Franciscan Alliance, Inc. and Affiliates

Consolidated Financial Statements
December 31, 2017 and 2016

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Report of Independent Auditors

Board of Trustees
Franciscan Alliance, Inc.
Mishawaka, Indiana

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

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Corporation at December 31, 2017 and 2016 and the results of its operations, changes in net assets and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers LLP

April 18, 2018

PricewaterhouseCoopers LLP, One North Wacker, Chicago, IL 60606
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Franciscan Alliance, Inc. and Affiliates
Consolidated Balance Sheets
December 31, 2017 and 2016
(In thousands)

	2017	2016
Assets		
Current assets		
Cash and cash equivalents	$ 50,601	$ 44,044
Short-term investments	123,440	106,536
Patient accounts receivable, net of allowance for doubtful accounts of $13,531 in 2017 and $15,948 in 2016	369,839	361,562
Inventories of supplies	51,563	48,477
Other current assets	110,057	114,508
Total current assets	705,500	675,127
Board designated and other investments	2,679,484	2,582,800
Property, plant, and equipment, net	1,862,505	1,662,290
Investments in unconsolidated affiliates	14,047	20,932
Goodwill	24,541	24,541
Other assets	136,252	125,794
Total assets	$ 5,422,329	$ 5,091,484

	2017	2016
Liabilities and Net Assets		
Current liabilities		
Current portion of long-term debt	$ 23,063	$ 24,916
Accounts payable and accrued expenses	376,627	302,825
Accrued payroll and related expenses	129,010	112,035
Estimated third-party payor settlements	32,737	25,212
Total current liabilities	561,437	464,988
Long-term debt, net of current portion	1,216,417	1,237,398
Fair value of interest rate swap contracts	65,171	73,390
Accrued pension liability	218,538	272,615
Estimated insurance liabilities	116,025	126,606
Other liabilities	76,616	63,439
Total liabilities	2,254,204	2,238,436
Net assets		
Unrestricted	3,095,662	2,784,306
Noncontrolling interests in consolidated affiliates	37,751	34,795
Total unrestricted net assets	3,133,413	2,819,101
Temporarily restricted	21,948	17,345
Permanently restricted	12,764	16,602
Total net assets	3,168,125	2,853,048
Total liabilities and net assets	$ 5,422,329	$ 5,091,484

The accompanying notes are an integral part of these consolidated financial statements.

Franciscan Alliance, Inc. and Affiliates
Consolidated Statements of Operations and Changes in Net Assets
Years Ended December 31, 2017 and 2016
(In thousands)

	2017	2016
Unrestricted revenues, gains, and other support		
Patient service revenue, net of contractual allowances and discounts	$ 2,790,829	$ 2,709,181
Provision for doubtful accounts	(34,569)	(38,499)
Net patient service revenue	2,756,260	2,670,682
Capitation and premium revenue	78,122	116,170
Other operating revenue	111,908	131,573
Equity in income (losses) of investments in unconsolidated affiliates	2,850	(147)
Net unrealized investment gains	9,903	6,706
Net assets released from restrictions used for operations	101	107
Total unrestricted revenues, gains, and other support	2,959,144	2,925,091
Operating expenses		
Salaries	1,178,391	1,109,352
Employee benefits	330,092	280,552
Physicians' fees	70,400	66,831
Utilities	43,295	42,290
Repairs and maintenance	45,339	44,988
Drugs and pharmaceuticals	180,982	159,382
Medical supplies	224,817	213,441
Insurance	33,556	39,346
Purchased services	255,968	272,682
Other supplies and expenses	323,394	343,736
Interest	37,935	43,108
Depreciation and amortization	168,279	160,150
Total operating expenses before accelerated depreciation	2,892,448	2,775,858
Operating income before accelerated depreciation	66,696	149,233
Accelerated depreciation	8,469	4,155
Operating Income	58,227	145,078
Other income (expense)		
Investment income	149,235	93,204
Net unrealized investment gains on trading securities	130,780	49,159
Net unrealized losses and periodic settlements on interest rate swap contracts	(2,017)	(2,282)
(Loss) gain on sale/disposal of assets	(257)	1,623
Gain on sale of investments in unconsolidated affiliates	5,798	2,024
Loss on cash defeasance, refunding, and/or redemption of long-term debt	(22,932)	(9,959)
Net assets released from restrictions	3,341	2,425
Contributions	990	2,324
Other, net	(4,273)	(6,958)
Total other income (expense), net	260,665	131,560
Excess of revenues over expenses	$ 318,892	$ 276,638

The accompanying notes are an integral part of these consolidated financial statements.

Franciscan Alliance, Inc. and Affiliates
Consolidated Statements of Operations and Changes in Net Assets (continued)
Years Ended December 31, 2017 and 2016
(In thousands)

	2017	2016
Unrestricted net assets, controlling interest		
Excess of revenues over expenses	$ 297,769	$ 256,896
Change in pension and postretirement benefits other than net periodic pension costs included in accrued pension liability	10,790	21,863
Contributions of property, plant, and equipment	574	498
Net assets released from restrictions used for purchase of property, plant, and equipment	2,223	506
Increase in unrestricted net assets, controlling interest	311,356	279,763
Unrestricted net assets, noncontrolling interest		
Excess of revenues over expenses	21,123	19,742
Distributions	(18,167)	(17,106)
Increase in unrestricted net assets, noncontrolling interest	2,956	2,636
Increase in unrestricted net assets	314,312	282,399
Temporarily restricted net assets, controlling interest		
Contributions	10,174	7,410
Investment income (losses)	446	(7)
Net assets released from restrictions	(3,432)	(2,517)
Net assets released from restrictions used for purchase of property, plant, and equipment	(2,223)	(506)
Net unrealized investment losses	(15)	-
Derecognition of trust	(29)	-
Other, net	(318)	(1,831)
Increase in temporarily restricted net assets, controlling interest	4,603	2,549
Permanently restricted net assets, controlling interest		
Contributions	32	24
Investment income	205	54
Net assets released from restrictions	(10)	(15)
Derecognition of trust	(4,543)	-
Other, net	478	(98)
Decrease in permanently restricted net assets, controlling interest	(3,838)	(35)
Increase in net assets	315,077	284,913
Net assets, beginning of the year	2,853,048	2,568,135
Net assets, end of the year	$ 3,168,125	$ 2,853,048

The accompanying notes are an integral part of these consolidated financial statements.

Franciscan Alliance, Inc. and Affiliates
Consolidated Statements of Cash Flows
Years Ended December 31, 2017 and 2016
(In thousands)

	2017	2016
Cash flows from operating activities		
Increase in net assets	$ 315,077	$ 284,913
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation of plant, property, and equipment	176,365	161,326
Amortization of bond discounts, deferred financing costs, and other intangible asset	383	2,979
Provision for doubtful accounts	34,569	38,499
Gain on sale of investments in unconsolidated affiliates	(5,798)	(2,024)
Loss (gain) on sale/disposal of assets	257	(1,623)
Loss on cash defeasance, refunding, and/or redemption of long-term debt	22,932	9,959
Net investment gains	(289,918)	(149,069)
Derecognition of trust	4,572	-
Net unrealized gains on interest rate swap contracts	(8,219)	(9,884)
Distributions to noncontrolling interests in consolidated affiliates, net of contribution	18,167	17,106
Distributions from unconsolidated affiliates	5,606	6,494
Equity in (income) losses of investments in unconsolidated affiliates	(2,850)	147
Restricted contributions and investment income	(10,857)	(7,481)
Change in pension and postretirement benefits other than net periodic pension costs included in accrued pension liability	10,790	(21,863)
Changes in operating assets and liabilities		
Patient accounts receivable	(42,175)	(70,585)
Inventories of supplies	(3,086)	(3,530)
Other assets	(4,554)	(25,446)
Accounts payable and accrued expenses	64,847	18,256
Accrued payroll and related expenses	16,863	9,786
Estimated third-party payor settlements	7,525	102
Estimated insurance liabilities	(10,581)	(7,958)
Accrued pension liability	(64,867)	(25,860)
Other liabilities	13,177	6,477
Total adjustments	(66,852)	(54,192)
Net cash provided by operating activities	248,225	230,721
Cash flows from investing activities		
Purchases of investments	(7,321,767)	(8,442,819)
Proceeds from sale of investments	7,493,525	8,274,373
Purchases of property, plant, and equipment	(360,225)	(215,910)
Proceeds from sale of property, plant, and equipment	341	267
Acquisition of physician practices and other healtcare providers	(1,242)	(145)
Proceeds from sale of investments in unconsolidated affiliates	8,450	2,024
Capital contributions to investment in unconsolidated affiliates	(4,849)	(10,718)
Net cash used by investing activities	(185,767)	(392,928)
Cash flows from financing activities		
Proceeds from issuance of long-term debt	427,776	508,198
Defeasance, refunding, and/or redemption of long-term debt	(449,800)	(309,227)
Principal payments on long-term debt	(26,567)	(27,375)
Distributions to noncontrolling interests in consolidated affiliates, net of contributions	(18,167)	(17,106)
Restricted contributions and investment income	10,857	7,481
Net cash (used) provided by financing activities	(55,901)	161,971
Net increase (decrease) in cash and cash equivalents	6,557	(236)
Cash and cash equivalents, beginning of year	44,044	44,280
Cash and cash equivalents, end of year	$ 50,601	$ 44,044

The accompanying notes are an integral part of these consolidated financial statements.

1. Description of Organization, Mission, and Values

Organization

Franciscan Alliance, Inc. and Affiliates (collectively referred to as the "Corporation"), under the sponsorship of the Sisters of St. Francis of Perpetual Adoration, Inc., is an Indiana non-profit, Catholic health care system. The Corporation is dedicated to providing comprehensive health care services, including emergency, medical, surgical, behavioral, rehabilitative, and other health services in inpatient and outpatient settings; home health care services; and primary and specialty physician services to communities within four geographic regions in Indiana and Illinois (the "Health Centers"). Additionally, the Corporation has various accountable care organizations and physician hospital managed care networks, a non-profit foundation, and a number of support related divisions and affiliates including a corporate office, a consolidated information technology services division, various back office/management support organizations, a construction company, and a captive insurance company. The Corporation also has various investments in consolidated and unconsolidated affiliates (Note 10). The Corporation is incorporated as a not-for-profit corporation under the laws of Indiana and is a tax-exempt organization as described in Section 501(c)(3) of the Internal Revenue Code (the "Code").

