



**CONTINUING DISCLOSURE UNDERTAKING  
ANNUAL FINANCIAL INFORMATION**  
As of and for the Year Ended December 31, 2016

**Texas Health Resources**  
**System Revenue Bonds, Series 2016A, 2015 (Taxable), 2015A, 2012A (Taxable), 2012B, 2010, 2008A,**  
**2008B, 2008C, 2007A, and 2007B**  
**Continuing Disclosure Undertaking**

<b>SYSTEM REVENUE BONDS</b>						
<b>Series</b>	<b>Taxable or Tax-Exempt</b>	<b>Issuer</b>	<b>Bond Type</b>	<b>Final Maturity</b>	<b>Principal Amount</b>	<b>Interest Rate</b>
2016A	Tax-Exempt	TCCEFFC <sup>1</sup>	Term	2/15/2047	\$ 631,105,000	Multiple
2015	Taxable	THR	Term	11/15/2055	\$ 300,000,000	4.330%
2015A	Tax-Exempt	TCCEFFC <sup>1</sup>	Term	11/15/2052	\$ 40,000,000	4.250%
2015A	Tax-Exempt	TCCEFFC <sup>1</sup>	Term	11/15/2052	\$ 20,000,000	5.000%
2012A	Taxable	TCCEFFC <sup>1</sup>	Term	11/15/2047	\$ 100,000,000	4.366%
2012B	Tax-Exempt	TCCEFFC <sup>1</sup>	VRDB <sup>2</sup>	11/15/2047	\$ 50,000,000	Variable
2010	Tax-Exempt	TCCEFFC <sup>1</sup>	Term	11/15/2040	\$ 157,550,000	5.000%
2008A	Tax-Exempt	TCCEFFC <sup>1</sup>	VRDB <sup>2</sup>	11/15/2033	\$ 65,000,000	Variable
2008B	Tax-Exempt	TCCEFFC <sup>1</sup>	VRDB <sup>2</sup>	11/15/2033	\$ 50,285,000	Variable
2008C	Tax-Exempt	TCCEFFC <sup>1</sup>	VRDB <sup>2</sup>	11/15/2033	\$ 60,770,000	Variable
2007A <sup>3</sup>	Tax-Exempt	TCCEFFC <sup>1</sup>	Term	2/15/2036	\$ 22,235,000	5.000%
2007B	Tax-Exempt	TCCEFFC <sup>1</sup>	Term	11/15/2047	\$ 100,000,000	5.000%

<b>SYSTEM BANK LOANS</b>					
<b>Taxable or Tax-Exempt</b>	<b>Bank</b>	<b>Bond Type</b>	<b>Final Maturity</b>	<b>Principal Amount</b>	<b>Interest Rate</b>
Tax-Exempt	UMB <sup>4</sup>	Variable	9/1/2035	\$ 67,025,000	Variable
Tax-Exempt	Northern <sup>5</sup>	Variable	12/1/2033	\$ 67,500,000	Variable

<sup>1</sup> Tarrant County Cultural Education Facilities Finance Corporation

<sup>2</sup> Variable Rate Demand Bond

<sup>3</sup> The Series 2007A Bonds were partially refunded by the Series 2016A Bonds effective November 18, 2016.

<sup>4</sup> Kansas City Financial Corporation, an affiliate of UMB Bank, N.A.

<sup>5</sup> The Northern Trust Company

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**WARNING**

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**CONTINUING DISCLOSURE**

In accordance with Rule 15c2-12 of the United States Securities and Exchange Commission (the “**SEC**”), Texas Health Resources (“**THR**” or the “**System**”) has agreed in the Master Indenture, for the benefit of the holders and beneficial owners of the Series 2016, Series 2015, Series 2012, Series 2010, Series 2008, and Series 2007 Bonds, to provide certain updated financial information and operating data annually, unaudited financial information quarterly, and timely notice of specified material events to certain information vendors. The information will be available from the information vendors to securities brokers and others who subscribe to receive the information from the vendors.

Certain capitalized terms are defined in the respective official statements.

