-	-	5,182	(5,103,358)	32,149,695
Loss on early extinguishment of debt	(16,385,954)	-	-	-	-	-	-	-	-	(16,385,954)
Other components of net benefit cost	(100,680,185)	-	-	-	-	-	-	-	-	(100,680,185)
Total nonoperating (loss) income	(89,132,401)	2,195,797	329,501	5,119,528	1,669,307	-	-	5,182	(5,103,358)	(84,916,444)
(Deficiency) excess of revenues, other support, and gains over expenses and losses	(47,835,665)	2,220,066	(581,567)	4,798,316	4,824,786	(27,344,538)	-	744,659	(4,824,786)	(67,998,729)
Change in pension and postretirement plans funded status	78,990,769	-	-	-	-	-	-	-	-	78,990,769
Other	(1,858,093)	-	-	-	-	-	-	-	-	(1,858,093)
Transfer (to) from affiliate	(27,165,998)	-	-	-	-	27,165,998	-	-	-	-
Transfer from temporarily/permanently restricted net assets	446,871	-	-	-	-	-	-	-	-	446,871
Increase (decrease) in unrestricted net assets	\$ 2,577,884	\$ 2,220,066	\$ (581,567)	\$ 4,798,316	\$ 4,824,786	\$ (178,540)	\$ -	\$ 744,659	\$ (4,824,786)	\$ 9,580,818

University Health, Inc.
Consolidating Statement of Changes in Net Assets Information
Year Ended December 31, 2016

	University Health Services, Inc.	University Extended Care, Inc.	University Health Resources, Inc.	University Health, Inc.	Augusta Resource Center on Aging, Inc.	University Health Care Physicians, Physicians,	University Hospice, Inc.	University McDuffie County Regional Medical Center,	Eliminations	Consolidated
Unrestricted net assets:										
(Deficiency) excess of revenues, other support, and gains over expenses and losses	\$ (47,835,665)	\$ 2,220,066	\$ (581,567)	\$ 4,798,316	\$ 4,824,786	\$ (27,344,538)	\$ -	\$ 744,659	\$ (4,824,786)	\$ (67,998,729)
Change in pension and postretirement plans funded status	78,990,769	-	-	-	-	-	-	-	-	78,990,769
Other	(1,858,093)	-	-	-	-	-	-	-	-	(1,858,093)
Transfer (to) from affiliate	(27,165,998)	-	-	-	-	27,165,998	-	-	-	-
Transfer from temporarily/permanently restricted net assets	446,871	-	-	-	-	-	-	-	-	446,871
Increase (decrease) in unrestricted net assets	2,577,884	2,220,066	(581,567)	4,798,316	4,824,786	(178,540)	-	744,659	(4,824,786)	9,580,818
Temporarily restricted net assets:										
Contributions and other	2,006,298	-	-	-	-	-	-	-	-	2,006,298
Investment income	2,572,817	-	-	-	-	-	-	-	-	2,572,817
Net assets released from restriction	(2,285,643)	-	-	-	-	-	-	-	-	(2,285,643)
Transfer to unrestricted/restricted assets	(532,230)	-	-	-	-	-	-	-	-	(532,230)
Increase in temporarily restricted net assets	1,761,242	-	-	-	-	-	-	-	-	1,761,242
Permanently restricted net assets:										
Contributions and other	345,171	-	-	-	-	-	-	-	-	345,171
Transfer from unrestricted/temporarily restricted assets	85,359	-	-	-	-	-	-	-	-	85,359
Increase in permanently restricted net assets	430,530	-	-	-	-	-	-	-	-	430,530
Increase (decrease) in net assets	4,769,656	2,220,066	(581,567)	4,798,316	4,824,786	(178,540)	-	744,659	(4,824,786)	11,772,590
Net assets at beginning of year	469,770,818	38,834,128	(17,914,739)	59,308,693	21,013,259	13,775,081	-	4,403,873	(33,821,259)	555,369,854
Net assets at end of year	\$ 474,540,474	\$ 41,054,194	\$ (18,496,306)	\$ 64,107,009	\$ 25,838,045	\$ 13,596,541	\$ -	\$ 5,148,532	\$ (38,646,045)	\$ 567,142,444