Mission and Values

The Corporation's mission statement is as follows:

Continuing Christ's Ministry in Our Franciscan Tradition

The Corporation's values are as follows:

Respect for Life

Fidelity to Our Mission

Compassionate Concern

Joyful Service

Christian Stewardship

Consistent with its mission and values, the Corporation provides medical care to all patients regardless of their ability to pay and continually works to enhance the health status of the communities in which it operates. As illustrated in the following summary of quantifiable community benefits, which has been prepared in accordance with the Catholic Health Association of the United States' policy document, the Corporation commits significant resources to provide services intended to benefit the poor and underserved with benefits measured at the total cost net of any offsetting revenues, donations, or other funds used to defray such costs.

	(Unaudited)	
	2017	**2016**
	(in thousands)	
Benefits for the poor and underserved		
Unreimbursed costs of Medicaid and other indigent care programs	$ 162,160	$ 131,889
Cost of charity care provided	85,984	85,081
Other benefits for the poor and underserved	5,277	3,755
Total benefits for the poor and underserved	253,421	220,725
Benefits for the broader community		
Subsidized health services	29,394	20,623
Health professions education	14,606	14,811
Community health improvement services	4,877	4,272
Financial and in-kind contributions	1,457	988
Research	2,038	1,554
Community building activities	2,788	1,687
Community benefit operations	387	332
Total benefits for the broader community	55,547	44,267
Total quantifiable community benefits	308,968	264,992
Unreimbursed costs of Medicare	369,095	295,278
Total quantifiable community benefits including unreimbursed costs of Medicare	$ 678,063	$ 560,270

Total quantifiable community benefits including unreimbursed costs of Medicare were approximately 23% and 20% of total operating expenses for the years ended December 31, 2017 and 2016, respectively.

The Corporation also provides a significant amount of uncompensated care to patients which is reported as provision for doubtful accounts in the consolidated statements of operations and changes in net assets and is not reported in the summary of quantifiable community benefits. During the years ended December 31, 2017 and 2016, the Corporation reported approximately $34.6 million and $38.5 million, respectively, as provision for doubtful accounts based on accumulated charges.

Benefits for the poor and underserved include the cost of providing programs and services to persons who are economically poor or are medically indigent and cannot afford to pay for health care services because they have inadequate resources and/or are uninsured or underinsured.

Benefits for the broader community include the costs of providing programs and services aimed at persons and groups for reasons other than poverty. These persons and groups may include needy populations that may not qualify as poor but need special services and support or broader populations who benefit from healthy community initiatives. These programs and services are not intended to be financially self-supporting.

Unreimbursed costs of Medicaid and other indigent care programs represent the cost (determined using a cost to charge ratio) of providing services to beneficiaries of public programs including State Medicaid and indigent care programs in excess of any payments received.

Charity care represents the cost (determined using a cost to charge ratio) of health care services, provided in accordance with the Corporation's charity care and uninsured patient discount policy, for which no or partial reimbursement will be received because of the recipient's inability to pay for those services, as further described in Note 2.

Subsidized health services are net costs for billed services that are subsidized by the Corporation. These include services offered despite a financial loss because they are needed in the community and either other providers are unwilling to provide the services or the services would otherwise not be available in sufficient amount. Examples of services include emergency services, free standing community clinics, hospice care, behavioral health services, prenatal services, women's and children's services, palliative care, and parish nurse programs.

Health professions education includes the unreimbursed cost of training health professionals such as medical residents, nursing students, technicians, and students in allied health professions.

Community health improvement services are activities and services for which no patient bill exists. These services are not expected to be financially self-supporting, although some may be supported by outside grants or funding, which is netted against any amounts reported. Some examples include health education, health fairs, free or low cost health screening, immunization services, prescription medication assistance programs, and other various community outreach programs. The Corporation actively collaborates with community groups and agencies to assist those in need in providing such services.

Financial and in-kind contributions are made by the Corporation on behalf of the poor and underserved to various community agencies. These amounts include funds used for charitable activities as well as resources contributed directly to programs, organizations, and foundations for efforts on behalf of the poor and underserved. In-kind services include hours donated by staff to the community while on work time, overhead expenses of space donated to community groups, and donations of food, equipment, supplies, and other direct costs.

Research includes the unreimbursed cost of clinical and community health research and studies on health care delivery.

Community building activities include the costs of programs that improve the physical environment, promote economic development, enhance other community support systems, provide leadership development skills training, and build community coalitions.

Community benefit operations include costs associated with dedicated staff, community health needs and/or asset assessments, and other costs associated with community benefit strategy and operations.

Unreimbursed costs of Medicare represent the cost (determined using a cost to charge ratio) of providing services primarily to elderly beneficiaries of the Medicare program in excess of any payments received.

2. Summary of Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of the Corporation and all wholly owned, majority-owned, and controlled organizations with all significant transactions and accounts between affiliates eliminated in consolidation. Investments in affiliates where the Corporation owns less than or equal to 50% and does not have operational control are recorded under the equity method of accounting unless the Corporation's control or investment percentage is insignificant in which case the Corporation uses the cost method.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management of the Corporation to make assumptions, estimates, and judgments that affect the amounts reported in the consolidated financial statements, including the notes thereto, and related disclosures of commitments and contingencies, if any. The Corporation considers critical accounting policies to be those that require more significant judgments and estimates in the preparation of its consolidated financial statements, including the following: recognition of net patient service revenue, which includes contractual allowances and a provision for doubtful accounts; recorded values of investments and goodwill; reserves for employee health costs and losses and expenses related to professional and general liabilities; and risks and assumptions for measurement of the pension liabilities. Management relies on historical experience and other assumptions believed to be reasonable in making its judgments and estimates. Actual results could differ materially from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents primarily consist of cash, treasuries, and other liquid marketable securities including interest bearing securities with original maturities of three months or less. Funds whose use is limited by board designation or other restrictions are excluded. The carrying amount of cash and cash equivalents approximates fair value because of the short maturities of these instruments.

Short-Term Investments

Short-term investments primarily consist of certificates of deposit, treasuries, and other highly liquid interest bearing securities with original maturities extending longer than three months. Adequate liquidity is maintained within short-term investments to satisfy daily cash flow needs.

Inventories of Supplies

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

Board Designated, Other Investments, and Investment Income

Board designated investments represents investments set aside by the Corporation primarily for future purposes including capital expenditures, acquisitions, improvements, and amounts held for mission programs. The Corporation's board retains control of these investments and may, at its discretion and in certain circumstances, use them for other purposes. Assets limited as to use include assets under bond indenture and swap agreements, investments maintained for the payment of estimated insurance liabilities, and amounts contributed by donors with stipulated restrictions.

Substantially all of the Corporation's board designated and other investments are invested and managed by professional managers in accordance with agreed-upon investment and socially responsible investing guidelines and are held in custody with a financial institution.

Board designated and other investments are measured at fair value, classified as trading securities, and consist of: cash and cash equivalents; U.S. government, state, municipal, and agency obligations; other fixed income securities; equity securities; asset backed securities; index funds, exchange traded funds, and mutual funds; unregistered mutual funds; and real estate investment trusts. Board designated and other investments also include alternative investments, consisting of investments in hedge funds, private credit and private equity investments, and real assets, which are generally measured based on their net asset value as a practical expedient for fair value that is further described in Note 4.

Investment earnings consist of dividends, interest, and realized gains and losses. In accordance with industry practice, investment earnings and unrealized gains and losses on assets limited as to use under bond indenture and swap agreements and estimated insurance liability funds are included in other operating revenue in the consolidated statements of operations and changes in net assets. Investment earnings and unrealized gains and losses from all other unrestricted investments and board designated funds are included in other income (expense) in the consolidated statements of operations and changes in net assets. Investment earnings and any associated unrealized gains and losses restricted for specified purposes by donor or legal requirements are recorded as temporarily or permanently restricted in the consolidated statements of operations and changes in net assets.

Board designated and other investments are exposed to various risks such as interest rate, market, liquidity, performance, and credit risk. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the value of investment securities, it is at least reasonably possible that changes in risks in the near term may affect the amounts reported in the consolidated balance sheets and the consolidated statements of operations and changes in net assets.

Fair Value Measurement

The Corporation's consolidated financial statements reflect certain assets and liabilities recorded at fair value. Assets measured at fair value on a recurring basis in the Corporation's consolidated balance sheets include: cash and cash equivalents; U.S. government, state, municipal, and agency obligations; other fixed income securities; asset backed securities; index funds, exchange traded funds, and mutual funds; corporate and foreign income securities; various types of equity securities; hedge funds; private credit and private equity investments; real assets; and benefit plan assets.

Fair value measurements reflected in the consolidated financial statements conceptually represent 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. Generally accepted accounting principles establishes a fair value hierarchy that prioritizes the inputs used to measure fair value.

This hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs.

The three levels of 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.

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

The categorization of fair value measurements by hierarchy level is based upon the lowest level input that is significant to the overall fair value measurement for a given asset or liability.

The Corporation applies the guidance in Accounting Standards Codification 820-10-15-4, *Fair Value Measurements of Investments in Certain Entities that Calculate Net Asset Value per Share (or its Equivalent)*. Under this guidance, the Corporation is permitted, as a practical expedient, to estimate the fair value of certain investments on the basis of the net asset value per share. In the normal course of business, the Corporation holds certain investments that qualify for the usage of this practical expedient. Fair value measurements of certain investments for which the measurement was based on net asset value ("NAV") or its equivalent as provided by an external manager are not required to be included within the fair value hierarchy leveling tables.

In the event that changes in the inputs used in the fair value measurements of an asset or liability results in a transfer of the fair value measurement to a different categorization (e.g., from Level 3 to Level 2), such transfers between fair value categories are recognized at the end of the reporting period.