**Annual Reports**

THR is obligated to provide certain updated financial information and operating data with respect to THR and the Combined Group annually. The information to be provided includes audited consolidated financial statements for THR, as well as quantitative financial information and operating data of the type included in Appendices A and B of the respective official statements, in comparative form with the preceding fiscal year. THR will provide this information within 150 days after the end of each fiscal year. If audited consolidated financial statements are not available by the required time, THR will provide unaudited consolidated financial statements by such time and audited consolidated financial statements when and if they become available.

THR will provide the updated annual information to the Municipal Securities Rulemaking Board’s (“**MSRB**”) Electronic Municipal Market Access (“**EMMA**”) and to any state information depository (“**SID**”) that is designated by the State of Texas and approved by the staff of the SEC.

THR’s current fiscal year end is December 31. If THR changes its fiscal year, it will provide notice of the change to the MSRB/EMMA, and any SID.

**Availability of Information**

THR is obligated to provide the foregoing information only to the MSRB/EMMA, and any SID, as described above. THR has retained Digital Assurance Certification, L.L.C. (“**DAC**”) to act as dissemination agent on its behalf to file information annually in compliance with the undertaking described above. DAC’s website is [www.dacbond.com](http://www.dacbond.com).

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**UPDATED APPENDIX A  
FINANCIAL INFORMATION  
AND OPERATING DATA**

## CONTINUING DISCLOSURE UNDERTAKING

### TEXAS HEALTH RESOURCES

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## The System, Obligated Group, Designated Members, Combined Group, and Consolidated Joint Ventures

For the fiscal year ended December 31, 2016, the Obligated Group and the Combined Group accounted for 62.7% and 66.4%, respectively, of the net patient service revenue generated by the System. For the fiscal year ended December 31, 2016, the Consolidated Joint Ventures accounted for 15.9% of the net patient service revenue generated by the System. See “NET PATIENT SERVICE REVENUE” table herein.

### Corporate Structure and Governance

**THR’s Control of the System.** In January 2017, Texas Health Seay Behavioral Health Hospital (“*Seay*”) and Texas Health Springwood Behavioral Health Hospital (“*Springwood*”) began operations as separate, legal not-for-profit entities. Previously, they were licensed under Texas Health Presbyterian Hospital Plano and Texas Health Harris Methodist Hospital Hurst-Euless-Bedford, respectively. Seay and Springwood operate as inpatient behavioral health facilities with 48 and 70 licensed beds, respectively, offering a variety of services.

Effective December 2016, THR purchased the remaining interest in Texas Health MedSynergies, L.L.C. from the other owner making it a wholly-controlled entity.

**THR and Its Wholly-Controlled Affiliates.** The following table lists the entities included in the System and excludes joint ventures for which THR and its wholly-controlled affiliates are not the sole owners.

#### Texas Health Resources

##### Obligated Group Members:

	Acronym
Texas Health Harris Methodist Hospital Fort Worth (non-profit)	THFW
Texas Health Presbyterian Hospital Dallas (non-profit)	THD
Texas Health Arlington Memorial Hospital (non-profit)	THAM
Texas Health Presbyterian Hospital Plano (non-profit)	THP
Texas Health Harris Methodist Hospital Hurst-Euless-Bedford (non-profit)	THHEB
Texas Health Harris Methodist Hospital Southwest Fort Worth (non-profit)	THSW
Texas Health Presbyterian Hospital Allen (non-profit)	THA

##### Designated Members:

Texas Health Harris Methodist Hospital Cleburne (non-profit)	THC
Texas Health Harris Methodist Hospital Stephenville (non-profit)	THS
Texas Health Harris Methodist Hospital Azle (non-profit)	THAZ
Texas Health Specialty Hospital Fort Worth (non-profit)	THSH

