Catholic Health Initiatives

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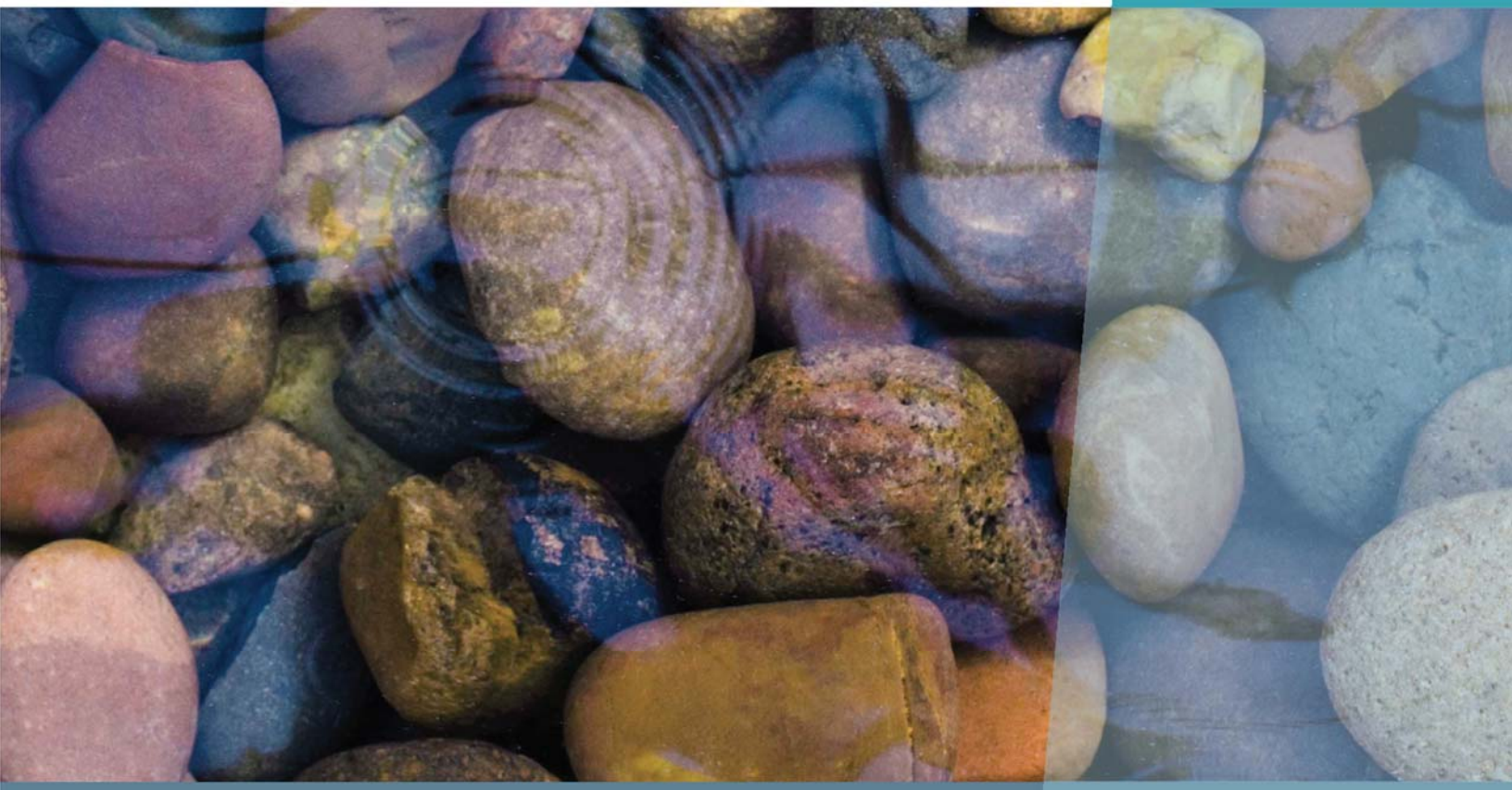
Annual Report

As of and for the fiscal year ended June 30, 2016



Information Concerning Catholic Health Initiatives and the CHI Reporting Group

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Certain of the discussions included in this Annual Report may include forward-looking statements. Such statements are generally identifiable by the terminology used such as "believes," "anticipates," "intends," "scheduled," "plans," "expects," "estimates," "budget" or other similar words. Such forward-looking statements are primarily included in PARTS II, III, IV and VII. These statements reflect the current views of management with respect to future events based on certain assumptions, and are subject to risks and uncertainties. Catholic Health Initiatives, a Colorado non-profit corporation (the "Corporation"), undertakes no obligation to publicly update or review any forward-looking statement as a result of new information or future events.

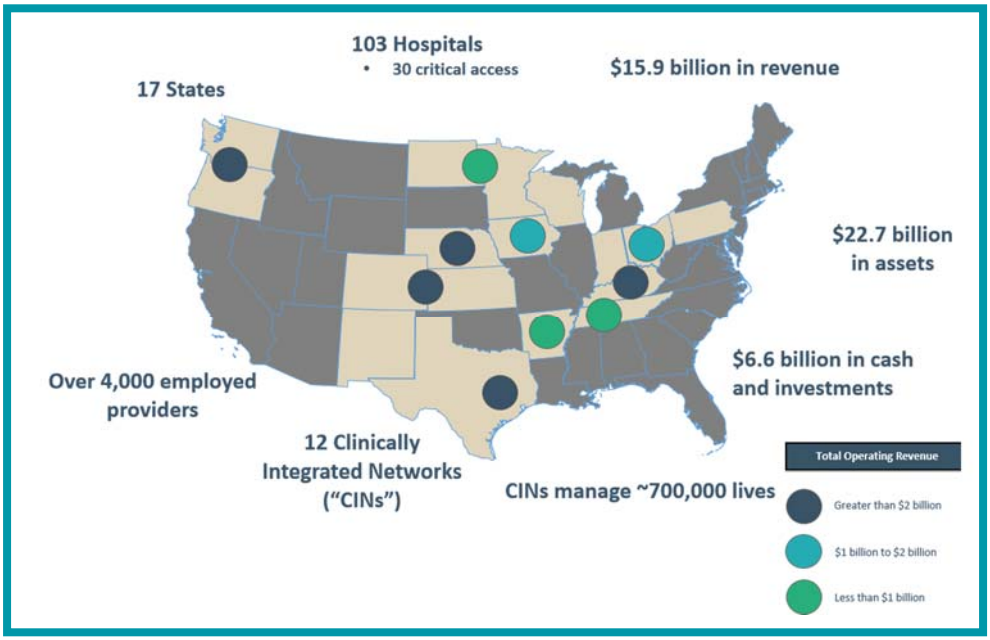
References to "CHI" in this Annual Report are to the Corporation and all of the affiliates and subsidiaries ("Participants") consolidated with it pursuant to generally accepted accounting principles ("GAAP"). References to the Corporation are references only to the parent corporation, and should not be read to include any of the Participants. References to the "CHI Reporting Group" include CHI and Bethesda Hospital, Inc.

PART I: OVERVIEW

The Corporation is the parent corporation of a group of non-profit and for profit corporations and other organizations that comprise one of the nation's largest Catholic health care systems. Together with its Participants (collectively, "CHI"), the Corporation serves more than four million people each year through operations and facilities that span the continuum of care, including acute care hospitals; physician practices; long-term care facilities; assisted-living and residential-living facilities; community-based health services; home care; research and development; medical and nursing education; reference laboratory services; virtual health services; managed care programs; and insurance products.

CHI was formed in 1996 through the consolidation of four national Catholic health care systems. The goal of the consolidation was to develop and nurture a national health ministry sponsored and governed by a religious-lay partnership to transform health care delivery and to build healthy communities through the creation of new ministries across the nation. In doing so, the Founders created a new model of sponsorship by engaging the laity as partners in bringing their shared mission of nurturing the healing ministry of the church. Today, CHI has operations in 17 states, with a service area that covers approximately 54 million people, or 17% of the U.S. population.

CHI is currently comprised of ten regions that are operated as integrated health systems and include five joint operating agreements ("JOAs"), joint operating companies ("JOCs") or joint ventures. The geographic diversity and total operating revenues by region for the fiscal year ended June 30, 2016 are depicted in the accompanying map.



PART II: COMPETITIVE STRENGTHS

CHI's size and geographic diversity are designed to allow for greater economies of scale and efficiencies, and to provide a level of insulation from negative impacts in specific regions. CHI continues to develop greater depth in certain legacy regions and to further expand into newer regions as described below in *Part V, Strategic Acquisitions and Affiliations*. CHI's regions in Colorado, Pacific Northwest, Nebraska, Kentucky and Texas each generated approximately $2 billion or more in total revenues in fiscal year 2016. Key strengths include:

- Strong geographic diversification, with a mix of facilities located in both rural and urban settings, helping to mitigate the effect of changes in reimbursement
- Diversification of operating cash flow, with no single region representing more than 15.6% of total operating revenue
- Experienced corporate and clinical management team

PART III: STRATEGIC INITIATIVES

A. Strategic Intent

CHI is implementing a multi-faceted approach to achieve success in both the existing fee-for-service and new payment-for-value environments. To sustain its ministry into the future, CHI has introduced four strategic objectives that are part of the new CHI Strategic Plan 2016-2020 that are depicted below.

I. Turning Intent to Action

With a shared vision and strategic objectives setting the course, CHI regions and functional areas consisting of supply chain, revenue cycle, information technology, human resources, treasury and finance, marketing and communication, strategy and other shared services have established strategic imperatives to uniquely address the realities, opportunities and needs within their communities, with a goal of providing greater clarity of purpose and accountability across CHI. CHI intends to measure, monitor and advance these efforts through the use of *Living Our Mission Measures* and other key metrics described in *Part III B, Clarify Purpose and Accountability* below.

B. Clarify Purpose and Accountability

Living Our Mission Measures are nine CHI-wide goals designed to reflect the performance areas CHI believes are most vital to its mission: from safety and quality to patient experience and the transition to value-based health care. The Board of Stewardship Trustees (the "Board") has established goals in each of the functional areas. Region-specific goals align to these CHI-wide goals.

CHI has also established four strategic measures intended to complement the *Living Our Mission Measures* and address efforts to move beyond care delivery to impact the determinants of health. These measures assess:

- The steps CHI takes to collaborate with community leaders to define and implement initiatives to address health priorities
- The commitments CHI makes to advance equity of care for the people in the communities it serves
- The expansion of ambulatory care sites to address consumer needs and expectations
- Progress in growing the number of consumers CHI touches

Each region and functional area creates its own tactical, measurable plan that integrates CHI-wide strategies into day-to-day operations. The Board, local boards and leadership intend to monitor progress through the *Living our Mission Measures* and the set of strategic measures described above.

PART IV: STRATEGIC FOCUS

A. Transformative Change Requires Multi-faceted Approach to Success

CHI has taken steps to navigate the forces driven by the change in the health care environment. New capabilities and infrastructure include CINs, population health programs, employed physicians and payer strategies.

Part of CHI's strategy is to prepare and progress from fee-for-service reimbursement to a payment structure that will include a variety of relationships from upside shared savings programs, upside/downside contracts, partial capitation to full capitation and partnerships between local delivery systems/CINs and payers. CHI continues to evolve its service model to payment for value delivered, as measured by metrics of health care quality or the aggregate health of a population, rather than by volume of visits, procedures or hospital stays. Related initiatives focusing on value-based payments are designed to provide CHI with the expertise and infrastructure necessary to effectively market and provide population health management services, deliver value and reduce utilization and health care costs within the related populations. This includes capitalizing on its size and market presence to undertake pilot projects in certain regions.

CHI created QualChoice Health, Inc. (formerly known as Prominence Health) ("QualChoice"), a wholly-owned subsidiary, to support implementation of value-based care delivery and corresponding new reimbursement models. QualChoice supports CHI's population health management and risk operations and oversees CHI's portfolio of commercial and Medicare Advantage health insurance plans, care networks and related products and services in markets across CHI's service areas. Through QualChoice, CHI acquired health plans, including its purchase of Soundpath Health, a Medicare Advantage plan in Federal Way, Washington, and its purchase of QualChoice Holdings, Inc. ("QualChoice Holdings"), a commercial health plan based in Little Rock, Arkansas. QualChoice extended its reach through strategic geographic expansion, including a portfolio of third-party administrative services and Medicare Advantage plans in new regions, including Iowa, Kentucky, Nebraska, Ohio and Tennessee. In addition to operating health plans, QualChoice, in cooperation with CHI's twelve (12) CINs, Care Management and other functional areas, aligned and coordinated health care delivery systems and services across CHI's service areas. These services and capabilities include benefits management, health delivery networks, health data analytics, corporate wellness programs, occupational health, disease and care management and customer relationship management services. CHI, through its CINs and QualChoice Health, manages the health of approximately 870,000 individuals.

As a part of CHI's performance improvement efforts described in *Part IV B, Transformative Change Sharpens Focus*, CHI management is exploring strategic options related to its health plan businesses and in May 2016, CHI approved a plan to sell or otherwise dispose of certain entities of QualChoice. The health plan market continues to be challenged by the impact of the Affordable Care Act ("ACA"), State/Federal Exchanges, and other changes in the health care industry. Smaller than anticipated risk corridor program payments announced by CMS are having an impact on the viability of some health plans. Non-profit systems continue to struggle with two major issues: 1) those that are new to health plans attempt to find their way to market penetration, scale and capability development and 2) those that have been in health plans endeavor to find ways to spread overhead and monetize capability outside of core/historical markets.

CHI's strategy to be an industry leader in population health and valued-based payments has not changed with its redirection relating to health plans. Rather than moving forward with developing population health management capabilities and health insurance products in a wholly-owned and nationally driven entity, which requires a large capital and operational investment, CHI will rely on capabilities developed in its regions, CINs and through partnerships and will focus on positioning alignment of its CINs/physicians in its existing regions.

B. Transformative Change Sharpens Focus

CHI has been focused on strategic growth and performance improvement for the last five years. During that period, CHI has grown from $9.6 billion to nearly $16.0 billion in total operating revenues, diversified into new lines of business.

CHI believes it benefitted from several major performance improvement initiatives implemented over the past five years, including Medicare Profitability; Clinical and Operational Excellence (COE); and Support Services Transformation (SST). However, changes in the health care industry have created additional challenges resulting in decreased volumes and reimbursement shifts between inpatient and outpatient/ambulatory care, and increased costs that have offset some of the $1.5 billion in benefits CHI has realized ($512 million captured during the fiscal year ended June 30, 2016) over the past several years with the implementation of these initiatives.

To meet the continuing challenges of a changing health care landscape in fiscal year 2016, CHI accelerated performance efforts in the following areas; labor management, integrated supply chain, growth, information technology, revenue cycle, the Physician Enterprise, system-wide administrative and overhead costs, clinical overhead, QualChoice Health and capital allocation.

CHI has established a goal of an additional $800 million run rate improvement in the key areas listed above, by the end of fiscal year 2017. To assist CHI in its efforts to reach this goal, CHI adopted a new system of key measures and accountability in 2016 described above in *Part III B, Clarify Purpose and Accountability.* In addition, CHI has added capabilities and infrastructure/costs in the form of CINs, population health programs, physician employment competencies and payer operations designed to assist its ministry to meet the needs of the communities that CHI serves.

CHI has implemented an information technology program known as "OneCare". The OneCare program is designed to improve patient safety, clinical outcomes and care coordination; enhance patient experiences; provide clinicians and staff with the necessary tools and information; and eliminate duplication and waste. The OneCare program includes a universally shared, electronic health record for each CHI patient. CHI began an implementation schedule for electronic health records beginning in 2010. The implementation was completed at June 30, 2016 in CHI's wholly-owned hospital facilities and physician practices. The total investment in the OneCare program is approximately $2.4 billion ($1.6 billion in capital expenses and $0.8 billion in operating expenses). Ongoing annual maintenance costs to support the OneCare program are expected to be approximately $185 million in operating expenses. CHI has a stated goal to drive overall IT costs to best in class with regards to operating cost and use of capital. CHI received a total of $189 million in Medicare and Medicaid incentive payments with respect to its electronic health record implementation, for the period beginning in fiscal year 2012 through June 30, 2016.

PART V: STRATEGIC AFFILIATIONS/ACQUISITIONS

CHI actively engages in ongoing monitoring and evaluation of potential facility expansion, relationships with academic health center partners, mergers, acquisitions, divestitures, and affiliation opportunities consistent with its strategic goal of creating, maintaining and/or strengthening its CINs in key existing markets and, in certain cases, new markets. CHI's strategic vision is supported by targeted system growth in both existing and new markets, as evidenced by CHI's recent acquisition activity and strategic divestitures, and realignments, certain of which are described below.

Pending and Completed Affiliations/Acquisitions

Dignity Health, (California, Arizona and Nevada) ("Dignity") On October 24, 2016, CHI and Dignity signed a non-binding letter of intent to explore aligning their organizations and expanding their mission of service in communities across the nation.

The boards and sponsors of the two health systems are evaluating the potential alignment to strengthen their leadership role in transforming health care through increased access and enhanced clinical excellence.

The letter of intent follows the September 2016 announcement that the two systems formed a partnership called the Precision Medicine Alliance LLC, which will create the largest community-based precision medicine program in the country.

The organizations complement one another in many other important ways. CHI brings a diverse geographic footprint with proven clinical service lines and home-health capabilities, as well as successful partnerships in research and education. Dignity has a proven operating model that has successfully scaled enterprise-wide initiatives to ensure consistent practices across the system, and is well known for its work with innovative, diversified care-delivery partnerships. There is no geographical overlap of acute care facilities of the two health systems.

Dignity owns and operates health care facilities in California, Arizona and Nevada, including 39 hospitals. As of and for the fiscal year ended June 30, 2016, Dignity reported approximately $17.1 billion of total assets, $6.2 billion of net assets and $12.6 billion in total operating revenue. Any definitive agreement would need to be approved by Dignity's governing body and the Board, and also requires the approval by the California Attorney General and other regulatory agencies as well as satisfaction of customary closing conditions. It is anticipated that discussions will continue through early 2017. CHI can give no assurance that the transaction will occur.

Mercy Health Network, Inc. (Iowa). Effective March 1, 2016, the Corporation and Trinity Health Corporation, based in Livonia, Michigan ("THC"), amended and restated their existing Mercy Health Network Inc., ("MHN") joint operating agreement that governs certain of their respective legacy operations in Iowa (collectively, the "Iowa Operations") (a) to strengthen MHN's management responsibilities over the Iowa Operations; (b) to jointly acquire health care systems in Iowa and contiguous markets; and (c) to provide for greater financial, governance, and clinical integration among the parties. Each of the respective party's wholly-owned Iowa assets will continue to be consolidated in their respective financial statements, and commencing in July 2016, combined free cash flow from the Iowa Operations will be allocated equally between CHI and THC. MHN's financial results, however, are not and will not be consolidated with either CHI or THC. CHI's ownership interest in MHN is reflected as a change in equity of unconsolidated organizations in its consolidated financial statements.

Effective May 1, 2016, MHN became the sole corporate member of Wheaton Franciscan Healthcare-Iowa, which Is a faith-based 511-bed non-profit, comprehensive medical/surgical health care provider offering acute levels of medical care at Covenant Medical Center, Waterloo; Sartori Memorial Hospital, Cedar Falls and Mercy Hospital, Oelwein. MHN recorded a business combination gain on the acquisition. As a result, CHI recognized $89.1 million, its proportionate share of the gain, which is reflected in the consolidated statements of operations as changes in equity of unconsolidated organizations for the year ended June 30, 2016.

Brazosport (Texas). Effective February 1, 2016, Brazosport Regional Health System ("BRHS"), Lake Jackson, Texas and CHI St. Luke's Health System Corporation ("CHI St. Luke's"), Houston, Texas, signed an affiliation agreement for BRHS to become part of

CHI. Pursuant to the affiliation agreement, CHI St. Luke's became the sole corporate member of BRHS. BRHS is a non-profit health care organization that includes a 158-bed hospital that operates the only Level III trauma center in Brazoria County.

As a result of the BRHS acquisition, CHI reported approximately $21.3 million in additional total unrestricted net assets in fiscal year 2016, as well as total long-term indebtedness outstanding of $38.5 million (the "BRHS Debt"). Neither the Corporation nor any of its affiliates (other than BRHS) is obligated on the BRHS Debt.

Excluding business combination gains, the BRHS acquisition contributed operating revenues of $33.7 million and operating EBIDA before restructuring, impairment and other losses of $0.6 million for the period February 1 through June 30, 2016, to the Texas region.

Longmont United Hospital (Colorado). Effective August 1, 2015, Longmont United Hospital, a Colorado non-profit corporation ("LUH") became affiliated with CHI pursuant to a Joint Operating and Management Agreement, between the Corporation, LUH, Centura Health and Catholic Health Initiatives Colorado. LUH owns and operates Longmont United Hospital, a general acute care hospital licensed for 186 acute care beds and 15 skilled nursing beds, and operates an integrated health care delivery system providing health care services to patients residing in Longmont, Colorado, as well as Boulder, Weld and Larimer Counties in Colorado.

As a result of the LUH acquisition, CHI reported approximately $111.6 million in additional total unrestricted net assets in fiscal year 2016, as well as total long-term indebtedness outstanding of $97.8 million (the "LUH Debt"). In May 2016, CHI issued $34.0 million of commercial paper notes, the proceeds of which were used to defease $37.1 million of the Longmont indebtedness. Neither the Corporation nor any of its affiliates (other than LUH) is obligated on the LUH Debt.

Excluding business combination gains, the LUH acquisition contributed operating revenues of $160.9 million and operating EBIDA before restructuring, impairment and other losses of $4.3 million for the period August 1, 2015 through June 30, 2016, to the Colorado region.

Conifer Health Solutions ("Conifer"). Effective in January 2015, the Corporation modified its existing multi-year agreement with Conifer, which provides revenue cycle services for CHI acute care operations, and increased its equity ownership to 23.8%. The term of the existing agreement was extended to 2033, and additional acute care facilities and services were added to the scope of the agreement. As of June 30, 2016, CHI's investment in Conifer totaled $570.7 million. In addition, deferred income related to the Conifer agreement of $458.9 million is being amortized on a straight-line basis over the remaining agreement term. Such amortization offsets revenue cycle services fees paid to Conifer and is reflected as a reduction of purchased services expense.

Sylvania Franciscan Health (Texas, Ohio, Kentucky). Effective November 1, 2014, the Corporation became the sole corporate member of Sylvania Franciscan Health ("SFH"), headquartered in Toledo, Ohio, which includes St. Joseph Health System in the Brazos Valley region of Texas; Franciscan Living Communities in Ohio and Kentucky, Trinity Hospital Twin City in Dennison, Ohio and a 50% interest in the Trinity Health System joint venture in Steubenville, Ohio described in more detail below. In connection with the SFH transaction, the Sisters of St. Francis of Sylvania, Ohio, became the 13th participating congregation of CHI.

As a result of the SFH acquisition, CHI reported approximately $356.9 million in additional total unrestricted net assets in fiscal year 2015, including total long-term indebtedness outstanding of $290.3 million (the "SFH Indebtedness"). In April 2015, CHI

issued $27.7 million of commercial paper notes, the proceeds of which were used to defease $26.4 million of the SFH Indebtedness. Effective in July 2015, the SFH Master Trust Indenture was discharged and CHI issued obligations totaling $163.8 million under the Capital Obligation Document ("COD"), as described in Part VII, to support the repayment of certain of the SFH Indebtedness. There were no modifications made to the payment terms of the SFH Indebtedness.

The SFH acquisition contributed operating revenues of $392.8 million, $79.0 million and $15.8 million, and operating EBIDA before restructuring, impairment and other losses of $40.0 million, $17.7 million and $(3.2) million for the fiscal year ended June 30, 2016 to the Texas, National business lines and Ohio regions, respectively.

Trinity Health System (Ohio). Effective February 1, 2016, the Corporation assumed control of Trinity Health System ("Trinity") based in Steubenville, Ohio. Prior to that date, Trinity was controlled by its two corporate members, SFH and another entity unrelated to CHI and SFH. In February 2016, CHI replaced that unrelated entity and became a corporate member of Trinity. Trinity owns and operates Trinity Medical Center East, Trinity Medical Center West, Tony Teramana Cancer Center and numerous outpatient clinics located in eastern Ohio.

As a result of the Trinity acquisition, CHI reported approximately $145.1 million in additional total unrestricted net assets in fiscal year 2016, as well as total long-term indebtedness outstanding of $40.1 million (the "Trinity Debt"). Neither the Corporation, SFH nor any their respective affiliates (other than Trinity and/or its affiliates) is obligated on the Trinity Debt as a result of the transaction.

Excluding business combination gains, the Trinity acquisition contributed operating revenues of $103.7 million and operating EBIDA before restructuring, impairment and other losses of $7.7 million for the period February 1 through June 30, 2016 to the Ohio region.

CHI St. Alexius Health (North Dakota). Effective October 1, 2014, the Corporation became the sole corporate member of St. Alexius Medical Center ("St. Alexius"). St. Alexius owns a 306-bed, full-service, acute care medical center in Bismarck, North Dakota offering a full line of inpatient and outpatient medical services, including primary and specialty physician clinics, home health and hospice services, durable medical equipment services and a fitness and human performance center. In addition to the main campus located in Bismarck, St. Alexius owns and operates hospitals and clinics in Garrison and Turtle Lake, North Dakota and manages the hospital and clinics owned by Mobridge Regional Hospital in Mobridge, South Dakota. St. Alexius also owns and operates a primary care clinic in Mandan, North Dakota, and specialty and primary care clinics in Minot, North Dakota. Management's goal with respect to the affiliation is to add a tertiary health system to enhance the health of the communities served by St. Alexius and CHI's other North Dakota affiliates, and to strengthen and enhance the CHI ministry serving central and western North Dakota.

As a result of the St. Alexius acquisition, CHI reported approximately $165.2 million in additional total unrestricted net assets in fiscal year 2015, including total long-term indebtedness outstanding of $104.2 million. In March 2015, the Corporation issued $81.6 million of commercial paper notes, the proceeds of which were used to defease $84.4 million of long-term indebtedness of St. Alexius that was outstanding at the time of acquisition.

The St. Alexius acquisition contributed operating revenues of $332.7 million and operating EBIDA before restructuring, impairment and other losses of $12.9 million for the fiscal year ended June 30, 2016 to the North Dakota/Minnesota region.

Pending and Completed Divestitures

QualChoice. As a part of the performance improvement efforts described in *Part IV B, Transformative Change Sharpens Focus*, CHI approved, in May 2016, a plan to sell or otherwise dispose of certain entities of QualChoice, a consolidated CHI subsidiary, whose primary business is to develop, manage and market commercial and Medicare Advantage health insurance programs, as well as a wide range of products and administrative services (see *Part IV A* for further information). QualChoice reported a deficiency of revenues over expenses of $(109.6) million, including a $16 million impairment of goodwill, for the fiscal year ended June 30, 2016, and is reported in the accompanying CHI consolidated statements of changes in net assets.

CHI St. Joseph Health (Pennsylvania). On June 30, 2015, the Corporation received $110.0 million in gross proceeds for the sale of CHI St. Joseph Health to Penn State Hershey in advance of the closing, which was effective on July 1, 2015. The Corporation used the proceeds from the sale, plus cash and investments that were maintained by the Corporation as part of the conditions of the terms of the sales agreement, to retire on September 1, 2015, $119.4 million of long-term indebtedness issued through the Saint Mary Hospital Authority. CHI St. Joseph Health reported an excess of revenues over expenses of $7.9 million for the fiscal year ended June 30, 2016, reported in the accompanying CHI consolidated statements of changes in net assets.

Saint Clare's Health System (New Jersey). On September 30, 2015, the Corporation received $62.0 million for the sale of the acute care facilities of Saint Clare's Health System to Prime Health Care Services and $20.9 million in working capital settlements net of closing costs, in advance of closing, which was effective on October 1, 2015. In May 2016, Franciscan Oaks, the remaining operations of Saint Clare's Health System was sold to Springpoint Senior Living for gross proceeds of $34.0 million. Saint Clare's Health System reported an excess of revenues over expenses of $106.3 million for the fiscal year ended June 30, 2016, reported in the accompanying CHI consolidated statements of changes in net assets, including a gain of $59.6 million on the sale of Franciscan Oaks in May 2016.

Real Estate Asset Sale. In April 2016, CHI entered into an agreement to sell approximately 50 real estate assets across the system as part of a long-term effort to improve the mix of owned and leased real estate. In conjunction with the sales, CHI entered into 10-year operating lease agreements with the buyer.

The majority of the real estate portfolio totaling 46 properties closed in fiscal year 2016 for gross proceeds of $601.7 million and a total net book value of $323.3 million. As a result of the real estate sale, CHI recognized a $59.4 million gain on sale (net of commission and closing costs) in the consolidated statements of operations for the year ended June 30, 2016, as well as $20.1 million in short-term deferred gains in accrued expenses and $180.6 million in long-term deferred gains in other long-term liabilities reflected on the consolidated balance sheet as of June 30, 2016. The deferred gains will be amortized to lease expense over the life of the operating leases.

During the three months ended September 30, 2016, CHI sold certain real estate assets in the Texas and Pacific Northwest markets and entered into operating lease agreements with the buyers. The assets had a total net book value of $176.8 million, including $5.1 million of net intangible assets and were sold for gross proceeds of $195.9 million, resulting in the recognition of a $14.2 million gain on sale reflected in the consolidated statements of operations and $6.2 million in long-term deferred gains and $0.7 million in short-term deferred gains reflected in other long-term liabilities and accrued expenses, respectively, on the consolidated balance sheet as of September 30, 2016. CHI is considering the sale of additional real estate assets in fiscal year 2017 which is expected to include fewer properties.

PART VI: SELECTED FINANCIAL DATA

The selected financial data that follows has been prepared by management, based on (i) CHI's unaudited interim financial statements for the three month periods ended June 30, 2016 and 2015, (ii) Bethesda, Inc. and Subsidiaries unaudited interim financial statements for the three month periods ended June 30, 2016 and 2015, (iii) CHI's audited financial statements as of and for the fiscal years ended June 30, 2016 and 2015, and (iv) the audited financial statements of Bethesda, Inc. and Subsidiaries for the fiscal years ended June 30, 2016 and 2015.

Certain financial and operating information is presented based on the "CHI Reporting Group", created under the Capital Obligation Document. The CHI Reporting Group includes all entities that are consolidated with the Corporation under GAAP (as "Participants") and any Designated Affiliate that the Corporation chooses to include in the CHI Reporting Group. Currently, Bethesda Hospital, Inc. ("Bethesda") is the sole Designated Affiliate. Where indicated, selected financial and operating data is also presented based on CHI consolidated financial operating data, which does not include Bethesda. Bethesda accounted for 3.5% of the CHI Reporting Group's total assets at June 30, 2016 and 3.3% of the CHI Reporting Group's total operating revenue for the fiscal year ended June 30, 2016. The CHI Reporting Group and CHI consolidated financial information should be read in conjunction with the unaudited and audited financial statements, related notes, and other financial information of CHI included in Appendix A of this Annual Report.

The results of operations for certain recently acquired entities have been accounted for as acquisitions and included in the CHI Reporting Group and CHI consolidated financial information from the respective dates of acquisition.

CHI participates in JOAs with hospital-based organizations in Colorado, Iowa and Ohio. The agreements generally provide for, among other things, joint management of the combined operations of the local facilities included in the JOAs through JOCs. CHI retains ownership of the assets, liabilities, equity, revenues and expenses of the CHI facilities that participate in the JOAs. Transfers of assets from facilities owned by the JOA participants are generally restricted under the terms of the agreements. The financial statements of the CHI facilities managed under all JOAs are included in the CHI consolidated financial statements.

As of June 30, 2016 and June 30, 2015, CHI has investment interests of 65%, 50%, and 50% in the JOCs based in Colorado, Iowa, and Ohio, respectively. CHI's interests in the JOCs are included in investments in unconsolidated organizations and totaled $351.9 million and $199.0 million at June 30, 2016 and June 30, 2015, respectively. CHI recognizes its investment in all JOCs under the equity method of accounting. The JOCs provide varying levels of services to the related JOA sponsors, and operating expenses of the JOCs are allocated to each sponsoring organization.