Property, Plant, and Equipment
Property, plant, and equipment (including internal-use software) are recorded at cost if purchased or at fair value at the date of donation, if donated. Expenditures that materially increase values, change capacities, or extend useful lives are capitalized. Routine maintenance, repairs, and minor equipment replacement costs are charged to expense when incurred. Cost incurred in the development and installation of internal-use software are expensed or capitalized depending on whether they are incurred in the preliminary project stage, application development stage, or post implementation stage. Upon sale or retirement of property, plant, and equipment, the cost and related accumulated depreciation are eliminated from the respective accounts, and the resulting gain or loss is included in the consolidated statements of operations and changes in net assets. Interest costs incurred during the period of construction or development of capital assets are capitalized as a component of the cost of acquiring those assets. Depreciation is provided over the estimated useful lives of the assets utilizing the straight-line method with a useful life range of between 3 to 60 years. Assets under capital lease obligations are amortized utilizing the straight-line method over the shorter of the lease term or estimated useful life of the asset. Amounts

capitalized for internal-use software are amortized over the useful life of the developed asset following project completion.

A conditional asset retirement obligation is recorded for any legal obligation associated with the retirement of long-lived assets resulting from the acquisition, construction, development, and/or normal use of the underlying assets. The associated asset retirement costs are capitalized as part of the carrying amount of the underlying asset and depreciated over the asset's estimated useful life. The liability is accreted through charges to operating expense. If the conditional asset retirement obligation is settled for other than the carrying amount of the liability, a gain or loss on sale/disposal of assets is recognized. As of December 31, 2017 and 2016, conditional asset retirement obligations of approximately $10.8 million and $18.3 million, respectively, are included within accounts payable and accrued expenses and other liabilities in the consolidated balance sheets.

Goodwill and Intangible Assets

Goodwill represents the future economic benefits arising from assets acquired that are not individually identified nor separately recognized. Goodwill is not amortized but is subject to an annual impairment test as well as more frequent reviews whenever circumstances indicate a possible impairment may exist.

Intangible assets are comprised primarily of covenants not to compete, which are amortized on a straight-line basis over periods ranging from 2 to 5 years, and are included within other assets in the consolidated balance sheets.

Asset Impairment

Property and Equipment – The Corporation evaluates long-lived assets for possible impairment whenever events or changes in circumstances indicate that the carrying amount of the asset, or related group of assets, may not be recoverable from estimated future undiscounted cash flows. If the estimated future undiscounted cash flows are less than the carrying value of the asset, the impairment recognized is calculated as the carrying value of the long-lived assets in excess of the fair value of the assets. The fair value of the assets is estimated based on appraisals, established market values of comparable assets, or internal estimates of future net cash flows expected to result from the use and ultimate disposition of the assets.

Goodwill – Goodwill is tested for impairment on an annual basis or when an event or change in circumstance indicates the value of a reporting unit may have changed. Testing is conducted at the reporting unit level. If the carrying amount of the reporting unit goodwill exceeds the implied fair value of that goodwill, an impairment loss is recognized in an amount equal to that excess. Estimates of fair value are based on appraisals, established market prices for comparable assets, internal estimates of future net cash flow, as well as other generally accepted valuation methodologies.

Deferred Financing Costs

Deferred financing costs incurred with the Hospital and Health System Revenue and Refunding Bonds are amortized using the bonds outstanding method. Costs associated with securing the direct pay letters of credit to support its variable rate demand bonds are amortized over the term of the associated liquidity facility. Costs associated with the issuance of direct placement bonds are amortized over the associated direct placement period. Unamortized deferred financing costs are included in long-term debt, net of current portion in the consolidated balance sheets.

Estimated Insurance Liabilities
The provision for estimated insurance liabilities includes actuarial estimates of the ultimate costs for both reported claims and claims incurred but not reported for professional liability, general liability, long-term disability insurance, workers' compensation, and amounts self-insured for allocated loss adjustment expenses.

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

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

During 2017 and 2016, net assets of $5.7 million and $3.0 million, respectively, were released from donor restrictions by incurring expenses or capital expenditures satisfying the restricted purposes or by the passage of time.

Performance Indicator
The performance indicator is excess of revenues over expenses, which includes all changes in unrestricted net assets except for the change in pension and postretirement benefits other than net periodic pension costs which is included in accrued pension liability; contributions and distributions to noncontrolling interests in consolidated affiliates; and contributions of long-lived assets (including assets acquired using contributions which by donor restriction were to be used for the purposes of acquiring such assets).

Operating and Nonoperating Activities
The Corporation's primary mission is to meet the health care needs in the communities it is privileged to serve by providing a broad range of general and specialized health care services, including emergency, medical, surgical, behavioral, rehabilitative, and other health services in inpatient and outpatient settings; home health care services; and primary and specialty physician services. Additionally, the Corporation has various accountable care organizations and physician hospital managed care networks. 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 the Corporation's primary mission are considered to be nonoperating activities.

Patient Accounts Receivable, Estimated Third-Party Payor Settlements, and Net Patient Service Revenue
The Corporation has agreements with third-party payors that provide for payments at amounts different from its established rates. Patient accounts receivable and net patient service revenue are reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered net of the provision for doubtful accounts and includes estimated retroactive revenue adjustments under reimbursement agreements with third-party payors and amounts received under various state Medicaid Hospital Assessment and Disproportionate Share Programs.

Revenue under certain third-party payor agreements is subject to audit, retroactive adjustments, and significant regulatory actions. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as additional information becomes available and as final settlements are determined.

Allowance for Doubtful Accounts
The collection of outstanding patient accounts receivable from government, managed care, and other third party payors and patients is the Corporation's primary source of cash. The Corporation's main collection risk relates to uninsured patient accounts and to patient accounts for which the third party payor has paid amounts in accordance with the applicable agreement, however the patient's responsibility, usually in the form of deductibles, copayments, and coinsurance payments, remains outstanding ("self-pay accounts"). The Corporation's patient accounts receivable is reduced by an allowance for amounts, primarily self-pay accounts, which could become uncollectible in the future. Throughout the year, the Corporation estimates this allowance based on the aging of its patient accounts receivable, historical collection experience, and other relevant factors. These factors include changes in the economy and unemployment rates, which have an impact on the number of uninsured and underinsured patients, as well as trends in health care coverage, such as the increased burden of deductibles, copayments, and coinsurance amounts to be paid by patients with insurance. After satisfaction of amounts due from insurance and reasonable efforts to collect from the patient have been exhausted, the Corporation follows established procedures for placing certain past due patient balances with collection agencies, subject to the terms and certain restrictions on collection efforts as determined by the Corporation. Uncollectible patient accounts receivable are written off against the allowance for doubtful accounts with any subsequent recoveries being recorded against the provision for doubtful accounts.

Charity Care
As an integral part of its mission, the Corporation provides care to patients who meet certain criteria under its charity care and uninsured patient discount policy without charge or at amounts less than its established rates. The cost of charity care as estimated below is determined based on each Health Center's total cost as a percentage of total charges and that ratio is applied to the charges incurred by patients qualifying for charity care under the Corporation's policy. The charges associated with the provision of such care are not included in net patient service revenue in the consolidated statements of operations and changes in net assets.

The estimated cost of charity care provided approximated $86.0 million and $85.1 million for the years ended December 31, 2017 and 2016, respectively. The Corporation maintains records to identify and monitor the level of charity it provides.

Capitation and Premium Revenue
The Corporation has certain Health Centers that arrange for the delivery of health care services to enrollees through various contracts with providers and common provider entities. Enrollee contracts are negotiated on an annual basis. Premiums are due monthly and are recognized as revenue during the period in which the Corporation is obligated to provide services to enrollees.

Certain of the Corporation's Health Centers have entered into capitation agreements whereby they accept the risk for the provision of certain health care services to health plan members. Under these agreements, the Corporation's Health Centers are financially responsible for services provided to health plan members by other health care providers. Capitation revenue is recognized during the period for which the Health Centers are obligated to provide services to health plan enrollees under capitation contracts.

Reserves for incurred but not reported claims have been established to cover the unpaid costs of health care services under capitation and premium arrangements. Capitation and premium arrangement reserves are classified within accounts payable and accrued expenses in the consolidated balance sheets. The liability is estimated based on actuarial studies, historical reporting, and payment trends. Actual claims experience may differ from estimated liabilities due to variances in estimated and actual utilization of health care services, charge amounts, and other factors. As settlements are made and estimates revised, any differences are reflected in current operations. The Corporation limits a portion of its liabilities through stop-loss reinsurance.

Electronic Health Record Incentive Payments

The American Recovery and Reinvestment Act of 2009 included provisions for implementing the Health Information Technology for Economic and Clinical Health Act ("HITECH"). These provisions were designed to increase the use of electronic health record ("EHR") technology and establish a Medicare and Medicaid incentive payment program over a defined number of years for those eligible health care providers that adopt and meaningfully use certified EHR technology. The Corporation recognizes income related to these EHR incentive payments using a grant accounting model that is based upon when the Corporation has reasonable assurance that it will comply with any designated conditions set forth by Medicare and Medicaid and that the dollars will be received. For the years ended December 31, 2017 and 2016, approximately $1.7 million and $4.5 million, respectively, of EHR incentive income was recognized and is included in other operating revenue in the consolidated statements of operations and changes in net assets. The Corporation's attestation of compliance with the meaningful use criteria is subject to audit by the federal government or its designee. Additionally, Medicare EHR incentive payments are subject to retrospective adjustment upon final settlement of the applicable cost report from which the payments were initially calculated.

Income Taxes

The Corporation has established its status as an organization exempt from income taxes under Code Section 501(c)(3) and the laws of the states in which it operates. Certain divisions and affiliates are subject to federal and state income taxes; however, such amounts are not material to the consolidated financial statements.

Derivative Financial Instruments

Derivative financial instruments consist of interest rate swap contracts that are measured at fair value. The Corporation accounts for any changes in the fair value of derivative financial instruments in other income (expense) in the consolidated statements of operations and changes in net assets. The Corporation has reflected the fair value of its interest rate swap contracts as a long-term liability on the consolidated balance sheets (Note 7).

Consolidated Statements of Cash Flows

Supplemental disclosure of cash flow information and noncash investing and financing activities are summarized as follows:

Cash paid for interest, net of amounts capitalized, amounted to $46.7 million and $43.0 million for the years ended December 31, 2017 and 2016, respectively.