##### Other Wholly-Controlled Affiliates:

Texas Health Presbyterian Hospital Denton (non-profit)	THDN
Texas Health Presbyterian Hospital Kaufman (non-profit)	THK
Texas Health Harris Methodist Hospital Alliance (non-profit)	THAL
Texas Health Outpatient Surgery Center Alliance (non-profit)	THALSC
Texas Health Research & Education Institute (non-profit)	THRE
Grace Indemnity Company, Ltd. (foreign corp)	GIC
Texas Health Physicians Group (non-profit)	THPG
Texas Health Back Care (non-profit)	THBC
Texas Health MedSynergies, L.L.C. (for-profit)	THM
Texas Health Partners, L.L.C. (for-profit)	THPR
THR-SCA Holdings, L.L.C. (for-profit)	THR-SCA
Texas Health Resources Foundation (non-profit)	THRF
North Texas Healthy Communities (non-profit)	NTHC
Texas Health Resources Bundled Products (for-profit)	
Texas Health Medical Support (non-profit)	
Texas Health Seay Behavioral Health Hospital (non-profit)	
Texas Health Springwood Behavioral Health Hospital (non-profit)	

## System Facilities and Operations Overview

### OPERATED BEDS

The following table provides the operated beds for the System's hospitals as of December 31, 2016, 2015, and 2014:

Hospital	Texas Location		Operated Beds		
	City	County	2016	2015	2014
<b>Obligated Group Members:</b>					
Texas Health Harris Methodist Hospital Fort Worth	Fort Worth	Tarrant	640	639	656
Texas Health Presbyterian Hospital Dallas	Dallas	Dallas	634	633	646
Texas Health Presbyterian Hospital Plano	Plano	Collin	382	352	366
Texas Health Arlington Memorial Hospital	Arlington	Tarrant	312	290	316
Texas Health Harris Methodist Hospital Hurst-Euless-Bedford	Bedford	Tarrant	256	268	275
Texas Health Harris Methodist Hospital Southwest Fort Worth	Fort Worth	Tarrant	259	205	209
Texas Health Presbyterian Hospital Allen	Allen	Collin	68	48	73
Total Obligated Group Members			2,551	2,435	2,541
<b>Designated Members:</b>					
Texas Health Harris Methodist Hospital Cleburne	Cleburne	Johnson	92	90	90
Texas Health Harris Methodist Hospital Stephenville	Stephenville	Erath	54	54	54
Texas Health Harris Methodist Hospital Azle	Azle	Tarrant	31	31	31
Texas Health Specialty Hospital Fort Worth	Fort Worth	Tarrant	10	10	10
Total Designated Members			187	185	185
<b>Non-Combined Group:</b>					
Texas Health Presbyterian Hospital Denton	Denton	Denton	190	190	190
Texas Health Harris Methodist Hospital Alliance	Fort Worth	Tarrant	74	74	58
Texas Health Presbyterian Hospital Kaufman	Kaufman	Kaufman	47	68	68
Total Non-Combined Group			311	332	316
<b>Consolidated Joint Ventures</b>			243	242	244
<b>Total</b>			<b>3,292</b>	<b>3,194</b>	<b>3,286</b>

*Note: The Combined Group is made up of the Obligated Group and Designated Members.*



## NET PATIENT SERVICE REVENUE

The following table provides the amount and percentage of net patient service revenue (net of patient bad debt expense) generated by the System's healthcare operations for the years ended December 31, 2016, 2015, and 2014:

Hospital	Amount and % of Net Patient Service Revenue					
	(Dollars in millions)					
	Fiscal Years Ended December 31,					
	2016		2015		2014	
	Amount	%	Amount	%	Amount	%
<b>Obligated Group Members:</b>						
Texas Health Harris Methodist Hospital Fort Worth	\$ 806	18.7%	\$ 742	18.4%	\$ 717	18.5%
Texas Health Presbyterian Hospital Dallas	629	14.6%	601	15.0%	600	15.5%
Texas Health Presbyterian Hospital Plano	402	9.3%	379	9.4%	357	9.2%
Texas Health Harris Methodist Hospital Southwest Fort Worth	292	6.8%	268	6.6%	235	6.1%
Texas Health Harris Methodist Hospital Hurst-Euless-Bedford	257	6.0%	251	6.2%	247	6.4%
Texas Health Arlington Memorial Hospital	228	5.3%	227	5.6%	223	5.8%
Texas Health Presbyterian Hospital Allen	85	2.0%	76	1.9%	72	1.9%
Total Obligated Group Members	2,699	62.7%	2,544	63.1%	2,451	63.4%
<b>Designated Members:</b>						
Texas Health Harris Methodist Hospital Cleburne	67	1.5%	68	1.7%	64	1.7%
Texas Health Harris Methodist Hospital Stephenville	51	1.2%	48	1.2%	45	1.2%
Texas Health Harris Methodist Hospital Azle	33	0.8%	32	0.8%	31	0.8%
Texas Health Specialty Hospital Fort Worth	8	0.2%	9	0.2%	9	0.2%
Total Designated Members	159	3.7%	157	3.9%	149	3.9%
<b>Total Combined Group Members</b>	<b>2,858</b>	<b>66.4%</b>	<b>2,701</b>	<b>67.0%</b>	<b>2,600</b>	<b>67.3%</b>
<b>Non-Combined Group Members:</b>						
Texas Health Presbyterian Hospital Denton	214	5.0%	193	4.8%	172	4.5%
Texas Health Harris Methodist Hospital Alliance	102	2.4%	90	2.2%	78	2.0%
Texas Health Presbyterian Hospital Kaufman	35	0.8%	38	1.0%	35	0.9%
Texas Health Outpatient Surgery Center Alliance	4	0.1%	5	0.1%	4	0.1%
Texas Health Physicians Group/Texas Health Back Care	404	9.4%	380	9.4%	379	9.8%
Total Non-Combined Group Members	759	17.7%	706	17.5%	668	17.3%
<b>Consolidated Joint Ventures</b>	<b>684</b>	<b>15.9%</b>	<b>626</b>	<b>15.5%</b>	<b>597</b>	<b>15.4%</b>
<b>Total</b>	<b>\$4,301</b>	<b>100.0%</b>	<b>\$4,033</b>	<b>100.0%</b>	<b>\$3,865</b>	<b>100.0%</b>

**Medical Staff.** The System does not have a single System-wide medical staff. Rather each hospital has a separately credentialed medical staff, although there are a number of physicians who are on the medical staff of one or more of the hospitals. There are more than 6,000 physicians with active staff privileges at one or more System hospitals. As of December 31, 2016, Texas Health Physicians Group (“**THPG**”) employed approximately 900 physicians, physician assistants, and nurse practitioners. The following table provides a summary of THPG’s and THBC’s employed physicians and mid level providers as of December 31, 2016, 2015 and 2014:

<b>Provider Type</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>
Primary Care Physicians	216	231	229
Specialists	203	176	176
Hospitalists	132	143	136
<b>Total Physicians</b>	<b>551</b>	<b>550</b>	<b>541</b>
Mid Level - Primary Care	195	194	165
Mid Level - Specialists	110	97	99
Mid Level - Hospitalists	41	36	27
<b>Total Mid Levels</b>	<b>346</b>	<b>327</b>	<b>291</b>
<b>Total Providers</b>	<b>897</b>	<b>877</b>	<b>832</b>

**Employees.** THR and its wholly-owned facilities combined employed approximately 23,700 full and part-time employees as of December 31, 2016. The Consolidated Joint Ventures employed approximately 2,200 employees as of December 31, 2016. There is no union representation of employees, and there are no collective bargaining agreements. Management believes that it has a good relationship with its employees.

**Strategic Plans and Recent Developments.** THR’s view of the future is to become a nationally recognized health system known for excellence and innovation through fully engaged physicians on its medical staff, nurses, and other caregivers redesigning and delivering coordinated patient care across the entire continuum of care. This initiative requires THR to: 1) move its focus from a hospital-centric mindset to one that is patient-centric using population-based care models (THR’s emphasis will be on adding value for people seeking health care throughout the entire care continuum, and not only on adding hospital-based volume); 2) learn how to deliver highly coordinated care in a personalized manner and do so at a lower cost per capita than achieved today; 3) engage clinicians in leadership, care redesign, quality and patient safety initiatives and following evidence based models of care; 4) improve its ability to motivate and encourage individuals to make healthy behavior changes, with an emphasis on preventative care and well-being initiatives; 5) develop the organization’s ability to move along the financial risk continuum for healthcare (e.g., bundled payments, gain-sharing, health plan) and develop capability to mitigate that risk by reducing variation, following evidence-based guidelines and controlling costs; 6) enter into aspects of financing and care delivery where elements of the industry (reimbursement, regulatory) may not yet be fully accepted; and 7) welcome clinicians into leadership positions at all levels of the organization.