Certain joint venture agreements do not result in the consolidation of the jointly controlled entities with the Corporation. The results of those operations are instead reflected in the consolidated financial statements of CHI under the line item "Changes in equity of unconsolidated organizations." Additional detail regarding certain of CHI's JOAs and Investments in Unconsolidated Organizations can be found in Note 3 of the CHI Audited Financial Statements included in Appendix A of this Annual Report.

A. The following table provides condensed combined balance sheets for the CHI Reporting Group as of June 30, 2016 and 2015.

The CHI Reporting Group Condensed Combined Balance Sheets	June 30, 2016 (Unaudited)	June 30, 2015 (Unaudited)
	(in Thousands)	
Assets		
Current assets:		
Cash and equivalents	$ 1,305,307	$ 948,300
Net patient accounts receivable	2,226,704	2,106,266
Assets held for sale	223,285	419,844
Other current assets	833,079	889,329
Total current assets	4,588,375	4,363,739
Investments and assets limited as to use:		
Internally designated investments	5,594,578	6,225,136
Restricted investments	1,235,495	1,219,352
Total investments and assets limited as to use	6,830,073	7,444,488
Property and equipment, net	9,723,525	9,717,674
Other assets	2,197,617	2,131,107
Total assets	$ 23,339,590	$ 23,657,008
Liabilities and net assets		
Current liabilities:		
Accounts payable and accrued expenses	$ 2,720,404	$ 2,604,504
Liabilities held for sale	131,814	248,097
Short-term and current portion of debt	1,866,090	1,409,859
Total current liabilities	4,718,308	4,262,460
Other liabilities	3,511,215	2,591,518
Long-term debt	7,254,468	7,424,000
Total liabilities	15,483,991	14,277,978
Net assets:		
Unrestricted	7,522,084	9,000,520
Temporarily restricted	238,584	280,734
Permanently restricted	94,931	97,776
Total net assets	7,855,599	9,379,030
Total liabilities and net assets	$ 23,339,590	$ 23,657,008

B. The following table presents condensed combined statements of operations for the CHI Reporting Group for the three months and fiscal years ended June 30, 2016 and 2015.

CHI Reporting Group Condensed Combined Statements of Operations	Three Months Ended June 30, 2016 (Unaudited)	Three Months Ended June 30, 2015 (Unaudited)	Fiscal Year Ended June 30, 2016 (Unaudited)	Fiscal Year Ended June 30, 2015 (Unaudited)
Revenues		(in Thousands)		
Net patient services revenues	$ 3,825,075	$ 3,558,823	$ 15,171,235	$ 13,916,632
Business combination gains	(12,806)	4,792	223,036	436,340
Other	408,089	264,785	1,079,498	1,002,833
Total operating revenues	4,220,358	3,828,400	16,473,769	15,355,805
Expenses				
Salaries and employee benefits	2,060,116	1,802,455	7,952,837	7,273,360
Supplies, purchased services and other	1,928,360	1,735,029	7,481,311	6,739,800
Depreciation and amortization	237,522	218,504	902,523	834,993
Interest	76,416	73,881	301,718	269,843
Total operating expenses before restructuring, impairment and other losses	4,302,414	3,829,869	16,638,389	15,117,996
(Loss) income from operations before restructuring, impairment and other losses	(82,056)	(1,469)	(164,620)	237,809
Restructuring, impairment and other losses	196,068	120,143	295,503	183,038
(Loss) income from operations	(278,124)	(121,612)	(460,123)	54,771
Nonoperating gains (losses)	92,554	65,830	(206,400)	102,979
(Deficit) excess of revenues over expenses	$ (185,570)	$ (55,782)	$ (666,523)	$ 157,750

1. CRITICAL ACCOUNTING POLICIES

The preparation of financial statements in conformity with GAAP requires that management make assumptions, estimates and judgments affecting the amounts reported in the financial statements, including the notes thereto, and related disclosures of commitments and contingencies, if any. Management considers critical accounting policies to be those that require more significant judgments and estimates in the preparation of its financial statements, including the following: recognition of net patient service revenues, which includes contractual allowances, bad debt and charity care reserves, cost report settlements; impairment of goodwill, intangibles and long-lived assets; provisions for bad debt; valuations of investments; and reserves for losses and expenses related to health care professional and general liability risks. In making such judgments and estimates, management relies on historical experience and on other assumptions believed to be reasonable under the circumstances. Actual results could differ materially from the estimates. A description of CHI's significant accounting policies can be found in Note 1 of the CHI Audited Financial Statements included in Appendix A of this Annual Report.

PART VII: MANAGEMENT'S DISCUSSION AND ANALYSIS

The CHI Reporting Group Key Balance Sheet Metrics

CHI Reporting Group Key Balance Sheet Metrics	June 30, 2016 (Unaudited)	June 30, 2015 (Unaudited)
Combined Balance Sheet Summary		
Total assets	$ 23.3 billion	$ 23.7 billion
Total liabilities	$ 15.5 billion	$ 14.3 billion
Total net assets	$ 7.9 billion	$ 9.4 billion
Financial Position and Leverage Ratios		
Total cash and unrestricted investments	$ 6.9 billion	$ 7.2 billion
Days of cash on hand[1]	160	183
Total debt	$ 9.1 billion	$ 8.8 billion
Debt to capitalization[2]	54.8%	49.5%
Debt to cash flow[3]	32.5x	18.5x
Historical Debt Service Coverage Ratio	2.0x	2.8x

[1] (Cash and equivalents + Investments and assets limited as to use: Internally designated investments)/((Total operating expenses before restructuring, impairment and other losses last twelve months - Depreciation and amortization last twelve months)/365). For the days of cash on hand last twelve months calculation one day of operating expenses represented $43.0 million and $39.1 million at Jun 30, 2016 and 2015, respectively.

[2] (Short-term and current portion of debt + Long-term debt)/(Short-term and current portion of debt + Long-term debt + Unrestricted net assets).

[3] (Short-term and current portion of debt + Long-term debt)/(Loss from operations + Depreciation and amortization + Non-cash restructuring, impairment and other losses - business combinations gains and other non-cash losses included in Loss from operations).

CHI and the CHI Reporting Group Key Operating Metrics and Utilization Statistics

CHI and the CHI Reporting Group Key Operating Metrics and Utilization Statistics	Three Months Ended June 30,		Fiscal Year Ended June 30,	
	2016 (Unaudited)	2015 (Unaudited)	2016 (Unaudited)	2015 (Unaudited)
The CHI Reporting Group – Combined Revenues, Expenses and Key Operating Metrics*				
Total net patient services revenues	$ 3.8 billion	$ 3.6 billion	$ 15.2 billion	$ 13.9 billion
Total operating revenues	$ 4.2 billion	$ 3.8 billion	$ 16.5 billion	$ 15.4 billion
Total operating expenses before restructuring, impairment and other losses	$ 4.3 billion	$ 3.8 billion	$ 16.6 billion	$ 15.1 billion
Operating EBIDA before restructuring, impairment and other losses[1]	$ 231.9 million	$ 290.9 million	$ 1,039.6 million	$ 1,342.6 million
Operating EBIDA margin before restructuring, impairment and other losses[2]	5.5%	7.6%	6.3%	8.7%
Operating (loss) income before restructuring, impairment and other losses	$ (82.1) million	$ (1.5) million	$ (164.6) million	$ 237.8 million
Operating (loss) income margin before restructuring, impairment and other losses[3]	(1.9)%	(0.0)%	(1.0)%	1.5%
Operating EBIDA[4]	$ 35.8 million	$ 170.8 million	$ 744.1 million	$1,159.6 million
Operating EBIDA margin[5]	0.8%	4.5%	4.5%	7.6%
Operating (loss) income	$ (278.1) million	$ (121.6) million	$ (460.1) million	$54.8 million
Operating (loss) income margin[6]	(6.6)%	(3.2)%	(2.8)%	0.4%
The CHI Reporting Group – Utilization Statistics				
Acute admissions	138,553	132,646	547,780	526,586
Acute inpatient days	667,728	636,886	2,619,192	2,526,929
Acute average length of stay in days	4.8	4.8	4.8	4.8
Long-term care days	127,879	132,380	503,450	454,760
CHI - Utilization Statistics				
Medicare case-mix index	1.8	1.7	1.8	1.7
Adjusted admissions	290,242	271,854	1,128,670	1,057,587
Inpatient ER visits	74,077	67,946	286,952	268,473
Inpatient surgeries	41,866	39,668	165,111	159,024
Outpatient ER visits	539,499	519,545	2,104,395	2,014,383
Outpatient non-ER visits	1,563,459	1,376,058	5,916,161	5,206,205
Outpatient surgeries	67,137	57,115	261,317	242,965
Physician visits	2,705,037	2,435,848	10,388,816	9,199,951

* Includes business combination gains.

[1] Income (loss) from operations before restructuring, impairment and other losses + depreciation and amortization + interest.

[2] Income (loss) from operations before restructuring, impairment and other losses + depreciation and amortization + interest/total operating revenues.

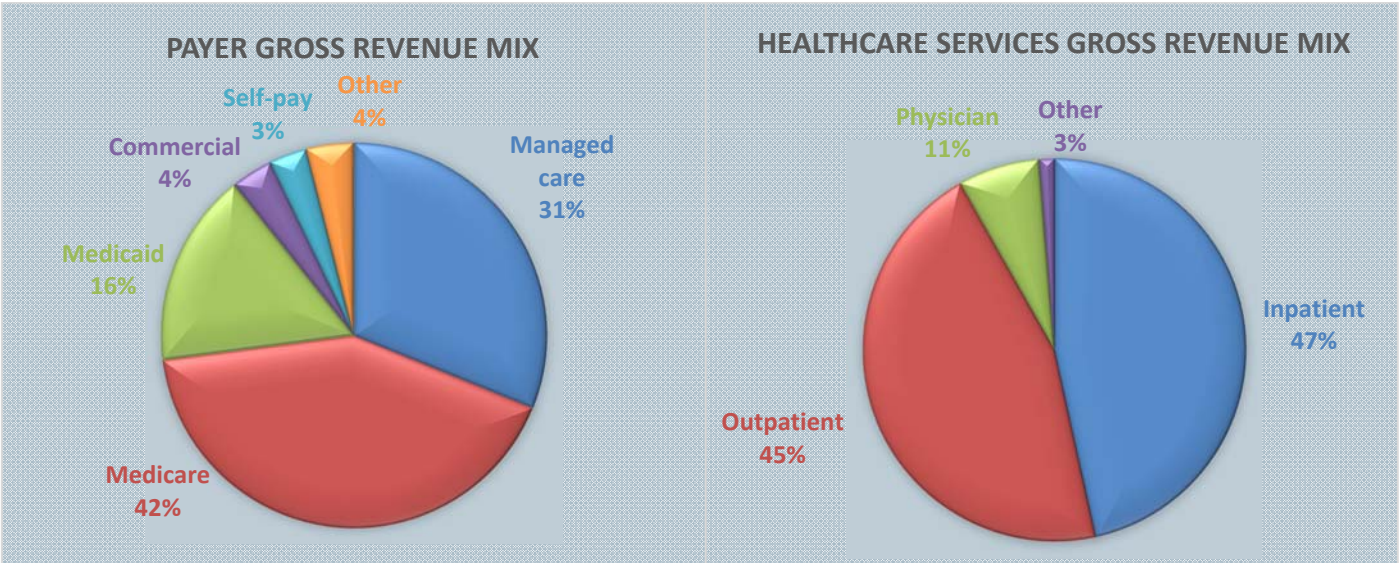
[3] Income (loss) from operations before restructuring, impairment and other losses/total operating revenues.

[4] Income (loss) from operations + depreciation and amortization + interest.

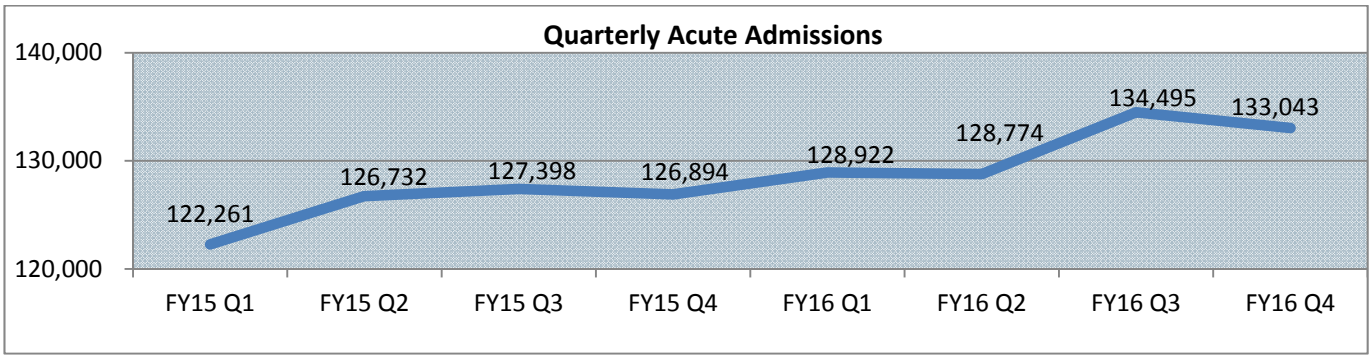
[5] Income (loss) from operations + depreciation and amortization + interest/total operating revenues.

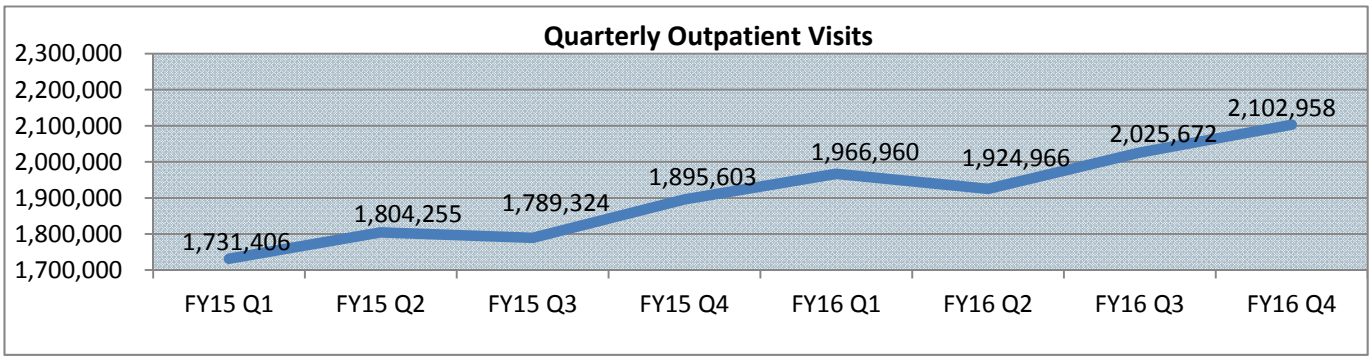
[6] Income (loss) from operations/total operating revenues.

The following charts represent the payer gross revenue mix and healthcare services gross revenue mix for CHI's consolidated operations for the fiscal year ended June 30, 2016.



The following charts represent quarterly patient volume activity for CHI's consolidated operations over the previous eight quarters and includes the effects of acquisitions.





1. SUMMARY OF OPERATING RESULTS FOR THE THREE MONTHS ENDED JUNE 30, 2016 AND 2015

OPERATING EBIDA/INCOME (LOSS) FROM OPERATIONS

CHI operating EBIDA before restructuring, impairment and other losses totaled $206.5 million and $267.2 million for the three months ended June 30, 2016 and 2015, respectively, equivalent to an operating EBIDA margin before restructuring, impairment and other losses percentage of 5.1% and 7.2%, respectively. CHI experienced adjustments related to accounts receivable for the three months ended June 30, 2016. A $(38.8) million adjustment was made during the three months ended June 30, 2016 to correct revenue realization amounts made earlier in fiscal year 2016. Also, the three months ended June 30, 2016 were unfavorably impacted by $(41.2) million to adjust the accounts receivable reserves to reflect updated historical cash collection results in various regions, primarily in the Kentucky region.

Results also included business combination (losses) gains of $(12.8) million and $4.8 million for the three months ended June 30, 2016 and 2015, respectively, gains from the sale of certain of CHI's real estate assets across the system of $59.4 million for the three months ended June 30, 2016 recognized in the regional operating results (Nebraska $25.0 million, Pacific Northwest $20.3 million, Kentucky $7.7 million and $6.4 million in other regions), and a gain of $89.1 million recognized in the Iowa region within changes in equity of unconsolidated organizations as a result of the Wheaton Franciscan Healthcare-Iowa acquisition for the three months ended June 30, 2016.

CHI losses from operations before restructuring, impairment and other losses totaled $(99.2) million and $(19.6) million for the three months ended June 30, 2016 and 2015, respectively, or an operating loss margin before restructuring, impairment and other losses percentage of (2.4)% and (0.5)% for the three months ended June 30, 2016 and 2015, respectively. The strategic affiliations completed in fiscal years 2016 and 2015 contributed operating revenues of $350.9 million and $205.2 million, and operating EBIDA before restructuring, impairment and other losses of $31.1 million and $24.3 million, for the three months ended June 30, 2016 and 2015, respectively, all excluding business combination gains.

CHI experienced mixed operating results across the regions for the three months ended June 30, 2016. Increases in same store patient volumes were offset by unfavorable shifts in payer and service mix across several of CHI's regions which resulted in decreased net patient services revenue performance. CHI's regions and Corporate office have also experienced increased operating expenses due to growth, labor productivity, revenue cycle, IT, and supply chain. As part of an on-going comprehensive expense reduction strategy, CHI is implementing focused clinical and operational initiatives across the system to include targeted initiatives at the regional levels as well as at CHI's Corporate office.

The table below presents the total operating EBIDA before restructuring, impairment and other losses, total operating EBIDA margin before restructuring, impairment and other losses and total operating revenues of CHI by region for the three months ended June 30, 2016 and 2015. Further information on CHI's regional operating results is discussed within the regional operating trends section below.

Catholic Health Initiatives Operations Summary – Three Months Ended June 30, 2016 and 2015

Region	QTD 6/30/16 Operating EBIDA before restructuring, impairment and other losses (in Thousands)	QTD 6/30/2015 Operating EBIDA before restructuring, impairment and other losses (in Thousands)	QTD 6/30/2016 Operating EBIDA margin before restructuring, impairment and other losses	QTD 6/30/2015 Operating EBIDA margin before restructuring, impairment and other losses	QTD 6/30/2016 Operating revenues percentage of CHI consolidated	QTD 6/30/2015 Operating revenues percentage of CHI consolidated
Colorado	$ 42,481	$ 40,638	7.8%	9.1%	13.3%	12.1%
Pacific Northwest	36,498	67,061	5.8%	10.9%	15.3%	16.7%
Nebraska	58,558	(11,777)	10.8%	(2.6)%	13.3%	12.3%
Kentucky	35,201	36,130	6.0%	6.1%	14.4%	16.0%
Texas	5,294	43,369	1.0%	8.8%	13.1%	13.3%
Iowa[1]	113,476	19,586	32.8%	8.0%	8.5%	6.7%
Ohio	42,432	24,838	13.5%	9.6%	7.7%	7.0%
Arkansas	(652)	11,277	(0.4)%	6.0%	4.5%	5.1%
Tennessee	(5,570)	9,031	(3.7)%	6.0%	3.7%	4.1%
North Dakota/Minnesota	23,277	41,614	12.0%	19.1%	4.8%	5.9%
National business lines[2]	2,621	(922)	4.2%	(1.5)%	1.5%	1.6%
Other[3]	(9,140)	12,313	N/A	N/A	(0.1)%	0.1%
Total Regional	344,476	293,158	7.6%	6.7%	100.0%	100.9%
Corporate services and other business lines[4]	(125,128)	(30,752)	N/A	N/A	0.3%	(1.0)%
Total CHI Consolidated before business combination (losses) gains	219,348	262,406	5.4%	7.1%	100.3%	99.9%
Business combination (losses) gains	(12,806)	4,792	N/A	N/A	(0.3)%	0.1%
Total CHI Consolidated	$ 206,542	$ 267,198	5.1%	7.2%	100.0%	100.0%

[1] Includes equity gain of $89.1 million described above.
[2] Includes Home Care and Senior Living business lines.
[3] Includes unallocated regional revenues and expenses as well as the operations of Albuquerque Health Ministries and Lancaster Health Ministries MBOs.
[4] Includes CHI Corporate and First Initiatives Insurance, Ltd. ("FIIL"), CHI's wholly-owned captive insurance company.

OPERATING REVENUE AND VOLUME TRENDS

CHI total operating revenues increased 10.2%, or $386.2 million, for the three months ended June 30, 2016, compared to the corresponding period of the prior fiscal year. Excluding the impacts of current and prior year acquisitions (same store basis), CHI total operating revenues increased 4.7%, or $164.2 million, for the three months ended June 30, 2016, compared to the corresponding period of the prior fiscal year.

CHI total net patient services revenues increased 7.7%, or $262.4 million, for the three months ended June 30, 2016, compared to the corresponding period of the prior fiscal year. Factors contributing to the increase

were recently completed acquisitions, the impact of reimbursement increases, increases in same store patient volumes, which were offset by unfavorable shifts across several of CHI's regions in payer and service mix. CHI same store net patient services revenues increased 3.6%, or $117.6 million, for the three months ended June 30, 2016 compared to the corresponding period of the prior fiscal year. CHI has experienced unfavorable shifts in payer mix and service mix, resulting in a unfavorable impact on same store net patient services revenue of approximately $74.3 million.

CHI same store patient volumes increases (decreases) were as follows for the three months ended June 30, 2016, as compared to the corresponding period of the prior fiscal year: Adjusted Admissions 1.8% or 4,532, Acute Admissions 0.5% or 559, Acute Inpatient Days 0.5% or 2,811, Inpatient ER Visits 1.9% or 1,259, Inpatient Surgeries 3.0% or 1,124, Outpatient ER Visits (2.0)% or (9,811), Outpatient Non-ER Visits 3.8% or 48,052, Outpatient Surgeries 12.6% or 6,797, and Physician Visits 7.9% or 182,984.

CHI total other operating revenues increased 44.7%, or $123.8 million, for the three months ended June 30, 2016, compared to the corresponding period of the prior fiscal year. Other operating revenues included business combination (losses) gains of $(12.8) million and $4.8 million for the three months ended June 30, 2016 and 2015, respectively, gains from the sale of certain of CHI's real estate assets across the system of $59.4 million for the three months ended June 30, 2016 (Nebraska $25.0 million, Pacific Northwest $20.3 million, Kentucky $7.7 million and $6.4 million in other regions), and a gain of $89.1 million recognized in the Iowa region within changes in equity of unconsolidated organizations discussed above. CHI same store total other operating revenues increased 18.6%, or $46.6 million, for the three months ended June 30, 2016, compared to the corresponding period of the prior fiscal year, primarily due to the gains on sale of the real estate assets.

OPERATING EXPENSES

CHI total operating expenses before restructuring, impairment and other losses increased 12.6%, or $465.8 million, for the three months ended June 30, 2016, as compared to the corresponding period of the prior fiscal year. CHI same store total operating expenses before restructuring, impairment and other losses increased 9.1%, or $320.4 million, for the three months ended June 30, 2016, as compared to the corresponding period of the prior fiscal year, primarily due to increases in total labor costs, purchased services and supply expense, combined with annual inflation increases in other operating expenses across CHI.

CHI same store total labor costs for the three months ended June 30, 2016 accounted for 47.5% of total same store operating expenses before restructuring, impairment and other losses, compared to 46.9% for the corresponding period of the prior fiscal year. CHI same store total labor costs increased 10.7%, or $175.7 million, for the three months ended June 30, 2016, as compared to the corresponding period of the prior fiscal year, due to growth initiatives as well as annual inflation increases. CHI same store total labor costs as a percentage of net patient services revenues increased to 54.5% for the three months ended June 30, 2016 compared to 51.0% for the corresponding period of the prior fiscal year due to challenges with labor productivity, most notably in the Pacific Northwest, Kentucky and Texas regions, as well as the timing of growth initiatives in certain physician practices where labor costs have been added in anticipation of increased patient volumes in the future.

CHI same store purchased services expenses increased 11.5% or $46.2 million, for the three months ended June 30, 2016, as compared to the corresponding period of the prior fiscal year, as a result of new market implementations of revenue cycle services with Conifer, outsourcing and expansion of IT services, and physician alignment and physician practice performance services provided by MedSynergies, Inc. ("MSI").

CHI same store supplies and pharmacy expenses increased 4.6%, or $28.9 million, for the three months ended June 30, 2016, as compared to the corresponding period of the prior fiscal year, due to expansion of certain service lines and increased surgical and pharmacy costs related to specialty drug pricing and utilization. CHI same store supplies as a percentage of net patient services revenues was 19.6% for the three months ended June 30, 2016 as compared to 19.5% for the corresponding period of the prior fiscal year.

REGIONAL OPERATING TRENDS

CHI periodically reviews its allocation methodology for Corporate support services and may adjust those allocations based on the strategic needs and resource consumption of the regions and CHI overall. These changes in allocation methodologies may increase or decrease a region's operating results from year to year, but have no impact on the consolidated results of CHI.

Operating results for the three months ended June 30, 2016 were mixed across CHI's regions when compared to the three months ended June 30, 2015, with favorable results from the Nebraska, Ohio, Iowa and Colorado regions offset by the remaining regions and CHI Corporate services. The Nebraska region continued to show operating improvements and stabilization in net patient services revenues for the three months ended June 30, 2016, compared to the corresponding period of the prior fiscal year as a result of CHI Health's contract reinstatement with a significant insurer which became effective July 15, 2015. Although the Pacific Northwest and Texas regions have experienced increases in patient volumes compared to the corresponding period of the prior fiscal year, unfavorable shifts in payer and service mix have resulted in decreased net patient revenue yields, with the corresponding increases in operating expenses outpacing the net patient services revenue growth. The Iowa region operating EBIDA improved $93.9 million for the three months ended June 30, 2016, compared to the corresponding period of the prior fiscal year due to the $89.1 million gain recognized within changes in equity of unconsolidated organizations. Also included in the regional operating results are $59.4 million of gains related to the sale of real estate assets (Nebraska $25.0 million, Pacific Northwest $20.3 million, Kentucky $7.7 million and $6.4 million in other regions). Additional information for the Colorado, Pacific Northwest, Nebraska, Kentucky, and Texas regions is discussed below.

The Nebraska region's operating EBIDA before restructuring, impairment and other losses totaled $58.6 million for the three months ended June 30, 2016, and increased $70.3 million compared to the corresponding period of the prior fiscal year. Operations in the Nebraska region in the prior fiscal year were impacted by decreased patient volumes, corresponding to lower net patient services revenues, resulting from contract negotiations with an insurer that led to certain facilities in the Nebraska region being terminated from that insurer's network. Effective July 15, 2015, CHI Health and the insurer came to a mutual agreement on contract terms and the Nebraska region facilities were reinstated into the insurers' network. As a result of the contract reinstatement, the Nebraska region has shown stabilization of net patient services revenues and improvements in patient volumes. Adjusted admissions, admissions and total outpatient visits in the Nebraska region increased 6.7%, 4.9% and 11.8%, respectively, compared to the corresponding period of the prior fiscal year. Operating performance was also impacted by an improved net patient services revenue yield of 34.2% for the three months ended June 30, 2016, compared to 32.5% in the corresponding period of the prior fiscal year, or approximately $24.1 million in increased net patient services revenues. Total net revenue per adjusted admission increased 6.6% compared to the same period in the prior fiscal year, while total operating expense per adjusted admission decreased 4.7% due to improved productivity as volumes increased. Total labor as a percent of net patient services revenue declined to 57.6% compared to 60.7% in the previous period. The Nebraska region also recorded unfavorable accounts receivable adjustments in the period totaling $(8.0) million based on updated historical cash collection results.

The Colorado region's operating EBIDA before restructuring, impairment and other losses totaled $42.5 million for the three months ended June 30, 2016,

and increased $1.8 million compared to the corresponding period in the prior fiscal year. The strategic affiliation with LUH contributed operating EBIDA before restructuring, impairment and other losses of $1.5 million for the three months ended June 30, 2016, to the Colorado region. The Colorado region began implementation of the EPIC patient billing system in May 2016, which led to a temporary decline in patient volume and revenue performance in the fourth quarter. Same store admissions declined (2.8)% compared to the prior period, and same store outpatient visits declined (0.5)% compared to the prior period. The Colorado region also experienced an unfavorable shift in payer mix from commercial and auto accounts to Medicaid in the quarter.

The Texas region's operating EBIDA before restructuring, impairment and other losses totaled $5.3 million for the three months ended June 30, 2016, and decreased $(38.1) million for the three months ended June 30, 2016, compared to the same period in the prior fiscal year, due to increased operating expenses outpacing net patient services revenue growth. Strategic affiliations completed in the Texas region during fiscal years 2016 and 2015 contributed operating EBIDA before restructuring, impairment and other losses of $9.6 million and $9.7 million, for the three months ended June 30, 2016 and 2015, respectively. Same store net patient services revenues increased 0.8%, or $3.0 million, for the three months ended June 30, 2016, compared to the corresponding period of the prior fiscal year due to growth in patient volumes and reimbursement increases, which were offset by unfavorable shifts in payer mix and service mix, resulting in approximately $(12.2) million impact to net patient services revenues. Total net revenue per adjusted admission decreased (3.5)% compared to the same period in the prior year, while total operating expense per adjusted admission increased (5.4)%. Total labor as a percent of net patient services revenue increased to 49.5% compared to 47.6% in the previous period. Same store operating expenses increased 14.0%, or $50.4 million in the Texas region for the three months ended June 30, 2016, primarily in total compensation, purchased services and supplies expenses, compared to the corresponding period of the prior fiscal year. Management is implementing strategies to improve labor productivity and supply chain savings, and is continuing to expand its referral base for further growth in the Texas region.

The Pacific Northwest region's operating EBIDA before restructuring, impairment and other losses totaled $36.5 million for the three months ended June 30, 2016, and decreased $(30.6) million compared to the corresponding period in the prior fiscal year. The Pacific Northwest region experienced growth in patient volumes but unfavorable shifts in payer mix and service mix. The overall $(10.6) million in decreased net patient services revenues compared to the same period of the prior fiscal year have not sustained the increased operating expenses of $40.9 million, including total compensation, purchased services and supplies expenses, compared to the corresponding period of the prior fiscal year. Total net revenue per adjusted admission decreased (3.9)% compared to the same period in the prior fiscal year, while total operating expense per adjusted admission increased 4.9%. Total labor as a percentage of net patient services revenue increased to 56.4% compared to 50.7% in the same period of the previous fiscal year. The region also recorded $(17.0) million to correct revenue realization amounts made earlier in fiscal year 2016. Management is focusing on the payer mix and service mix trends to address the underlying causes of the unfavorable shifts and is implementing strategies to improve labor productivity.

The Kentucky region's operating EBIDA before restructuring, impairment and other losses totaled $35.2 million for the three months ended June 30, 2016, and decreased $(0.9) million compared to the corresponding period of the prior fiscal year. Net patient services revenues decreased (2.1)%, or $(11.9) million, for the three months ended June 30, 2016, compared to the corresponding period of the prior fiscal year due to decreases in the net patient revenue yield as a result of unfavorable shifts in payer mix and service mix, offset by growth in patient volumes and reimbursement increases. The Kentucky region recorded $(25.0) million to correct revenue realization amounts made earlier in fiscal year 2016. The region was also unfavorably impacted by $(21.0) million of

accounts receivable reserve adjustments based on historical cash collection results. Total net revenue per adjusted admission decreased (5.2)% compared to the same period of the prior fiscal year, and total operating expense per adjusted admission decreased (3.7)%. Total labor as a percentage of net patient services revenue increased to 49.0% compared to 43.1% in the same period of the prior fiscal year. Operations for the three months ended June 30, 2016 were also favorably impacted by a $36.2 million decrease in a contingent consideration liability as a result of changes in payment assumptions related to the University of Louisville affiliation at KentuckyOne Health.

CHI Corporate services and other business lines operating EBIDA before restructuring, impairment and other losses totaled $(125.1) million, representing an increased loss of $(94.4) million for the three months ended June 30, 2016, compared to the corresponding period of the prior fiscal year. Increases in support services activities relate to a variety of factors, and include strategic transfers of certain activities from the markets and other National service lines to the Corporate office in order to build National support functions, and new implementations of system-wide services such as revenue cycle and food programs. Support services allocations to the regions consider the strategic needs and resource consumption of the regions and CHI overall. Increases in the current period include $14.3 million of payer strategy services, $23.4 million related to ITS services primarily for technology infrastructure refresh and upgrades, $11.8 million of revenue cycle implementations and services for new markets, $6.0 million related to new market implementations for national food services, and $18.1 million related to strategic consulting services.