Net cash received for income tax refunds was $0.9 million for the year ended December 31, 2017 and net cash paid for income taxes was $0.6 million for the year ended December 31, 2016.

Included in accounts payable and accrued expenses and other liabilities at December 31, 2017 and 2016 are approximately $30.5 million and $17.1 million, respectively, of costs related to construction in progress and for the acquisition of property, plant, and equipment.

Adopted Accounting Pronouncements
In January 2017, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2017-04, *Simplifying the Test for Goodwill Impairment,* which simplifies the accounting for goodwill impairment by eliminating Step 2 from the goodwill impairment test. The early adoption of this guidance did not have an impact on the Corporation's consolidated financial statements however adoption of this guidance resulted in a policy change for the Corporation.

In March 2016, the FASB issued ASU 2016-07, *Investments – Equity Method and Joint Ventures: Simplifying the Transition to the Equity Method of Accounting.* This guidance eliminates the requirement to retrospectively apply the equity method to an investment that subsequently qualifies for such accounting as a result of an increase in the level of ownership interest or degree of influence. This guidance was effective for the Corporation beginning January 1, 2017. The adoption of this guidance did not have an impact on the Corporation's consolidated financial statements.

Forthcoming Accounting Pronouncements
In March 2017, the FASB issued ASU 2017-07, *Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost,* which amends the requirements related to the presentation of the components of net periodic benefit cost in the consolidated statements of operations and changes in net assets for an entity's sponsored defined benefit pension and other postretirement plans. This guidance is effective for the Corporation beginning January 1, 2019 and early adoption is permitted. The Corporation is evaluating the impact this guidance may have on its consolidated financial statements.

In August 2016, the FASB issued ASU 2016-15, *Classification of Certain Cash Receipts and Cash Payments*. This guidance adds or clarifies guidance on the classification of certain cash receipts and payments in the consolidated statements of cash flows. In November 2016, the FASB issued ASU 2016-18, *Restricted Cash, a Consensus of the FASB Emerging Issues Task Force*, which requires an entity to include amounts generally described as restricted cash and restricted cash equivalents, along with cash and cash equivalents, when reconciling beginning and ending balances on the consolidated statements of cash flows. Both ASUs are effective for the Corporation beginning January 1, 2019 with retrospective application required and early adoption permitted. The Corporation is evaluating the impact the guidance may have on its consolidated financial statements.

In August 2016, the FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of the Financial Statements of Not-for-Profit Entities*. Under ASU 2016-14, not-for-profit entities will no longer be required to distinguish between resources with temporary and permanent restrictions on the face of the financial statements. Instead, there will be two classes of net assets – those without donor restrictions and those with donor restrictions. Additionally, not-for-profit entities will be required to present expenses by their natural and functional classification and present investment returns net of external and direct internal investment expenses. This new guidance is effective for fiscal years for the Corporation beginning January 1, 2018, retrospective application is required and early adoption is permitted. The Corporation is evaluating the impact this guidance will have on its consolidated financial statements.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. In July 2015, the FASB issued ASU 2015-14, *Revenue from Contracts with Customers (Topic 606)*: *Deferral of the Effective Date*, delaying the effective date of ASU 2014-09 by one full year for all entities and permits early adoption on a limited basis. In March 2016, the FASB issued ASU 2016-08, *Revenue from Contracts with Customers: Principal Versus Agent Considerations (Reporting Revenue Gross Versus Net)* which amends the principal versus agent implementation guidance and illustrations in ASU 2014-09. In May 2016, the FASB issued ASU 2016-12, *Revenue from Contracts with Customers: Narrow-Scope Improvements and Practical Expedients*, which again amends certain aspects of ASU 2014-09. After the deferral of the effective date, this guidance is effective for the Corporation beginning January 1, 2018. The Corporation has evaluated the impact of this guidance and expects to record a decrease in net patient service revenue and a corresponding decrease in the provision for doubtful accounts upon adoption of the standard. The Corporation will continue to use a portfolio approach to form groups of accounts to calculate net patient service revenue by type of service (e.g. hospital, physician practice, home care), by payor, and by patient type.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. The objective of this ASU is to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. Under this guidance, there is a requirement for lessees to recognize right-of-use assets and lease liabilities for all leases not considered short-term leases. This guidance is effective for the Corporation beginning January 1, 2019 and originally required modified retrospective application to the first year of presentation. In November 2017, the FASB indicated they would draft a proposed ASU to make simplifications related to the implementation of ASU 2016-02. The proposed ASU has been published for public comment. The Corporation is evaluating the impact this guidance will have on its consolidated financial statements.

In January 2016, the FASB issued ASU 2016-01, *Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*. This guidance changes the accounting related to the classification, measurement, and disclosure of equity investments (including other ownership interests, such as partnerships, unincorporated joint ventures, and limited liability companies) to be measured at fair value with changes in the fair value recognized through excess of revenues over expenses. Additionally, it changes the presentation of certain fair value changes for financial liabilities measured at fair value and certain disclosure requirements associated with the fair value of financial instruments. This guidance is effective for the Corporation beginning January 1, 2018. The Corporation is currently evaluating the impact this guidance may have on its consolidated financial statements.

Reclassifications
Certain reclassifications were made to prior year balances and footnotes to conform to current year presentation. There was no impact on previously reported 2016 net assets or excess of revenues over expenses.

3. Net Patient Service Revenue, Patient Accounts Receivable, and Concentration of Credit Risk

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

Medicare – Acute inpatient, outpatient, and home health services rendered to Medicare program beneficiaries are paid primarily at prospectively determined rates. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Certain services are reimbursed at a tentative rate with final settlement determined after submission of annual cost reports and audits thereof by the Medicare fiscal intermediaries. Professional services rendered by physicians are paid based on the Medicare allowable fee schedule. One of the Corporation's Health Centers was granted Critical Access Status by Medicare and is paid based upon a cost plus reimbursement methodology with final settlement determined after submission of an annual cost report. In addition to these payment methodologies, Medicare has various mandatory and voluntary value based provider reimbursement programs.

Medicaid – Reimbursement for services rendered to Medicaid program beneficiaries includes prospectively determined rates per discharge, per diem payments, and fee schedules.

Certain of the Corporation's Health Centers qualify as State of Indiana Medicaid Acute Disproportionate Share and Medicaid Safety Net Hospitals ("DSH") under Indiana law (IC 12-15-16 (1-3)), and are eligible to receive DSH payments linked to the State's fiscal year, which differs from the Corporation's fiscal year. The amount of these additional DSH funds is dependent on regulatory approval by federal and state agencies and is determined by the level, extent, and cost of uncompensated care (as defined) and various other factors. The Corporation records such amounts as revenue when payments are received or based upon data from the State of Indiana that payments are determinable and probable of receipt. For the years ended December 31, 2017 and 2016, the Corporation recognized unrestricted revenue of approximately $6.2 million and $18.4 million, respectively, related to the DSH program in the consolidated statements of operations and changes in net assets. The Corporation anticipates receiving an estimated additional $33.0 million in DSH payments for the State of Indiana's fiscal years 2017 and 2016. The State of Indiana has not indicated the timing of such payments.

The Corporation's Indiana Health Centers participate in the State of Indiana's Hospital Assessment Fee ("HAF") program. The HAF program is a supplemental reimbursement program designed to help providers offset a portion of the cost of providing care to Medicaid and indigent patients. The HAF program is funded by a combination of federal and state resources and fees levied on hospital providers. The HAF program was initially effective until June 30, 2013, and was subsequently renewed to continue through June 30, 2019 with a retroactive effective date of July 1, 2013. For the years ended December 31, 2017 and 2016, the Corporation's Indiana Health Centers recognized supplemental HAF reimbursement of $76.8 million and $65.6 million, respectively. The supplemental HAF reimbursement is recorded as a component of net patient service revenue in the consolidated statements of operations and changes in net assets. For the years ended December 31, 2017 and 2016, the Corporation's Indiana Health Centers recognized HAF fees of $69.1 million and $57.9 million, respectively, that are recorded as a component of other supplies and expenses in the consolidated statement of operations and changes in net assets.

The Corporation's Illinois Health Centers are obligated under Illinois Public Act 95-859 to participate in the State of Illinois' Hospital Assessment Program ("HAP") that assists in financing the State's Medicaid Program. This supplemental reimbursement program has been renewed by the State and CMS since its inception in 2004 with the most recent renewal, which only required the State's approval, to extend the program through June 30, 2018. For the years ended December 31, 2017 and 2016, the Corporation's Illinois Health Centers recognized supplemental HAP reimbursement of $21.3 million and $26.6 million, respectively. The supplemental HAP reimbursement is recorded as a component of net patient service revenue in the consolidated statements of operations and changes in net assets. For the years ended December 31, 2017 and 2016, the Corporation's Illinois Health Centers recognized HAP fees of $13.0 and $13.9 million, respectively. The HAP fees are recognized as a component of other supplies and expenses in the consolidated statement of operations and changes in net assets. In March 2018, the Governor of Illinois signed a bill that would restructure the existing Illinois Medicaid funding program, including the HAP. This proposal would need approval by the federal government.

On January 9, 2015, CMS approved an additional Illinois Medicaid supplemental hospital payment program for services provided to individuals who qualify as a Medicaid beneficiary under the Affordable Care Act ("ACA"). The program is retroactive to March 1, 2014 and expires on June 30, 2018. For the year ended December 31, 2017, the Corporation's Illinois Health Centers recognized supplemental ACA reimbursement of $10.0 million and ACA Fees of $2.3 million. For the year ended December 31, 2016, the Corporation's Illinois Health Centers recognized supplemental ACA reimbursement of $4.4 million. The supplemental ACA reimbursement is recorded as a component of net patient service revenue in the consolidated statements of operations and changes in net assets.

The State of Illinois' Medicaid program has operated with budget deficits. The deficits include the continued practice of deferring Illinois Medicaid bills to future periods and have led to the State of Illinois' slowdown in claims processing and payments. As of December 31, 2017 and 2016, the Corporation's patient accounts receivable included amounts due from Illinois Medicaid of approximately $12.2 million and $15.1 million, respectively, representing approximately 5.6 and 7.5 months, respectively, of outstanding claims. Management continues to value these patient accounts receivable using historical collection rates.