THR’s strategy is to strengthen its position as a health care provider of choice by providing quality care and responding to the health care needs within the communities it serves. To increase the System’s ability to manage patient outcomes, diversify its revenue sources, and respond to health-care reform initiatives, the System’s employed physicians group has grown to approximately 900 physicians, physician assistants and nurse practitioners, and THR plans to continue to increase the number of employed physicians through internal growth and acquisition opportunities. THR’s leadership structure includes collaborative leadership positions with physicians and advances the System from a hospital-centric organization to a patient-centered, fully integrated health system. THR plans for, evaluates and pursues potential merger and affiliation candidates on a continuing basis as part of its overall strategic planning and development process. THR may receive offers from, or conduct discussions with, third parties about the potential acquisition of operations or properties that may become part of the System in the future, or about the potential sale of some of the operations and properties of the System. Discussions with respect to affiliation, merger, acquisition, disposition, or change of use, including those that may impact the Obligated Group, are held on an intermittent and usually confidential basis with other parties.

On May 10, 2016, THR and Adeptus Health Inc. (“**Adeptus Health**”) formed a joint venture to increase access to high quality, convenient emergency medical care in the Dallas-Fort Worth area. Under the joint venture, Adeptus Health's freestanding First Choice Emergency Rooms in North Texas, and its First Texas Hospital in Carrollton, aligned with THR to grow THR's network of hospitals and outpatient centers. On April 19, 2017, Adeptus Health filed for reorganization under Chapter 11 of the U.S. Bankruptcy Code. The joint venture between THR and Adeptus Health is not part of the court-supervised process, and all freestanding emergency rooms under the joint venture will continue to operate as normal. At this time, there is not sufficient information available regarding the impact the reorganization will have on the joint venture. THR management is monitoring the situation and is actively reviewing its options with respect to the joint venture.

THR has announced the development of Texas Health Hospital Frisco to be located on 20 acres off the Dallas North Tollway in northeast Collin County. The campus will include an 80-bed acute care hospital and a 120,000 square-foot medical office building to house primary care practices and a multispecialty clinic. Construction is anticipated to begin around the middle of 2017 with a projected opening in late 2019.

THR continues to form joint ventures with physicians and other third parties, of which several are in various stages of formation. It is too early to predict if all or any of these joint ventures will become operational. THR continues to review potential strategic initiatives, some of which, if entered into, may be material.

**Capital Expenditures.** The following summary presents the purchase, development, construction, reconstruction, renovation, rehabilitation and/or equipping of the System for the fiscal years ended December 31, 2016, 2015 and 2014:

#### CAPITAL EXPENDITURES

	<u>2016</u>	<u>2015</u>	<u>2014</u>
	(Dollars in Thousands)		
Capital Expenditures	\$ 421,906 <sup>1</sup>	\$ 232,388	\$ 212,929

<sup>1</sup> Includes approximately \$168,000,000 for the acquisitions of Forest Park Medical Center Fort Worth and Atrium Medical Center in Corinth.