RESTRUCTURING, IMPAIRMENT AND OTHER LOSSES

CHI restructuring, impairment and other losses totaled $196.1 million and $120.1 million for the three months ended June 30, 2016 and 2015, respectively, and included $170.6 million and $36.2 million, respectively recognized within the regions. Of the total amount recognized in the three months ended June 30, 2016, $111.2 million related to goodwill impairments in the Texas region. Restructuring, impairment and other losses expenses include asset and goodwill impairments, pension plan accounting charges, EPIC go-live support costs, reorganization efforts, and severance costs across the system due to the reductions in workforce implemented as part of a system-wide effort to reduce expenses.

NON-OPERATING RESULTS

CHI nonoperating gains totaled $77.2 million and $68.9 million for the three months ended June 30, 2016 and 2015, respectively, primarily driven by CHI's investment portfolio income, and realized and unrealized (losses) gains on interest rate swaps. CHI investment income was $115.8 million and $11.0 million for the three months ended June 30, 2016 and 2015, respectively. CHI (losses) gains on interest rate swaps were $(43.4) million and $54.8 million for the three months ended June 30, 2016 and 2015, respectively.

2. SUMMARY OF OPERATING RESULTS FOR FISCAL YEARS ENDED JUNE 30, 2016 AND 2015

OPERATING EBIDA/INCOME FROM OPERATIONS

CHI operating EBIDA before restructuring, impairment and other losses totaled $990.9 million and $1.3 billion for the fiscal years ended June 30, 2016 and 2015, respectively, equivalent to an operating EBIDA margin before restructuring, impairment and other losses percentage of 6.2% and 8.7%, respectively. Results included business combination gains of $223.0 million and $436.3 million for the fiscal years ended June 30, 2016 and 2015, respectively, gains from the sale of certain of CHI's real estate assets across the system of $59.4 million are recognized in the regional operating results (Nebraska $25.0 million, Pacific Northwest $20.3 million, Kentucky $7.7 million and $64 million in other regions), for the fiscal year ended June 30, 2016, a gain of $89.1 million recognized in the Iowa region within changes in equity of unconsolidated organizations as described above for the fiscal year ended June 30, 2016, and a gain of $69.0 million from the sale of the

Corporation's ownership interest in MSI for the fiscal year ended June 30, 2015.

CHI experienced mixed operating results for the fiscal year ended June 30, 2016, including increases in same store patient volumes, offset by unfavorable shifts in payer and service mix across several of CHI's regions, which resulted in decreased net patient services revenue yields. Net patient revenues increased $1.2 billion in fiscal year 2016 driven by new acquisitions, volume growth and acuity improvements. New acquisitions in the Ohio, Texas and Colorado regions improved net patient revenues $510.7 million while outpatient and ambulatory volume growth in the legacy facilities increased net patient revenues $242.8 million, Revenue cycle operational improvements and inpatient acuity increases created a net revenue lift of $244.7 million. Net patient services revenues in fiscal year 2016 was also unfavorably impacted $(38.0) million based on updating historical cash collection results.

CHI's regions and Corporate office experienced increased operating expenses due to growth, adding new regions to its revenue cycle initiative, the expansion of IT services, and increased pharmaceutical and supply costs. CHI is implementing focused clinical and operational initiatives across the system as part of its on-going comprehensive expense reduction strategy to address labor, overhead, supply chain, physician enterprise and other cost management initiatives.

CHI (losses) income from operations before restructuring, impairment and other losses totaled $(187.8) million and $206.9 million for the fiscal years ended June 30, 2016 and 2015, respectively, or an operating (loss) income margin before restructuring, impairment and other losses percentage of (1.2)% and 1.4% for the fiscal years ended June 30, 2016 and 2015, respectively. The strategic affiliations completed in fiscal years 2016 and 2015 contributed operating revenues of $1.2 billion and $577.7 million, and operating EBIDA before restructuring, impairment and other losses of $80.0 million and $74.8 million, for the fiscal years ended June 30, 2016 and 2015, respectively, all excluding business combination gains.

The table below presents the total operating EBIDA before restructuring, impairment and other losses, total operating EBIDA margin before restructuring, impairment and other losses, and total operating revenues of CHI by region for the fiscal years ended June 30, 2016 and 2015. Additional discussion on CHI's regional operating results is discussed within the regional operating trends section below.

Catholic Health Initiatives Operations Summary
Fiscal Years Ended – June 30, 2016 and 2015

Region	YTD 6/30/16 2016 Operating EBIDA before restructuring, Impairment and other losses ($ thousand)	YTD 6/30/15 Operating EBIDA before restructuring, Impairment and other losses ($ thousands)	YTD 6/30/16 Operating EBIDA margin before restructuring, Impairment and other losses	YTD 6/30/15 Operating EBIDA margin before restructuring, Impairment and other losses	YTD 6/30/16 Operating revenues percentage of CHI consolidated	YTD 6/30/15 Operating revenues percentage of CHI consolidated
Colorado	$ 231,021	$ 193,257	10.5%	10.8%	13.8%	12.1%
Pacific Northwest	207,740	251,691	8.4%	10.7%	15.6%	15.9%
Nebraska	184,037	50,960	9.1%	2.7%	12.7%	12.8%
Kentucky	122,465	73,318	5.2%	3.2%	14.7%	15.3%
Texas	119,064	172,364	5.8%	9.4%	12.9%	12.4%
Iowa[1]	176,822	73,187	16.1%	7.6%	6.9%	6.5%
Ohio	85,054	83,246	7.8%	8.5%	6.9%	6.6%
Arkansas	30,196	28,257	4.0%	3.9%	4.7%	4.9%
Tennessee	30,592	51,106	4.9%	8.4%	3.9%	4.1%
North Dakota/Minnesota	71,835	79,582	9.3%	11.3%	4.9%	4.7%
National business lines[2]	13,049	3,050	5.1%	1.4%	1.6%	1.5%
Other[3]	(55,930)	(49,130)	N/A	N/A	(0.2)%	0.0%
Total Regional	1,215,945	1,010,888	7.8%	7.0%	98.4%	96.8%
Corporate services and other business lines[4]	(448,106)	(226,441)	N/A	N/A	0.2%	(0.2)%
Total CHI Consolidated before gains	767,839	784,447	4.9%	5.5%	98.6%	96.6%
Business combination gains and MSI gain[5]	223,036	505,340	100.0%	100.0%	1.4%	3.4%
Total CHI Consolidated	$ 990,875	$ 1,289,787	6.2%	8.7%	100.0%	100.0%

[1]Includes equity gain of $89.1 million described above.
[2] Includes Home Care and Senior Living business lines.
[3] Includes unallocated regional revenues and expenses as well as the operations of Albuquerque Health Ministries and Lancaster Health Ministries MBOs.
[4] Includes CHI Corporate and FIIL.
[5] Includes Business combination gains of $223.0 million and $436.4 million for the fiscal years ended June 30, 2016 and 2015, respectively, and a $69.0 million gain from the sale of the Corporation's ownership interest in MSI for the fiscal year ended June 30, 2015.

OPERATING REVENUE AND VOLUME TRENDS

CHI total operating revenues increased 7.4%, or $1.1 billion, for the fiscal year ended June 30, 2016, compared to the prior fiscal year. Excluding the impacts of current and prior year acquisitions (same store basis), CHI total operating revenues increased 4.7%, or $644.2 million, for the fiscal year ended June 30, 2016, compared to the prior fiscal year.

CHI total net patient services revenues increased 9.1%, or $1.2 billion, for the fiscal year ended June 30, 2016, compared to the prior fiscal year. Factors contributing to the increase were recently completed acquisitions, the impact of reimbursement increases, and increases in same store patient volumes which were offset by shifts in payer and service mix across several of CHI's

regions. CHI same store net patient services revenues increased 5.2%, or $662.2 million, for the fiscal year ended June 30, 2016, compared to the prior fiscal year. The shifts in payer mix and service mix have decreased the same store net patient services revenue of approximately $97.4 million.

CHI same store patient volumes increases (decreases) were as follows for the fiscal year ended June 30, 2016, as compared to the prior fiscal year: Adjusted Admissions 2.1% or 21,714, Acute Admissions 0.2% or 852, Acute Inpatient Days 0.5% or 5,518, Inpatient ER Visits 0.2% or 483, Inpatient Surgeries 0.5% or 817, Outpatient ER Visits (0.8)% or (15,718), Outpatient Non-ER Visits 5.5% or 271,396, Outpatient Surgeries 2.7% or 6,261, and Physician Visits 9.1% or 809,450.

CHI total other operating revenues decreased (8.3)%, or $(122.6) million, for the fiscal year ended June 30, 2016, compared to the prior fiscal year, primarily from decreased business combination gains. Other operating revenues included business combination gains of $223.0 million and $436.3 million for the fiscal years ended June 30, 2016 and 2015, respectively, gains from the sale of certain of CHI's real estate assets across the system of $59.4 million (Nebraska $25.0 million, Pacific Northwest $20.3 million, Kentucky $7.7 million and $6.4 million in other regions) for the fiscal year ended June 30, 2016, a gain of $89.1 million recognized in the Iowa region within changes in equity of unconsolidated organizations, and a gain of $69.0 million from the sale of the Corporation's ownership interest in MSI for the fiscal year ended June 30, 2015.

OPERATING EXPENSES

CHI total operating expenses before restructuring, impairment and other losses increased 10.2%, or $1.5 billion, for the fiscal year ended June 30, 2016, as compared to the prior fiscal year. CHI same store total operating expenses before restructuring, impairment and other losses increased 6.2%, or $878.3 million, for the fiscal year ended June 30, 2016, as compared to the prior fiscal year, primarily due to increases in total labor costs, purchased services and supplies expense, combined with annual inflation increases in overall operating expenses across CHI.

CHI same store total labor costs for the fiscal year ended June 30, 2016, accounted for 47.6% of total same store operating expenses before restructuring, impairment and other losses, compared to 48.0% for the prior fiscal year. CHI same store total labor costs increased 5.3%, or $357.8 million, for the fiscal year ended June 30, 2016, as compared to the prior fiscal year, due to growth, as well as annual inflation increases. CHI same store total labor costs as a percentage of net patient services revenues increased to 52.8% for the fiscal year ended June 30, 2016, compared to 52.7% for the prior fiscal year. Management continues to implement on-going labor productivity initiatives in CHI's regions to align labor costs with current patient volumes and net patient services revenues.

CHI same store purchased services expenses increased 15.8% or $229.2 million, for the fiscal year ended June 30, 2016, as compared to the prior fiscal year, as a result of ongoing strategic initiatives that include the expanded revenue cycle services agreement with Conifer, the outsourcing and expansion of IT services, and physician alignment and physician practice performance services with MSI.

CHI same store supplies expenses increased 6.0%, or $146.1 million, for the fiscal year ended June 30, 2016, as compared to the prior fiscal year, due to expansion of certain service lines and increased surgical and pharmacy costs related to specialty drug pricing and utilization. CHI same store supplies as a percentage of net patient services revenues was 19.2% for the fiscal year ended June 30, 2016, as compared to 19.1% for the prior fiscal year.

REGIONAL OPERATING TRENDS

CHI periodically reviews its allocation methodology for Corporate support services and may adjust those allocations based on the strategic needs and resource consumption of the regions and CHI overall. These changes in allocation methodologies may increase or decrease a region's operating results from year to year, but have no impact on the consolidated results of CHI.

Operating results for the fiscal year ended June 30, 2016, were mixed across CHI's regions with favorable results from the Nebraska, Kentucky, Colorado, and

Iowa regions being offset by the remaining regions and CHI Corporate services. The Nebraska region has continued to show operating improvements and stabilization in net patient services revenues for the fiscal year ended June 30, 2016, compared to the prior fiscal year as a result of CHI Health's contract reinstatement with a significant insurer in July 2015. The Colorado and Kentucky regions' operating performance improved as a result of patient volume growth, payer and service mix, and favorable expense management. These improvements were offset by decreases in the Pacific Northwest and Texas regions as a result of unfavorable shifts in payer and service mix, which has decreased net patient revenue yields such that the increases in operating expenses, including labor productivity have outpaced net patient services revenues growth. The Iowa region operating EBIDA improved $103.6 million for the fiscal year ended June 30, 2016, compared to the prior fiscal year due to the recognition of a gain of $89.1 million within changes in equity of unconsolidated organizations as a result of the Wheaton Franciscan Healthcare-Iowa acquisition for the fiscal year ended June 30, 2016. Additional information for the Colorado, Pacific Northwest, Nebraska, Kentucky, and Texas regions is discussed below.

The Nebraska region's operating EBIDA before restructuring, impairment and other losses totaled $184.0 million for the fiscal year ended June 30, 2016, and increased $133.1 million compared to the prior fiscal year. Operations in the Nebraska region in the prior fiscal year were impacted by lower net patient services revenues and decreased patient volumes resulting from ongoing contract negotiations with an insurer that led to certain facilities in the Nebraska region being terminated from that insurer's network. Effective July 15, 2015, CHI Health and the insurer came to a mutual agreement on contract terms and the Nebraska region facilities were reinstated into the insurers' network. As a result of the contract reinstatement, the Nebraska region has shown stabilization of net patient services revenues and improvements in patient volumes. Adjusted admissions, admissions and total outpatient visits in the Nebraska region increased 2.6%, 0.7% and 9.6%, respectively, compared to the prior fiscal year. Total net revenue per adjusted admission increased 3.6% compared to the prior fiscal year, while total operating expense per adjusted admission increased 3.8%. Total labor as a percentage of net patient services revenue declined to 56.5% compared to 58.2% in the previous fiscal year. Operating performance was also impacted by an improvement in net patient services revenue yield, resulting in a net patient services revenue yield of 34.1% for the fiscal year ended June 30, 2016, compared to 33.3% in the prior fiscal year, or approximately $44.8 million in increased net patient services revenues. The Nebraska region also recorded unfavorable accounts receivable adjustments in the period totaling $(8.0) million based on updated historical cash collection results.

The Kentucky region's operating EBIDA before restructuring, impairment and other losses totaled $122.5 million for the fiscal year ended June 30, 2016, and increased $49.1 million compared to the prior fiscal year. Net patient services revenues increased 3.2%, or $68.8 million, for the fiscal year ended June 30, 2016, compared to the prior fiscal year due to growth in patient volumes and reimbursement increases, offset by decreases in net patient services revenue yield. The Kentucky region has experienced unfavorable shifts in payer mix and service mix, resulting in a net patient services revenue yield of 26.3% compared to 26.6% in the same period of the prior fiscal year, or approximately $(21.4) million in decreased net patient services revenues. The region was also unfavorably impacted by $(25.0) million of accounts receivable reserve adjustments based on historical cash collection results. Total net revenue per adjusted admission increased 3.0% compared to the prior fiscal year, and total operating expense per adjusted admission increased 2.0%. Total operating expenses increased 1.7%, or $36.6 million, for the fiscal year ended June 30, 2016 as compared to the prior fiscal year and were favorably impacted by a $45.3 million decrease in Corporate support services allocations due to reduced utilization of resources, as well as by a $33.8 million decrease in a contingent consideration liability for the fiscal year ended June 30, 2016. The adjustment to the contingent consideration liability was recorded as a result of changes in payment assumptions related to the University of Louisville affiliation at KentuckyOne

Health. The Kentucky region also continues to be challenged with rising costs in total compensation expense and supplies expense. As compared to the prior fiscal year, total employee compensation increased $83.1 million and supplies expense $42.3 million, with total employee compensation as a percentage of net patient services revenues of 46.5% in the current fiscal year compared to 44.1% in the prior fiscal year, and supplies as a percentage of net patient services revenues of 24.1% in the current fiscal year compared to 22.9% in the prior fiscal year. Supply expense increases are specifically evident with respect to increased utilization of specialty pharmaceuticals. Total supply expense per adjusted admission increased 8.4% over the prior year. Management is implementing strategies to improve labor productivity and supply chain savings.

The Colorado region's operating EBIDA before restructuring, impairment and other losses totaled $231.0 million for the fiscal year ended June 30, 2016, and increased $37.8 million compared to the prior fiscal year. Same store net patient services revenues increased 13.5%, or $229.3 million, for the fiscal year ended June 30, 2016, compared to the prior fiscal year due to growth in patient volumes and reimbursement increases. Operating performance was also impacted by an improvement in net patient services revenue yield, resulting in a same store net patient services revenue yield of 27.5% for the fiscal year ended June 30, 2016, compared to 26.6% in the prior fiscal year, or approximately $61.8 million in increased net patient services revenues. The Colorado region began implementation of the EPIC patient billing system in May 2016, which led to a temporary decline in patient volume and revenue performance in the fourth quarter. Overall same store volumes increased year over year, with admissions increasing 2.3% and outpatient visits increasing 2.2%. Operations in the northern part of Denver experienced growth due to increases in ED volume, orthopedic and outpatient surgical cases. The strategic affiliation with LUH contributed operating EBIDA before restructuring, impairment and other losses of $4.3 million for the fiscal year ended June 30, 2016, to the Colorado region.

The Texas region's operating EBIDA before restructuring, impairment and other losses totaled $119.1 million for the fiscal year ended June 30, 2016, and decreased $(53.3) million compared to the prior fiscal year, due to increased operating expenses outpacing net patient services revenue growth. Same store net patient services revenues increased 3.3%, or $50.5 million, for the fiscal year ended June 30, 2016, compared to the prior fiscal year due to growth in patient volumes and reimbursement increases. Same store operating expenses increased (7.3)%, or $(105.2) million in the Texas region for the fiscal year ended June 30, 2016, primarily in total compensation, purchased services and supplies expenses, compared to the prior fiscal year. Total net revenue per adjusted admission decreased (2.7)% compared to the prior fiscal year, while total operating expense per adjusted admission increased 0.9%. Total labor as a percentage of net patient services revenue increased to 48.1% compared to 47.7% in the previous period. Management is implementing strategies to improve labor productivity and supply chain savings and is continuing to expand its referral base for additional growth in the Texas region. Strategic affiliations completed in the Texas region during fiscal years 2016 and 2015 contributed operating EBIDA before restructuring, impairment and other losses of $39.5 million and $34.7 million, for the fiscal years ended June 30, 2016 and 2015, respectively.

The Pacific Northwest region's operating EBIDA before restructuring, impairment and other losses totaled $207.7 million for the fiscal year ended June 30, 2016, and decreased $(44.0) million compared to the prior fiscal year. The Pacific Northwest region experienced growth in patient volumes, which were outpaced by increases in operating expenses, including total compensation, labor productivity, purchased services and supplies expenses, compared to the prior fiscal year. Increased operating expenses of $175.3 million have outpaced net patient services revenues increases of $104.9 million. The Pacific Northwest region has experienced unfavorable shifts in payer mix and service mix, resulting in a net patient services revenue yield of 25.8% compared to 26.7% in the prior fiscal year, or approximately $(76.1) million in decreased net patient services revenues. Total net revenue per adjusted

admission increased 1.4% compared to the prior fiscal year, while total operating expense per adjusted admission increased 4.8%. Total labor as a percentage of net patient services revenue increased to 54.8% compared to 53.1% in the previous period. Management is focusing on these trends to address the underlying causes of the increases and is implementing strategies to improve labor productivity.

The Tennessee region's operating EBIDA before restructuring, impairment and other losses totaled $30.6 million for the fiscal year ended June 30, 2016, and decreased $(20.5) million compared to the prior fiscal year. Although total outpatient volume grew by 8.3%, total acute admissions declined (2.0)%, and overall expense growth outpaced revenue primarily within labor and supplies expense. Total net revenue per adjusted admission decreased (1.2)% compared to the prior fiscal year, while total operating expense per adjusted admission increased 1.3%. The region was also unfavorably impacted during the fiscal year by $(6.0) million of accounts receivable reserve adjustments based on historical cash collection results.

CHI Corporate services and other business lines operating EBIDA before restructuring, impairment and other losses totaled $(448.1) million, representing an increased loss of $(221.7) million for the fiscal year ended June 30, 2016. Increases in support services activities relate to a variety of factors, and include strategic transfers of certain activities from market and other National service lines to the corporate office in order to build National support functions, and new implementations of system-wide services such as revenue cycle, food programs and clinical engineering. Support services allocations to the regions consider the strategic needs and resource consumption of the regions and CHI overall. Increases in the current fiscal year for transfers and new implementations include $11.8 million for payer strategy services, $66.0 million for revenue cycle services, $14.7 million for national food program services, and $16.6 million for clinical engineering services. Other support services increases include $4.8 million related to IT services and $18.2 million related to salary costs, offset by a reduction of $24.9 million related to personnel transfers of market executive leaders from the Corporate office to the regions.

RESTRUCTURING, IMPAIRMENT AND OTHER LOSSES

CHI restructuring, impairment and other losses totaled $295.5 million and $183.0 million for the fiscal years ended June 30, 2016 and 2015, respectively, and included $181.4 million and $78.7 million, respectively, recognized within the regions. Of the total amount recognized in the fiscal year ended June 30, 2016, $111.2 million related to goodwill impairments in the Texas region. Restructuring, impairment and other losses expenses include asset and goodwill impairments, pension plan settlement charges, EPIC go-live support costs, reorganization efforts, and severance costs across the system due to the reductions in workforce entered into as part of a CHI-wide effort to reduce expenses.

NON-OPERATING RESULTS

CHI nonoperating (losses) gains totaled $(216.1) million and $105.6 million for the fiscal years ended June 30, 2016 and 2015, respectively, primarily driven by CHI's investment portfolio losses, and realized and unrealized losses on interest rate swaps. CHI investment (loss) income was $(15.3) million and $198.9 million for the fiscal years ended June 30, 2016 and 2015, respectively. CHI losses on interest rate swaps were $(154.8) million and $(77.2) million for the fiscal years ended June 30, 2016 and 2015, respectively.

3. SUMMARY OF BALANCE SHEET AS OF JUNE 30, 2016 AND JUNE 30, 2015 - CHI AND CHI REPORTING GROUP

The CHI Reporting Group total combined assets were $23.3 billion and $23.7 billion at June 30, 2016 and 2015, respectively, representing a decrease of (1.3)%, or $(317.4) million, during the fiscal year ended June 30, 2016. The decrease was primarily attributable to $(196.6) million of assets sold in the current fiscal year as a result of the divestitures of CHI St. Joseph Health in Pennsylvania and Saint Clare's Health System in New

Jersey, as well as a $(273.6) million decrease in cash and unrestricted investments, as described further below. The asset decreases were partially offset by $120.4 million in increased total net patient accounts receivable, primarily as a result of new business from recently completed acquisitions.

The CHI Reporting Group total cash and equivalents and unrestricted investments were $6.9 billion and $7.2 billion at June 30, 2016 and 2015, respectively, representing a decrease of (3.8)%, or $(273.6) million during the fiscal year ended June 30, 2016. For the fiscal year ended June 30, 2016, CHI spent a net $(130.6) million in investing cash flow activities, representing $(947.7) million of on-going capital investment activity, offset by the receipt of $750.3 million in proceeds from asset sales, including $601.7 million in gross proceeds from CHI's real estate portfolio sale, and $206.0 million in gross proceeds from the sale of CHI St. Joseph Health in Pennsylvania and Saint Clare's Health System in New Jersey. CHI's capital investment activity includes continued implementation costs for CHI's OneCare program and IT infrastructure investments, as well as new hospital construction and facility expansion in the Texas, Pacific Northwest, Colorado, Ohio, Fargo and Kentucky regions. CHI financing cash flow activities for the fiscal year ended June 30, 2016, totaled $(120.7) million and includes net debt, interest and swap collateral postings. CHI's cash flows from operations, including investments and assets limited to use, and working capital changes, were $(22.3) million for the fiscal year ended June 30, 2016.

The CHI Reporting Group days of cash on hand decreased to 160 days at June 30, 2016, from 183 at June 30, 2015. This decrease is primarily attributable to cash spent on capital additions and debt payments, as well as reductions of cash flows from operations.

The CHI Reporting Group net patient accounts receivable were $2.2 billion and $2.1 billion at June 30, 2016 and 2015, representing an increase of 5.7%, or $120.4 million, during the fiscal year ended June 30, 2016, primarily as a result of the 5.2% increase in CHI same store net patient services revenues discussed above, as well as net patient accounts receivable assumed as part of the acquisitions completed in fiscal year 2016.

The CHI Reporting Group total combined liabilities were $15.5 billion and $14.3 billion at June 30, 2016 and 2015, respectively, representing an increase of 8.4%, or $1.2 billion, during the fiscal year ended June 30, 2016, primarily attributable to increases in CHI pension liabilities and increases to debt. CHI pension liabilities were $1.5 billion at June 30, 2016 and $732.6 million at June 30, 2015, representing an increase of $803.3 million. The pension benefit obligation increased $283 million due to changes in the discount rate assumption, $245 million as a result of lower returns on plan assets, and $275 million related to form of payment, demographic and other plan assumptions changes. The fair value of the Plan assets were $3.9 billion and $4.1 billion at June 30, 2016 and 2015, respectively. CHI Reporting Group total debt was $9.1 billion at June 30, 2016 and $8.8 billion at June 30, 2015, representing an increase of $286.7 million, due to $177.7 million in debt assumed as a result of current fiscal year acquisitions and $109.0 million in net additional debt incurred during the fiscal year ended June 30, 2016.

The CHI Reporting Group debt-to-capitalization ratio increased to 54.8% at June 30, 2016 from 49.5% at June 30, 2015, primarily as a result of a $(1.5) billion decrease to unrestricted net assets and the increased CHI Reporting Group debt of $286.7 million for the CHI Reporting group during fiscal year ended June 30, 2016. The CHI Reporting Group total unrestricted net assets decreased during the fiscal year ended June 30, 2016, driven by CHI's deficit of revenues over expenses of $(699.4) million for the fiscal year ended June 30, 2016, and a decrease in the pension funded status of $(773.3) million.

4. CERTAIN CONTRACTUAL OBLIGATIONS

CAPITAL OBLIGATION DOCUMENT

The obligations of the Corporation to pay amounts due on its commercial paper notes, revenue bonds, guarantees and certain swap agreements are evidenced by Obligations issued under the COD. Obligations also evidence the Corporation's obligations to liquidity banks that provide funds for the purchase of indebtedness tendered for purchase or subject to mandatory tender for purchase and not remarketed under the Corporation's self-liquidity program and for general purpose revolving lines of credit. At June 30, 2016, the Corporation's outstanding indebtedness evidenced by Obligations issued under the COD totaled $8.2 billion. Payment obligations under the COD are limited to an Obligated Group (defined in the COD), which only includes the Corporation. Certain covenants under the COD are tested based on the combination of the Obligated Group, Participants and Designated Affiliates. However, holders of Obligations have no recourse to Participants or Designated Affiliates or their property for payment thereof.

INDEBTEDNESS

(in Millions)	June 30, 2016	June 30, 2015
Capital Obligation Debt		
Fixed Rate Bonds[1]	$5,121	$ 5,327
Variable Rate Bonds[2]	508	811
Long Term Rate Bonds[3]	142	205
Direct Purchase Bonds[4]	824	593
Commercial Paper Notes	815	741
Short term bank loans	784	200
Total Capital Obligation Debt	**$ 8,194**	**$ 7,877**
Non-Capital Obligation Debt		
Other MBO Debt[5]	$ 518	$ 552
Capital Leases	178	191
EHF Payable issued to Episcopal Health Foundation	167	199
Total Non-Capital Obligation Debt	**$ 863**	**$ 942**
Total CHI Debt	**$ 9,057**	**$ 8,819**

[1] Excludes unamortized original issue premium, discount and issuance costs.

[2] Includes bonds that bear interest at variable rates (currently determined weekly) and are subject to optional tender for purchase by their holders, and FRNs that bear interest at variable rates (currently determined weekly and monthly), for a specified period and are subject to mandatory tender as set forth below.

[3] Long-term rate bonds bear interest at a fixed rate for a specified period and are subject to mandatory tender at the end of such period as set forth below.

[4] Direct purchase debt is placed directly with holders, bears interest at variable rates determined monthly based upon a percentage of LIBOR or SIFMA plus a spread, and is subject to mandatory tender on certain dates as set forth below.

[5] Other debt is comprised mostly of $208.7 million and $178.5 million of CHI St. Luke's affiliate debt, $137.2 million and $45.1 million of Centura affiliate debt and $76.8 million and $249.6 million of SFH affiliate debt at June 30, 2016 and June 30, 2015, respectively.

The required principal payments on the total CHI long-term debt during fiscal year 2017 is approximately $135.0 million.

The Corporation has two revolving lines of credit; one with Morgan Stanley Bank, N.A. in the amount of $200 million that is fully drawn and matures, unless the parties mutually agree to renew or extend, on December 2, 2016 (the Corporation and Morgan Stanley are discussing options regarding the December 2, 2016 maturity date), and one with Mizuho Bank, LTD., in the amount of $250 million that is fully drawn and matures on June 29, 2017. Proceeds from both

lines have been used for general corporate purposes and ICD-10 readiness. On February 10, 2016, the Corporation borrowed $333.7 million from JPMorgan Chase Bank, National Association to provide for the defeasance of certain fixed rate bonds. This loan matures December 30, 2016, unless the parties mutually agree to renew or extend. The Corporation and JPMorgan are discussing options regarding the December 30, 2016 maturity date.

The Corporation's direct purchase agreements are publicly available, and can be accessed through the Digital Assurance Certification LLC website ("DAC") at www.dacbond.com and the Municipal Securities Rulemaking Board ("MSRB") through the Electronic Municipal Market Access ("EMMA") website of the MSRB, which can be found at http://emma.msrb.org.

A. Direct Purchase Debt

The Corporation's direct purchase debt is subject to mandatory tender on the dates set forth below. Upon any mandatory tender of direct purchase debt, management expects that it would analyze the then current market conditions and availability and relative cost of refinancing or restructuring alternatives prior to the applicable tender date, which could include, without limitation, conversion to another interest mode, refinancing or repayment.

Series	Par Outstanding June 30, 2016	Mandatory Tender Date
Colorado 2011C[1]	$118.0 million	November 10, 2018
Washington 2008A[1]	120.2 million	January 29, 2019
Colorado 2004B6[1]	54.2 million	September 15, 2020
Taxable 2013F	75.0 million	December 18, 2020
Colorado 2015-1	38.4 million	August 1, 2021
Colorado 2015-2	73.7 million	August 1, 2021
Colorado 2013C	100.0 million	December 18, 2023
Taxable 2013E	125.0 million	December 18, 2023
Colorado 2015A	20.0 million	August 1, 2024
Colorado 2015B	50.0 million	August 1, 2024
Washington 2015A	49.5 million	August 1, 2024
Total Direct Purchase Bonds	**$824 million**	

[1] Includes a "term out" provision that varies among agreements, which permits repayment after the mandatory tender date absent any defaults or events of default.

B. Long-Term Rate Bonds

The Corporation's long-term rate bonds are subject to mandatory tender on the dates set forth below. Upon the mandatory tender of long-term rate bonds, management expects that it would analyze the then current market conditions and availability and relative cost of refinancing or restructuring alternatives prior to the applicable tender date, which could include, without limitation, conversion to another interest mode, refinancing or repayment.

Series	Par Outstanding June 30, 2016	Mandatory Tender Date
Colorado 2009B-3	$40.0 million	November 6, 2019
Kentucky 2009B	60.0 million	November 10, 2021
Colorado 2008D-3	41.9 million	November 12, 2021
Total Long-Term Rate Bonds	**$141.9 million**	

C. Floating Rate Notes ("FRNs")

The Corporation's FRNs are subject to mandatory tender on the dates set forth below. Upon the mandatory tender of the FRNs, management expects that it would analyze the then current market conditions and availability and relative cost of refinancing or restructuring alternatives prior to the applicable tender date, which could include, without limitation, conversion to another interest mode, refinancing or repayment

Series	Par Outstanding June 30, 2016	Mandatory Tender Date
Kentucky 2011B-1	$ 52.7 million	January 31, 2020
Kentucky 2011B-2	52.7 million	January 31, 2020
Colorado 2008C-2	26.5 million	November 12, 2020
Colorado 2008C-4	26.5 million	November 12, 2020
Washington 2013B-1	100.0 million	December 31, 2020
Washington 2013B-2	100.0 million	December 31, 2024
Kentucky 2011B-3	52.7 million	January 31, 2025
Total FRNs	**$411.1 million**	

D. Variable Rate Bonds

The Corporation's variable rate demand bonds are subject to optional and mandatory tender. As of June 30, 2016, variable rate demand bonds outstanding in the amount of $96.7 million, are supported by the Corporation's self-liquidity, and are not supported by a dedicated liquidity or credit facility. See "Liquidity Arrangements" in Part IV below.