Other – Reimbursement for services to certain patients is received from commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for reimbursement includes prospectively determined rates per discharge, discounts from established charges, prospectively determined per diem rates, and fee schedules.

Like Medicare, commercial insurance companies are entering into various fee-for-value reimbursement programs with qualifying providers. In 2017 and 2016, the Corporation participated in various commercial ACO reimbursement programs in which the Corporation receives a care management fee per ACO participant and the opportunity to receive limited gainsharing and incentives based upon its performance as compared to established quality and efficiency benchmarks.

Provisions have been made in the consolidated financial statements for estimated contractual adjustments, representing the difference between the established charges for services and estimated total payments to be received from third-party payors.

A summary of gross patient service revenue, by payor, for the years ended December 31, 2017 and 2016, is as follows:

	2017	2016
Medicare	36 %	36 %
Medicare managed care	12	10
Medicaid	9	8
Medicaid managed care	8	9
Other third-party payors	32	34
Self-pay	2	2
Other	1	1
	100 %	100 %

The Corporation grants credit without collateral to its patients, most of who are insured under third-party payor agreements. The mix of net receivables from patients and third-party payors at December 31, 2017 and 2016, is as follows:

	2017	2016
Medicare	14 %	16 %
Medicare managed care	7	7
Medicaid	6	10
Medicaid managed care	9	3
Other third-party payors	49	52
Self-pay	12	10
Other	3	2
	100 %	100 %

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. Compliance with such laws and regulations can be subject to future government review and interpretation, as well as regulatory action including fines, penalties, and/or exclusion from the Medicare and Medicaid programs. As a result, there is at least a reasonable possibility that recorded estimates may change in the near term. Net patient service revenue increased by approximately $1.6 million and $3.4 million for the years ended December 31, 2017 and 2016, respectively, due to changes in estimates related to prior-year settlements with third party payors.

4. Short-Term, Board Designated, and Other Investments

Short-term investments represent highly liquid investments with maturities extending longer than three months. Adequate liquidity is maintained within short-term investments to satisfy daily cash flow needs.

Board designated investments represents investments set aside by policy of the Corporation primarily for future purposes including capital expenditures, acquisitions, improvements and amounts held for mission programs. Assets limited as to use include assets under bond indenture and swap agreements, investments maintained for the payment of estimated insurance liabilities, and amounts contributed by donors with stipulated restrictions.

The composition of short-term, board designated, and other investments, at December 31, 2017 and 2016, is as follows:

	2017	2016
	(in thousands)	
Short-term investments	$ 123,440	$ 106,536
Board designated investments		
Funded depreciation and other Board projects	2,364,962	2,317,760
Other designated investments	1,944	1,732
	2,366,906	2,319,492
Assets limited as to use		
Estimated insurance liability funds	168,064	158,284
Assets under bond indenture and swap agreements	111,759	74,012
Other restricted investments	32,755	31,012
	312,578	263,308
Short-term, board designated, and other investments	2,802,924	2,689,336
Less short-term investments	123,440	106,536
Board designated and other investments, classified as noncurrent	$ 2,679,484	$ 2,582,800

Short-term, board designated, and other investments at December 31, 2017 and 2016, consist of the following:

	2017	2016
	(in thousands)	
Cash and cash equivalents	$ 191,458	$ 160,315
U.S. government, state, municipal, and agency obligations	223,389	415,414
Other fixed income securities	340,115	447,117
Equity securities	799,169	673,156
Asset backed securities	232,663	245,778
Index funds, exchange traded funds, and mutual funds	31,588	11,905
Unregistered mutual funds	221,064	203,492
Real estate investment trusts	3,840	2,938
Hedge funds	553,888	353,616
Private credit	15,079	18,799
Private equity	59,861	65,267
Real assets	130,810	91,539
	$ 2,802,924	$ 2,689,336

The following tables present the fair value hierarchy of the valuation techniques utilized to determine the fair value of the Corporation's short-term, board designated, and other investments as of December 31, 2017 and 2016:

Asset category	Level 1	Level 2	Level 3	Balance as of December 31, 2017
		(in thousands)		
Cash and cash equivalents	$ 191,458	$ -	$ -	$ 191,458
U.S. government, state, municipal, and agency obligations	199,388	24,001	-	223,389
Other fixed income securities	-	340,115	-	340,115
Equity securities	799,048	-	121	799,169
Asset backed securities	-	232,663	-	232,663
Index funds, exchange funds, and mutual funds	20,897	-	-	20,897
Real estate investment trusts	3,840	-	-	3,840
	$ 1,214,631	$ 596,779	$ 121	1,811,531
Investments measured at net asset value				991,393
Total investments at fair value as of December 31, 2017				$ 2,802,924

Asset category	Level 1	Level 2	Level 3	Balance as of December 31, 2016
		(in thousands)		
Cash and cash equivalents	$ 160,315	$ -	$ -	$ 160,315
U.S. government, state, municipal, and agency obligations	366,223	49,191	-	415,414
Other fixed income securities	-	447,117	-	447,117
Equity securities	673,156	-	-	673,156
Asset backed securities	-	245,778	-	245,778
Index funds, exchange funds, and mutual funds	1,690	-	-	1,690
Real estate investment trusts	2,938	-	-	2,938
	$ 1,204,322	$ 742,086	$ -	1,946,408
Investments measured at net asset value				742,928
Total investments at fair value as of December 31, 2016				$ 2,689,336

Certain investments categorized within Level 2 are not traded in active markets but are measured using pricing sources such as broker quotes or using models with externally verifiable inputs, such as relevant interest or exchange rates.

Changes in Level 3 hierarchy assets measured at fair value for the Corporation's board designated and other investments at December 31, 2017 are as follows:

	Balances as of December 31, 2016	Net Unrealized Gain (Loss)	Transfers In	Balances as of December 31, 2017
		(in thousands)		
Equity Securities	$ -	$ (139)	$ 260	$ 121
	$ -	$ (139)	$ 260	$ 121

There were no significant transfers to or from Levels 1 and 2 during the years ended December 31, 2017 and 2016.

The following table summarizes the Corporation's investments calculated on a NAV per share basis (or its equivalent), the unfunded commitments, and the associated redemption provisions:

	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
	(in thousands)			
Index funds, exchange funds, and mutual funds	$ 10,691	$ -	Monthly	1 day
Unregistered mutual funds	221,064	-	Monthly	1 day
Hedge funds	553,888	-	Monthly, quarterly, annually	5 - 180 days
Private credit	15,079	5,953	Not currently redeemable	-
Private equity	59,861	44,774	Not currently redeemable	-
Real assets	130,810	16,154	Monthly, quarterly, not currently redeemable	45 days
	$ 991,393	$ 66,881		

Unregistered mutual funds include funds that primarily invest in domestic and international equities and short-term government, investment grade, high yield, and mortgage-related fixed income securities. The fair values of the investments in this class have been estimated using the NAV per share of the investments.

Hedge funds include absolute return and directional hedge funds. Absolute return hedge funds pursue multiple strategies to diversify risks and reduce volatility while directional hedge funds utilize market movement, trends, and inconsistencies when selecting securities across a variety of markets. Directional hedge funds are usually less exposed to the overall market and are likely to include long equity positions hedged with short positions to cancel out short-term uncertainty. The fair values of the investments in this class have been estimated using the NAV per share of the investments.

Private credit includes investments that are secured by high quality assets or backed by a senior claim on stable cash flows. Investments in this asset class will be made opportunistically during periods of broad market or security specific distress. The fair values of the investments in this class have been estimated using the NAV of the Corporation's ownership interest in the partners' capital. Investments within these funds cannot be currently redeemed. After the expiration of the investment period, distributions from each fund will be received as the underlying investments of the funds are liquidated. It is estimated that the underlying assets of the funds will be liquidated over the next 1 to 4 years. However, the individual investments that will be sold have not yet been determined.

Private equity includes funds that invest globally using strategies that include leveraged buyouts, venture capital, growth capital, distressed investments, and mezzanine capital. The fair values of the investments in this class have been estimated using the NAV of the Corporation's ownership interest in the partners' capital. Investments within these funds cannot be currently redeemed. After the expiration of the investment period, distributions from each fund will be received as the underlying investments of the funds are liquidated. It is estimated that the underlying assets of the funds will be liquidated over the next 1 to 11 years. However, the individual investments that will be sold have not yet been determined.

Real assets include energy and energy-related investments and private real estate funds that invest in both U.S. and international commercial real estate. Energy and energy-related investment exposure mainly relate to oil and gas properties which include exploration, production, processing, servicing, or transportation of oil, natural gas, and other hydrocarbon fuels. Private real estate investment strategies include core, value-add, and opportunistic real estate which typically seek to earn a return over inflation. The fair values of the investments in this class have been estimated using the NAV of the Corporation's ownership interest in the partners' capital. Investments representing approximately 82% of the value of the investments in this class cannot be redeemed because the investments include redemption restrictions that range from 1 to 10 years after acquisition. After the expiration of the investment period, distributions from each fund will be received as the underlying investments of the funds are liquidated. It is estimated that the underlying assets of the funds will be liquidated over the next 1 to 8 years. However, the individual investments that will be sold have not yet been determined.

Investment returns including net unrealized gains (losses) included in the consolidated statements of operations and changes in net assets for the years ended December 31, 2017 and 2016, are as follows:

	2017	2016
	(in thousands)	
Unrestricted revenues, gains, and other support		
Investment income in other operating revenue	$ 6,734	$ 4,223
Net unrealized investment gains	9,903	6,706
	16,637	10,929
Other income (expense)		
Investment income	149,235	93,204
Net unrealized investment gains on trading securities	130,780	49,159
	280,015	142,363
Temporarily restricted net assets, controlling interest		
Investment income (losses)	446	(7)
Net unrealized investment (losses)	(15)	-
	431	(7)
Permanently restricted net assets, controlling interest		
Investment income	205	54
	205	54
	$ 297,288	$ 153,339

5. Property, Plant, and Equipment

A summary of property, plant, and equipment at December 31, 2017 and 2016, is as follows:

	2017	2016
	(in thousands)	
Land and land improvements	$ 156,893	$ 151,815
Buildings and building equipment	1,458,522	1,405,646
Departmental equipment	1,529,833	1,470,411
Construction in progress	318,312	108,689
	3,463,560	3,136,561
Less accumulated depreciation	1,601,055	1,474,271
	$ 1,862,505	$ 1,662,290

At December 31, 2017, the remaining contractual commitments on construction in progress is approximately $115.8 million and will be financed by a combination of cash flow from operations, existing funds, and assets under bond indentures.