*[Remainder of Page Intentionally Left Blank]*

## Operating and Financial Data

**Utilization of System Facilities.** The following table provides certain information concerning the combined utilization of the System facilities for the fiscal years ended December 31, 2016, 2015 and 2014:

### UTILIZATION OF SYSTEM FACILITIES

Statistic	2016	2015	2014
Licensed Beds (at year/month-end) <sup>1</sup>	3,939	3,864	3,877
Operated Beds in Service (at year/month-end) <sup>1</sup>	3,292	3,194	3,286
Patient Days (inpatient)	762,474	747,669	723,277
Discharges (inpatient)	166,529	161,850	155,046
Average Length of Stay (days)	4.6	4.6	4.7
Average Daily Census <sup>2</sup>	2,083	2,048	1,982
Percent Occupancy	63.3%	64.1%	60.3%
Outpatient Visits <sup>3</sup>	1,538,550	1,507,521	1,444,566
Total Surgeries	102,815	99,848	97,262
Emergency Room Visits	721,446	715,764	711,464
Outpatient Gross Patient Service Revenue to Total Gross Patient Service Revenue <sup>4</sup>	43.2%	42.8%	42.7%

<sup>1</sup> Includes operated beds in service at THR's long-term care hospital, THSH.

<sup>2</sup> Average Daily Census is calculated using 366 for the fiscal year ended December 31, 2016, and 365 days for the fiscal years ended December 31, 2015 and 2014.

<sup>3</sup> Includes hospital based outpatient clinic visits and other outpatient facilities' visits. Excludes physician office visits.

<sup>4</sup> Excludes physician activities, which represent 9.4%, 9.4%, and 9.8% of THR's consolidated net patient service revenue for the fiscal years ended December 31, 2016, 2015 and 2014, respectively.

**Sources of Consolidated Gross and Net Patient Service Revenue.** The following table sets forth the percentages of consolidated gross and net patient service revenue of the System, excluding THPG and 1115 Waiver and DSH programs, derived from each type of payer for the fiscal years ended December 31, 2016, 2015 and 2014:

### SOURCES OF CONSOLIDATED GROSS AND NET PATIENT SERVICE REVENUE (Excludes Physician Activities and 1115 Waiver and DSH Programs)

Payer Type	Fiscal Years Ended December 31,					
	2016		2015		2014	
	Gross	Net	Gross	Net	Gross	Net
Managed Care	38.7%	66.1%	39.2%	66.8%	38.7%	64.7%
Medicare	27.0%	16.0%	27.3%	16.6%	27.9%	17.1%
Medicare Managed	17.1%	9.9%	16.4%	10.0%	15.4%	9.6%
Medicaid	2.0%	0.8%	2.2%	0.4%	2.8%	0.6%
Medicaid Managed	6.5%	2.9%	6.5%	3.1%	6.2%	2.9%
Commercial Insurance	0.8%	2.0%	0.6%	1.5%	0.7%	1.3%
Uninsured	7.9%	2.3%	7.8%	1.6%	8.3%	3.8%
	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

**Summary of Consolidated Revenues and Expenses.** The following summary presents selected financial information of the System for the fiscal years ended December 31, 2016, 2015 and 2014. This information was derived from the THR audited consolidated financial statements as reclassified (see <sup>1</sup>) and does not include all components of changes in net assets. The information should be read in conjunction with the audited consolidated financial statements, including footnotes.

### SCHEDULE OF HISTORICAL REVENUES AND EXPENSES

	2016	2015	2014
	(Dollars in Thousands)		
Operating Revenue:			
Net patient service revenue before provision for bad debts <sup>1</sup>	\$ 4,637,812	\$ 4,274,765	\$ 4,175,756
Less: Provision for bad debts	337,265	241,605	311,095
Net patient service revenue <sup>2</sup>	4,300,547	4,033,160	3,864,661
Equity in earnings of unconsolidated affiliates	60,971	67,541	60,070
Other operating revenue	160,491	160,091	139,664
Total operating revenue	4,522,009	4,260,792	4,064,395
Operating Expenses:			
Salaries, wages, and employee benefits	2,249,804	2,127,464	2,017,016
Supplies	720,848	664,194	635,945
Other operating expenses	903,651	831,635	825,986
Depreciation and amortization	224,263	220,277	209,894
Interest expense	84,373	78,610	62,323
Total operating expenses	4,182,939	3,922,180	3,751,164
Operating Income	339,070	338,612	313,231
Nonoperating Gains (Losses):			
Net realized investment income and gains	101,130	132,090	266,089
Net unrealized gains (losses) on investments	167,494	(159,046)	(21,728)
Equity in earnings (losses) of unconsolidated affiliates, nonoperating	(1,007)	1,234	4,676
Gain (loss) on extinguishment of long-term debt	1,057	(487)	-
Other, net	1,065	2,505	2,929
Total nonoperating gains (losses), net	269,739	(23,704)	251,966
Revenue and Gains in Excess of Expenses and Losses before Income Taxes	608,809	314,908	565,197
Less: Income Tax Expense (Benefit) <sup>3</sup>	3,606	4,608	(24,109)
Revenue and Gains in Excess of Expenses and Losses	605,203	310,300	589,306
Less: Revenue and Gains in Excess of Expenses and Losses Attributable to Non-Controlling Interest	83,284	67,306	64,077
Revenue and Gains in Excess of Expenses and Losses from Continuing Operations Attributable to THR <sup>4</sup>	\$ 521,919	\$ 242,994	\$ 525,229