E. Taxable Commercial Paper

The Corporation's commercial paper note program permits the issuance of up to $881.0 million in aggregate principal amount outstanding at any time, with maturities within a 270 day period. The Corporation has directed the dealers for its commercial paper to tranche the maturities so that no greater than approximately one-third of the outstanding balance

matures in any one month, and no more than $100.0 million matures per dealer within any five business-day period. The Corporation has, from time to time, directed its dealers to deviate from such directions, and may do so again in the future. As of June 30, 2016, $815.5 million of commercial paper notes were outstanding. The commercial paper notes are supported by the Corporation's self-liquidity, and are not supported by a dedicated liquidity or credit facility. See "Liquidity Arrangements" in Part IV below.

F. Swap Agreements

The Corporation or its affiliates are currently party to 46 swap transactions that had an aggregate notional amount of approximately $1.7 billion at June 30, 2016. The 46 transactions have varying termination dates ranging from 2016 to 2047.

The swap agreements require the Corporation (or with respect to certain swap agreements, CHI St. Luke's or SFH) to provide collateral if its respective liability, determined on a mark-to-market basis, exceeds a specified threshold that varies based upon the rating on the Corporation's long-term indebtedness. The swap agreements of Memorial East Texas and Centura do not require collateral postings. Total cash collateral balances were $341 million at June 30, 2016. The swap agreements, excluding the Centura Health swap, are secured by Obligations issued under the COD.

Obligated Party	Type	Outstanding Notional June 30, 2016	Termination Date
CHI[1]	Total Return	$ 124.2 million	November 14, 2016-January 16, 2020
CHI	Fixed Payer	150.9 million	May 1, 2025
CHI	Fixed Payer	246.8 million	March 1, 2032
CHI	Fixed Payer	100.0 million	September 1, 2036
CHI	Fixed Payer	130.0 million	September 1, 2036
CHI	Fixed Payer	20.0 million	September 1, 2036
CHI	Fixed Payer	100.0 million	December 1, 2036
CHI	Fixed Payer	150.0 million	December 1, 2036
CHI St. Luke's	Fixed Payer	129.5 million	February 18, 2031
CHI St. Luke's	Fixed Payer	109.4 million	February 15, 2032
CHI St. Luke's	Fixed Payer	100.0 million	February 15, 2047
CHI St. Luke's	Fixed Payer	100.0 million	February 15, 2047
Centura Health[2]	Fixed Payer	15.9 million	May 20, 2024
Madonna Manor	Total Return	28.4 million	August 15, 2020
Memorial East Texas	Fixed Payer	26.4 million	February 15, 2035
Memorial East Texas	Fixed Payer	18.7 million	February 15, 2028
Providence	Fixed Payer	8.7 million	March 1, 2017
St. Joseph Regional Health[3]	Total Return	71.2 million	September 5, 2016 - August 15, 2020
St. Joseph Regional Health	Fixed Payer	46.4 million	January 1, 2028
St. Joseph Regional Health	Basis	30.0 million	March 1, 2028
Total Notional Amount		**$1,706.6 million**	

[1] Represents 22 Total Return Swaps.
[2] Not secured by CHI COD obligations.
[3] Represents 6 Total Return Swaps.

5. LIQUIDITY AND CAPITAL RESOURCES

Cash Equivalents and Internally Designated Investments

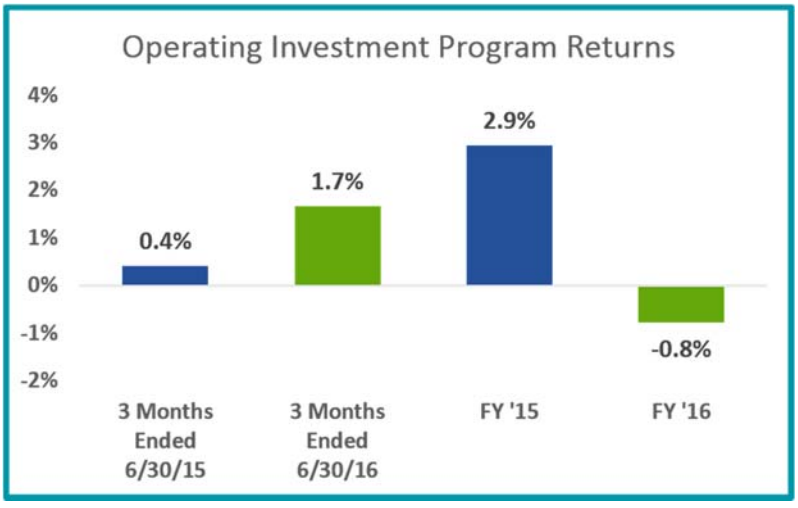
CHI holds highly liquid investments to enhance its ability to satisfy liquidity needs. Asset allocations are reviewed on a monthly basis and compared to investment allocation targets included within CHI's investment policy. At June 30, 2016 and June 30, 2015, the CHI Reporting Group had cash and equivalents and internally designated investments (including net unrealized gains and losses) as described in the table below.

(in Thousands)	June 30, 2016	June 30, 2015
Cash and equivalents	$ 927,279	$ 948,300
Internally designated investments	5,453,087	6,225,136
Total	**$ 6,680,366**	**$ 7,173,436**

CHI maintains an investment pool administered by the Corporation. The CHI Operating Investment Program (the "Program") is structured as a limited partnership with the Corporation as the managing general partner.

The Program contracts with investment advisers to manage the investments within the Program. Substantially all CHI long-term investments are held in the Program. The Corporation requires all Participants to invest in the Program. The Program consists of equity securities, fixed-income securities and alternative investments (e.g., private equity, hedge funds and real estate interests). The asset allocation is established by the Finance Committee of the Board of Stewardship Trustees. At June 30, 2016, the asset allocation was 45% equity securities, 32% fixed-income securities, 22% alternative investments (e.g., private equity, hedge funds and real estate interests) and 1% cash and equivalents. Alternative investments within the Program have limited liquidity. As of June 30, 2016, illiquid investments not available for redemption totaled $352.4 million, and investments available for redemption within 180 days at the request of the Program totaled $636.9 million. The Program's return was (0.8)% for the fiscal year ended June 30, 2016.

The following chart represents the CHI Operating Investment Program returns for the three month periods ended June 30, 2016 and 2015 and the fiscal years ended June 30, 2016 and 2015.



LIQUIDITY ARRANGEMENTS

The Corporation maintains several liquidity facilities that are dedicated to funding optional or mandatory tenders of its variable rate debt and paying the maturing principal of the commercial paper notes in the event remarketing proceeds are unavailable for such purpose. The Corporation's dedicated self-liquidity lines are set forth below and can be found at http://emma.msrb.org.

CHI Dedicated Self-Liquidity Lines – June 30, 2016

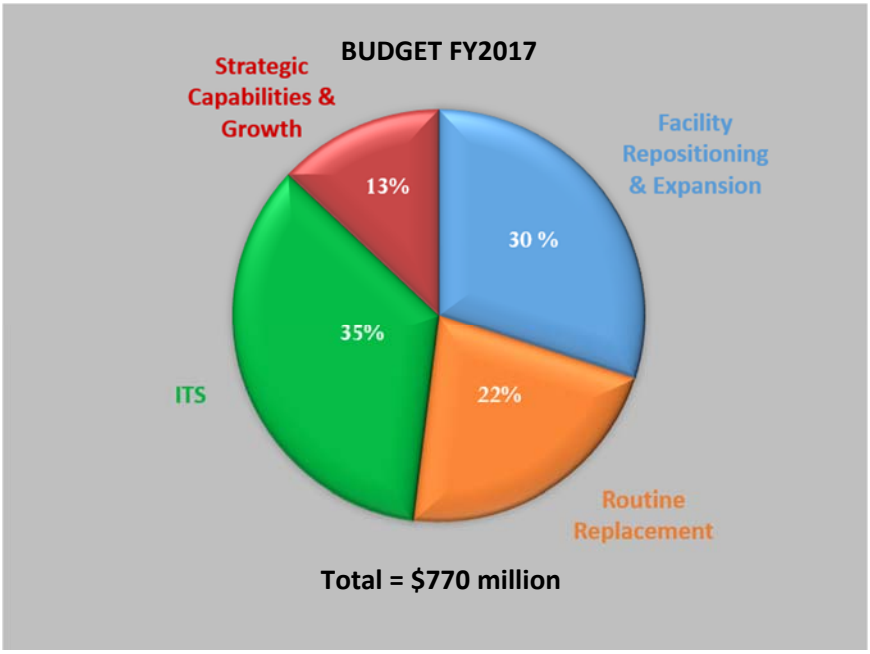
Bank	Committed Amount	Expiration
Bank of New York Mellon	$ 60.0 million	February 28, 2017
PNC Bank	125.0 million	August 24, 2017
J.P. Morgan	50.0 million	September 30, 2017
Bank of New York Mellon	50.0 million	December 15, 2017
MUFG Union Bank	75.0 million	September 28, 2018
Northern Trust	65.0 million	June 28, 2019
Total Self-Liquidity Lines	**$ 425.0 million**	

6. LIQUIDITY REPORT

CHI posts a liquidity report monthly, which can be found at www.catholichealth.net and http://emma.msrb.org.

7. CAPITAL EXPENDITURES

CHI's capital budget for fiscal year 2017 is $770 million with ability to increase or decrease based on performance with a not to exceed amount of $1.15 billion. The chart below reflects capital allocations to information technology ("ITS"), strategic capabilities and growth, facility repositioning and expansion, as well as routine replacement of capital assets.



8. COVENANT COMPLIANCE

The following table presents the Historical Long-Term Debt Service Coverage Ratio for the CHI Reporting Group for fiscal years ended June 30, 2016 and 2015.

CHI Reporting Group
Historical Long-Term Debt Service Coverage

	June 30, 2016	June 30, 2015
	(in Thousands)	
Income available for debt service		
Total Revenues	$ 16,267,369	$ 15,458,784
Total Operating Expenses (includes restructuring)	16,933,892	15,301,034
Excess (Deficiency) of Revenues over Expenses	(666,523)	157,750
Add: Interest on Long-Term Indebtedness	284,131	259,328
Add: Depreciation and Amortization	902,523	834,993
Add: Non-Cash Restructuring, Impairment and Other Losses	143,977	45,422
Add: Losses on Defeasance of Bonds and Escrow	29,469	20,184
Add: Business Combination (Gains)	(223,036)	(436,340)
Add: Change in equity of unconsolidated org Gains on Business combination contribution	(89,095)	-
Add: Net periodic pension expense (income)	6,283	(20,392)
Add: Unrealized Losses (Gains) on Interest Rate Swaps	115,369	33,680
Add: Net Investment Unrealized Losses (Gains)	329,022	225,192
Total Adjustments to Excess (Deficiency) of Revenues Over Expenses	1,498,643	962,067
Total income available for debt service	**$ 832,120**	**$ 1,119,817**
Debt service requirements on Long Term Indebtedness:		
Total CHI Principal Payments	117,557	109,137
Total CHI Interest Payments	302,030	292,524
Total Debt Service Requirements on Long Term Indebtedness:	**$ 419,587**	**$ 401,661**
Historical Long-Term Debt Service Coverage Ratio	**2.0x**	**2.8x**

9. PENSION AND RETIREMENT PLAN OBLIGATIONS

CHI Pension Plan

Certain noncontributory, defined benefit retirement plans (the "Plans") sponsored by CHI and its direct affiliates were frozen as of December 31, 2013 and 2014, and benefits earned by employees through that time period remain in the Plans. Employees continue to receive interest credits and, if applicable, vesting credits. Beginning January 1, 2014, CHI introduced a new 401(k) Retirement Savings Plan – see CHI 401(k) Retirement Savings Plan below for additional information.

CHI and its direct affiliates maintain a variety of noncontributory, defined benefit retirement plans (Retirement Plans) for their employees. Certain of these plans were frozen in previous fiscal years, and benefits

earned by employees through that time period remain in the Retirement Plans, where employees continue to receive interest credits and vesting credits, if applicable. Vesting occurs over a five-year period. Benefits in the Retirement Plans are based on compensation, retirement age, and years of service. Substantially all of the Retirement Plans are qualified as church plans and are exempt from certain provisions of both the Employee Retirement Income Security Act of 1974 and Pension Benefit Guaranty Corporation premiums and coverage. Funding requirements are determined through consultation with independent actuaries.

CHI recognizes the funded status (that is, the difference between the fair value of plan assets and the projected benefit obligations) of its Plans in the consolidated balance sheets, with a corresponding adjustment to net assets. Actuarial gains and losses that arise and are not recognized as net periodic pension cost in the same periods are recognized as a component of changes in net assets. CHI recognized an unfunded status for the Plans of $1.5 billion and $732.6 million at the June 30, 2016 and 2015 measurement dates, respectively. The fair value of the Plan assets were $3.9 billion and $4.1 billion at June 30, 2016 and 2015, respectively.

During fiscal year 2016, CHI acquired the pension plan assets and liabilities of Trinity with unfunded obligations of $16.4 million and during fiscal year 2015, CHI acquired the pension plan assets and liabilities of Sylvania with unfunded obligations of $140.7 million.

CHI recognized net periodic pension expense (income) of $6.3 million and $(20.4) million for the fiscal years ended June 30, 2016 and 2015, respectively. The service cost, interest cost, expected return on the Plans' assets, actuarial losses, and amortization of prior service benefit components of net periodic pension expense (income) are recognized in the consolidated statements of operations within employee benefits expense. The curtailment and settlement components of net periodic pension expense (income) are recognized in the consolidated statements of operations within restructuring, impairment and other losses.

The expected return on the Plans' assets for determining pension cost was 7.2% for both fiscal years ended June 30, 2016 and 2015. The assumption for the expected return on the Plans' assets is based on historical returns and adherence to the asset allocations set forth in the Plans' investment policies.

Certain of the Plans' investments are held in the CHI Master Trust, which was established for the investment of assets of the Plans. The CHI Master Trust investment portfolio is designed to preserve principal and obtain competitive investment returns and long-term investment growth, consistent with actuarial assumptions, while minimizing unnecessary investment risk. Diversification is achieved by allocating assets to various asset classes and investment styles and by retaining multiple investment managers with complementary philosophies, styles and approaches. Although the objective of the CHI Master Trust is to maintain asset allocations close to target, temporary periods may exist where allocations are outside of the expected range due to market conditions. The use of leverage is prohibited except as specifically directed in the alternative investment allocation. The portfolio is managed on a basis consistent with the CHI social responsibility guidelines.

A summary of the CHI Master Trust asset allocation targets and allocations by asset class at the measurement dates of June 30, 2016 and 2015 are as follows:

	June 30,		
	2016	2015	Target
Equity securities	46.0%	46.9%	45.0%
Fixed-income securities	33.9%	34.8%	35.0%
Alternative investments	20.1%	18.3%	20.0%

CHI 401(k) Retirement Savings Plan

CHI sponsors the CHI 401(k) Retirement Savings Plan (401(k) Savings Plan) for its employees whereby CHI matches 100.0% of the first 1.0% of eligible pay an employee contributes to the plan, and 50.0% of the next 5.0% of eligible pay contributed to the plan, for a maximum employer matching rate of 3.5% of eligible pay. On an annual basis and regardless of whether or not an employee participates in the 401(k) Savings Plan, CHI will also contribute 2.5% of eligible pay to an employee's 401(k) Savings Plan account. This contribution is made if an employee reaches 1,000 hours in the first year of employment, or every calendar year thereafter, and is employed on the last day of the calendar year. An employee is fully vested in the plan for employer contributions after three years of service. CHI recorded 401(k) Savings Plan expense of $221.7 million and $199.6 million for the fiscal years ended June 30, 2016 and 2015, respectively.

10. COMMUNITY BENEFIT

In accordance with its mission and values, CHI commits substantial resources to sponsor a broad range of services to the poor as well as the broader community. Community benefit to the poor includes the cost of providing services to persons who cannot afford health care due to inadequate resources and/or who are uninsured or underinsured. This type of community benefit includes the costs of traditional charity care; unpaid costs of care provided to beneficiaries of Medicaid and other indigent public programs; services such as free clinics and meal programs for which a patient is not billed or for which a nominal fee has been assessed; and cash and in-kind donations of equipment, supplies or staff time volunteered on behalf of the community. Community benefit provided to the broader community includes the costs of providing services to other populations that may not qualify as poor but may need special services and support. This type of community benefit includes the costs of services such as health promotion, education, clinics and screenings. In addition, it includes all services that are not billed or can be operated only on a deficit basis; unpaid portions of training health professionals such as medical residents, nursing students and students in allied health professions; and the unpaid portions of testing medical equipment and controlled studies of therapeutic protocols.

The cost to CHI of community benefit provided to the poor and the broader community (excluding unpaid Medicare costs) totaled $980.7 million and $909.9 million in the fiscal years ended June 30, 2016 and 2015, respectively.

11. LONG TERM BOND RATINGS

In April 2016, Standard & Poor's Rating Service assigned a rating to the Corporation's fixed rate unenhanced debt of A- (negative outlook). In May 2016, Moody's Investors Service, Inc. assigned a long-term rating to the Corporation's unenhanced debt of A3 (negative outlook). In July 2016, Fitch Ratings assigned a long-term rating to the Corporation's fixed rate unenhanced debt of BBB+ (negative outlook).

12. EMPLOYEES/PROFESSIONAL STAFF

At June 30, 2016, CHI employed over 4,000 providers (including advanced practice clinicians and physicians in 77 specialties). At June 30, 2016, CHI employed 102,466 employees. Salary levels and benefit packages for CHI employees are market competitive. Less than 10% of CHI's employees are represented by collective bargaining units.

13. ACCREDITATIONS AND LICENSES

CHI's hospital facilities, skilled nursing facilities and long-term care facilities have all of the necessary licenses to operate their facilities and necessary certifications and licenses for Medicare and Medicaid reimbursement.

14. CONFLICTS OF INTEREST

The Corporation maintains policies that require internal reporting of outside financial and fiduciary activities to protect its interests in circumstances that may result in a conflict between the personal interests of its employees and Trustees and those of CHI. Those policies put in place a general obligation for employed medical staff members, researchers, employees, and trustees to report potential conflicts of interest. In addition, on an annual basis, CHI requires all managers and above, employed medical staff members, researchers and trustees to complete a conflict of interest disclosure. A process is in place to review any potential conflicts of interest disclosed through this annual disclosure process.

PART VIII: GOVERNANCE

CATHOLIC HEALTH INITIATIVES

Participating Congregations. As of June 30, 2016, there are 13 Participating Congregations of CHI. CHI honors the traditions and services established by the foundresses of these congregations and continued by their participation. The Participating Congregations are: Benedictine Sisters of Mother of God Monastery, Watertown, South Dakota; Congregation of the Dominican Sisters of St. Catherine of Siena, Saratoga, CA; Franciscan Sisters of Little Falls, Minnesota; Dominican Sisters of Peace, Columbus, Ohio; Sisters of Charity of Cincinnati, Ohio; Sisters of Mercy, West Midwest Community, Omaha, Nebraska; Sisters of St. Francis of Philadelphia, Pennsylvania; Sisters of Presentation of the Blessed Virgin Mary of Fargo, North Dakota; The Congregation of the Sisters of Charity of Nazareth, Kentucky; Sisters of St. Francis of the Immaculate Heart of Mary of Hankinson, North Dakota; Sisters of the Holy Family of Nazareth, Des Plaines, Illinois; Sisters of St. Francis of Colorado Springs, Colorado; and Sisters of St. Francis of Sylvania, Ohio. All rights of the Participating Congregations as stated in the Corporation bylaws are exercised through a representative appointed by each Participating Congregation. Such rights include (1) approving any substantial change in the mission or philosophical direction of CHI; (2) approving amendments to the Corporation's articles of incorporation or bylaws affecting any provision governing the qualification, rights or responsibilities of the Participating Congregations; (3) selecting and removing without cause a person to represent the Participating Congregation in exercising the rights and duties as described in the Corporation's bylaws; (4) participating in the distribution of assets upon the dissolution of the Corporation, in accordance with the Corporation's Bylaws; (5) participating in organizational advocacy efforts; (6) encouraging members of the Participating Congregations to participate in the ministries sponsored by the Corporation; and (7) participating through their representatives in meetings held at least annually.

Board of Stewardship Trustees. The Corporation's Bylaws provide for the governance of the Corporation by a Board of Stewardship Trustees of at least nine and no more than twenty-one appointed Trustees one of which is an *ex officio* Trustee with voting powers. All Trustees serve regular staggered terms of three years. The Board of Stewardship Trustees has the power and the authority to supervise, control, direct and manage the property, affairs, and activities of the Corporation,

to determine the policies of the Corporation, to do or cause to be done any and all things for and on behalf of the Corporation, to exercise or cause to be exercised any or all of its powers, privileges, or franchises, and to seek the effectuation of CHI's objectives and purposes.

There are currently six committees of the Board of Stewardship Trustees: the Executive Committee, the Sponsorship and Governance Committee, the Finance Committee, the Human Resources Committee, the Quality and Safety Committee and the Audit and Compliance Committee.

The Board of Stewardship Trustees currently consists of 11 elected Trustees plus the *ex officio* Trustee and meets in person five times a year. The Chief Executive Officer of the Corporation serves as the *ex officio* Trustee and is able to vote. The table below lists the current Trustees, their professional affiliations and the expiration of their terms in office.

Board of Stewardship Trustees		
Name	**Professional Affiliation**	**Term Expires June 30**
Betsy Goodwin, OSF	Sisters of St. Francis of Philadelphia	2017
Margaret Ormond, OP	President Dominican Academy	2017
Gary Yates, MD	President, Healthcare Performance Improvement Sentara Quality Care Network	2017
Christopher Lowney, Chairperson	Public Speaker/Author	2018
James P. Hamill	Retired President & Chief Executive Officer Healthcare Administration	2018
Antoinette Hardy-Waller, RN, BSN, MJ	Senior Partner Strategic Health Transformations	2018
Geraldine "Polly" Bednash, PhD, RN, FAAN	Retired Chief Executive Officer American Association of Colleges of Nursing	2019
Richard Corrente	Retired Vice President & Chief Financial Officer Raytheon Corporate Jets	2019
Barbara Hagedorn, SC	Volunteer Good Samaritan Free Health Center	2019
Lillian Murphy, RSM	Retired Chief Executive Officer Mercy Housing	2019
Challis Lowe	Retired Human Resources	2019
Kevin E. Lofton*, FACHE	Chief Executive Officer Catholic Health Initiatives	N/A

*Ex-officio member of the Board

GOVERNANCE OF PARTICIPANTS AND RELATIONSHIP WITH DESIGNATED AFFILIATE

Governance of Participants. Each Participant is governed by a Board of Directors, subject to the powers reserved to its corporate member. The corporate member or sole shareholder of each of the Participants (other than Centura Health and certain Participants that are parties to JOAs, as described immediately below) is the Corporation or a local "parent organization," the sole corporate member or sole shareholder of which is the Corporation. The Corporation as sole corporate member has the right to appoint and remove Participant board members, except as otherwise described herein.

Bethesda Designated Affiliate Agreement. Bethesda and its corporate member, Bethesda, Inc., are parties to a Network Affiliation Agreement with the Corporation and The Good Samaritan Hospital of Cincinnati, Ohio, an affiliate of the Corporation and a Participant. Bethesda is an Ohio non-profit corporation that owns and operates an acute care facility in the metropolitan Cincinnati area. Bethesda (but none of its affiliates, including Bethesda, Inc.) is a Designated Affiliate, pursuant to an agreement (the "Bethesda Designated Affiliate Agreement" and together with the Network

Affiliate Agreement, the Bethesda Agreements"), between Bethesda and the Corporation. As a Designated Affiliate, the Corporation does not have corporate control over Bethesda and Bethesda's financial results are not included in the consolidated financial statements of the Corporation under GAAP. However, pursuant to the Network Affiliation Agreement, the Corporation has the right to nominate six members of Bethesda's 13-member Board of Trustees (subject to approval of those nominees by Bethesda, Inc.) and has the right to approve the appointment of Bethesda's CEO, who is also a Board member. The Bethesda Agreements provide that Bethesda will transfer to the Corporation, upon request of the Corporation, any amounts the Corporation determines are necessary for the Corporation to make Required Payments under (and as defined in) the Capital Obligation Document. Pursuant to the Bethesda Designated Affiliate Agreement, the Corporation has loaned funds to Bethesda to finance the acquisition and/or equipping and construction of certain facilities.

Certain Relationship and Control Mechanisms within the Corporation. The Corporation has the right, directly or indirectly, to appoint and remove a majority of the Board of Directors of each Participant, except for certain Participants affiliated with certain JOAs. In addition, the bylaws of substantially all non-profit Participants that own and operate a substantial portion of the property of CHI and constitute a substantial portion of the revenues of CHI permit the Corporation to require such Participants to transfer assets to the Corporation to the extent necessary to accomplish CHI's goals and objectives. The bylaws of such Participants also permit the Corporation to provide for the payment of all indebtedness of CHI in furtherance of CHI's goals and objectives, including indebtedness secured by the Capital Obligation Document. The Corporation's Board of Stewardship Trustees also maintains other powers over the Participants, including approval of operating and capital budgets.

Joint Operating Agreements and Joint Ventures. As discussed above, the Corporation is a party to several joint ventures and JOAs. Certain of the JOAs create corporate entities or operating companies to operate health care facilities within a system or network. The Corporation shares certain reserved powers over those corporations or operating companies with the other health system or hospital corporation that is a party to the related joint operating agreement. Each JOA may contain limitations on the ability of CHI entities to transfer property to others, including transfers to CHI and to the other party to the agreement. Such limitations may limit the ability of the applicable Designated Affiliate or Participant to transfer property to CHI if so requested by CHI pursuant to the Capital Obligation Document.

PART IX: CHI LEADERSHIP

Under the leadership of the CEO, CHI has two levels of management, management at the regional level and management at the national office level. CHI operations are overseen by two Presidents who serve as President, Health System Delivery and Chief Operating Officer; and President, Enterprise Business Lines and Chief Financial Officer. Key executives lead mission, strategy, clinical services, physician enterprise, legal services and human resources. CHI's geographic regions are each led by a senior vice president of operations. CHI leverages expertise across the system in areas such as mission, human resources, marketing and communications, finance, legal services, clinical effectiveness, supply chain, information technology, insurance, risk management, and strategy and business development. Several functions have been nationalized including information technology, legal services, clinical engineering and corporate responsibility. Day-to-day operations of the local markets is the responsibility of a local executive who reports to the regional senior vice president of operations. CHI continues to evolve its operating model to include clinical leaders as it moves from a hospital-centric organization to one that provides a full continuum of care in support of the creation of healthier communities.

CHI has strong, experienced leadership teams with a solid understanding of the formation and ongoing management of partnership relationships. Short biographies of key employees are discussed below.

Kevin E. Lofton, FACHE, Chief Executive Officer. Mr. Lofton joined the Corporation in 1998 and has served in his current position since 2003. Prior to that time, he

served as Executive Vice President and Chief Operating Officer of the Corporation from 1999 and as the Regional President responsible for MBOs in seven states from 1998 through 1999. Before joining the Corporation in February 1998, Mr. Lofton was the Chief Executive Officer of the UAB Hospital in Birmingham. In previous positions, Mr. Lofton served as the Chief Executive Officer of Howard University Hospital in Washington, D.C., and Chief Operating Officer at Shands Hospital in Jacksonville, Florida. Mr. Lofton served as the 2007 Chairman of the Board of the American Hospital Association and on the board and executive committee of the Catholic Health Association of the United States. Mr. Lofton received a bachelor's degree in management from Boston University and a master of health administration degree from Georgia State University. In May, 2016, Mr. Lofton received an honorary doctor of humanities in medicine from the Baylor College of Medicine.

Michael T. Rowan, President, Health System Delivery and Chief Operating Officer. Mr. Rowan will be leaving CHI on December 31, 2016. Plans are in development for interim operational leadership. Mr. Rowan joined the Corporation in March 2004. In his current role, he provides strategic direction and management oversight for all of CHI's locally based health care services, national business lines, corporate information technology, performance excellence, physician practice management, clinical operations, corporate responsibility and mission. His accomplishments include leading initiatives to improve financial performance, such as a reorganization of system and local operations and ITS technology systems, an expense-reduction initiative and a revenue cycle improvement project. Prior to joining the Corporation, Mr. Rowan served as executive vice president and chief operating officer of St. John Health in Detroit, Michigan. In previous positions, Mr. Rowan served as president and chief executive officer of Humility of Mary Health Partners in Youngstown, Ohio; executive vice president and chief operating officer of Sarasota Memorial Health Care System, Sarasota, Florida; and vice president of Memorial Medical Center, Savannah, Georgia. Mr. Rowan received a master's degree in health services administration from the University of Michigan and a bachelor's degree from Miami University. He is a fellow of the American College of Healthcare Executives. Mr. Rowan has served on the boards of Centura Health of Colorado and the National Association of Health Services Executives. He serves on the Editorial Committee of Health Progress, and on the Board Nominating Committee of the Catholic Health Association of America.

J. Dean Swindle, President, Enterprise Business Lines and Chief Financial Officer. Mr. Swindle joined the Corporation in May 2010 and has overall responsibility for financial strategy and planning, and corporate business services, including revenue cycle, supply chain, enterprise support centers, treasury services and payer strategy and operations. In addition, Mr. Swindle leads the Corporation's enterprise business lines including home health, senior living, virtual health services, payer strategy, health plan product offerings and population health resources. Prior to joining the Corporation, Mr. Swindle served as Senior Vice President of Finance, Executive Vice President and Chief Financial Officer and most recently as President, Ambulatory Services and Chief Financial Officer with Novant Health System, Winston-Salem, North Carolina. Mr. Swindle has also served as Vice President, Financial Services, at General Health System in Baton Rouge, Louisiana. He began his career with KPMG LLP in Jackson, Mississippi. Mr. Swindle earned a master of business administration from Duke University Fuqua School of Business in Durham, North Carolina, and a bachelor of business administration degree from Millsaps College, Jackson, Mississippi. He is a member of the Health Care Financial Management Association and the American Institute of Certified Public Accountants.

Reverend Thomas R. Kopfensteiner, STD, Executive Vice President, Mission. Fr. Kopfensteiner is Executive Vice President of Mission for the Corporation. Prior to joining the Corporation, he was most recently Associate Professor of Moral Theology and Chair of the Department of Theology at Fordham University, Bronx, NY. Fr. Kopfensteiner has written extensively in the area of moral theology and health care ethics. He has served as a board member and ethical consultant for several health care organizations. Fr. Kopfensteiner holds a doctorate in sacred theology from Gregorian University in Rome.

Mitch H. Melfi, Esq., Executive Vice President, Corporate Affairs and Chief Legal Officer. Mitch Melfi is the Executive Vice President for Corporate Affairs and Chief Legal Officer for Catholic Health Initiatives (CHI) in Denver, Colorado. In his current role, Mr. Melfi provides oversight for Legal Services, including mergers

and acquisitions, enterprise risk management, Corporate governance, audit and tax. He has also held other positions for CHI, including Senior Vice President and General Counsel, Senior Vice President and Chief Risk Officer, and as President and CEO of First Initiatives Insurance, LTD, CHI's wholly-owned captive insurance company. Prior to CHI, Mr. Melfi was the Vice President for Risk/Claims Management and Associate General Counsel for the Sisters of Charity Health Care Systems, Inc. in Cincinnati, Ohio, until it merged with two other Catholic health systems to form CHI. Prior to his move to Cincinnati, Mr. Melfi served on the executive management team for Children's Hospital in Columbus, Ohio, where he provided oversight for all legal operations. He has authored several publications and spoken on various legal and risk management topics for lawyers, physicians, nurses, risk managers and other allied healthcare professionals, and has provided consulting services in various areas of risk management and loss prevention.

Mr. Melfi taught at the College of Medicine at The Ohio State University and served as a guest lecturer at Capital University Law School. He serves on the board of directors of several organizations including health care systems, insurance companies and internal audit. Mr. Melfi received his bachelor of arts from The Ohio State University and his juris doctor from Capital University Law School in Columbus.