Certain leases for facilities and medical equipment are accounted for as capital leases. These leases expire in various years through 2024 and are included in property, plant, and equipment on the consolidated balance sheets. The amortization of assets under capital leases is included in depreciation and amortization expense in the consolidated statements of operations and changes in net assets. For certain of the Corporation's Health Centers, capital plans have been approved by the board requiring a change in the estimated useful life of various assets that resulted in the acceleration of depreciation for the years ended December 31, 2017 and 2016 of $8.5 million and $4.2 million, respectively.

6. Long-Term Debt

Long-term debt at December 31, 2017 and 2016, consists of the following:

	Year of Final Maturity	Interest Rate Range over Life of Bonds		2017	2016
				(in thousands)	
Tax Exempt Hospital and Health System Revenue and Refunding Bonds					
Fixed rate term and serial bonds					
Series 2008C	2022	5.0%		$ 41,555	$ 242,480
Series 2009A	2019	5.0%		9,760	207,530
Series 2016A	2051	4.0%-5.0%		200,000	200,000
Series 2016B	2041	3.0%-5.0%		83,890	83,965
Series 2017B	2032	5.0%		148,135	-
Series 2017C	2039	3.0%-5.0%		191,140	-
Bond discounts and premiums, net				54,226	5,504
Total fixed rate term and serial bonds				$ 728,706	$ 739,479
		Interest Rate Range 2017	**Interest Rate Range 2016**		
Variable rate direct placement bonds					
Series 2012A	2048	1.390%-1.803%	1.148% - 1.282%	$ 75,000	$ 75,000
Series 2014A	2048	1.297%-1.692%	1.066% - 1.194%	50,000	50,000
Series 2016C	2041	1.200%-1.613%	1.030% - 1.092%	76,335	78,150
Series 2016D	2041	1.130%-1.543%	0.960% - 1.022%	76,215	78,035
Series 2016E	2048	1.200%-1.613%	1.030% - 1.092%	63,895	63,895
Series 2017A	2048	1.332%-1.404%	-	45,250	-
Total variable rate direct placement bonds				$ 386,695	$ 345,080
Variable rate demand bonds, subject to seven-day or daily put provisions supported by direct pay bank letters of credit					
Series 2008F	2048	0.60%-1.75%	0.01% - 0.12%	45,200	45,200
Series 2008G	-	0.60%-0.92%	0.01% - 0.12%	-	45,250
Series 2008I	2037	0.61%-1.75%	0.02% - 0.11%	35,985	37,610
Series 2008J	2037	0.60%-1.75%	0.01% - 0.12%	35,995	37,615
Total variable rate demand bonds				$ 117,180	$ 165,675
Other debt					
Capital lease obligations (excluding imputed interest of $1,514 and $1,986 at December 31, 2017 and 2016, respectively)				$ 12,223	$ 16,585
Deferred financing costs and other				(5,324)	(4,505)
Total other debt				6,899	12,080
Total long-term debt				1,239,480	1,262,314
Less current portion of long-term debt				(23,063)	(24,916)
Long-term debt, net of current portion				$ 1,216,417	$ 1,237,398

Scheduled principal payments on long-term debt are as follows:

Years ended December 31	Fixed and Variable Rate Bonds	Capital Lease Obligations & Other	Total
		(in thousands)	
2018	$ 19,070	$ 3,993	$ 23,063
2019	19,985	3,115	23,100
2020	19,975	1,715	21,690
2021	20,920	1,293	22,213
2022	21,835	999	22,834
Thereafter	1,076,570	1,108	1,077,678
	$ 1,178,355	$ 12,223	$ 1,190,578

Total interest costs incurred on the long-term debt less capitalized interest are as follows:

	2017	2016
	(in thousands)	
Interest costs incurred	$ 43,173	$ 44,181
Less capitalized interest	5,238	1,073
Interest expense included in operating income	$ 37,935	$ 43,108

The fair value of the Corporation's long-term debt at December 31, 2017 and 2016 approximates $1.309 billion and $1.295 billion, respectively. The fair values of the Corporation's underlying tax exempt Hospital and Health System Revenue Bonds and Refunding Bonds are based on current traded values for similar types of borrowings which are considered Level 2 inputs as described in Note 2.

Obligated Group and Designated Group Affiliates and Other Requirements - The Corporation has long-term debt outstanding under a Master Trust Indenture dated November 1, 1997, as amended and supplemented ("MTI"). The MTI permits the Corporation to issue obligations to finance certain activities. The Corporation and any future other members of the Obligated Group created under the MTI are jointly and severally liable with respect to the payment of each obligation issued under the MTI. In addition, the MTI provides that certain affiliates of the Corporation may be designated as Designated Group Affiliates from time to time and the Corporation covenants to cause each of its Designated Group Affiliates to pay, loan, or otherwise transfer to the Obligated Group such amounts necessary to pay the obligations issued under the MTI. The Designated Group Affiliates are not members of the Obligated Group and are not directly liable for payments on the obligations. The Corporation has granted a security interest in its unrestricted receivables for the benefit of the owners of the obligations. The MTI includes covenants which require the Corporation to maintain a minimum debt service coverage ratio of 1.10 and limit the Obligated Group's and Designated Affiliates' ability to encumber certain of their assets. As of December 31, 2017 and 2016, the Corporation was in compliance with the terms of the MTI and there were no other Obligated Group members nor any Designated Group Affiliates.

Issuance, Cash Defeasance, Refunding, and Redemption of Long-Term Debt – In October 2017, the Corporation fully redeemed its Series 2008G variable rate demand bonds of $45.3 million and issued in the same amount its Series 2017A variable rate demand bonds. The redemption of the Series 2008G bonds resulted in a $0.5 million loss on redemption of long-term debt that was recognized in the Corporation's 2017 consolidated statements of operations and changes in net assets.

In early December 2017, the Corporation used its own funds to defease approximately $192.6 million of its Series 2008C fixed rate bonds. The partial cash defeasance of the Series 2008C bonds was considered a legal defeasance and resulted in a $7.0 million loss on the cash defeasance of long-term debt that was recognized in the Corporation's 2017 consolidated statements of operations and changes in net assets.

In late December 2017, the Corporation issued $339.3 million of its Series 2017B and its 2017C fixed rate tax exempt revenue and refunding bonds. The Series 2017B bond proceeds of $148.1 million, together with other funds, will be used to finance or reimburse the costs of construction, acquisition, renovation, and equipping certain capital assets of the Corporation and to pay related costs of issuance. As of December 31, 2017, approximately $90.3 million of unreimbursed bond proceeds is included in assets limited as to use in the consolidated balance sheets. The Series 2017C bond proceeds were used to refund a portion of the outstanding principal of the Corporation's Series 2009A fixed rate bonds and to pay related costs of issuance. The refunding of the Series 2009A bonds was considered a legal defeasance and resulted in a $15.5 million loss on the refunding of long-term debt that was recognized in the Corporation's 2017 consolidated statements of operations and changes in net assets.

In February 2016, the Corporation issued $285.0 million of its Series 2016A and B fixed rate tax exempt revenue and refunding bonds. The Series 2016A bond proceeds of $200.0 million, together with other funds, were used to finance or reimburse the costs of construction, acquisition, renovation, and equipping certain capital assets of the Corporation and to pay related cost of issuance. The Series 2016B bond proceeds of $85.0 million were used to refund the outstanding principal amount of the Corporation's Series 2006E fixed rate bonds and to pay the related cost of issuance. The refunding of the Series 2006E bonds was considered a legal defeasance and resulted in a $8.9 million loss on refunding of long-term debt that was recognized in the Corporation's 2016 consolidated statements of operations and changes in net assets. In October 2016, the Corporation fully redeemed its Series 2008A, B, and H variable rate demand bonds of $223.1 million and issued in the same amount its Series 2016C, D, and E variable rate direct placement bonds. The redemption of the Series 2008A, B, and H bonds resulted in a $1.1 million loss on redemption of long-term debt that was recognized in the Corporation's 2016 consolidated statements of operations and changes in net assets.

Variable Rate Demand Bonds – Included in the Corporation's debt is approximately $117.2 million of variable rate demand bonds, Series 2008F, Series 2008I, and Series 2008J. The Corporation has entered into irrevocable letters of credit with multiple financial institutions to secure bond repayment and interest obligations associated with its variable rate demand bonds. These liquidity facilities are available to the Corporation should the obligations be presented for purchase and not remarketed. There were no outstanding draws on the letters of credit as of December 31, 2017. Additionally, these facilities (if utilized) generally have repayment terms for bonds held by the letter of credit banks that amortize ratably over 3 to 5 years, depending on the facility used. Termination dates for the various liquidity facility agreements have expiration dates extending through October 2022.

Variable Rate Direct Placement Bonds – Included in the Corporation's debt is approximately $386.7 million of direct placement bonds, Series 2012A, Series 2014A, Series 2016C through 2016E, and Series 2017A. The Corporation has executed various variable rate direct placement agreements whereby the credit provider purchased these bonds for a predetermined period after which the agreement must be extended or the bonds must be remarketed or refinanced. Termination dates for these various variable rate direct placement agreements have expiration dates extending from May 2019 through October 2026.