<sup>1</sup> Fiscal year 2014 has been reclassified to include pay for performance insurance incentives in net patient service revenue rather than other operating revenue to conform with the 2016 and 2015 presentations.

<sup>2</sup> For the fiscal year ended December 31, 2016, the Obligated Group and the Combined Group accounted for 62.7% and 66.4% of the net patient service revenue generated by the System, respectively.

<sup>3</sup> During 2014, THR received notification from the IRS supporting THR's position that earnings from controlled joint ventures does not constitute UBI; therefore, THR reversed its accruals pending the appeal process. In addition, THR received a refund for years in which taxes had been paid. The total impact of the appeal was approximately \$29,632,000.

<sup>4</sup> For purposes of this Schedule of Historical Revenues and Expenses, the term "THR" represents the System less earnings attributable to non-controlling interest.

*Note – For a description of other changes in net assets, (net unrealized investment income, contributions, net assets released from donor restriction to purchase property and equipment, effects of transfers and disposals of operations, and changes in THRF net assets), refer to the consolidated statements of operations and changes in net assets in the audited consolidated financial statements.*

**Historical Balance Sheets.** The following summary presents selected financial information of the System as of December 31, 2016, 2015 and 2014. This information was derived from the THR audited consolidated financial statements as reclassified (see <sup>1</sup>). The information should be read in conjunction with the audited consolidated financial statements, including footnotes.

### HISTORICAL BALANCE SHEETS

Assets	2016	2015	2014
	(Dollars in Thousands)		
Current Assets:			
Cash and cash equivalents	\$ 501,826	\$ 463,079	\$ 453,573
Short-term investments	6,250	1,447	1,778
Receivables -			
Patient, net	495,667	439,611	403,821
Other, net	62,925	65,627	102,313
Assets limited as to use	353,161	292,579	204,902
Other current assets	147,614	114,626	117,631
Total current assets	1,567,443	1,376,969	1,284,018
Assets Limited as to Use	3,945,898	3,574,793	3,205,709
Property and Equipment, net	2,007,745	1,807,449	1,786,710
Investments in Unconsolidated Affiliates	224,500	210,718	186,152
Goodwill and Intangible Assets, net	153,816	158,461	164,252
Other Assets, net <sup>1</sup>	85,302	46,751	33,686
Total assets	<u>\$ 7,984,704</u>	<u>\$ 7,175,141</u>	<u>\$ 6,660,527</u>
<b>Liabilities and Net Assets</b>			
Current Liabilities:			
Current portion of long-term debt	\$ 268,628	\$ 269,849	\$ 216,243
Accounts payable	262,885	169,499	171,221
Estimated third-party payor settlements	29,971	31,193	35,166
Accrued salaries, wages, and employee benefits	231,387	202,300	235,594
Other accrued liabilities	160,655	151,549	151,379
Total current liabilities	953,526	824,390	809,603
Long-Term Debt, net of current portion <sup>1</sup>	1,719,571	1,545,218	1,269,861
Other Noncurrent Liabilities	46,092	79,543	90,486
Total liabilities	<u>2,719,189</u>	<u>2,449,151</u>	<u>2,169,950</u>
Net Assets:			
Net assets of THR:			
Unrestricted	4,993,413	4,470,386	4,230,358
Temporarily restricted	91,762	84,737	98,621
Permanently restricted	69,643	68,867	69,492
Total net assets of THR	5,154,818	4,623,990	4,398,471
Noncontrolling ownership interest in equity of consolidated affiliates - unrestricted	110,697	102,000	92,106
Total net assets	<u>5,265,515</u>	<u>4,725,990</u>	<u>4,490,577</u>
Total liabilities and net assets	<u>\$ 7,984,704</u>	<u>\$ 7,175,141</u>	<u>\$ 6,660,527</u>