Paul W. Edgett, III, Executive Vice President, Growth & Business Acquisitions. Mr. Edgett joined one of CHI's predecessor health systems in August 1993 as Senior Vice President of Network Services, and most recently served as Executive Vice President, Growth & Business Acquisitions for CHI. In his current role, Mr. Edgett provides leadership and direction for enterprise strategic development, strategic transactions, management of JOA and JV investments and formation of strategic partnerships.

Previously, Mr. Edgett was senior vice president of St. Vincent Health System, Little Rock, Arkansas. Prior to that, he was assistant vice president for Methodist Hospitals of Dallas in Dallas, Texas. He has also worked for Voluntary Hospitals of America in Irving, Texas, and for Humana, Inc. in Mt. Prospect, Illinois. Mr. Edgett holds a master of business administration from the University of Colorado.

Patricia G. Webb, Executive Vice President, Chief Administrative Officer and Chief Human Resources Officer. Ms. Webb joined the Corporation in December 2010. She has more than 30 years of experience in leading operations and human resource functions in non-union, union and multi-facility health care organizations. Prior to joining the Corporation, Ms. Webb was Senior Vice President and Chief Human Resources Officer at UMass Memorial Health Care, Worcester, MA. She has also served as human resources executive at Boston Medical Center, Boston, MA; Wake Medical Center, Raleigh, NC; and University Medical Center, Jacksonville, FL. Ms. Webb has a master's degree in business and human resources management from the University of North Florida, Jacksonville; and a bachelor's degree in management and marketing from Florida A&M University, Tallahassee. She is a Fellow in the American College of Health Care Executives and participates frequently on national forums and panels.

Kathleen Sanford, DBA, RN, CENP, FACHE, Senior Vice President and Chief Nursing Officer. Ms. Sanford joined the Corporation in 2006. She has over 40 years of experience in health care, including staff nursing, middle management, chief nurse executive, hospital administrator, and strategy executive roles. In addition to acute care leadership, she has worked in long term care; founded, initiated and managed a Medicare-certified home health agency; built and managed urgent care services; and managed employed physician office practices. A former Army Nurse, she retired as Chief Nurse of the Washington Army National Guard. She served as the 2006 President of the American Organization of Nurse Executives and in that role also participated in the Tri-Council for Nursing. She has served on the American Hospital Association Board in addition to multiple regional and local boards. She is currently editor-in-chief for Nursing Administration Quarterly (NAQ). As a former newspaper health care columnist and author of multiple publications, she has published many articles and the management book, "Leading with Love." Ms. Sanford co-wrote the 2015 management book on Dyad Leadership with her former Dyad Partner, the CHI Chief Medical Officer, titled, "Dyad Leadership In Healthcare: When One Plus One Is Greater Than Two." Her education includes a bachelor's degree in nursing from the University of Maryland/Walter Reed Army Institute of Nursing, a master of arts in Human Resources Management from

Pepperdine University, a master of business administration from Pacific Lutheran University, and a doctorate in business from Nova Southeastern University. She is a Fellow in the Wharton School of Business Nursing Administration Program, a Fellow of the American College of Healthcare Executives, and a Fellow of the American Academy of Nursing.

John F. DiCola, Executive Vice President, Enterprise Strategic Development. Mr. DiCola left CHI effective June 30, 2016. Mr. DiCola held this position since 1997. Mr. DiCola's responsibilities included overseeing CHI's strategic plan, leading CHI's growth strategies and partnering efforts at national and market levels and managing CHI's strategic planning process. As part of CHI's financial performance improvement plan, this position will not be replaced. Mr. DiCola's responsibilities have been assumed by others within CHI.

T. Clifford Deveny, M.D., Senior Vice President, Physician Services and Clinical Integration. Effective October 31, 2016, Dr. Deveny resigned from his position. Dr. Deveny joined the Corporation in May 2011 and provided leadership and direction for physician services and clinical integration efforts. Dr. Deveny's position will not be replaced at this time. Dr. Deveny's responsibilities in part will be assumed by Robert J. Weil, M.D., CHI's new Senior Vice President and Chief Medical Officer.

Robert J. Weil, M.D., Senior Vice President and Chief Medical Officer. Dr. Weil joined the Corporation in September 2016 and provides strategic clinical and cultural leadership to ensure the delivery of high-quality, cost-effective and patient-centered care. Among other responsibilities, Dr. Weil will manage clinical service lines, the physician enterprise and CHI's Institute for Research and Innovation ("CIRI"). Dr. Weil, a neurosurgeon, replaces Stephen Moore, M.D., who became Chief Medical Officer at CHI St. Luke's Health in Houston in 2015.

Previously, Dr. Weil held several roles at Geisinger Health System, including Chief Medical Executive in Northeastern Pennsylvania, Associate Chief Scientific Officer for Clinical and Translational Research for the system, and as Medical Director of Care Support Services, Geisinger's enterprise supply chain and pharmacy division. Prior to joining Geisinger, Mr. Weil was a staff physician and surgeon at the Cleveland Clinic where he was President of Lakewood Hospital in Lakewood, Ohio, part of the Cleveland Clinic Health System. Dr. Weil graduated from Yale College, received his medical degree from the University of Missouri, and a master of business administration from Case Western Reserve University.

PART X: LEGAL PROCEEDINGS

PENDING LITIGATION/REGULATORY MATTERS

CHI operates in a highly litigious industry. As a result, various lawsuits, claims and regulatory proceedings have been instituted or asserted against it from time to time. CHI has knowledge of certain pending suits against certain of its entities that have arisen in the ordinary course of business. In the opinion of management, CHI maintains adequate insurance and/or other financial reserves to cover the estimated potential liability for damages in these cases, or, to the extent such liability is uninsured, adverse decisions will not have a material adverse effect on the financial position or operations of CHI.

General Observation Relating to Status as Health Care System. CHI, like all major health care systems, periodically may be subject to investigations or audits by federal, state and local agencies involving compliance with a variety of laws and regulations. These investigations seek to determine compliance with, among other things, laws and regulations relating to Medicare and Medicaid reimbursement, including billing practices for certain services. Violation of such laws could result in substantial monetary fines, civil and/or criminal penalties and exclusion from participation in Medicare, Medicaid or similar programs.

St. Joseph Medical Center, Towson, Maryland. In 2010, the Corporation and one of its direct affiliates, St. Joseph Medical Center ("St. Joseph–Towson"), which owned and operated St. Joseph Medical Center in Towson, Maryland until its sale in 2012 to an unrelated party, were named as defendants in certain litigation filed in the Circuit Court for Baltimore County, the Circuit Court of Baltimore City, and the United States District Court for the District of Maryland relating to

alleged unnecessary cardiac stent procedures. The remaining unresolved case is scheduled for trial in July 2017. Management believes that adequate reserves have been established for this case, and that the outcome will not have a material adverse effect on the financial position or results of operations of CHI.

St. Joseph–London. Following a voluntary disclosure of compliance-related issues concerning cardiac stent cases performed at a CHI direct affiliate, St. Joseph London ("SJHS"), by a single, independent/non-employed interventional cardiologist, on January 22, 2014, SJHS entered into a settlement agreement with the federal government, the Commonwealth of Kentucky, and three relators and paid $16.5 million to resolve civil and administrative monetary claims raised in a *qui tam* lawsuit relating to certain diagnostic and therapeutic cardiac procedures performed at SJHS's facility and the financial relationship with certain cardiac physicians and physician groups. In addition, SJHS entered into a five-year corporate integrity agreement ("CIA") with the OIG that imposes certain compliance oversight obligations solely at SJHS's facility. The CIA is approaching the end of its third year.

In a separate matter, numerous civil lawsuits have been filed against the Corporation and SJHS claiming damages for alleged unnecessary cardiac stent placements and other cardiac procedures. Both CHI and SJHS are vigorously defending these lawsuits. The first case, *Edward Marshall, et al. v. Catholic Health Initiatives et al.*, Case No. 11-CI-00972, was tried to a defense verdict in favor of both CHI and SJHS. This defense verdict is now on appeal by plaintiff. Plaintiffs agreed to dismiss the second case to be tried, *Blair Apgar and Mary Apgar, his wife v. Catholic Health Initiatives, et al.,* Case No. 12-CI-00445. CHI and SJHS were dismissed before trial from the third case to be tried, *James Davis*, part of *Anthony Adams et al. v. Catholic Health Initiatives, et al.*, Case No. 12-CI-00802, which resulted in a defense verdict in favor of the remaining defendants. The fourth case, *LeMaster v. Catholic Health Initiatives, et al.,* Case No. 12-CI-00975, which was originally scheduled for trial in April 2016, was dismissed by the court following a grant of summary judgment in favor of SJHS due to plaintiff's failure to establish a causal link between the alleged negligence and plaintiff's injuries. The fifth case, *Dolly Wathen*, also part of *Anthony Adams, et al. v. Catholic Health Initiatives, et al.,* Case No. 12-CI-00802, was dismissed by plaintiffs prior to trial. The sixth case, *Kevin Ray Wells, Sr. v. Catholic Health Initiatives, et. al.,* Case No. 12-CI-00090, was tried to verdict in August 2016. The jury found in favor of the plaintiff and awarded compensatory damages in an amount just under $1.3 million and punitive damages of $20.0 million. Post-trial motions have been filed. Two other lawsuits are scheduled for trial between January 2017 and March 2017. Management believes that adequate reserves have been established and that the outcome of the current litigation will not have a material adverse effect on the financial position or results of operations of CHI.

Pension Plan Litigation. In May 2013, the Corporation and two employees were named as defendants in a lawsuit challenging the "church plan" status of certain of CHI's defined benefit plans. Medina, et al. v. Catholic Health Initiatives, et. al., Civil No 13-1249 (District of Colorado). Subsequently, the Complaint was amended to name additional CHI-related defendants. The Complaint alleges that CHI's defined benefit plans (1) do not meet the definition of a "church plan" under the Employee Retirement Income Security Act ("ERISA"); (ii) were underfunded; and (iii) violated various provisions of ERISA applicable to covered defined benefit plans; or, alternatively, if CHI's defined benefit plans qualify for "church plan" status, the "church plan" exemption is an unconstitutional accommodation under the Establishment Clause of the First Amendment. On December 8, 2015, the U.S. District Court for the District of Colorado entered summary judgment in favor of CHI and the CHI-related defendants on all of plaintiff's claims, dismissing the claims with prejudice and awarding CHI costs. Plaintiff filed a notice of appeal on January 6, 2016. The parties have filed their initial briefs with the Tenth Circuit Court of Appeals as of August 31, 2016. While no assurance can be given as to the outcome of the appeal, management does not believe that this matter, if decided adversely to CHI, would have a material adverse effect on the financial position or results of operations of CHI.

EXHIBIT A
List of Certain Facilities of CHI and Designated Affiliate
As of June 30, 2016

State / Market	Facilities[1]	Location	Acute Care Facility Licensed Beds	LTC Licensed Beds
Arkansas				
CHI St. Vincent				
	CHI St. Vincent Hospital Hot Springs	Hot Springs	262	
	CHI St. Vincent Infirmary	Little Rock	615	
	CHI St. Vincent Morrilton (CAH)	Morrilton	25	
	CHI St. Vincent North	Sherwood	69	
Colorado and Kansas				
Centura Health[2]				
	St. Thomas More Hospital	Canon City	55	
	Progressive Care Center	Canon City		108
	Medalion Retirement Community	Colorado Springs		104
	Namaste Alzheimer Center	Colorado Springs		64
	St. Francis Medical Center	Colorado Springs	195	
	Penrose Hospital	Colorado Springs	327	
	The Gardens at St. Elizabeth	Denver		126
	Mercy Regional Medical Center	Durango	82	
	St. Anthony Summit Medical Center	Frisco	35	
	OrthoColorado Hospital (Joint Venture)	Lakewood	48	
	St. Anthony Hospital	Lakewood	272	
	Longmont United Hospital	Longmont	201	
	St. Mary-Corwin Medical Center	Pueblo	408	
	The Villas at Sunny Acres	Thornton		176
	St. Anthony North Health Campus	Westminster	92	
	St. Catherine Hospital	Garden City (Kansas)	100	
Iowa and Nebraska				
Mercy Health Network (Iowa)[3]				
	Mercy Medical Center - Centerville (CAH)	Centerville	25	20
	Mercy Franklin Center	Des Moines	32	
	Mercy Medical Center	Des Moines	656	
	Skiff Medical Center	Newton	48	
	Bishop Drumm Retirement Center	Johnston		150
	Mercy Medical Center West Lakes	West Des Moines	146	

State / Market	Facilities[1]	Location	Acute Care Facility Licensed Beds	LTC Licensed Beds
CHI Health				
	CHI Health Mercy Corning	Corning (Iowa)	22	
	CHI Health Mercy Council Bluffs	Council Bluffs (Iowa)	278	
	CHI Health Missouri Valley	Missouri Valley (Iowa)	25	
	CHI Health St. Francis	Grand Island (Nebraska)	159	36
	CHI Health Good Samaritan	Kearney (Nebraska)	233	22
	CHI Health Richard Young Behavioral Health	Kearney (Nebraska)	61	
	CHI Health Nebraska Heart	Lincoln (Nebraska)	63	
	CHI Health St. Elizabeth	Lincoln (Nebraska)	260	
	CHI Health St. Mary's (CAH)	Nebraska City (Nebraska)	18	
	CHI Health Bergan Mercy	Omaha (Nebraska)	400	
	Lasting Hope Recovery Center	Omaha (Nebraska)	64	
	CHI Health Immanuel	Omaha (Nebraska)	356	
	CHI Health Creighton University Medical Center	Omaha (Nebraska)	334	
	CHI Health Lakeside	Omaha (Nebraska)	157	
	Nebraska Spine Hospital (Joint Venture)	Omaha (Nebraska)	34	
	CHI Health Midlands	Papillion (Nebraska)	148	
	CHI Health Plainview	Plainview (Nebraska)	15	
	CHI Health Schuyler	Schuyler (Nebraska)	25	
Kentucky				
KentuckyOne Health, Inc.				
	Flaget Memorial Hospital	Bardstown	40	12
	Saint Joseph -Berea (CAH)	Berea	25	
	Saint Joseph East, including Women's Hospital at Saint Joseph East	Lexington	185	
	Saint Joseph Hospital	Lexington	398	
	Saint Joseph London	London	120	
	Frazier Rehabilitation and Neuroscience Center	Louisville	135	
	Jewish Hospital	Louisville	462	
	Our Lady of Peace	Louisville	414	
	Sts. Mary & Elizabeth Hospital	Louisville	298	
	University of Louisville Hospital[4]	Louisville	320	
	Saint Joseph-Martin (CAH)	Martin	25	
	Saint Joseph-Mount Sterling	Mount Sterling	52	
	Jewish Hospital Shelbyville	Shelbyville	70	

State / Market	Facilities[1]	Location	Acute Care Facility Licensed Beds	LTC Licensed Beds
Minnesota				
CHI Lakewood Health				
	CHI Lakewood Health (Hospital) (CAH)	Baudette	15	36
CHI St. Francis Health				
	St. Francis Home	Breckenridge		80
	CHI St. Francis Health (Hospital) (CAH)	Breckenridge	25	
Unity Family Healthcare				
	CHI St. Gabriel's Health (Hospital) (CAH)	Little Falls	25	
	St. Camillus Place	Little Falls		14
CHI St. Joseph's Health				
	CHI St. Joseph's Health (Hospital) (CAH)	Park Rapids	54	
North Dakota				
CHI Villa Nazareth				
	CHI Villa Nazareth	Fargo		89
CHI Lisbon Health				
	CHI Lisbon Health (Hospital) (CAH)	Lisbon	25	
CHI Oakes Hospital				
	CHI Oakes Hospital (CAH)	Oakes	20	
CHI St. Alexius Health				
	CHI St. Alexius Medical Center	Bismarck	287	19
	CHI St. Alexius Turtle Lake (CAH)	Turtle Lake	25	
	CHI St. Alexius Health Garrison (CAH)	Garrison	22	28
	CHI St. Alexius Health Carrington (CAH)	Carrington	25	
	CHI St. Alexius Health Devils Lake (CAH)	Devils Lake	25	
	CHI St. Alexius Health Williston (CAH)	Williston	25	
	CHI St. Alexius Health Dickinson (Hospital) (CAH)	Dickinson	25	
CHI Mercy Health				
	CHI Mercy Health (Hospital) (CAH)	Valley City	25	

State / Market	Facilities(1)	Location	Acute Care Facility Licensed Beds	LTC Licensed Beds
Ohio				
Premier Heath Partners				
	Good Samaritan Hospital, including the Dayton Heart & Vascular Hospital at Good Samaritan[5]	Dayton	491	
Sylvania Franciscan Health				
CHI Living Communities				
	Franciscan Care Center	Sylvania		109
	Madonna Manor	Villa Hills		60
	Providence Care Center	Sandusky		138
	St. Clare Commons	Perrysburg		60
	St. Leonard	Centerville		150
Trinity Health System				
	Trinity East	Steubenville	194	50
	Trinity West	Steubenville	238	
Trinity Hospital Twin City				
	Trinity Hospital Twin City (CAH)	Dennison	25	
TriHealth, Inc.				
	Bethesda North Hospital[6]	Cincinnati	458	
	Good Samaritan Hospital[7]	Cincinnati	592	15
Oregon				
Mercy Medical Center				
	Mercy Medical Center	Roseburg	174	
St. Anthony Hospital				
	St. Anthony Hospital (CAH)	Pendleton	49	
Tennessee				
CHI Memorial				
	Memorial Hospital	Chattanooga	336	
	Memorial Hospital-Hixson	Hixson	69	
Texas				
CHI St. Luke's Health				
	Brazosport Regional Health System	Lake Jackson	158	
	St. Luke’s Hospital at The Vintage	Houston	106	
	Baylor St. Luke's Medical Center[8]	Houston	881	
	Patients Medical Center	South Pasadena	61	
	St. Luke’s Sugar Land Hospital	Sugar Land	100	
	St. Luke’s Lakeside Hospital	The Woodlands	30	
	St. Luke’s The Woodlands Hospital	The Woodlands	212	
	CHI St. Luke’s Health Springwoods Village	Spring	4	

State / Market	Facilities(1)	Location	Acute Care Facility Licensed Beds	LTC Licensed Beds
CHI St. Luke's Health - Memorial				
	CHI St. Luke's Health Memorial Livingston	Livingston	66	
	CHI St. Luke's Health Memorial Lufkin	Lufkin	271	
	CHI St. Luke's Memorial Specialty Hospital	Lufkin		26
	CHI St. Luke's Memorial San Augustine (CAH)	San Augustine	18	
CHI St. Joseph Health				
	CHI St. Joseph Health Bellville Hospital (CAH)	Bellville	32	
	CHI St. Joseph Health Burleson Hospital (CAH)	Caldwell	25	
	CHI St. Joseph Health Madison Hospital (CAH)	Madisonville	25	
	St. Joseph Manor	Bryan		88
	CHI St. Joseph Health Regional Hospital	Bryan	254	
	CHI St. Joseph Health Grimes Hospital	Navasota	25	
Washington				
CHI Franciscan Health				
	Harrison Medical Center - Bremerton	Bremerton	229	
	Harrison Medical Center - Silverdale	Silverdale	68	
	Highline Medical Center	Burien	154	
	Regional Hospital for Respiratory and Complex Care	Burien	40	
	St. Anthony Hospital	Gig Harbor	80	
	St. Clare Hospital	Lakewood	106	
	St. Elizabeth Hospital (CAH)	Enumclaw	38	
	St. Francis Hospital	Federal Way	124	
	St. Joseph Medical Center	Tacoma	366	
Wisconsin				
CHI Franciscan Villa				
	CHI Franciscan Villa	South Milwaukee		150

(1) (CAH) denotes a Critical Access Hospital.

(2) These facilities operated under the Centura Health (Colorado) Joint Operating Agreement.

(3) These facilities operated under the Mercy Health Network (Iowa) Joint Operating Agreement.

(4) This facility is managed and operated under the Joint Operating Agreement with KentuckyOne Health, Inc.

(5) Operated under the Premier Health Partners (Ohio) Joint Operating Agreement.

(6) Designated Affiliate under the COD, and operating under the TriHealth Inc. (Ohio) Joint Operating Agreement

(7) Operated under the TriHealth Inc. (Ohio) Joint Operating Agreement

(8) This facility managed and operated under the Joint Operating Agreement with Baylor College of Medicine.

APPENDIX A

CATHOLIC HEALTH INITIATIVES

CONSOLIDATED FINANCIAL STATEMENTS

AND SUPPLEMENTAL INFORMATION

YEARS ENDED JUNE 30, 2016 AND 2015

Consolidated Financial Statements and Supplemental Information

Catholic Health Initiatives
Years Ended June 30, 2016 and 2015
With Report of Independent Auditors

Ernst & Young LLP

Building a better working world

Catholic Health Initiatives

Consolidated Financial Statements
and Supplemental Information

Years Ended June 30, 2016 and 2015

Contents

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Report of Independent Auditors

The Board of Stewardship Trustees
Catholic Health Initiatives

We have audited the accompanying consolidated financial statements of Catholic Health Initiatives which comprise the consolidated balance sheets as of June 30, 2016 and 2015, 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 financial statements in conformity with U.S. generally accepted accounting principles; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Catholic Health Initiatives at June 30, 2016 and 2015, and the consolidated results of its operations and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Ernst & Young LLP

September 23, 2016

A member firm of Ernst & Young Global Limited

Catholic Health Initiatives

Consolidated Balance Sheets
(In Thousands)

	June 30	
	2016	**2015**
Assets		
Current assets:		
Cash and equivalents	**$ 1,305,242**	$ 948,369
Net patient accounts receivable, less allowances for bad debts of $968,147 and $903,127 at June 30, 2016 and 2015, respectively	**2,161,237**	2,050,923
Other accounts receivable	**274,432**	323,739
Current portion of investments and assets limited as to use	**63,146**	61,220
Inventories	**296,647**	300,629
Assets held for sale	**223,285**	419,844
Prepaid and other	**152,230**	162,724
Total current assets	**4,476,219**	4,267,448
Investments and assets limited as to use:		
Internally designated for capital and other funds	**4,952,065**	5,461,568
Mission and Ministry Fund	**125,166**	135,808
Capital Resource Pool	**261,572**	330,678
Held by trustees	**113,235**	65,284
Held for insurance purposes	**841,048**	829,914
Restricted by donors	**264,949**	299,147
Total investments and assets limited as to use	**6,558,035**	7,122,399
Property and equipment, net	**9,452,010**	9,487,090
Investments in unconsolidated organizations	**1,263,506**	1,133,026
Intangible assets and goodwill, net	**462,838**	550,500
Notes receivable and other	**446,522**	442,829
Total assets	**$ 22,659,130**	$ 23,003,292

	June 30	
	2016	**2015**
Liabilities and net assets		
Current liabilities:		
Compensation and benefits	**$ 717,638**	$ 709,439
Third-party liabilities, net	**110,284**	127,884
Accounts payable and accrued expenses	**1,750,402**	1,608,644
Liabilities held for sale	**131,814**	248,097
Variable-rate debt with self-liquidity	**96,700**	163,300
Commercial paper and current portion of debt	**1,769,390**	1,246,559
Total current liabilities	**4,576,228**	4,103,923
Pension liability	**1,535,840**	732,580
Self-insured reserves and claims	**646,714**	617,824
Other liabilities	**1,262,068**	1,187,676
Long-term debt	**7,191,184**	7,399,274
Total liabilities	**15,212,034**	14,041,277
Net assets:		
Net assets attributable to CHI	**6,704,217**	8,150,235
Net assets attributable to noncontrolling interests	**423,424**	445,687
Unrestricted	**7,127,641**	8,595,922
Temporarily restricted	**224,524**	268,317
Permanently restricted	**94,931**	97,776
Total net assets	**7,447,096**	8,962,015
Total liabilities and net assets	**$ 22,659,130**	$ 23,003,292

See accompanying notes.

Catholic Health Initiatives

Consolidated Statements of Operations
(In Thousands)

	Year Ended June 30 2016	2015
Revenues:		
Net patient services revenues before provision for doubtful accounts	**$ 15,469,651**	$ 14,217,024
Provision for doubtful accounts	**(881,813)**	(850,531)
Net patient services revenues	**14,587,838**	13,366,493
Other operating revenues:		
Donations	**37,937**	38,522
Changes in equity of unconsolidated organizations	**132,909**	47,503
Gains on business combinations	**223,036**	436,340
Hospital ancillary revenues	**357,204**	324,587
Other	**603,582**	630,270
Total other operating revenues	**1,354,668**	1,477,222
Total operating revenues	**15,942,506**	14,843,715
Expenses:		
Salaries and wages	**6,477,482**	5,937,853
Employee benefits	**1,254,460**	1,127,638
Purchased services, medical professional fees, medical claims and consulting	**2,372,906**	1,998,211
Supplies	**2,783,100**	2,540,721
Utilities	**231,719**	222,369
Rentals, leases, maintenance and insurance	**938,476**	875,529
Depreciation and amortization	**878,594**	813,760
Interest	**300,094**	269,131
Other	**893,488**	851,607
Total operating expenses before restructuring, impairment and other losses	**16,130,319**	14,636,819
(Loss) income from operations before restructuring, impairment and other losses	**(187,813)**	206,896
Restructuring, impairment, and other losses	**295,503**	183,038
(Loss) income from operations	**(483,316)**	23,858
Nonoperating (losses) gains:		
Investment (losses) gains, net	**(15,337)**	198,910
Loss on defeasance of bonds	**(29,469)**	(20,184)
Realized and unrealized losses on interest rate swaps	**(154,816)**	(77,217)
Other nonoperating (losses) gains	**(16,490)**	4,052
Total nonoperating (losses) gains	**(216,112)**	105,561
(Deficit) excess of revenues over expenses	**(699,428)**	129,419
Excess of revenues over expenses attributable to noncontrolling interest	**3,779**	15,829
(Deficit) excess of revenues over expenses attributable to CHI	**$ (703,207)**	$ 113,590

See accompanying notes.

Catholic Health Initiatives

Consolidated Statements of Changes in Net Assets
(In Thousands)

	Unrestricted Net Assets					
	Attributable to CHI	Attributable to Noncontrolling Interests	Total	Temporarily Restricted Net Assets	Permanently Restricted Net Assets	Total Net Assets
Balances, July 1, 2014	$ 8,289,188	$ 469,296	$ 8,758,484	$ 265,639	$ 92,772	$ 9,116,895
Excess of revenues over expenses	113,590	15,829	129,419	–	–	129,419
Net loss from discontinued operations	(109,286)	–	(109,286)	–	–	(109,286)
Change in pension funded status	(135,282)	(444)	(135,726)	–	–	(135,726)
Temporarily and permanently restricted contributions	–	–	–	40,946	630	41,576
Net assets released from restriction for capital	17,715	–	17,715	(17,715)	–	–
Net assets released from restriction for operations	–	–	–	(24,796)	–	(24,796)
Investment income	40	–	40	5,586	342	5,968
Temporarily and permanently restricted assets from acquisitions	–	–	–	7,760	2,387	10,147
Other changes in net assets	(25,730)	(38,994)	(64,724)	(9,103)	1,645	(72,182)
Net (decrease) increase in net assets	(138,953)	(23,609)	(162,562)	2,678	5,004	(154,880)
Balances, June 30, 2015	8,150,235	445,687	8,595,922	268,317	97,776	8,962,015
(Deficit) excess of revenues over expenses	**(703,207)**	**3,779**	**(699,428)**	**–**	**–**	**(699,428)**
Net loss from discontinued operations	**(30,667)**	**–**	**(30,667)**	**–**	**–**	**(30,667)**
Change in pension funded status	**(768,468)**	**(4,877)**	**(773,345)**	**–**	**–**	**(773,345)**
Temporarily and permanently restricted contributions	**–**	**–**	**–**	**39,276**	**3,487**	**42,763**
Net assets released from restriction for capital	**66,487**	**–**	**66,487**	**(66,487)**	**–**	**–**
Net assets released from restriction for operations	**–**	**–**	**–**	**(17,912)**	**–**	**(17,912)**
Investment income (losses)	**423**	**–**	**423**	**27**	**(378)**	**72**
Temporarily and permanently restricted assets from acquisitions	**–**	**–**	**–**	**11,672**	**2,531**	**14,203**
Temporarily and permanently restricted assets from dispositions	**–**	**–**	**–**	**(5,700)**	**(11,373)**	**(17,073)**
Distributions to noncontrolling owners	**–**	**(19,669)**	**(19,669)**	**–**	**–**	**(19,669)**
Noncontrolling ownership acquisitions	**–**	**9,275**	**9,275**	**–**	**–**	**9,275**
Other changes in net assets	**(10,586)**	**(10,771)**	**(21,357)**	**(4,669)**	**2,888**	**(23,138)**
Net decrease in net assets	**(1,446,018)**	**(22,263)**	**(1,468,281)**	**(43,793)**	**(2,845)**	**(1,514,919)**
Balances, June 30, 2016	**$ 6,704,217**	**$ 423,424**	**$ 7,127,641**	**$ 224,524**	**$ 94,931**	**$ 7,447,096**

See accompanying notes.

Catholic Health Initiatives

Consolidated Statements of Cash Flows
(In Thousands)

	Year Ended June 30 2016	2015
Operating activities		
Decrease in net assets	**$ (1,514,919)**	$ (154,880)
Adjustments to reconcile (decrease) increase in net assets to net cash provided by operating activities:		
Depreciation and amortization	**878,594**	813,760
Provision for bad debts	**881,813**	850,531
Changes in equity of unconsolidated organizations	**(132,909)**	(47,503)
Net gains on business combinations	**(223,036)**	(436,340)
Net gains on sales of facilities and investments in unconsolidated organizations	**(244,003)**	(112,047)
Noncash operating expenses related to restructuring, impairment and other losses	**143,977**	45,422
Loss on defeasance of bonds	**29,469**	20,184
Decrease in fair value of interest rate swaps	**116,327**	33,680
Increase in unfunded pension liability	**786,852**	95,553
Net changes in current assets and liabilities:		
Net patient and other accounts receivable	**(974,031)**	(862,485)
Other current assets	**35,815**	14,151
Current liabilities	**99,709**	46,462
Other changes	**21,344**	25,480
Net cash (used in) provided by operating activities, before net change in investments and assets limited as to use	**(94,998)**	331,968
Net decrease in investments and assets limited as to use	**703,181**	230,119
Net cash provided by operating activities	**608,183**	562,087
Investing activities		
Purchases of property, equipment, and other capital assets	**(885,054)**	(1,064,849)
Investments in unconsolidated organizations	**(62,670)**	(30,403)
Business acquisitions, net of cash acquired	**(2,453)**	7,982
Proceeds from asset sales	**750,266**	295,804
Distributions from investments in unconsolidated organizations	**65,411**	77,800
Net repayments of notes receivable	**16,575**	12,266
Other changes	**(12,711)**	22,507
Net cash used in investing activities	**(130,636)**	(678,893)
Financing activities		
Proceeds from issuance of debt and bank loans	**993,998**	832,109
Costs associated with issuance of debt	**(1,076)**	–
Repayment of debt	**(948,871)**	(763,590)
Swap cash collateral posted	**(164,725)**	(46,092)
Net cash (used in) provided by financing activities	**(120,674)**	22,427
Increase (decrease) in cash and equivalents	**356,873**	(94,379)
Cash and equivalents at beginning of period	**948,369**	1,042,748
Cash and equivalents at end of period	**$ 1,305,242**	$ 948,369
Supplemental disclosures of noncash investing activity		
Non cash purchases of property and equipment	**$ 77,983**	$ 56,415
Supplemental disclosures of cash flow information		
Cash paid during the year for interest, including amounts capitalized	**$ 324,799**	$ 321,211

See accompanying notes.

1. Summary of Significant Accounting Policies

Organization

Catholic Health Initiatives (CHI), established in 1996, is a tax-exempt Colorado corporation and has been granted an exemption from federal income tax under Section 501(c)(3) of the Internal Revenue Code. CHI sponsors market-based organizations (MBO) and other facilities operating in 17 states and includes 103 hospitals, including four academic medical centers, and 30 critical access facilities; community health service organizations; accredited nursing colleges; home health agencies; and other facilities that span the inpatient and outpatient continuum of care. CHI also has an offshore captive insurance company, First Initiatives Insurance, Ltd. (FIIL).