7. Other Liabilities and Commitments

Interest Rate Swap Contracts – The Corporation utilizes interest rate swaps to manage interest rate risk associated with its variable rate bonds. Cash payments on the interest rate swap contracts totaled $10.2 million and $12.2 million for the years ended December 31, 2017 and 2016, respectively. At December 31, 2017 and 2016, the interest rate swap contracts were in a liability position with a fair value of approximately $65.2 million and $73.4 million, respectively. The fair value of the Corporation's interest rate swap contracts are based on observable inputs, such as interest rates and credit risk spreads, that fall within Level 2 of the hierarchy of fair value inputs as described in Note 2. Certain of the Corporation's interest rate swap agreements include collateral funding requirements based on the market value of these contracts. At December 31, 2017 and 2016, the Corporation had posted $21.5 million and $24.8 million, respectively, to satisfy its collateral funding obligations on these contracts which are included in assets under bond indenture and swap agreements within board designated and other investments on the consolidated balance sheets.

Operating Leases – The Corporation leases various facilities, equipment, and software. Total rental expense under operating leases approximated $46.8 million and $45.1 million for the years ended December 31, 2017 and 2016, respectively. Future minimum lease payments under operating leases as of December 31, 2017 that have initial or remaining lease terms in excess of one year are as follows:

	(in thousands)
Years ended December 31	
2018	$ 42,086
2019	40,177
2020	38,471
2021	37,373
2022	34,173
Thereafter	59,535
	$ 251,815

8. Retirement Benefits

Prior to 2014, the Corporation had various retirement programs in place due to acquisitions made over the years. Effective January 1, 2014, the Corporation amended its retirement program to have all employees (except for those from two of its Health Centers and its construction company) covered by one comprehensive retirement program that administers benefits under two different tracks. Under track A, future employer-provided retirement benefits are provided entirely through the defined benefit pension plan. Under track B, future employer-provided retirement benefits are provided through both the defined benefit pension plan and the defined contribution benefit plan. Effective September 1, 2015, the Corporation further amended its retirement program for all new employees so that employer-provided retirement benefits will be provided entirely through the defined contribution benefit program (track C).

Noncontributory Defined Benefit Pension Plan – As discussed above, the Corporation has a qualified, noncontributory defined benefit pension plan covering eligible employees in retirement tracks A and B. The plan provides defined benefits based on years of service and final average salary. Because the qualified, non-contributory defined benefit pension plan has church plan status as defined in the Employee Retirement Income Security Act of 1974 (“ERISA”), funding in accordance with ERISA is not required as discussed in Note 9. The Corporation’s funding policy for the qualified plan, which is reviewed annually and may be adjusted as needed, is to fund the normal service cost based on the accrued benefit liability for the plan’s year and amortize any under or over funding over a ten year period.

The Corporation also had maintained a nonqualified, supplemental retirement plan for a specified group of participants. On December 26, 2017, the nonqualified plan was terminated and those who were eligible as of that date will receive a lump sum distribution for the vested portion of the liability. The Corporation recognized a plan curtailment and termination amount in the benefit obligation of approximately $21.9 million due to the termination of the nonqualified plan for the year ended December 31, 2017. The plan settlement charge of $19.2 million for the year ended December 31, 2017 includes $12.7 million due to the former participants and is reported as a component of accrued payroll and related expenses within the balance sheet and is expected to be paid in calendar year 2018.

In 2016, the Corporation amended its defined benefit plan to allow active participants to take their benefits as a lump sum when they terminate employment or retire. The plan's projected benefit obligations decreased by $35.0 million and $46.0 million in 2017 and 2016, respectively, related to these lump sum distributions and no settlement charges were recognized.

The Corporation's measurement date for all pension calculations is December 31.

The change in projected benefit obligation, change in plan assets, and funded status of the Corporation's pension plans as of December 31, 2017 and 2016, are as follows:

	2017	2016
	(in thousands)	
Change in benefit obligation		
Benefit obligation, beginning of year	$ 1,501,260	$ 1,466,970
Service cost	45,271	45,549
Interest cost	62,597	66,400
Plan amendments	-	(25,142)
Plan curtailment and termination	(21,880)	-
Actuarial loss	139,776	30,485
Benefits paid	(74,769)	(83,002)
Benefit obligation, end of year	1,652,255	1,501,260
Change in plan assets		
Fair value of plan assets, beginning of year	1,223,688	1,146,374
Actual gain on plan assets	204,361	83,400
Employer contributions	99,830	76,916
Plan settlements	(19,216)	-
Benefits paid	(74,769)	(83,002)
Fair value of plan assets, end of year	1,433,894	1,223,688
Funded status	$ (218,361)	$ (277,572)
Amounts recognized in the consolidated balance sheets		
Noncurrent assets	$ 177	$ 70
Current liabilities	-	(5,027)
Noncurrent liabilities	(218,538)	(272,615)
Total amount recognized	$ (218,361)	$ (277,572)

The amounts in unrestricted net assets, including amounts arising during the year and amounts reclassified into net periodic benefit cost, are as follows:

	Net Gain (Loss)	Prior Service Cost	Total
		(in thousands)	
December 31, 2015	$ (396,521)	$ 11,521	$ (385,000)
Amounts reclassified into net periodic benefit cost	29,156	23,130	52,286
Amounts arising during the year	(30,423)	-	(30,423)
December 31, 2016	(397,788)	34,651	(363,137)
Amounts reclassified into net periodic benefit cost	26,941	(4,798)	22,143
Amounts arising during the year	(11,353)	-	(11,353)
December 31, 2017	$ (382,200)	$ 29,853	$ (352,347)

The following are estimated amounts to be amortized from unrestricted net assets into net periodic pension cost in the next fiscal year. Unrecognized prior service cost/credit is amortized on a straight line basis over the average remaining service period of participants who are expected to receive a benefit and are active at the date of the plan amendment.

	(in thousands)
Unrecognized prior service cost	$ 4,767
Unrecognized loss	(24,845)
Total amount expected to be amortized from unrestricted net assets in 2018	$ (20,078)

The accumulated benefit obligation ("ABO") at December 31, 2017 and 2016 was $1.53 billion and $1.39 billion, respectively. The following information is provided for plans with an ABO in excess of plan assets at December 31, 2017 and 2016:

	2017	2016
	(in thousands)	
Projected benefit obligation	$ 1,647,849	$ 1,497,061
ABO	1,529,506	1,392,393
Fair value of plan assets	1,429,312	1,219,419

Components of net periodic pension cost for the years ended December 31, 2017 and 2016 are as follows:

	2017	2016
	(in thousands)	
Service cost	$ 45,271	$ 45,549
Interest cost	62,597	66,400
Expected return on plan assets	(78,603)	(83,338)
Amortization of prior service cost	(4,934)	(2,012)
Amortization of net loss	27,798	29,156
Curtailment loss recognized	137	-
Settlement gain recognized	(857)	-
Net periodic pension cost	$ 51,409	$ 55,755

The following weighted-average assumptions were used to determine the Corporation's benefit obligations and net periodic pension cost for the years ended December 31:

	2017	2016
Benefit obligation		
Discount rate	3.71 %	4.34 %
Rate of compensation increase	4.70 %	4.70 %
Net periodic pension cost		
Discount rate	4.34 %	4.59 %
Expected rate of return on plan assets	6.45 %	7.17 %
Rate of compensation increase	4.70 %	4.70 %

In developing the expected rate of return on plan assets assumption, the Corporation considered the historical returns and the expectation for future returns on each asset class, as well as the target asset allocation of the pension investment portfolio. The rate of return on plan assets assumption also considers investment and administrative expenses.

The discount rate assumption reflects the yield of a portfolio of high quality bonds matched against the timing and amount of projected future benefit payments as of the measurement date.

As of December 31, 2016, the Corporation adopted the Society of Actuaries RP-2014 Mortality Table and MP-2016 Mortality Improvement Projection Scale to update longevity expectations related to the pension plans.

The Corporation's pension investment policy considers the long-term nature of the asset pool as well as the liabilities it is designated to fund. The pension investment policy utilizes a liability driven investment strategy to better hedge against interest rate risk on investments and volatility of the pension liability given changes in the discount rate. The Corporation considers the risk and return characteristics of the various asset classes available to institutional investors and seeks guidance from outside investment advisors. The Corporation has established the following targeted asset allocation that categorizes assets into de-risking assets (cash and liability-driven fixed income assets) and return seeking/growth assets (equity securities and multi-strategy hedge fund of funds) given different levels of the pension plans' funded status.

Pension Plan Funded Status	De-Risking Assets	Return Seeking/Growth Assets
< 90%	46%	54%
90% - 95%	61%	39%
95% - 100%	77%	23%
100%+	95%	5%

For the years ended December 31, 2017 and 2016, the funded status of the Corporation's pension plans were 87% and 82%, respectively, when measured on a projected benefit obligation basis. The Corporation's asset allocation as of December 31, 2017 and 2016 was as follows:

	Percentage of Plan Assets	
	2017	2016
De-Risking Portfolio	47%	45%
Return Seeking/Growth Portfolio	53%	55%
	100%	100%

Assets are invested to achieve a rate of return consistent with the policy allocation targets which significantly contributes to meeting the current and future obligation of the plan and helps to ensure solvency of the plan over time. It is expected that this objective can be achieved through a well-diversified asset portfolio and an emphasis on long-term capital appreciation as a primary source of return. The plan utilizes a multi-manager structure of complementary investment styles and classes with manager performance judged over an investment market cycle which is generally 3 to 5 years. Plan assets are exposed to risk and fluctuations in market value from year to year. To minimize risk, each manager is required to maintain adequate portfolio diversification to insulate the plan assets from substantial loss in any single security or market sector. Asset allocation is reviewed every quarter and rebalanced as necessary.

Cash Flows
During 2018, the Corporation anticipates making contributions of approximately $33.5 million to fund the normal service cost in accordance with its standard funding policy.

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid as follows:

	(in thousands)
2018	$ 93,675
2019	95,670
2020	98,268
2021	100,003
2022	101,564
Years 2023-2027	525,890

The following tables summarize the Corporation's pension assets, measured at fair value as of December 31, 2017 and 2016, respectively.