The mission of CHI is to nurture the healing ministry of the Church, supported by education and research. Fidelity to the Gospel urges CHI to emphasize human dignity and social justice as CHI creates healthier communities.

Principles of Consolidation

CHI consolidates all direct affiliates in which it has sole corporate membership or ownership (Direct Affiliates) and all entities in which it has greater than 50% equity interest with commensurate control. All significant intercompany accounts and transactions are eliminated in consolidation.

Fair Value of Financial Instruments

Financial instruments consist primarily of cash and equivalents, patient accounts receivable, investments and assets limited as to use, notes receivable and accounts payable. The carrying amounts reported in the consolidated balance sheets for these items, other than investments and assets limited as to use, approximate fair value. See Note 7, *Fair Value of Assets and Liabilities*, for a discussion of the fair value of investments and assets limited as to use.

Cash and Equivalents

Cash and equivalents include all deposits with banks and investments in interest-bearing securities with maturity dates of 90 days or less from the date of purchase. In addition, cash and equivalents include deposits in short-term funds held by professional managers. The funds

1. Summary of Significant Accounting Policies (continued)

generally invest in high-quality, short-term debt securities, including U.S. government securities, securities issued by domestic and foreign banks, such as certificates of deposit and bankers' acceptances, repurchase agreements, asset-backed securities, high-grade commercial paper, and corporate short-term obligations.

Net Patient Accounts Receivable and Net Patient Services Revenues

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

The provision for bad debts is based upon management's assessment of historical and expected net collections, taking into consideration historical business and economic conditions, trends in health care coverage, and other collection indicators. Management routinely assesses the adequacy of the allowances for uncollectible accounts based upon historical write-off experience by payor category. The results of these reviews are used to modify, as necessary, the provision for bad debts and to establish appropriate allowances for uncollectible net patient accounts receivable. After satisfaction of amounts due from insurance, CHI follows established guidelines for placing certain patient balances with collection agencies, subject to the terms of certain restrictions on collection efforts as determined by each facility. The provision for bad debts is presented on the consolidated statement of operations as a deduction from patient services revenues (net of contractual allowances and discounts) since CHI accepts and treats all patients without regard to the ability to pay.

During fiscal year 2016 and 2015, CHI added approximately $93.3 million and $134.3 million, respectively, in net patient and other accounts receivable due to the acquisition of various new subsidiaries – see Note 4, *Acquisitions, Affiliations and Divestitures*.

1. Summary of Significant Accounting Policies (continued)

Details of CHI's allowance activity is as follows: (in thousands)

	Reserve for Contractual Allowance	Allowance for Bad Debt	Reserve for Charity	Total Accounts Receivable Allowances
Balance at July 1, 2014	$ (3,497,151)	$ (874,633)	$ (430,156)	$ (4,801,940)
Additions	(33,438,680)	(850,531)	(809,064)	(35,098,275)
Reductions	33,223,143	822,037	935,085	34,980,265
Balance at June 30, 2015	(3,712,688)	(903,127)	(304,135)	(4,919,950)
Additions	**(36,732,943)**	**(879,841)**	**(903,790)**	**(38,516,574)**
Reductions	**36,469,175**	**814,821**	**1,029,754**	**38,313,750**
Balance at June 30, 2016	**$ (3,976,456)**	**$ (968,147)**	**$ (178,171)**	**$ (5,122,774)**

CHI records net patient services revenues in the period in which services are performed. CHI has agreements with third-party payors that provide for payments at amounts different from its established rates. The basis for payment under these agreements includes prospectively determined rates, cost reimbursement and negotiated discounts from established rates, and per diem payments.

Net patient services revenues are reported at the estimated net realizable amounts from patients, third-party payors and others for services rendered, including estimated retroactive adjustments due to future audits, reviews and investigations, and excluding estimated amounts considered uncollectible. The differences between the estimated and actual adjustments are recorded as part of net patient services revenues in future periods, as the amounts become known, or as years are no longer subject to such audits, reviews and investigations.

1. Summary of Significant Accounting Policies (continued)

Investments and Assets Limited as to Use

Investments and assets limited as to use include assets set aside by CHI for future long-term purposes, including capital improvements and self-insurance. In addition, assets limited as to use include amounts held by trustees under bond indenture agreements, amounts contributed by donors with stipulated restrictions and amounts held for Mission and Ministry programs.

CHI has designated its investment portfolio as trading as the portfolio is actively managed to achieve investment returns. Accordingly, unrealized gains and losses on marketable securities are reported within excess of revenues over expenses. In addition, cash flows from the purchases and sales of marketable securities are reported as a component of operating activities in the accompanying consolidated statements of cash flows.

Direct investments in equity securities with readily determinable fair values and all direct investments in debt securities have been measured at fair value in the accompanying consolidated balance sheets. Investment income or loss (including realized gains and losses on investments, interest and dividends) is included in excess of revenues over expenses unless the income or loss is restricted by donor or law.

Investments in limited partnerships and limited liability companies are recorded using the equity method of accounting (which approximates fair value as determined by the net asset values of the related unitized interests) with the related changes in value in earnings reported as investment income in the accompanying consolidated financial statements.

Inventories

Inventories, primarily consisting of pharmacy drugs, and medical and surgical supplies, are stated at lower of cost (first-in, first-out method) or market.

Assets and Liabilities Held for Sale

A long-lived asset or disposal group of assets and liabilities that is expected to be sold within one year is classified as held for sale. For long-lived assets held for sale, an impairment charge is recorded if the carrying amount of the asset exceeds its fair value less costs to sell. Such valuations include estimates of fair values generally based upon firm offers, discounted cash flows and incremental direct costs to transact a sale (Level 2 and Level 3 inputs).

1. Summary of Significant Accounting Policies (continued)

Property and Equipment

Property and equipment are stated at historical cost or, if donated or impaired, at fair value at the date of receipt or impairment. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed using the straight-line method. Buildings and improvements are depreciated over estimated useful lives of 5 to 84 years, equipment over 3 to 30 years, and land improvements over 2 to 25 years. For property and equipment under capital lease, amortization is determined over the shorter period of the lease term or the estimated useful life of the property and equipment.

Interest cost incurred during the period of construction of major capital projects is capitalized as a component of the cost of acquiring those assets. Capitalized interest of $17.5 million and $33.2 million was recorded in the years ended June 30, 2016 and 2015, respectively.

Costs incurred in the development and installation of internal-use software are expensed if they are incurred in the preliminary project stage or post-implementation stage, while certain costs are capitalized if incurred during the application development stage. Internal-use software is amortized over its expected useful life, generally between 2 and 15 years, with amortization beginning when the project is completed and the software is placed in service.

Investments in Unconsolidated Organizations

Investments in unconsolidated organizations are accounted for under the cost or equity method of accounting, as appropriate, based on the relative percentage of ownership or degree of influence over that organization. The income or loss on the equity method investments is recorded in the consolidated statements of operations as changes in equity of unconsolidated organizations.

Intangible Assets and Goodwill

Intangible assets are comprised primarily of trade names which are amortized over the estimated useful lives ranging from 10 to 25 years using the straight-line method. The weighted average useful life of the trade names is 16 years. Amortization expense of $12.8 million and $11.2 million was recorded in the years ended June 30, 2016 and 2015, respectively.

1. Summary of Significant Accounting Policies (continued)

Goodwill is not amortized but is subject to annual impairment tests during the third quarter of the fiscal year, as well as more frequent reviews whenever circumstances indicate a possible impairment may exist. Impairment testing of goodwill is done at the reporting unit level by comparing the fair value of the reporting unit's net assets against the carrying value of the reporting unit's net assets, including goodwill. Each MBO is defined as a reporting unit for purposes of impairment testing. The fair value of net assets is generally estimated based on quantitative analysis of discounted cash flows (Level 3 measurement). The fair value of goodwill is determined by assigning fair values to assets and liabilities, with the remaining fair value reported as the implied fair value of goodwill. As a result of its impairment testing during the third quarter of fiscal year 2016, CHI determined that $16.8 million of goodwill attributable to the discontinued operations of QualChoice Health was impaired. The impairment charge is reflected in discontinued operations within the consolidated statements of changes in net assets for fiscal year 2016.

Additionally, as of June 30, 2016, CHI revised the Houston MBO's projected cash flows due to operating results in the fourth quarter of fiscal year 2016 being below historical run rates. As a result of this update, CHI determined that $111.2 million of goodwill attributable to the Houston MBO operations was impaired. The impairment charge is reflected in the consolidated statement of operations for fiscal year 2016. No impairment of goodwill was identified in fiscal year 2015.

1. Summary of Significant Accounting Policies (continued)

The changes in the carrying amount of goodwill and intangibles is as follows (in thousands):

	2016	2015
Intangible assets, beginning of year	**$ 238,491**	$ 215,338
Current year acquisitions	**13,285**	23,153
Intangible assets, end of year	**251,776**	238,491
Accumulated amortization, beginning of year	**(38,140)**	(25,229)
Intangible amortization expense	**(12,783)**	(11,221)
Other adjustments	**243**	(1,690)
Accumulated amortization, end of year	**(50,680)**	(38,140)
Intangible assets, net	**201,096**	200,351
Goodwill, beginning of year	**350,149**	346,508
Current year acquisitions	**22,766**	3,641
Impairments	**(111,173)**	–
Goodwill, end of year	**261,742**	350,149
Total intangible assets and goodwill, net	**$ 462,838**	$ 550,500

Notes Receivable and Other Assets

Other assets consist primarily of notes receivable, pledges receivable, deferred compensation assets, long-term prepaid service contracts, deposits and other long-term assets. Notes receivable from related entities at June 30, 2016 and 2015, include balances from Bethesda Hospital, Inc. (Bethesda), the non-CHI joint operating agreement (JOA) partner in the Cincinnati, Ohio JOA.

1. Summary of Significant Accounting Policies (continued)

A summary of notes receivable and other assets is as follows as of June 30 (in thousands):

	2016	2015
Notes receivable		
From related entities	**$ 148,289**	$ 162,656
Other	**36,384**	16,518
Long-term pledge receivables	**36,324**	31,666
Reinsurance recoverable on unpaid losses and loss adjustment expense	**52,738**	49,839
Deferred compensation assets	**76,679**	77,355
Other long-term assets	**96,108**	104,795
Total notes receivable and other	**$ 446,522**	$ 442,829

Bethesda is a Designated Affiliate in the CHI credit group under the Capital Obligation Document (COD). As conditions of joining the CHI credit group, Bethesda has agreed to certain covenants related to corporate existence, insurance coverage, exempt use of bond-financed facilities, maintenance of certain financial ratios, and compliance with limitations on the incurrence of additional debt. Based upon management's review of the creditworthiness of Bethesda and its compliance with the covenants and limitations, no allowances for uncollectible notes receivable were recorded at June 30, 2016 and 2015.

Net Assets

Temporarily restricted net assets are those whose use has been limited by donors to a specific time period or purpose. Permanently restricted net assets consist of gifts with corpus values that have been restricted by donors to be maintained in perpetuity, including endowment funds. Temporarily restricted net assets and earnings on permanently restricted net assets, including earnings on endowment funds, are used in accordance with the donor's wishes primarily to purchase equipment, to provide charity care, and to provide other health and educational programs and services.

Unconditional promises to receive cash and other assets are reported at fair value at the date the promise is received. Conditional promises and indications of donors' intentions to give are reported at fair value at the date the conditions are met or the gifts are received. All unrestricted contributions are included in the excess of revenue over expenses as donation revenues. Other

1. Summary of Significant Accounting Policies (continued)

gifts are reported as either temporarily or permanently restricted 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 donations revenue when restricted for operations or as unrestricted net assets when restricted for property and equipment.

Performance Indicator

The performance indicator is the excess of revenues over expenses, which includes all changes in unrestricted net assets other than changes in the pension liability funded status, net assets released from restrictions for property acquisitions, cumulative effect of changes in accounting principles, discontinued operations, contributions of property and equipment, and other changes not required to be included within the performance indicator under generally accepted accounting principles.

Operating and Nonoperating Activities

CHI's primary mission is to meet the health care needs in its market areas through a broad range of general and specialized health care services, including inpatient acute care, outpatient services, physician services, long-term care, and other health care services. Activities directly associated with the furtherance of this purpose are considered to be operating activities. Other activities that result in gains or losses peripheral to CHI's primary mission are considered to be nonoperating. Nonoperating activities include investment earnings, gains/losses from bond defeasance, net interest cost and changes in fair value of interest rate swaps, and the nonoperating component of JOA income share adjustments. Any infrequent and nonreciprocal contribution that CHI makes to enter a new market community or to expand upon existing affiliations is also classified as nonoperating.

Charity Care

As an integral part of its mission, CHI accepts and provides medically necessary health care to all patients without regard to the patient's financial ability to pay. Services to patients are classified as charity care in accordance with standards established across all MBOs. Charity care represents services rendered for which partial or no payment is expected, and includes the cost of providing services to persons who cannot afford health care due to inadequate resources and/or

1. Summary of Significant Accounting Policies (continued)

who are uninsured or underinsured. CHI determines the cost of charity care on the basis of an MBO's total cost as a percentage of total charges applied to the charges incurred by patients qualifying for charity care under CHI's policy. This amount is not included in net patient services revenues in the accompanying consolidated statements of operations and changes in net assets. The estimated cost of charity care provided was $219.7 million and $211.9 million in 2016 and 2015, respectively, for continuing operations, and $0.8 million in 2015 for discontinued operations.

Other Operating Revenues

Other operating revenues include services sold to external health care providers, gains on acquisitions of subsidiaries, cafeteria sales, rental income, retail pharmacy and durable medical equipment sales, auxiliary and gift shop revenues, electronic health records incentive payments, gains and losses on the sales of assets, the operating portion of revenue-sharing income or expense associated with Direct Affiliates that are part of JOAs, premium revenues, and revenues from other miscellaneous sources.

Derivative and Hedging Instruments

CHI uses derivative financial instruments (interest rate swaps) in managing its capital costs. These interest rate swaps are recognized at fair value on the consolidated balance sheets. CHI has not designated its interest rate swaps related to CHI's long-term debt as hedges. The net interest cost and change in the fair value of such interest rate swaps is recognized as a component of nonoperating gains (losses) in the accompanying consolidated statements of operations. It is CHI's policy to net the value of collateral on deposit with counterparties against the fair value of its interest rate swaps in other liabilities on the consolidated balance sheets.

Functional Expenses

CHI provides healthcare services, including inpatient, outpatient, ambulatory, long-term care and community-based services to individuals within the various geographic areas supported by its facilities. Support services include administration, finance and accounting, information technology, public relations, human resources, legal, mission services and other functions that are supported centrally for all of CHI. Support services expenses as a percentage of total operating expenses were approximately 6.0% and 6.1% in 2016 and 2015, respectively.

1. Summary of Significant Accounting Policies (continued)

Restructuring, Impairment, and Other Losses

Restructuring, impairment, and other losses include charges relating to changes in business operations, severance costs, EPIC go-live support costs, goodwill and long-lived asset impairments, acquisition-related costs, and pension settlement activity. Changes in business operations include costs incurred periodically to implement reorganization efforts within specific operations, in order to align CHI's operations in the most strategic and cost-effective manner.

During the years ended June 30, 2016 and 2015, CHI recorded total charges of $321.0 million and $282.8 million, respectively. Of this amount, $295.5 million and $183.0 million were from continuing operations and reported in the consolidated statements of operations for 2016 and 2015, respectively, and included $143.6 million and $52.0 million for long-lived asset and goodwill impairments, respectively, $78.6 million and $78.2 million of changes in business operations, respectively, $43.2 million and $49.9 million of severance costs, respectively, and $30.1 million and $2.9 million of pension settlement activity, respectively. A total of $25.5 million and $99.8 million were reported as discontinued operations in the consolidated statements of changes in net assets for 2016 and 2015, respectively, and included $19.2 million and $97.1 million for asset and goodwill impairments, respectively, and $6.3 million and $2.7 million of severance costs, respectively.

Income Taxes

CHI is a tax-exempt Colorado corporation and has been granted an exemption from federal income tax under Section 501(c)(3) of the Internal Revenue Code. CHI owns certain taxable subsidiaries and engages in certain activities that are unrelated to its exempt purpose and therefore subject to income tax. As of June 30, 2016, CHI has a deferred tax asset of $96.1 million related to net operating loss (NOL) carryforwards. CHI believes that most of the NOL carryforwards will expire unused and has established a valuation allowance of $91.6 million against the deferred tax asset associated with these NOL carryforwards.

Management reviews its tax positions annually and has determined that there are no material uncertain tax positions that require recognition in the accompanying consolidated financial statements.

1. Summary of Significant Accounting Policies (continued)

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles (U.S. GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. Actual results could vary from the estimates.

Meaningful Use of Certified Electronic Health Record Technology Incentive Payments

Certain CHI hospitals and professionals have been receiving Medicare and Medicaid incentive payments beginning in 2011 as a result of implementing and achieving meaningful use of certified electronic health record (EHR) technology in ways that demonstrate improved quality and effectiveness of care. CHI accounts for meaningful use incentive payments under the gain contingency model. Medicare EHR incentive payments are recognized as revenues when eligible providers demonstrate meaningful use of certified EHR technology and the cost report information for the full cost report year that will determine the full calculation of the incentive payment is available. Medicaid EHR incentive payments are recognized as revenues when an eligible provider demonstrates meaningful use of certified EHR technology. CHI recognized $42.9 million and $75.1 million of Medicare meaningful use revenues and $15.1 million and $13.1 million of Medicaid meaningful use revenues in its consolidated statements of operations for fiscal year 2016 and 2015, respectively.

New Accounting Pronouncements and Adoption of New Accounting Standards

Revenue Recognition – In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers*, to clarify the principles for recognizing revenue and to improve financial reporting by creating common revenue recognition guidance for U.S. GAAP and International Financial Reporting Standards. The core principle of the new guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASU 2014-09 is now effective for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period. Early adoption is not permitted. CHI is evaluating the guidance in ASU 2014-09 and the impact that the adoption of this update will have on its consolidated financial statements.

1. Summary of Significant Accounting Policies (continued)

Consolidation – In February 2015, the FASB issued ASU 2015-02, *Consolidation* (Topic 810), which requires a revaluation of whether certain legal entities, including limited partnerships, should be consolidated, and eliminates the presumption that a general partner should consolidate a limited partnership. ASU 2015-02 is effective for fiscal years and interim periods within those fiscal years, beginning after December 15, 2015, with early adoption permitted, and had no impact upon CHI's accounting for its investments held within the CHI Investment Program, which is structured under a Limited Partnership Agreement with CHI as managing general partner – see Note 6, *Investments and Assets Limited to Use*.

Investments Calculated by Net Asset Value per Share – In May 2015, the FASB issued ASU 2015-07, *Disclosure for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*, an update to ASC 820, *Fair Value Measurements and Disclosures*. ASU 2015-07 removed the requirement to categorize within the fair value hierarchy investments for which fair value is measured at net asset value (NAV) using the practical expedient. ASU 2015-07 is to be applied retrospectively and is effective for financial statements issued for fiscal years beginning after December 15, 2016, although early adoption is permitted. ASU 2015-07 provides disclosure guidance only and will have no impact on CHI's financial position or results of operations.

Leases – In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*, to require a lessee to recognize a right-of-use asset and a lease liability for both operating and finance leases, whereas previous U.S. GAAP required the asset and liability be recognized only for capital leases. The amendment also requires qualitative and specific quantitative disclosures. ASU 2016-02 is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years, with early adoption permitted. CHI is evaluating the guidance of ASU 2016-02 and the impact that the adoption of this update will have on its consolidated financial statements.

Investments in Unconsolidated Organizations – In March 2016, the FASB ASU No. 2016-07, *Investments – Equity Method and Joint Ventures (Topic 323)*, to change the way an entity accounts for the transition of accounting for an investment from the cost method to the equity method as a result of an increase in the level of ownership or degree of influence. The amendment eliminates the requirement to retroactively adopt the equity method of accounting when transitioning from the cost method. ASU 2016-07 is effective for fiscal years beginning after December 15, 2016, and interim periods within those fiscal years, with early adoption permitted.

1. Summary of Significant Accounting Policies (continued)

Reclassifications

Certain reclassifications were made to the fiscal year 2015 consolidated financial statement presentation to conform to the 2016 presentation. CHI reclassified $16.4 million of EPIC go-live support costs in fiscal year 2015 from salaries and wages into restructuring, impairment, and other losses as those costs are not anticipated to be on-going expense to CHI.

2. Community Benefit (Unaudited)

In accordance with its mission and philosophy, CHI commits substantial resources to sponsor a broad range of services to both the poor and the broader community. Community benefit provided to the poor includes the cost of providing services to persons who cannot afford health care due to inadequate resources and/or who are uninsured or underinsured. This type of community benefit includes the costs of traditional charity care; unpaid costs of care provided to beneficiaries of Medicaid and other indigent public programs; services such as free clinics and meal programs for which a patient is not billed or for which a nominal fee has been assessed; and cash and in-kind donations of equipment, supplies or staff time volunteered on behalf of the community.

Community benefit provided to the broader community includes the costs of providing services to other populations who may not qualify as poor but may need special services and support. This type of community benefit includes the costs of services such as health promotion and education, health clinics and screenings, all of which are not billed or can be operated only on a deficit basis; unpaid portions of training health professionals such as medical residents, nursing students and students in allied health professions; and the unpaid portions of testing medical equipment and controlled studies of therapeutic protocols.

2. Community Benefit (Unaudited) (continued)

A summary of the cost of community benefit provided to both the poor and the broader community is as follows (in thousands):

	2016	2015
Cost of community benefit:		
Cost of charity care provided	**$ 219,671**	$ 211,860
Unpaid cost of public programs, Medicaid and other indigent care programs	**577,485**	537,296
Nonbilled services	**35,739**	31,875
Cash and in-kind donations	**29,080**	4,031
Education research	**116,656**	110,319
Other benefit	**126,141**	73,256
Total cost of community benefit from continuing operations	**1,104,772**	968,637
Total cost of community benefit from discontinued operations	**–**	12,026
Total cost of community benefit	**1,104,772**	980,663
Unpaid cost of Medicare from continuing operations	**956,725**	721,141
Unpaid cost of Medicare from discontinued operations	**–**	24,760
Total unpaid cost of Medicare	**956,725**	745,901
Total cost of community benefit and the unpaid cost of Medicare	**$ 2,061,497**	$ 1,726,564

The summary above has been prepared in accordance with the Catholic Health Association of the United States (CHA) publication, *A Guide for Planning & Reporting Community Benefit*. Community benefit is measured on the basis of total cost, net of any offsetting revenues, donations or other funds used to defray cost. During fiscal year 2016 and 2015, CHI received $29.5 million and $0.8 million, respectively, in funds used to subsidize charity care provided.

The total cost of community benefit from continuing and discontinued operations was 6.5% and 6.3% of total operating expenses before restructuring, impairment and other losses in 2016 and 2015, respectively. The total cost of community benefit and the unpaid cost of Medicare from continuing and discontinued operations was 12.2% and 11.1% of total operating expenses before restructuring, impairment and other losses in 2016 and 2015, respectively.

3. Joint Operating Agreements and Investments in Unconsolidated Organizations

Joint Operating Agreements

CHI participates in JOAs with hospital-based organizations in three separate market areas. The agreements generally provide for, among other things, joint management of the combined operations of the local facilities included in the JOAs through a joint operating company (JOC). CHI retains ownership of the assets, liabilities, equity, revenues and expenses of the CHI facilities that participate in the JOAs. The financial statements of the CHI facilities managed under all JOAs are included in the CHI consolidated financial statements. Transfers of assets from facilities owned by the JOA participants generally are restricted under the terms of the agreements.

As of June 30, 2016 and 2015, CHI has investment interests of 65%, 50%, and 50% in JOCs based in Colorado, Iowa, and Ohio, respectively. CHI's interests in the JOCs are included in investments in unconsolidated organizations and totaled $351.9 million and $199.0 million at June 30, 2016 and 2015, respectively. CHI recognizes its investment in all JOCs under the equity method of accounting. The JOCs provide varying levels of services to the related JOA sponsors, and operating expenses of the JOCs are allocated to each sponsoring organization. The JOCs had total assets of $907.2 million and $651.7 million at June 30, 2016 and 2015, respectively, and net assets of $607.9 million and $359.7 million, respectively.

In March 2016, CHI amended the existing Iowa JOA to among other items, allow for the Iowa JOC to acquire health care systems in Iowa and contiguous markets, which would be owned equally between CHI and the existing JOC partner. In May 2016, the Iowa JOC acquired Wheaton Franciscan Healthcare and recorded a business combination gain on the acquisition. As a result, CHI recognized $89.1 million of its proportionate share of the gain, which is reflected in the consolidated statements of operations as changes in equity of unconsolidated organizations for the year ended June 30, 2016.

Investments in Unconsolidated Organizations

CHI holds noncontrolling interests in various organizations, accounted for under the cost or equity method of accounting, as appropriate. Significant investments are described below.

3. Joint Operating Agreements and Investments in Unconsolidated Organizations (continued)

Conifer Health Solutions (Conifer) – As of June 30, 2016 and 2015, CHI holds a 23.8% equity method investment in Conifer totaling $570.7 million and $535.3 million, respectively. The investment in Conifer was acquired as part of a multi-year agreement with Conifer where Conifer provides revenue cycle services and health information management solutions for CHI acute care operations. Since CHI was granted incremental shares in Conifer in conjunction with the multi-year agreement with Conifer, CHI also has a deferred income balance related to the Conifer agreement as of June 30, 2016 and 2015, of $458.9 million and $486.7 million, respectively, reported in other liabilities on the consolidated balance sheets, which is being amortized on a straight line basis over the remaining agreement term expiring in January 2033, offsetting revenue cycle services fees paid to Conifer which are reported in purchased services expense on the consolidated statements of operations.

As a result of CHI recording its incremental equity ownership in Conifer at fair value, the carrying value of its equity method investment in Conifer was $261.8 million and $272.3 million greater than CHI's equity interest in the underlying net assets of Conifer as of June 30, 2016 and 2015, respectively, due to basis differences in the carrying amounts of the tangible and intangible assets of $195.1 million and $205.6 million, respectively, and of goodwill of $66.7 million in both periods. Goodwill is not amortized but is subject to annual impairment tests during the third quarter of the fiscal year, as well as more frequent reviews whenever circumstances indicate a possible impairment may exist. No impairment of goodwill was identified as of June 30, 2016 and 2015. The basis differences of the tangible and intangible assets are being amortized over the average useful lives of the underlying assets, ranging from 8 to 25 years, as a reduction of CHI's equity earnings in Conifer.

Preferred Professional Insurance Corporation (PPIC) – Effective in September 2014, CHI sold its investment in PPIC, an unconsolidated affiliate of CHI, which provided professional liability insurance and other related services to preferred physician and other health care providers associated with its owners. Gross proceeds on the sale were $48.9 million, plus the distribution of a $21.5 million extraordinary dividend, which resulted in a gain on sale of approximately $10.0 million reflected in the consolidated statement of operations for the year ended June 30, 2015.

3. Joint Operating Agreements and Investments in Unconsolidated Organizations (continued)

MedSynergies Inc., (MSI) – Effective in October 2014, CHI sold its ownership in MSI, a national physician management services organization, for gross proceeds of $121.1 million, which resulted in a gain of $69.0 million reported in other revenue in the consolidated statement of operations for the year ended June 30, 2015.

Other Entities – The summarized financial positions and results of operations for the other entities accounted for under the equity method of accounting as of and for the periods ended June 30, excluding the investments described above, are as follows (in thousands):

	2016							
	Medical Office Buildings	**Outpatient and Diagnostic Services**	**Ambulatory Surgery Centers**	**Physician Practices**	**Hospital Based Services**	**ACO/ CCO/ CIN**	**Other Investees**	**Total**
Total assets	**$ 8,416**	**$ 325,839**	**$ 61,443**	**$ 8,621**	**$ 184,497**	**$ 128,069**	**$ 176,054**	**$ 892,939**
Total debt	**1,241**	**50,495**	**14,028**	**1**	**18,775**	**–**	**59,848**	**144,388**
Net assets	**6,013**	**220,849**	**31,488**	**8,197**	**146,959**	**78,961**	**104,998**	**597,465**
Net patient services revenues	**–**	**312,518**	**98,850**	**6,271**	**156,264**	–	**116,540**	**690,443**
Total revenues, net	**1,889**	**419,513**	**100,251**	**6,628**	**156,373**	**179,066**	**161,319**	**1,025,039**
Excess of revenues over expenses	**10,012**	**41,496**	**30,364**	**105**	**32,531**	**7,091**	**6,399**	**127,998**

	2015							
	Medical Office Buildings	**Outpatient and Diagnostic Services**	**Ambulatory Surgery Centers**	**Physician Practices**	**Hospital Based Services**	**ACO/ CCO/ CIN**	**Other Investees**	**Total**
Total assets	$ 9,069	$ 291,568	$ 67,281	$ 8,696	$ 374,186	$ 133,151	$ 149,985	$ 1,033,936
Total debt	5,525	25,612	12,393	442	60,536	–	29,962	134,470
Net assets	3,089	215,065	46,062	8,265	260,905	73,329	77,343	684,058
Net patient services revenues	–	299,131	134,147	12,142	357,598	–	133,954	936,972
Total revenues, net	1,853	403,537	133,515	15,645	309,403	85,514	193,431	1,142,898
Excess of revenues over expenses	291	70,871	36,937	1,734	44,215	5,448	10,582	170,078

4. Acquisitions, Affiliations, and Divestitures

The following table is a summary of the business combinations and affiliations that occurred in fiscal year 2016 (in thousands):

	Trinity	Brazosport	LUH	Other	Total
Fiscal year 2016					
Purchase consideration:					
Cash	**$ –**	**$ –**	**$ –**	**$ 17,225**	**$ 17,225**
Noncontrolling interest	**–**	**–**	**–**	**9,275**	**9,275**
Business combination gains	**72,717**	**21,293**	**111,551**	**17,475**	**223,036**
	72,717	**21,293**	**111,551**	**43,975**	**249,536**
Equity interest in Trinity	**72,392**	**–**	**–**	**–**	**72,392**
	$ 145,109	**$ 21,293**	**$ 111,551**	**$ 43,975**	**$ 321,928**
Fiscal year 2016					
Purchase price allocation:					
Cash and investments	**$ 133,349**	**$ 18,650**	**$ 70,416**	**$ 5,420**	**$ 227,835**
Patient and other A/R	**40,363**	**22,191**	**25,346**	**5,443**	**93,343**
Other current assets	**6,373**	**3,200**	**9,775**	**786**	**20,134**
Property and equipment	**57,598**	**36,292**	**111,609**	**16,970**	**222,469**
Intangible assets	**210**	**–**	**–**	**19,848**	**20,058**
Other assets	**8,962**	**144**	**13,276**	**–**	**22,382**
Current liabilities	**(26,246)**	**(18,777)**	**(17,455)**	**(2,994)**	**(65,472)**
Pension liability	**(16,408)**	**–**	**–**	**–**	**(16,408)**
Other liabilities	**(9,818)**	**(671)**	**–**	**–**	**(10,489)**
Debt	**(40,069)**	**(38,450)**	**(97,765)**	**(1,437)**	**(177,721)**
Restricted assets	**(9,205)**	**(1,286)**	**(3,651)**	**(61)**	**(14,203)**
	$ 145,109	**$ 21,293**	**$ 111,551**	**$ 43,975**	**$ 321,928**

Trinity Health System – Effective February 1, 2016, CHI became the sole owner of Trinity Health System (Trinity) based in Steubenville, Ohio, when it acquired the remaining 50% ownership in Trinity. The other 50% ownership in Trinity was held by Sylvania Franciscan Health (Sylvania), which CHI acquired in November 2014; the re-measurement of Sylvania's investment in Trinity resulted in an immaterial gain on Sylvania's 50% equity ownership. Trinity owns and operates Trinity Medical Center East, Trinity Medical Center West, Tony Teramana Cancer Center, and numerous outpatient clinics located in eastern Ohio. The transaction resulted in the recognition of a $72.7 million gain calculated as the fair value of identifiable assets acquired and liabilities assumed, determined based upon Level 3 inputs, including estimated

4. Acquisitions, Affiliations, and Divestitures (continued)

future cash flows and probability-weighted performance assumptions. Excluding the business combination gain, Trinity reported $103.7 million in operating revenues and $13.0 million of excess of revenues over expenses in the CHI consolidated results of operations for the period from February 1, 2016 through June 30, 2016.

Brazosport Regional Health System – Effective February 1, 2016, a consolidated subsidiary of CHI signed an affiliation agreement with Brazosport Regional Health System (Brazosport) in Lake Jackson, Texas, to become part of CHI. Brazosport is a nonprofit health care organization that includes a 158-bed hospital that operates the only Level III trauma center in Brazoria County. The transaction resulted in the recognition of a $21.3 million gain calculated as the fair value of identifiable assets acquired and liabilities assumed, determined based upon Level 3 inputs, including estimated future cash flows and probability-weighted performance assumptions. Excluding the business combination gain, Brazosport reported $33.7 million in operating revenues and $(1.3) million of deficit of revenues over expenses in the CHI consolidated results of operations for the period from February 1, 2016 through June 30, 2016.

Longmont United Hospital – Effective August 1, 2015, a direct affiliate of CHI entered into a Joint Operating and Management Agreement with Longmont United Hospital (LUH) to become the sole and exclusive agent to manage and operate the LUH business for a period of 99 years. The transaction resulted in the recognition of a $111.6 million gain calculated as the fair value of identifiable assets acquired and liabilities assumed, determined based upon Level 3 inputs, including estimated future cash flows and probability-weighted performance assumptions. Excluding the business combination gain, LUH reported $160.9 million in operating revenues and $(8.6) million of deficit of revenues over expenses in the CHI consolidated results of operations for the period from August 1, 2015 through June 30, 2016.

The following table is a summary of the business combinations that occurred in fiscal year 2015 (in thousands):

	St. Alexius	Sylvania	Total
Fiscal year 2015			
Purchase consideration:			
Cash	$ 10,000	$ 74,375	$ 84,375
Other liabilities	1,436	–	1,436
Business combination gains	153,803	282,537	436,340
	$ 165,239	$ 356,912	$ 522,151

4. Acquisitions, Affiliations, and Divestitures (continued)

	St. Alexius	Sylvania	Total
Fiscal year 2015			
Purchase price allocation:			
Cash and investments	$ 95,065	$ 340,746	$ 435,811
Patient and other accounts receivable	46,033	88,271	134,304
Other current assets	8,118	12,273	20,391
Property and equipment	127,956	351,327	479,283
Intangible assets	–	13,350	13,350
Other assets	23,491	89,586	113,077
Current liabilities	(27,087)	(49,714)	(76,801)
Pension liability	–	(140,670)	(140,670)
Other liabilities	(1,347)	(50,584)	(51,931)
Debt	(104,227)	(290,289)	(394,516)
Restricted net assets	(2,763)	(7,384)	(10,147)
	$ 165,239	$ 356,912	$ 522,151

St. Alexius Medical Center – Effective October 1, 2014, St. Alexius Medical Center (St. Alexius), located in Bismarck, ND, became a direct affiliate of CHI. In conjunction with this affiliation, CHI contributed $10.0 million to an endowment fund with a third-party as consideration for the transaction. The transaction resulted in the recognition of a $153.8 million gain calculated as the fair value of assets acquired and liabilities assumed, less purchase consideration determined based upon Level 3 inputs including estimated future cash flows and probability-weighted performance assumptions. St. Alexius is a 306-bed, acute medical center offering a full line of inpatient and outpatient services. Besides the main campus in Bismarck, North Dakota, St. Alexius also owns and operates hospitals and clinics in Garrison, North Dakota, and Turtle Lake, North Dakota. Excluding the business combination gain, St. Alexius reported $332.7 million and $243.1 million in operating revenues, respectively, and $(8.7) million and $0.3 million of (deficit) excess of revenues over expenses, respectively, to the CHI consolidated results of operations for fiscal year ended June 30, 2016, and for the period October 1, 2014 through June 30, 2015, respectively.

4. Acquisitions, Affiliations, and Divestitures (continued)

Sylvania Franciscan Health – Effective November 1, 2014, CHI paid $74.4 million to become the sole sponsor of Sylvania Franciscan Health (Sylvania). The transaction resulted in the recognition of a $282.5 million gain calculated as the fair value of assets acquired and liabilities assumed, less purchase consideration determined based upon Level 3 inputs including estimated future cash flows and probability-weighted performance assumptions. Sylvania's hospitals and facilities in Texas and Ohio provide comprehensive primary and critical care services, while the long-term care facilities in Texas, Kentucky, and Ohio provide both residential and rehabilitation services. Excluding the business combination gain, Sylvania reported $487.6 million and $334.7 million in operating revenues, respectively, and $18.2 million and $36.2 million of excess of revenues over expenses to the CHI consolidated results of operations for the fiscal year ended June 30, 2016, and the period November 1, 2014 through June 30, 2015, respectively.

Had CHI owned Trinity, Brazosport, LUH, St. Alexius, and Sylvania as of the beginning of each fiscal year, CHI's unaudited pro forma results, excluding business combination gains, for the years ended June 30 would have been as presented below (in thousands):

	2016 Pro Forma Total CHI	**2015 Pro Forma Total CHI**
Operating revenues	**$ 15,935,455**	$ 15,183,298
Operating (loss) before restructuring	**(431,761)**	(230,456)
Deficit of revenues over expenses	**(841,125)**	(304,271)

Unaudited pro forma information is not necessarily indicative of the historical results that would have been obtained had the transaction actually occurred on those dates, nor of future results.

Discontinued Operations

In May 2016, CHI approved a plan to sell or otherwise dispose of certain entities of QualChoice Health, Inc. (QualChoice Health), a consolidated CHI subsidiary, whose primary business is to develop, manage and market commercial and Medicare Advantage health insurance programs, as well as a wide range of products and administrative services. The sale of the operations is being actively marketed and is anticipated to close no later than the end of the next fiscal year.

4. Acquisitions, Affiliations, and Divestitures (continued)

Effective in fiscal year 2016, CHI sold the operations of the Reading, Pennsylvania MBO and the Denville, New Jersey MBO, for total gross proceeds of $206.0 million. The Reading MBO sales proceeds were $110.0 million and were received on June 30, 2015, in advance of the closing. The Denville MBO sale also included $20.9 million of working capital settlements. A final settlement of the Reading MBO working capital settlements is expected in fiscal year 2017.

CHI has been reflecting the Reading and Denville MBOs as discontinued operations and held for sale as of June 30, 2015, in accordance with Accounting Standards Codification (ASC) No. 205-20, *Discontinued Operations*, and ASC No. 360-10, *Impairment and Disposal of Long-Lived Assets*. The QualChoice Health operations are also reflected as discontinued operations and held for sale as of June 30, 2016 and 2015, in accordance with ASU No. 2014-08, *Reporting Discontinued Operations and Disclosure of Disposals of Components of an Entity*, as the operations held for sale are deemed to represent a strategic shift in CHI's operations which will have a major effect on its financial results. The results of operations of QualChoice Health, and the Reading and Denville MBOs are reported in the consolidated statements of changes in net assets as discontinued operations.

A reconciliation of major classes of assets and liabilities of the discontinued operations is presented below as of June 30 (in thousands):

	2016	2015
Net patient accounts receivable	**$ 810**	$ 65,029
Other accounts receivable	**75,769**	25,070
Investments held for insurance purposes	**116,950**	84,740
Property and equipment, net	**12,598**	218,444
Other assets	**10,171**	26,561
Total major classes of assets of the discontinued operations	**216,298**	419,844
Other assets classified as held for sale	**6,987**	–
Total assets classified as held for sale	**$ 223,285**	$ 419,844
Accounts payable and accrued expenses	**$ 37,995**	$ 60,415
Debt	**–**	12,061
Self-insured reserves	**74,629**	63,434
Other liabilities	**19,190**	112,187
Total major classes of liabilities of the discontinued operations classified as held for sale	**$ 131,814**	$ 248,097

4. Acquisitions, Affiliations, and Divestitures (continued)

The $7.0 million of other assets classified as held for sale as of June 30, 2016, represent real estate assets which are scheduled to be sold in fiscal year 2017, measured at the lower of their carrying amount or fair value less cost to sell.

Operating results of discontinued operations are reported in the accompanying consolidated statements of changes in net assets and are summarized as follows for the years ended June 30 (in thousands):

	2016	2015
Revenues:		
Net patient service revenues	**$ 86,286**	$ 502,236
Insurance premium revenues	**516,844**	376,400
Gain on sale	**69,776**	2,871
Other revenues	**73,846**	33,013
Total revenues	**746,752**	914,520
Expenses:		
Salaries, wages, and employee benefits	**(152,929)**	(323,913)
Medical claims	**(482,402)**	(278,907)
Depreciation	**(2,631)**	(6,671)
Other expenses	**(117,480)**	(317,135)
Total operating expenses	**(755,442)**	(926,626)
Restructuring, impairment and other losses	**(25,508)**	(99,314)
Nonoperating income	**3,531**	2,134
Deficit of revenues over expenses	**$ (30,667)**	$ (109,286)

Total operating revenues in fiscal year 2016 include a gain of $59.6 million on the sale of the Denville MBO's long-term care operations in May 2016. Restructuring and other losses for fiscal year 2015 include an impairment loss of $46.0 million recognized at the Reading MBO to adjust the carrying value of property and equipment to its net realizable value, and an impairment loss of $51.1 million at the Denville MBO to adjust the carrying value of property and equipment to its net realizable value due to a modification in the sales agreement to remove the long-term care assets from the original sales agreement.

4. Acquisitions, Affiliations, and Divestitures (continued)

During fiscal year 2016 and 2015, the discontinued operations reported $0.7 million and $4.1 million in capital expenditures.

5. Net Patient Services Revenues

Net patient services revenues are derived from services provided to patients who are either directly responsible for payment or are covered by various insurance or managed care programs. CHI receives payments from the federal government on behalf of patients covered by the Medicare program, from state governments for Medicaid and other state-sponsored programs, from certain private insurance companies and managed care programs, and from patients themselves. A summary of payment arrangements with major third-party payors follows:

Medicare – Inpatient acute care and certain outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge or procedure. These rates vary according to patient classification systems based on clinical, diagnostic and other factors.

Certain CHI facilities have been designated as critical access hospitals and, accordingly, are reimbursed their cost of providing services to Medicare beneficiaries. Professional services rendered by physicians are paid based on the Medicare allowable fee schedule.

Medicaid – Inpatient services rendered to Medicaid program beneficiaries are primarily paid under the traditional Medicaid plan at prospectively determined rates per discharge. Certain outpatient services are reimbursed based on a cost reimbursement methodology, fee schedules or discounts from established charges.

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

5. Net Patient Services Revenues (continued)

CHI's Medicare, Medicaid and other payor utilization percentages, based upon net patient services revenues before provision for doubtful accounts, are summarized as follows:

	2016	2015
Medicare	**32%**	33%
Medicaid	**13**	11
Managed care	**38**	40
Self-pay	**4**	5
Commercial and other	**13**	11
	100%	100%

Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. Estimated settlements related to Medicare and Medicaid of $108.4 million and $124.5 million at June 30, 2016 and 2015, respectively, are included in third-party liabilities. Net patient services revenues from continuing operations increased by $102.4 million in fiscal year 2016 and $56.0 million in fiscal year 2015 due to favorable changes in estimates related to prior-year settlements.

6. Investments and Assets Limited as to Use

CHI's investments and assets limited as to use as of June 30 are reported in the accompanying consolidated balance sheets as presented in the following table (in thousands):

	2016	2015
Cash and equivalents	**$ 185,325**	$ 271,927
CHI Investment Program	**5,266,787**	5,835,141
Marketable equity securities	**342,327**	288,449
Marketable fixed-income securities	**802,382**	763,332
Hedge funds and other investments	**24,360**	24,770
	6,621,181	7,183,619
Less current portion	**(63,146)**	(61,220)
	$ 6,558,035	$ 7,122,399

6. Investments and Assets Limited as to Use (continued)

Net unrealized gains in investments and assets limited to use at June 30, 2016 and 2015, were $120.1 million and $459.3 million, respectively.

CHI attempts to reduce its market risk by diversifying its investment portfolio using cash equivalents, fixed-income securities, marketable equity securities and alternative investments. Most of the U.S. Treasury, money market funds and corporate debt obligations as well as exchange-traded marketable securities held directly by CHI and by the CHI Investment Program (the Program) have an actively traded market. However, CHI also invests in commercial paper, mortgage-backed or other asset-backed securities, alternative investments (hedge funds, private equity investments, real estate funds, funds of funds, etc.), collateralized debt obligations, municipal securities and other investments that have potential complexities in valuation based upon the current conditions in the credit markets. For some of these instruments, evidence supporting the determination of fair value may not come from trading in active primary or secondary markets. Because these investments may not be readily marketable, the estimated value is subject to uncertainty and, therefore, may differ from the value that would have been used had an active market for such investments existed. Such differences could be material. However, management reviews the CHI investment portfolio on a regular basis and seeks guidance from its professional portfolio managers related to U.S. and global market conditions to determine the fair value of its investments. CHI believes the carrying amount of these financial instruments in the consolidated financial statements is a reasonable estimate of fair value.

The majority of all CHI long-term investments are held in the Program. The Program is structured under a Limited Partnership Agreement with CHI as managing general partner and numerous limited partners, most sponsored by CHI. The partnership provides a vehicle whereby virtually all entities associated with CHI, as well as certain other unrelated entities, can optimize investment returns while managing investment risk. Entities participating in the Program that are not consolidated in the accompanying financial statements have the ability to direct their invested amounts and liquidate and/or withdraw their interest without penalty as soon as practicable based on market conditions but within 180 days of notification. The Limited Partnership Agreement permits a simple-majority vote of the noncontrolling limited partners to terminate the partnership. Accordingly, CHI recognizes only the unitized portion of Program assets attributable to CHI and its direct affiliates. Program assets attributable to CHI and its Direct Affiliates represented 89% and 88% of total Program assets at June 30, 2016 and 2015, respectively.

6. Investments and Assets Limited as to Use (continued)

The Program asset allocation at June 30 is as follows:

	2016	2015
Equity securities	**44%**	46%
Fixed-income securities	**32**	30
Alternative investments	**23**	22
Cash and equivalents	**1**	2
	100%	100%

The CHI Finance Committee (the Committee) of the Board of Stewardship Trustees is responsible for determining asset allocations among fixed-income, equity, and alternative investments. At least annually, the Committee reviews targeted allocations and, if necessary, makes adjustments to targeted asset allocations. Given the diversity of the underlying securities in which the Program invests, management does not believe there is a significant concentration of credit risk.

The Program allocation to alternative investments is based upon contractual commitment levels to various funds. These commitments are drawn by the fund managers as opportunities arise to invest the capital. As of June 30, 2016, the Program had committed to invest $775.0 million in 38 funds, of which $662.7 million had been invested. The remaining $112.4 million will be invested when, and if, requested by the funds. Alternative investments within the Program have limited liquidity. As of June 30, 2016, illiquid investments not available for redemption totaled $417.0 million, and investments available for redemption within 180 days at the request of the Program totaled $739.0 million.

6. Investments and Assets Limited as to Use (continued)

Investment income is comprised of the following for the years ended June 30 (in thousands):

	2016	2015
Dividend and interest income	**$ 149,999**	$ 134,131
Net realized gains	**170,100**	275,054
Net unrealized losses	**(335,436)**	(210,275)
Total investment (losses) income from continuing operations	**(15,337)**	198,910
Total investment income from discontinued operations	**3,531**	2,134
Total investment (losses) income	**$ (11,806)**	$ 201,044

Direct expenses of the Program are less than 0.4% of total assets. Fees paid to the alternative investment managers are not included in the total expense calculation as they are not a direct expense of the Program.

7. Fair Value of Assets and Liabilities

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. ASC 820, *Fair Value Measurements and Disclosures,* establishes a fair value hierarchy that prioritizes the inputs used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 inputs) and the lowest priority to unobservable inputs (Level 3 inputs).

The three levels of the fair value hierarchy and a description of the valuation methodologies used for instruments measured at fair value are as follows:

Level 1 – Valuation is based upon quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2 – Valuation is based upon quoted prices for similar assets and liabilities in active markets or other inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial asset or liability.

7. Fair Value of Assets and Liabilities (continued)

Level 3 – Valuation is based upon other unobservable inputs that are significant to the fair value measurement.

Certain of CHI's alternative investments are made through limited liability companies (LLC) and limited liability partnerships (LLP). These LLCs and LLPs provide CHI with a proportionate share of the investment gains (losses). CHI accounts for its ownership in the LLCs and LLPs under the equity method. CHI also accounts for its ownership in the Program under the equity method. As such, these investments are excluded from the scope of ASC 820.

Financial assets and liabilities measured at fair value on a recurring basis were determined using the market approach based upon the following inputs at June 30 (in thousands):

	2016			
	Fair Value Measurements at Reporting Date Using			
		(Level 1)	(Level 2)	(Level 3)
	Fair Value as of June 30	Quoted Prices in Active Markets	Other Observable Inputs	Unobservable Inputs
Assets				
Assets limited as to use:				
Cash and short-term investments	**$ 185,325**	**$ 183,641**	**$ 1,684**	**$ –**
Equity securities	**342,327**	**342,327**	**–**	**–**
Fixed-income securities	**802,382**	**143,263**	**659,119**	**–**
Other investments	**428**	**–**	**–**	**428**
Deferred compensation assets:				
Cash and short-term investments	**8,248**	**8,248**	**–**	**–**
	$ 1,338,710	**$ 677,479**	**$ 660,803**	**$ 428**
Liabilities				
Interest rate swaps	**$ 416,277**	**$ –**	**$ 416,277**	**$ –**
Contingent consideration	**207,204**	**–**	**–**	**207,204**
Deferred compensation liability	**8,248**	**8,248**	**–**	**–**
	$ 631,729	**$ 8,248**	**$ 416,277**	**$ 207,204**

7. Fair Value of Assets and Liabilities (continued)

	2015			
	Fair Value Measurements at Reporting Date Using			
		(Level 1)	(Level 2)	(Level 3)
	Fair Value as of June 30	Quoted Prices in Active Markets	Other Observable Inputs	Unobservable Inputs
Assets				
Assets limited as to use:				
Cash and short-term investments	$ 271,927	$ 192,265	$ 79,662	$ –
Equity securities	288,449	288,449	–	–
Fixed-income securities	763,332	138,204	625,128	–
Other investments	2,456	–	–	2,456
Deferred compensation assets:				
Cash and short-term investments	12,969	12,969	–	–
	$ 1,339,133	$ 631,887	$ 704,790	$ 2,456
Liabilities				
Interest rate swaps	$ 299,984	$ –	$ 299,984	$ –
Contingent consideration	255,227	–	–	255,227
Deferred compensation liability	12,969	12,969	–	–
	$ 568,180	$ 12,969	$ 299,984	$ 255,227

The fair values of the securities included in Level 1 were determined through quoted market prices. Level 1 instruments include money market funds, mutual funds and marketable debt and equity securities. The fair values of Level 2 instruments were determined through evaluated bid prices based on recent trading activity and other relevant information, including market interest rate curves and referenced credit spreads; estimated prepayment rates, where applicable, are used for valuation purposes and are provided by third-party services where quoted market values are not available. Level 2 instruments include corporate fixed-income securities, government bonds, mortgage and asset-backed securities, and interest rate swaps. The fair values of Level 3 securities are determined primarily through information obtained from the relevant counterparties for such investments. Information on which these securities' fair values are based is generally not readily available in the market. The fair value of the contingent consideration

7. Fair Value of Assets and Liabilities (continued)

liability was determined based on estimated future cash flows and probability-weighted performance assumptions, discounted to net present value. The contingent consideration liability balance was adjusted to reflect $36.0 million of payments made since June 30, 2015, and to reflect a $12.0 million reduction for changes in payment assumptions.

8. Property and Equipment

A summary of property, equipment, and software is as follows as of June 30 (in thousands):

	2016	2015
Land and improvements	**$ 725,933**	$ 729,824
Buildings and improvements	**7,538,717**	7,592,041
Equipment	**5,632,380**	5,170,098
Software	**1,154,569**	959,135
	15,051,599	14,451,098
Less accumulated depreciation and amortization	**(6,700,455)**	(6,055,130)
	8,351,144	8,395,968
Construction in progress	**1,100,866**	1,091,122
	$ 9,452,010	$ 9,487,090

CHI evaluates whether events and circumstances have occurred that indicate the remaining useful life of property, equipment and certain other intangible assets may not be recoverable. Management determined there were impairment issues in both 2016 and 2015, to the extent that the undiscounted cash flows estimated to be generated by certain assets were less than the underlying carrying value, or due to a project being discontinued. CHI recorded $32.8 million and $44.4 million in impairment losses in continuing operations for 2016 and 2015, respectively, resulting from charges related to estimated fair value deficiencies (based upon projected discounted cash flows) at various MBOs.

CHI incurs a variety of direct and indirect costs to develop internal-use software. In order for software to be considered internal use, it must be acquired, internally developed or modified solely to meet CHI's needs and no plan exists or is being developed to sell the software externally during the software's development or modification. Unamortized software costs at June 30, 2016 and 2015, were $914.2 million and $845.4 million, respectively. For the fiscal

8. Property and Equipment (continued)

years ended June 30, 2016 and 2015, CHI recorded $126.1 million and $76.9 million, respectively, related to amortization of internal-use software. Amortization of internal-use software begins when the software is placed in service, and is based on the expected useful life of the software, which is generally between 2 and 15 years.

In April 2016, CHI entered into an agreement to sell approximately 50 real estate assets across the enterprise as part of a long-term effort to improve the mix of owned and leased assets. In conjunction with the sale, CHI entered into 10-year operating lease agreements with the buyer, and in accordance with ASC 840-40 – *Leases – Sale-Lease Back Transactions*, certain of the gains on the sale of the real estate assets were deferred and will be amortized to lease expense over the life of the operating leases.

The majority of the real estate portfolio totaling 46 properties closed in fiscal year 2016 for gross proceeds of $601.7 million and a total net book value of $332.3 million. As a result of the real estate sale, CHI recognized a $59.4 million gain on sale in the consolidated statements of operations for the year ended June 30, 2016, as well as $20.1 million in short-term deferred gains in accrued expenses and $180.6 million in long-term deferred gains in other long-term liabilities reflected on the consolidated balance sheet as of June 30, 2016.

9. Debt Obligations

The following is a summary of debt obligations as of June 30 (in thousands):

	Maturity Date	Interest Rates at June 30, 2016	2016	2015
Debt secured under the CHI COD				
Variable-rate bonds:				
CHI Series 2000B	–	–%	**$ –**	$ 21,400
CHI Series 2002B	–	–	**–**	91,400
CHI Series 2004B	2044	1.25	**54,200**	180,700
CHI Series 2004C	2039	0.6–0.61	**96,700**	163,300
CHI Series 2008A	2037	1.05	**120,175**	120,175
CHI Series 2008C	2040	1.56	**52,990**	50,000
CHI Series 2011B	2046	1.21–1.81	**158,155**	158,155
CHI Series 2011C	2046	1.31	**118,000**	119,000
CHI Series 2013B	2035	1.41–1.81	**200,000**	200,000
CHI Series 2013C	2046	1.82	**100,000**	100,000
CHI Series 2013E Taxable	2046	1.86	**125,000**	125,000
CHI Series 2013F Taxable	2046	1.73	**75,000**	75,000
CHI Series 2015-1	2032	1.06	**38,400**	–
CHI Series 2015-2	2027	1.07	**73,700**	–
CHI Series 2015A	2032	1.21–1.27	**69,500**	–
CHI Series 2015B	2042	1.21	**50,000**	–
Fixed-rate bonds:				
CHI Series 2002A	2017	5.50	**920**	1,790
CHI Series 2004A	2034	4.75–5.0	**140,985**	146,285
CHI Series 2006A	2042	4.0–5.0	**270,635**	270,635
CHI Series 2006C	–	–	**–**	300,000
CHI Series 2008C	–	–	**–**	55,000
CHI Series 2008D	2039	5.0–6.38	**452,065**	465,965
CHI Series 2009A	2040	4.0–5.25	**672,050**	699,725
CHI Series 2009B	2040	1.88–5.25	**217,720**	217,720
CHI Series 2011A	2041	3.25–5.25	**451,270**	467,570
CHI Series 2012A	2036	3.54–5.0	**264,170**	266,620
CHI Series 2012 Taxable	2043	1.6–4.35	**1,500,000**	1,500,000
CHI Series 2013A	2045	5.0–5.75	**600,600**	600,600
CHI Series 2013D Taxable	2024	2.6–4.2	**540,000**	540,000
Madonna Manor Series 2010	2040	7.00	**27,990**	–
St. Clare Commons Series 2012A	2042	3.17	**31,720**	–

9. Debt Obligations (continued)

	Maturity Date	Interest Rates at June 30, 2016	2016	2015
Debt secured under the CHI COD (continued)				
St. Joseph Manor Series 1997B	2028	5.38%	**$ 13,895**	$ –
St. Joseph Regional Health Center Series 1993B	2019	6.00	**8,760**	–
St. Joseph Regional Health Center Series 1997A	2028	5.38	**45,017**	–
St. Joseph Regional Health Center Series 2014	2032	2.84	**25,255**	–
Bank lines of credit	2016-2017	1.3	**450,000**	200,000
Bank loan	2016	1.6	**333,741**	–
Commercial paper	2016	0.8	**815,519**	741,085
Unamortized debt premium and discount, net			**31,580**	27,882
Unamortized debt issuance costs			**(31,295)**	(38,141)
Total debt secured under the CHI COD			**8,194,417**	7,866,866
Other debt				
St. Leonard Master Trust Indenture	2040	6.0–6.63	**41,892**	42,727
Sylvania Master Trust Indenture	–	–	**–**	98,492
Note payable issued to Episcopal Health Foundation	2020	4.75	**167,053**	199,258
Capital leases	–		**177,771**	191,316
Other debt	–	–	**476,141**	410,474
Total debt obligations	–	–	**9,057,274**	8,809,133
Less amounts classified as current:	–	–		
Variable-rate debt with self-liquidity			**(96,700)**	(163,300)
Commercial paper and current portion of debt			**(1,769,390)**	(1,246,559)
Long-term debt			**$ 7,191,184**	$ 7,399,274

9. Debt Obligations (continued)

The fair value of debt obligations was approximately $9.4 billion at June 30, 2016. Management has determined the carrying values of the variable-rate bonds are representative of fair values as of June 30, 2016, as the interest rates are set by the market participants. The fair value of the fixed-rate tax-exempt bond obligations is determined by applying credit spreads for similar tax-exempt obligations in the marketplace, which are then used to calculate6a price/yield for the outstanding obligations (Level 2 inputs).

A summary of scheduled principal payments, based upon stated maturities, on debt obligations for the next five-years is as follows (in thousands):

	Amounts Due
Year Ending June 30:	
2017	$ 1,866,090
2018	494,453
2019	418,890
2020	176,246
2021	122,702

CHI issues the majority of its debt under the COD and is the sole obligor. Bondholder security resides both in the unsecured promise by CHI to pay its obligations and in its control of its Direct and Designated Affiliates. Covenants include a minimum CHI debt service coverage ratio and certain limitations on secured debt. The Direct Affiliates of CHI, defined as Participants under the COD, have agreed to certain covenants related to corporate existence, maintenance of insurance and exempt use of bond-financed facilities. Effective in July 2015, the Sylvania Master Trust Indenture was discharged and CHI issued obligations under the COD to support the repayment of the Sylvania Master Trust Indenture debt. There were no modifications to the payment terms or holders of the Sylvania Master Trust Indenture debt.

Debt issued under the St. Leonard Master Trust Indenture is secured by the property of St. Leonard in Centerville, Ohio, and a pledge of gross revenues.

As part of the current year acquisitions discussed in Note 4, *Acquisitions, Affiliations, and Divestitures*, CHI acquired a total of $177.7 million of debt, which is reported within "Other debt" in the table above. The acquired debt includes bonds and bank loans that are secured by pledges of revenues, as well as property for certain of the bank loans. Under the terms of the

9. Debt Obligations (continued)

various bond indentures, the acquired entities are required to maintain certain deposits with trustees, are limited in their ability to incur additional borrowings, and are required to satisfy certain measures of financial performance as long as the bonds are outstanding.

Debt Redemptions and Re-Issuances

In February 2016, CHI redeemed $300.0 million of Series 2006C fixed-rate bonds. The bond redemption was funded by the issuance of a $333.7 million bank loan which matures on December 30, 2016. The bond redemption resulted in a loss on redemption of $30.5 million for the year ended June 30, 2016.

In November 2015, CHI redeemed $55.0 million of Series 2008C and $50.0 million of Series 2008D fixed-rate bonds due to November 2015 mandatory tender dates. The 2008C fixed-rate bonds were reissued as $53.0 million floating rate notes, re-priced with new interest rates and issued to new holders in November 2015. The 2008D fixed-rate bonds were reissued at a premium, for gross proceeds of $48.8 million in fixed-rate bonds, re-priced with new interest rates and issued to new holders in November 2015.

In September 2015, CHI redeemed $52.8 million of Series 2004B and $66.6 million of Series 2004C variable-rate bonds in connection with the sale of the Reading MBO on July 1, 2015.

In July and August 2015, CHI redeemed $236.5 million of tax-exempt, variable-rate bonds with proceeds from certain tax-exempt bank loans and proceeds from the sale of certain tax-exempt bonds to certain banks. Included in the transaction were $21.4 million of Series 2000B, $91.4 million of Series 2002B, $73.7 million of Series 2004B, and $50.0 million of Series 2008C variable-rate bonds, which were redeemed and reissued under Direct Purchase Agreements as $40.0 million of Series 2015-1, $73.7 million of Series 2015-2, $72.8 million of Series 2015A, and $50.0 million of Series 2015B variable-rate bonds.

In April 2015, March 2015 and November 2014, CHI redeemed certain bonds that were originally acquired as part of the business combinations in fiscal years 2015 and 2014. The debt redemptions resulted in a loss on redemption of $17.6 million for the year ended June 30, 2015.

9. Debt Obligations (continued)

Liquidity Facilities, Credit Facilities, and Other Lines of Credit

CHI has two types of external liquidity facilities: those that are dedicated to specific series of variable-rate demand bonds (VRDB) and those that are not dedicated to a particular series of VRDBs but may be used to support CHI's obligations to fund tenders of VRDBs and pay the maturing principal of commercial paper. Liquidity facilities that are dedicated to specific series of bonds were $824.0 million and $882.7 million at June 30, 2016 and 2015, respectively, of which $5.8 million and $58.7 million, are classified as current at June 30, 2016 and 2015, respectively. The remaining $1.2 billion is reported as long-term debt at both June 30, 2016 and 2015, due to the repayment terms on any associated drawings extending beyond the subsequent fiscal year under the terms of the specific agreements.

Liquidity facilities not dedicated for specific series of VRDBs but used to support CHI's obligations to fund tenders and to pay maturing principal of commercial paper were $425.0 million and $420.0 million at June 30, 2016 and 2015, respectively. At June 30, 2016 and 2015, commercial paper of $815.5 million and $741.1 million was classified as current due to maturities of less than one year. At June 30, 2016 and 2015, $96.7 million and $163.3 million, respectively, of VRDBs were classified as current due to the holder's ability to put such VRDBs back to CHI without liquidity facilities dedicated to these bonds.

At June 30, 2016 and 2015, CHI had a credit facility with Bank of New York Mellon totaling $69.0 million and $55.0 million, respectively, of which letters of credit totaling $63.9 million and $53.0 million, respectively, have been designated for the benefit of third parties, principally in support of the self-insurance programs administered by FIIL. No amounts were outstanding under this credit facility at June 30, 2016 and 2015.

At June 30, 2016 and 2015, CHI had $450.0 million and $200.0 million, respectively, of outstanding bank lines-of-credit that are classified as current due to maturities of less than one year. Of the total amount outstanding, $200.0 million is due in November 2016 and $250.0 million in June 2017. The bank line-of-credit agreements were fully drawn as of June 30, 2016 and 2015. Proceeds were used for general purposes and capital improvements.

9. Debt Obligations (continued)

Interest Rate Swap Agreements

CHI utilizes various interest rate swap contracts to manage the risk of increased interest rates payable of certain variable-rate bonds. The fixed-payer swap agreements convert CHI's variable-rate debt to fixed-rate debt. Generally, it is CHI policy that all counterparties have an AA rating or better. The swap agreements generally require CHI to provide collateral if CHI's liability, determined on a mark-to-market basis, exceeds a specified threshold that varies based upon the rating on CHI's long-term indebtedness.