Asset category	**Level 1**	**Level 2**	**Level 3**	**Balance as of December 31, 2017**
		(in thousands)		
Cash and cash equivalents	$ 50,575	$ -	$ -	$ 50,575
U.S. government, state, municipal, and agency obligations	98,286	43,772	-	142,058
Other fixed income securities	-	513,854	-	513,854
Equity securities	486,062	-	565	486,627
Asset backed securities	-	725	-	725
Real estate investment trusts	2,787	-	-	2,787
	$ 637,710	$ 558,351	$ 565	1,196,626
Investments measured at net asset value				237,268
Total investments at fair value as of December 31, 2017				$ 1,433,894

Asset category	Level 1	Level 2	Level 3	Balance as of December 31, 2016
		(in thousands)		
Cash and cash equivalents	$ 28,597	$ -	$ -	$ 28,597
U.S. government, state, municipal, and agency obligations	60,088	35,844	-	95,932
Other fixed income securities	-	456,993	-	456,993
Equity securities	411,813	-	-	411,813
Asset backed securities	-	1,002	-	1,002
Real estate investment trusts	3,374	-	-	3,374
	$ 503,872	$ 493,839	$ -	997,711
Investments measured at net asset value				225,977
Total investments at fair value as of December 31, 2016				$ 1,223,688

Changes in Level 3 hierarchy assets measured at fair value for the Corporation's board designated and other investments at December 31, 2017 are as follows:

	Balances as of December 31, 2016	Net Unrealized Gain (Loss)	Purchases	Balances as of December 31, 2017
Equity Securities	$ -	$ (40)	$ 605	$ 565
	$ -	$ (40)	$ 605	$ 565

There were no significant transfers to or from Levels 1 and 2 during the years ended December 31, 2017 and 2016.

Defined Contribution Benefit Plans - The Corporation sponsors various defined contribution benefit plans covering eligible employees. These employees may contribute a portion of their pre-tax and/or after-tax compensation to the plans, in accordance with specified guidelines. In addition to any discretionary contributions, these plans provide for established contribution percentages up to certain limits for eligible employees. The defined contribution benefit plan expense for the years ended December 31, 2017 and 2016 aggregated $23.0 million and $18.4 million, respectively.

9. Liability Insurance and Contingencies

The Corporation has a comprehensive risk management and insurance program designed to safeguard its assets and properties. Hills Insurance Company, Inc. ("Hills Inc."), the wholly owned captive insurance subsidiary of the Corporation, provides certain professional and general liability coverage for the Health Centers and its other corporate entities. Hills has limited its exposure by purchasing reinsurance and excess insurance coverage. In the unlikely event that any of the excess insurance coverages fail, the Corporation would be liable for such defaults, however the Corporation purchases its excess insurance policies from highly rated insurance companies to mitigate that risk. In addition, the Corporation is self-insured for its employee health, long-term disability, and workers' compensation employee benefit programs. Excess workers compensation insurance is in place to limit self-insurance exposure. The Corporation maintains directors and officers liability policies and property insurance.

The estimated insurance liabilities provide for reported losses and for losses incurred but not reported based on projections by independent actuaries using information provided by the Corporation's management. The estimated insurance liabilities, which consist of professional liability, general liability, long-term disability insurance, workers' compensation, and amounts self-insured for allocated loss adjustment expenses, approximated $136.1 million and $145.8 million on an undiscounted basis at December 31, 2017 and 2016, respectively.

From time to time, the Corporation is subject to various legal proceedings and claims arising in the ordinary course of business. Although the outcome of these claims cannot be predicted with certainty, management believes the ultimate disposition of such matters will not have a material adverse effect on the Corporation's financial condition, results of operations, or cash flow.

Hospitals and health facilities, including those operated by the Corporation, are subject to numerous legal, regulatory, environmental, professional and private licensing, and certification and accreditation requirements. Also, the laws and regulations governing the Medicare, Medicaid, and other governmental health care programs that the Corporation participates in are extremely complex and subject to interpretation, making compliance an ongoing challenge for health care organizations. Recently, the federal government has increased its enforcement activity, including audits and investigations related to billing practices, clinical documentation, and other related matters. Allegations concerning possible violations of regulations can result in the imposition of significant fines and penalties and significant repayment of billed and collected revenues for patient services. The Corporation maintains a compliance program designed to educate its employees and to prevent, detect, and correct possible violations.

In 2016, the Corporation was notified it is a defendant in a lawsuit filed in the U.S. District Court for the Northern District of Illinois and shortly thereafter was notified of a similar lawsuit filed in the U.S. District Court for the Northern District of Indiana. These actions have been consolidated for the U.S. District Court of Northern Indiana to review. The consolidated act challenges the Corporation's defined benefit pension plan's eligibility as a church plan and the associated exemption from ERISA. The Corporation intends to vigorously defend its plan's status as an eligible church plan, consistent with the long-standing positions of the U.S. Congress, the U.S. Department of Treasury, including the IRS, the Pension Benefit Guaranty Corporation, and the U.S. Department of Labor.

In 2017, the U.S. Supreme Court issued its review of three church plan cases and ruled that a church affiliate could establish a church plan under ERISA. The plaintiffs are proceeding with the remainder of their case. The Corporation will continue to vigorously defend all issues related to this case.

10. Noncontrolling Interests in Consolidated Affiliates and Investments in Unconsolidated Affiliates

The Corporation is involved in various health service entity joint ventures that support the Corporation's mission whose operations have been included in the consolidated financial statements.

Noncontrolling Interests in Consolidated Affiliates
The Corporation's consolidated financial statements include all assets, liabilities, revenues, and expenses of less than 100% owned entities that it controls. Accordingly, the Corporation has recorded the noncontrolling interests in the earnings and equities of such entities in its consolidated financial statements.

Investments in Unconsolidated Affiliates
The Corporation has investments in entities that are recorded under the cost or equity method of accounting.

At December 31, 2017 and 2016, the Corporation had a 33%, economic interest in Alverno Clinical Laboratories, LLC ("ACL, LLC"), an Indiana limited liability company created to direct, operate, maintain, and manage a centralized clinical laboratory in Hammond, Indiana supporting the Corporation and an unrelated health care system. The Corporation is also an owner of Alverno Provena Hospital Laboratories, LLC ("APHL"), a non-profit cooperative corporation created to direct, operate, maintain, and manage the on-site laboratories of the owners' health centers. Governance of ACL, LLC and APHL (collectively referred to as the "Laboratories") is shared between the health system members. The Corporation accounts for its investment in ACL, LLC under the equity method, which approximated $5.3 million and $4.8 million at December 31, 2017 and 2016, respectively. The Corporation's capital account in APHL approximates $50,000 at both December 31, 2017 and 2016.

The Corporation had a 7%, economic interest in Preferred Professional Insurance Corporation ("PPIC") which provided professional liability insurance and other related services to physicians and other health care providers associated with its owners. In 2014, the owners of PPIC elected to sell the organization. As a condition of sale, PPIC needed to establish an escrow to cover any losses related to a breach of representation or warranty, nonperformance of any covenant or agreement, or actions against PPIC by a PPIC shareholder. During 2016, the Corporation received $2.0 million as the final release from this escrow which is recorded in other income in the consolidated statements of operations and changes in net assets.

The Corporation has a 34.5% ownership interest in Advantage Health Solutions, Inc. ("Advantage Health"), an Indiana based, provider-owned health plan. Advantage Health provided prepaid comprehensive health services to enrollees through contracted networks that were primarily compensated on a capitated basis and facilitated a Medicare Advantage plan. In November 2015, Advantage Health launched an orderly process to discontinue its Medicare Advantage business as of January 1, 2016, which had covered approximately 22,000 Medicare Advantage beneficiaries. In July 2016, Advantage Health announced it was winding down operations by December 2016. For the years ended December 31, 2017 and 2016, the Corporation recorded in equity in income (losses) of investments in unconsolidated affiliates in the consolidated statements of operations and changes in net assets of $4.4 million and $(4.2) million, respectively, related to Advantage Health.

The Corporation's share of the equity in income (losses) of investments in unconsolidated affiliates accounted for on the equity method is approximately $2.9 million and $(0.15) million for the years ended December 31, 2017 and 2016, respectively, which is included in total unrestricted revenues, gains, and other support in the consolidated statements of operations and changes in net assets.

The unaudited summarized financial position and results of operations for the entities accounted for under the equity method as of and for the periods ended December 31 is as follows:

	2017	2016
	(in thousands)	
Total assets	$ 184,561	$ 84,732
Total liabilities	98,216	33,761
Net assets	86,345	50,971
Total unrestricted revenues, gains, and other support	582,110	383,595
Excess (deficiency) of revenues over expenses	11,040	(4,447)

11. Restricted Net Assets

Temporarily restricted net assets are available for the following purposes at December 31, 2017 and 2016:

	2017	2016
	(in thousands)	
Capital needs and equipment	$ 1,047	$ 1,405
Medical education programs	5,292	4,925
Health care operations and patient services	13,715	9,221
Other restrictions - spiritual care and mission related activities	1,894	1,794
	$ 21,948	$ 17,345

Permanently restricted net assets of approximately $12.8 million and $16.6 million at December 31, 2017 and 2016, respectively, are restricted investments to be held in perpetuity with the income expendable to support the Corporation's mission. The Corporation had acted as a holding agent of a permanently restricted endowment. During 2017, the Corporation derecognized approximately $4.5 million of this permanently restricted endowment.

12. Related Party Transactions

The Corporation's Health Centers incurred clinical laboratory charges from the Laboratories of approximately $71.5 million and $69.1 million for the years ended December 31, 2017 and 2016, respectively, which is included in purchased services in the consolidated statements of operations and changes in net assets. The Corporation provides information technology services, central procurement and disbursement services, and rents the core lab facilities to the Laboratories for which the Corporation has recorded approximately $3.9 million and $4.0 million for the years ended December 31, 2017 and 2016, respectively, as other operating revenue on the consolidated statements of operations and changes in net assets.

13. Functional Expenses

The Corporation provides general health care services to residents within its geographic location. Expenses related to providing these services for the years ended December 31, 2017 and 2016, are as follows:

	2017	2016
	(in thousands)	
Health care services	$ 2,309,648	$ 2,187,313
General, administrative, and other nonhealth care services	587,802	557,670
Construction company expenses	3,467	35,030
Total operating expenses	$ 2,900,917	$ 2,780,013

14. Subsequent Events

Management has evaluated events and transactions through April 18, 2018, the date the consolidated financial statements were issued, and noted no material subsequent events requiring recording or disclosure.