In April 2016, Standard & Poor's lowered CHI's long-term debt rating to "A-" from "A", with negative outlook, and in May 2016, Moody's downgraded CHI's long-term debt rating to "A3" from "A2", with negative outlook. Subsequently in July 2016, Fitch also downgraded CHI's long-term debt rating to "BBB+" from "A+", with negative outlook.

Based upon the swap agreements in place as of June 30, 2016, a reduction in CHI's credit rating to BBB+ or BBB would obligate CHI to post additional cash collateral of $38.0 million or $67.0 million, respectively. If CHI's credit rating were to fall below BBB, the swap counterparties would have the option to require CHI to settle the swap liabilities at the recorded fair value, which was $75.1 million as of June 30, 2016.

The fair value of the swaps is estimated based on the present value sum of anticipated future net cash settlements until the swaps' maturities. Cash collateral balances are netted against the fair value of the swaps, and the net amount is reflected in other liabilities in the accompanying consolidated balance sheets. At June 30, 2016 and 2015, the net swap liability reflected in other liabilities was $75.1 million and $123.6 million, respectively, net of swap collateral posted of $341.1 million and $176.4 million, respectively. The change in the fair value of swap agreements was a net loss of $116.3 million and $33.7 million for the years ended June 30, 2016 and 2015, respectively, reflected in realized and unrealized losses on interest rate swaps in the accompanying consolidated statements of operations.

9. Debt Obligations (continued)

The following is a summary of interest rate swap contracts (in thousands):

		Swap Contracts Outstanding		Fair Value Liability (Asset)		Notional Amount	
	Maturity Date	June 30 2016	June 30 2015	June 30 2016	June 30 2015	June 30 2016	June 30 2015
Basis swaps	2028	**1**	1	**$ (736)**	$ (511)	**$ 30,000**	$ 30,000
Fixed-payer swaps	2017–2047	**16**	16	**415,308**	299,065	**1,452,710**	1,476,193
Total return swaps	2016–2020	**29**	33	**1,705**	1,430	**223,787**	231,512
		46	50	**$ 416,277**	$ 299,984	**$ 1,706,497**	$ 1,737,705

10. Retirement Plans

CHI Pension Plan

CHI and its direct affiliates maintain a variety of noncontributory, defined benefit retirement plans (Retirement Plans) for their employees. Certain of these plans were frozen in previous fiscal years, and benefits earned by employees through that time period remain in the Retirement Plans, where employees continue to receive interest credits and vesting credits, if applicable. Vesting occurs over a five-year period. Benefits in the Retirement Plans are based on compensation, retirement age, and years of service. Substantially all of the Retirement Plans are qualified as church plans and are exempt from certain provisions of both the Employee Retirement Income Security Act of 1974 and Pension Benefit Guaranty Corporation premiums and coverage. Funding requirements are determined through consultation with independent actuaries.

CHI recognizes the funded status (that is, the difference between the fair value of plan assets and the projected benefit obligations) of its Plans in the consolidated balance sheets, with a corresponding adjustment to net assets. Actuarial gains and losses that arise and are not recognized as net periodic pension cost in the same periods are recognized as a component of changes in net assets.

During fiscal year 2016, CHI acquired the pension plan assets and liabilities of Trinity and during fiscal year 2015, of Sylvania (the Acquired plans) which are included below from the respective dates of acquisition.

10. Retirement Plans (continued)

A summary of the changes in the benefit obligation, fair value of plan assets and funded status of the Plans at the June 30 measurement dates is as follows (in thousands):

	2016	2015
Change in benefit obligation:		
Benefit obligation, beginning of year	**$ 4,865,377**	$ 4,473,629
Service cost	**15,518**	24,022
Interest cost	**201,192**	192,412
Actuarial loss	**634,831**	14,178
Acquired plans	**64,354**	399,025
Plan amendments	**(24)**	**–**
Transfers	**–**	(1,370)
Curtailments	**(2,806)**	**–**
Settlements	**(58,111)**	(14,121)
Benefits paid	**(285,904)**	(220,400)
Expenses paid	**(2,993)**	(1,998)
Benefit obligation, end of year	**5,431,434**	4,865,377
Change in the Plans' assets:		
Fair value of the Plans' assets, beginning of year	**4,132,797**	3,977,271
Actual return on the Plans' assets, net of expenses	**68,999**	117,281
Employer contributions	**19,521**	16,854
Acquired plans	**47,946**	259,140
Transfers	**(26,746)**	(1,323)
Settlements	**(58,111)**	(14,028)
Benefits paid	**(285,819)**	(220,400)
Expenses paid	**(2,993)**	(1,998)
Fair value of the Plans' assets, end of year	**3,895,594**	4,132,797
Funded status of the Plans	**$ (1,535,840)**	$ (732,580)
End-of-year values:		
Projected benefit obligation	**$ 5,431,434**	$ 4,865,377
Accumulated benefit obligation	**5,422,498**	4,849,063

10. Retirement Plans (continued)

Included in net assets at June 30, 2016, are unrecognized actuarial losses of $1.7 billion that have not yet been recognized in net periodic pension cost. The actuarial losses included in net assets and expected to be recognized in net periodic pension cost during the fiscal year ending June 30, 2017, total $65.3 million.

The components of net periodic pension expense (income) are as follows (in thousands):

	2016	2015
Components of net periodic pension expense (income):		
Service cost	**$ 15,518**	$ 24,022
Interest cost	**201,192**	192,412
Expected return on the Plans' assets	**(274,718)**	(279,186)
Actuarial losses	**38,134**	41,828
Settlements	**26,157**	532
	$ 6,283	$ (20,392)

The service cost, interest cost, expected return on the Plans' assets, actuarial losses, and amortization of prior service benefit components of net periodic pension expense (income) are recognized in the consolidated statements of operations within employee benefits expense. Curtailments and settlements components of net periodic pension expense (income) are recognized in the consolidated statements of operations within restructuring, impairment and other losses.

CHI has historically used a single weighted average discount rate derived from the yield curve used to determine its pension benefit obligations to calculate the interest cost and service cost components of net periodic benefit costs for its defined benefit plan. In 2016, CHI changed the method used to estimate the service cost and interest cost components of net periodic pension cost to use a full yield curve "spot rate" approach that applies the specific spot rates along the yield curve to the plans' projected cash flows for certain benefit plans that had a remeasurement event during the year, the impact of which was immaterial. Additionally, for 2017 and going forward, CHI has determined that adopting the full yield curve "spot rate" approach for all other plans is preferable because it provides a more direct matching between the individual cash flows and the discount rates applied to those cash flows. As a result of this change in accounting method, service and interest costs are expected to decrease by approximately $34.9 million for the year ending June 30, 2017.

10. Retirement Plans (continued)

The assumption for the expected return on the Plans' assets is based on historical returns and adherence to the asset allocations set forth in the Plans' investment policies.

Weighted-average assumptions used to determine the pension benefit obligation for the years ended June 30 are as follows:

	2016	2015
Discount rate	**3.53%**	4.29%
Rate of compensation increase	**n/a**	n/a

The decrease in the discount rate to 3.53% at June 30, 2016, increased the pension benefit obligation by approximately $282.7 million.

Weighted-average assumptions used to determine the net periodic pension expense (income) for the years ended June 30 are as follows:

	2016	2015
Discount rate	**4.29%**	4.15%
Expected return on Plans' assets	**7.20**	7.20
Rate of compensation increase	**n/a**	n/a

CHI expects to contribute $8.2 million to the Plans in fiscal year 2017. A summary of expected benefits to be paid to the Plans' participants and beneficiaries is as follows (in thousands):

	Estimated Payments
Year Ending June 30:	
2017	$ 347,026
2018	273,912
2019	278,398
2020	284,995
2021	292,618
2022–2024	1,516,088

10. Retirement Plans (continued)

A summary of the Plans' assets at June 30 is as follows (in thousands):

	2016	2015
Assets		
Plans' interest in the CHI Master Trust	**$ 3,610,915**	$ 3,774,748
Investments in securities	**319,782**	379,336
Receivables for securities sold	**2,580**	5,848
Foreign currency exchange contracts	**49,611**	54,989
Other receivables	**5,346**	6,530
Total assets	**$ 3,988,234**	$ 4,221,451
Liabilities		
Payable for securities purchased	**$ 42,902**	$ 33,453
Foreign currency exchange contracts	**49,671**	55,188
Other liabilities	**67**	13
Total liabilities	**92,640**	88,654
Total plans' assets	**$ 3,895,594**	$ 4,132,797

10. Retirement Plans (continued)

The Plans' financial instruments measured at fair value on a recurring basis were determined using the following inputs at June 30 (in thousands):

	2016			
	Fair Value Measurements at Reporting Date Using			
		(Level 1)	(Level 2)	(Level 3)
	Total	Quoted Prices in Active Markets	Other Observable Inputs	Unobservable Inputs
Assets				
Cash and short-term investments	**$ 34,511**	**$ 30,859**	**$ 3,652**	**$ –**
Equity securities	**33,288**	**25,800**	**7,488**	**–**
Fixed-income securities	**251,983**	**66,549**	**164,039**	**21,395**
Investments in securities	**319,782**	**123,208**	**175,179**	**21,395**
Foreign currency exchange contracts	**49,611**	**–**	**49,611**	**–**
Total assets	**$ 369,393**	**$ 123,208**	**$ 224,790**	**$ 21,395**
Liabilities				
Foreign currency exchange contracts	**$ 49,671**	**$ –**	**$ 49,671**	**$ –**
Total liabilities	**$ 49,671**	**$ –**	**$ 49,671**	**$ –**

10. Retirement Plans (continued)

	2015			
	Fair Value Measurements at Reporting Date Using			
		(Level 1)	(Level 2)	(Level 3)
	Total	Quoted Prices in Active Markets	Other Observable Inputs	Unobservable Inputs
Assets				
Cash and short-term investments	$ 50,639	$ 45,436	$ 5,203	$ –
Equity securities	8,004	191	7,813	–
Fixed-income securities	320,693	45,590	252,474	22,629
Investments in securities	379,336	91,217	265,490	22,629
Foreign currency exchange contracts	54,989	–	54,989	–
Total assets	$ 434,325	$ 91,217	$ 320,479	$ 22,629
Liabilities				
Foreign currency exchange contracts	$ 55,188	$ –	$ 55,188	$ –
Total liabilities	$ 55,188	$ –	$ 55,188	$ –

For the years ended June 30, 2016 and 2015, the changes in fair value of the Plans' investments in securities, for which Level 3 inputs were used, are as follows (in thousands):

	Fixed-Income
Investments at fair value at July 1, 2014	$ 27,178
Purchases/contributions of investments	23,465
Sales/distributions of investments	(27,316)
Net change in unrealized appreciation on investments and effect of foreign currency translation	(2,340)
Net realized gains on investments	1,642
Investments at fair value at June 30, 2015	22,629
Purchases/contributions of investments	**6,429**
Sales/distributions of investments	**(8,573)**
Net change in unrealized depreciation on investments and effect of foreign currency translation	**625**
Net realized gains on investments	**285**
Investments at fair value at June 30, 2016	**$ 21,395**

10. Retirement Plans (continued)

There were no significant transfers between Levels 1 and 2 during any period presented.

Certain of the Plans' investments are held in the CHI Master Trust, which was established for the investment of assets of the Plans. Each participating plan has an undivided interest in the CHI Master Trust. The CHI Master Trust assets are allocated among the participating plans by assigning to each plan those transactions (primarily contributions, benefit payments, and plan-specific expenses) that can be specifically identified and by allocating among all plans, in proportion to each plan's beneficial interest in the CHI Master Trust, income and expenses resulting from the collective investment of the assets of the CHI Master Trust.

The CHI Master Trust investment portfolio is designed to preserve principal and obtain competitive investment returns and long-term investment growth, consistent with actuarial assumptions, while minimizing unnecessary investment risk. Diversification is achieved by allocating assets to various asset classes and investment styles and by retaining multiple investment managers with complementary philosophies, styles and approaches. Although the objective of the CHI Master Trust is to maintain asset allocations close to target, temporary periods may exist where allocations are outside of the expected range due to market conditions. The use of leverage is prohibited except as specifically directed in the alternative investment allocation. The portfolio is managed on a basis consistent with the CHI social responsibility guidelines.

A summary of the CHI Master Trust asset allocation targets, ranges by asset class and allocations by asset class within the CHI Master Trust at the measurement dates of June 30 is as follows:

	2016	2015	Target	Range
Equity securities	**46.0%**	46.9%	45.0%	35.0–55.0%
Fixed-income securities	**33.9**	34.8	35.0	25.0–45.0
Alternative investments	**20.1**	18.3	20.0	10.0–30.0

The CHI Master Trust allocation to alternative investments is based upon contractual commitment levels to various funds. These commitments are drawn by the fund managers as opportunities arise to invest the capital. As of June 30, 2016, the CHI Master Trust had committed to invest $380.5 million in 26 funds, of which $361.8 million had been invested. The remaining $18.7 million will be invested when, and if, requested by the funds. Alternative

10. Retirement Plans (continued)

investments within the CHI Master Trust have limited liquidity and as of June 30, 2016, $155.0 million of investments are illiquid and not available for redemption, and $579.0 million of investments are available for redemption within 180 days at the request of the CHI Master Trust.

A summary of the CHI Master Trust's assets at June 30 is as follows (in thousands). At both June 30, 2016 and 2015, the Plans' interest in the net assets of the CHI Master Trust was approximately 99.9%:

	2016	2015
Assets		
Investments in securities	**$ 3,610,005**	$ 3,767,141
Receivables for securities sold	**40,243**	32,915
Foreign currency exchange contracts	**57,155**	18,190
Other receivables	**10,499**	10,868
Total assets	**$ 3,717,902**	$ 3,829,114
Liabilities		
Payable for securities purchased	**$ 46,641**	$ 34,534
Foreign currency exchange contracts	**57,601**	17,892
Other liabilities	**2,742**	1,937
Total liabilities	**106,984**	54,363
Total CHI Master Trust assets	**$ 3,610,918**	$ 3,774,751

10. Retirement Plans (continued)

The CHI Master Trust's financial instruments measured at fair value on a recurring basis were determined using the following inputs at June 30 (in thousands):

	2016					
	Fair Value Measurements at Reporting Date Using					
				(Level 1)	(Level 2)	(Level 3)
	Total	Investments Measured at Net Asset Value (NAV)	Total	Quoted Prices in Active Markets	Other Observable Inputs	Unobservable Inputs
Assets						
Cash and short-term investments	**$ 107,654**	**$ –**	**$ 107,654**	**$ 97,376**	**$ 10,278**	**$ –**
Equity securities	**1,609,188**	**–**	**1,609,188**	**1,605,648**	**3,540**	**–**
Fixed-income securities	**1,159,154**	**–**	**1,159,154**	**339,928**	**655,080**	**164,146**
Alternative investments	**734,009**	**734,009**	**–**	**–**	**–**	**–**
Investments in securities	**3,610,005**	**734,009**	**2,875,996**	**2,042,952**	**668,898**	**164,146**
Foreign currency exchange contracts	**57,155**	**–**	**57,155**	**–**	**57,155**	**–**
Total assets	**$ 3,667,160**	**$ 734,009**	**$ 2,933,151**	**$ 2,042,952**	**$ 726,053**	**$ 164,146**
Liabilities						
Foreign currency exchange contracts	**$ 57,601**	**$ –**	**$ 57,601**	**$ –**	**$ 57,601**	**$ –**
Total liabilities	**$ 57,601**	**$ –**	**$ 57,601**	**$ –**	**$ 57,601**	**$ –**

	2015					
	Fair Value Measurements at Reporting Date Using					
				(Level 1)	(Level 2)	(Level 3)
	Total	Investments Measured at Net Asset Value (NAV)	Total	Quoted Prices in Active Markets	Other Observable Inputs	Unobservable Inputs
Assets						
Cash and short-term investments	$ 132,940	$ –	$ 132,940	$ 115,594	$ 17,346	$ –
Equity securities	1,702,746	–	1,702,746	1,698,849	3,897	–
Fixed-income securities	1,241,230	–	1,241,230	325,523	753,386	162,321
Alternative investments	690,225	690,225	–	–	–	–
Investments in securities	3,767,141	690,225	3,076,916	2,139,966	774,629	162,321
Foreign currency exchange contracts	18,190	–	18,190	–	18,190	–
Total assets	$ 3,785,331	$ 690,225	$ 3,095,106	$ 2,139,966	$ 792,819	$ 162,321
Liabilities						
Foreign currency exchange contracts	$ 17,892	$ –	$ 17,892	$ –	$ 17,892	$ –
Total liabilities	$ 17,892	$ –	$ 17,892	$ –	$ 17,892	$ –

10. Retirement Plans (continued)

For the years ended June 30, 2016 and 2015, the changes in fair value of the CHI Master Trust's investments, for which Level 3 inputs were used, are as follows (in thousands):

	Fixed-Income
Investments at fair value at July 1, 2014	$ 99,616
Purchases/contributions of investments	210,510
Sales/distributions of investments	(143,239)
Net change in unrealized appreciation on investments and effect of foreign currency translation	(2,816)
Net realized gains on investments	(1,750)
Investments at fair value at June 30, 2015	162,321
Purchases/contributions of investments	**148,796**
Sales/distributions of investments	**(142,434)**
Net change in unrealized (depreciation) appreciation on investments and effect of foreign currency translation	**(2,205)**
Net realized (losses) gains on investments	**(2,332)**
Investments at fair value at June 30, 2016	**$ 164,146**

There were no significant transfers between Levels 1 and 2 during any period presented.

CHI 401(k) Retirement Savings Plan

CHI sponsors the CHI 401(k) Retirement Savings Plan (401(k) Savings Plan) for its employees whereby CHI matches 100.0% of the first 1.0% of eligible pay an employee contributes to the plan, and 50.0% of the next 5.0% of eligible pay contributed to the plan, for a maximum employer matching rate of 3.5% of eligible pay. On an annual basis and regardless of whether or not an employee participates in the 401(k) Savings Plan, CHI will also contribute 2.5% of eligible pay to an employee's 401(k) Savings Plan account. This contribution is made if an employee reaches 1,000 hours in the first year of employment, or every calendar year thereafter, and is employed on the last day of the calendar year. An employee is fully vested in the plan for employer contributions after three years of service. CHI recorded 401(k) Savings Plan expense of $221.7 million and $199.6 million for the years ended June 30, 2016 and 2015, respectively.

11. Concentrations of Credit Risk

CHI grants credit without collateral to its patients, most of whom are insured under third-party payor agreements. CHI's exposure to credit risk on patient accounts receivable is limited by the geographical diversity of its MBOs. The mix of net patient accounts receivable at June 30 approximated the following:

	2016	2015
Medicare	**27%**	27%
Medicaid	**11**	11
Managed care	**33**	34
Self-pay	**11**	8
Commercial and other	**18**	20
	100%	100%

CHI maintains long-term investments with various financial institutions and investment management firms through its investment program, and its policy is designed to limit exposure to any one institution or investment. Management does not believe there are significant concentrations of credit risk at June 30, 2016 and 2015.

12. Commitments and Contingencies

Litigation

During the normal course of business, CHI may become involved in litigation. Management assesses the probable outcome of unresolved litigation and records estimated settlements. After consultation with legal counsel, management believes that any such matters will be resolved without material adverse impact to the consolidated financial position or results of operations of CHI.

Health Care Regulatory Environment

The health care industry is subject to numerous laws and regulations of federal, state and local governments. These laws and regulations include, but are not limited to, matters such as licensure, accreditation, government health care program participation requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Management believes CHI is in compliance with all applicable laws and regulations of the Medicare and Medicaid programs. Compliance with such laws and regulations is complex and can be

12. Commitments and Contingencies

subject to future governmental interpretation as well as significant regulatory action, including fines, penalties and exclusion from the Medicare and Medicaid programs. Certain CHI entities have been contacted by governmental agencies regarding alleged violations of Medicare practices for certain services. In the opinion of management after consultation with legal counsel, the ultimate outcome of these matters will not have a material adverse effect on CHI's consolidated financial position.

Operating Leases

CHI leases certain real estate and equipment under operating leases, which may include renewal options and escalation clauses. Future minimum lease payments required for the next five years and thereafter for all operating leases that have initial or remaining noncancelable lease terms in excess of one year at June 30, 2016, are as follows (in thousands):

	Amounts Due
Year ending June 30:	
2017	$ 205,409
2018	172,917
2019	144,400
2020	129,396
2021	108,920
Thereafter	355,571
	$ 1,116,613

Lease expense under operating leases for continuing operations for the years ended June 30, 2016 and 2015, totaled approximately $292.4 million and $275.3 million, respectively.

Capital Commitments

As of June 30, 2016, CHI has legally committed to fund $1.4 billion of capital improvements related to certain acquisitions and affiliations.

13. Insurance Programs

FIIL, a wholly owned captive insurance company of CHI, provides hospital professional liability, employment practices liability, miscellaneous professional liability, and commercial general liability coverage, primarily to CHI healthcare providers and all employees, including employed physicians. Coverage is provided either on a directly written basis or through a reinsurance fronting relationship with commercial insurance carriers. Policies written provide coverage with primary limits in the amount of $10.0 million for each and every claim in fiscal years 2016 and 2015. For the policy year July 1, 2015 to July 1, 2016, there is an annual policy aggregate of $85.0 million eroded by hospital professional liability and commercial general liability claims, subject to a $175,000 continuing underlying per claim limit. Effective July 1, 2011, FIIL provided excess umbrella liability coverage to CHI for claims in excess of the underlying limits discussed above. The limits provided under such excess coverage are $200.0 million per claim and in the aggregate. At June 30, 2016 and 2015, investments and assets limited as to use held for insurance purposes included $59.9 million and $54.9 million, respectively, held as collateral for the reinsurance fronting arrangement.

FIIL provided workers' compensation coverage to CHI entities on a directly written basis for the current and prior fiscal years, with limits of liability of $1 million per claim. FIIL did not reinsure this coverage for the current and prior fiscal years.

The liability for self-insured reserves and claims represents the estimated ultimate net cost of all reported and unreported losses incurred through June 30. The reserves for unpaid losses and loss adjustment expenses are estimated using individual case-based valuations, statistical analyses and the expertise of an independent actuary.

The estimates for loss reserves are subject to the effects of trends in loss severity and frequency. Although considerable variability is inherent in such estimates, management believes that the reserves for unpaid losses and loss adjustment expenses are adequate. The estimates are reviewed periodically, with consultation from independent actuaries, and any adjustments to the loss reserves are reflected in current operations. As a result of these reviews of claims experience, estimated reserves were reduced by $46.6 million and $57.3 million in 2016 and 2015, respectively. The reserves for unpaid losses and loss adjustment expenses relating to the workers' compensation program were discounted, assuming a 4.0% annual return at June 30, 2016 and 2015, to a present value of $156.9 million and $157.7 million at June 30, 2016 and 2015, respectively, and represented a discount of $51.8 million and $52.4 million in 2016 and 2015, respectively. Reserves related to professional liability, employment practices and general liability are not discounted.

13. Insurance Programs (continued)

FIIL holds $809.8 million and $796.8 million of investments held for insurance purposes as of June 30, 2016 and 2015, respectively. Distribution of amounts from FIIL to CHI are subject to the approval of the Cayman Island Monetary Authority. CHI established a captive management operation (Captive Management Initiatives, Ltd.) based in the Cayman Islands, which currently manages FIIL as well as operations of other unrelated parties.

CHI, through its Welfare Benefit Administration and Development Trust, provides comprehensive health and dental coverage to certain employees and dependents through a self-insured medical plan. Accounts payable and accrued expenses include $63.7 million and $61.1 million for unpaid claims and claims adjustment expenses for CHI's self-insured medical plan at June 30, 2016 and 2015, respectively. Those estimates are subject to the effects of trends in loss severity and frequency. Although considerable variability is inherent in such estimates, management believes that the reserves for unpaid losses and loss adjustment expenses are adequate. The estimates are reviewed periodically and, as adjustments to the liability become necessary, such adjustments are reflected in current operations. CHI has stop-loss insurance to cover unusually high costs of care beyond a predetermined annual amount per enrolled participant.

14. Subsequent Events

CHI's management has evaluated events subsequent to June 30, 2016 through September 23, 2016, which is the date these consolidated financial statements were available to be issued. There have been no material events noted during this period that would either impact the results reflected herein or CHI's results going forward, except as disclosed below.

Effective in September 2016, CHI sold certain real estate assets to an unrelated third party for net proceeds of $167.5 million.

Supplemental Information

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Report of Independent Auditors on Supplemental Information

The Board of Stewardship Trustees
Catholic Health Initiatives

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements of Catholic Health Initiatives as a whole. The following consolidating financial information is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in our audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Ernst & Young LLP

September 23, 2016

A member firm of Ernst & Young Global Limited

Catholic Health Initiatives

Consolidating Balance Sheet

June 30, 2016
(In Thousands)

	MBOs	Corporate	FIIL	CHI Welfare Benefits Trust	Other	Eliminations and Adjustments	Consolidated
Assets							
Current assets:							
Cash and equivalents	$ 847,607	$ 397,724	$ 165	$ (2,969)	$ 62,714	$ 1	$ 1,305,242
Net patient accounts receivable, less allowance for bad debts of $968,147	2,174,914	–	–	–	–	(13,677)	2,161,237
Other accounts receivable	247,100	333,611	10,716	50,370	30,583	(397,948)	274,432
Current portion of investments and assets limited as to use	5,917	57,229	–	–	–	–	63,146
Inventories	296,647	–	–	–	–	–	296,647
Assets held for sale	14,621	–	–	–	208,664	–	223,285
Prepaid and other	87,638	64,179	6	–	407	–	152,230
Total current assets	3,674,444	852,743	10,887	47,401	302,368	(411,624)	4,476,219
Investments and assets limited as to use:							
Internally designated for capital and other funds	4,632,689	248,865	–	70,249	–	262	4,952,065
Mission and Ministry Fund	–	150,166	–	–	–	(25,000)	125,166
Capital Resource Pool	–	261,572	–	–	–	–	261,572
Held by trustees	59,574	53,661	–	–	–	–	113,235
Held for insurance purposes	15,538	–	809,780	–	15,730	–	841,048
Restricted by donors	264,195	652	–	–	102	–	264,949
Total investments and assets limited as to use	4,971,996	714,916	809,780	70,249	15,832	(24,738)	6,558,035
Property and equipment, net	8,628,289	807,676	–	–	16,045	–	9,452,010
Investments in unconsolidated organizations	596,715	1,157,340	–	–	(73,482)	(417,067)	1,263,506
Intangible assets and goodwill, net	446,338	16,500	–	–	–	–	462,838
Notes receivable and other	759,384	3,642,931	26,751	1,598	1,870	(3,986,012)	446,522
Total assets	$ 19,077,166	$ 7,192,106	$ 847,418	$ 119,248	$ 262,633	$ (4,839,441)	$ 22,659,130

Catholic Health Initiatives

Consolidating Balance Sheet (continued)

June 30, 2016
(In Thousands)

	MBOs	Corporate	FIIL	CHI Welfare Benefits Trust	Other	Eliminations and Adjustments	Consolidated
Liabilities and net assets							
Current liabilities:							
Compensation and benefits	$ 608,530	$ 131,549	$ –	$ 2,211	$ 25,856	$ (50,508)	$ 717,638
Third-party liabilities, net	110,284	–	–	–	–	–	110,284
Accounts payable and accrued expenses	1,592,231	390,126	5,705	63,701	58,220	(359,581)	1,750,402
Liabilities held for sale	101	–	–	–	131,713	–	131,814
Variable-rate debt with self-liquidity	–	96,700	–	–	–	–	96,700
Current portion of long-term debt	223,852	1,695,823	–	–	–	(150,285)	1,769,390
Total current liabilities	2,534,998	2,314,198	5,705	65,912	215,789	(560,374)	4,576,228
Pension liability	340,067	1,195,773	–	–	–	–	1,535,840
Self-insured reserves and claims	12,136	5,475	629,103	–	–	–	646,714
Other liabilities	498,203	764,402	–	–	1,000	(1,537)	1,262,068
Long-term debt	4,027,424	6,989,087	–	–	10,700	(3,836,027)	7,191,184
Total liabilities	7,412,828	11,268,935	634,808	65,912	227,489	(4,397,938)	15,212,034
Net assets:							
Net assets attributable to CHI	11,017,467	(4,175,849)	212,610	53,336	35,015	(438,362)	6,704,217
Net assets attributable to noncontrolling interests	327,983	98,581	–	–	–	(3,140)	423,424
Unrestricted	11,345,450	(4,077,268)	212,610	53,336	35,015	(441,502)	7,127,641
Temporarily restricted	223,957	439	–	–	129	(1)	224,524
Permanently restricted	94,931	–	–	–	–	–	94,931
Total net assets	11,664,338	(4,076,829)	212,610	53,336	35,144	(441,503)	7,447,096
Total liabilities and net assets	$ 19,077,166	$ 7,192,106	$ 847,418	$ 119,248	$ 262,633	$ (4,839,441)	$ 22,659,130

Catholic Health Initiatives

Consolidating Statement of Operations

Year Ended June 30, 2016
(In Thousands)

	MBOs	Corporate	FIIL	CHI Welfare Benefits Trust	Other	Eliminations and Adjustments	Consolidated
Revenues:							
Net patient services revenues	$ 14,750,688	$ –	$ –	$ –	$ –	$ (162,850)	$ 14,587,838
Other operating revenues:							
Donations	37,575	52	–	–	480	(170)	37,937
Changes in equity of unconsolidated organizations	98,149	(193,860)	–	–	(100,180)	328,800	132,909
Gains on business combinations	223,036	–	–	–	–	–	223,036
Hospital ancillary revenues	353,587	416	–	–	3,201	–	357,204
Other	216,546	1,508,078	187,689	623,692	370,121	(2,302,544)	603,582
Total other operating revenues	928,893	1,314,686	187,689	623,692	273,622	(1,973,914)	1,354,668
Total operating revenues	15,679,581	1,314,686	187,689	623,692	273,622	(2,136,764)	15,942,506
Expenses:							
Salaries and wages	6,109,432	348,803	–	–	192,086	(172,839)	6,477,482
Employee benefits	1,358,069	63,564	31,607	626,346	54,748	(879,874)	1,254,460
Purchased services, medical professional fees, medical claims and consulting	2,461,469	785,702	14,643	2,857	141,478	(1,033,243)	2,372,906
Supplies	2,782,721	119	–	–	260	–	2,783,100
Utilities	209,109	22,513	–	–	97	–	231,719
Rentals, leases, maintenance and insurance	575,931	534,341	126,242	–	2,271	(300,309)	938,476
Depreciation and amortization	780,697	96,476	–	–	1,421	–	878,594
Interest	208,663	257,574	–	–	521	(166,664)	300,094
Other	966,906	53,072	548	3,703	2,526	(133,267)	893,488
Total operating expenses before restructuring, impairment and other losses	15,452,997	2,162,164	173,040	632,906	395,408	(2,686,196)	16,130,319
Income (loss) from operations before restructuring, impairment and other losses	226,584	(847,478)	14,649	(9,214)	(121,786)	549,432	(187,813)
Restructuring, impairment and other losses	181,420	110,328	–	–	3,755	–	295,503
Income (loss) from operations	45,164	(957,806)	14,649	(9,214)	(125,541)	549,432	(483,316)
Nonoperating (losses) gains:							
Investment (losses) gains, net	(40,698)	(1,009)	25,850	387	134	(1)	(15,337)
Gain (loss) on defeasance of bonds	1,820	(31,288)	–	–	–	(1)	(29,469)
Realized and unrealized losses on interest rate swaps	(2,770)	(152,046)	–	–	–	–	(154,816)
Other nonoperating losses	(16,143)	105	–	–	–	(452)	(16,490)
Total nonoperating (losses) gains	(57,791)	(184,238)	25,850	387	134	(454)	(216,112)
(Deficit) excess of revenues over expenses	(12,627)	(1,142,044)	40,499	(8,827)	(125,407)	548,978	(699,428)
Excess (deficit) of revenues over expenses attributable to noncontrolling interest	25,273	(20,043)	–	–	(1,451)	–	3,779
(Deficit) excess of revenues over expenses attributable to CHI	$ (37,900)	$ (1,122,001)	$ 40,499	$ (8,827)	$ (123,956)	$ 548,978	$ (703,207)

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