<sup>1</sup> Certain reclassifications have been made to the fiscal years 2015 and 2014 information to conform to the 2016 presentation. Refer to the Note on page 12 herein.

Note: For purposes of these Historical Balance Sheets, the term "THR" represents the System less net assets of non-controlling interest.

**Historical Liquidity – Days Cash on Hand.** The following table sets forth, for the fiscal years ended December 31, 2016, 2015 and 2014, THR’s calculation of the System’s days cash on hand. This information was derived from the THR audited consolidated financial statements. The information should be read in conjunction with the audited consolidated financial statements, including footnotes.

### HISTORICAL LIQUIDITY – DAYS CASH ON HAND

	2016	December 31, 2015	2014
	(Dollars in Thousands)		
Cash and Cash Equivalents	\$ 501,826	\$ 463,079	\$ 453,573
Short-Term Investments	6,250	1,447	1,778
Assets Limited as to Use - Internally Designated	<u>3,975,536</u>	<u>3,620,158</u>	<u>3,199,149</u>
Total Available Cash <sup>1</sup>	<u>\$ 4,483,612</u>	<u>\$ 4,084,684</u>	<u>\$ 3,654,500</u>
Total Operating Expenses	\$ 4,182,939	\$ 3,922,180	\$ 3,751,164
Plus - Income Taxes	3,606	4,608	(24,109)
Less - Depreciation and Amortization	<u>(224,263)</u>	<u>(220,277)</u>	<u>(209,894)</u>
Adjusted Total Operating Expenses	<u>\$ 3,962,282</u>	<u>\$ 3,706,511</u>	<u>\$ 3,517,161</u>
Average Daily Operating Expense <sup>2</sup>	<u>\$ 10,826</u>	<u>\$ 10,155</u>	<u>\$ 9,636</u>
Days Cash Ratio (days) <sup>3</sup>	<u>414.2</u>	<u>402.2</u>	<u>379.3</u>

<sup>1</sup> To provide for the purchase of the Series 2012B Bonds and Series 2008A, B & C Bonds that are tendered and not remarketed, THR maintains a combination of unrestricted cash, cash equivalents, and high grade fixed income securities that may be sold for same day settlement in an amount (valued at market) sufficient to purchase the entire principal amount of such bonds, if all tendered for purchase. Additionally, THR has undrawn Credit Agreements (as defined herein) totaling \$150,000,000 available as a credit facility if needed.

<sup>2</sup> Average Daily Operating Expense is calculated using 366 days for the fiscal year ended December 31, 2016, and 365 days for the fiscal years ended December 31, 2015 and 2014.

<sup>3</sup> Total Available Cash divided by Average Daily Operating Expense.

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**Investment Policy.** THR holds and manages substantially all of its cash, short-term and long-term investments (excluding the Consolidating Joint Ventures) in accordance with an Investment Policy Statement (“**IPS**”). The IPS is drafted and recommended by THR’s Investment Sub-Committee (the “**Committee**”) and approved by the THR Board of Trustees. The Committee consists of a group of investment professionals and meets quarterly. The internal team is led by the Senior Vice President of Treasury-Chief Investment Officer who oversees treasury operations, capital structure, investment program, and insurance program. The IPS seeks to integrate THR’s strategic and financial plans with the asset allocation process in order to effectively manage risk across the organization. Below is a comparison of the actual asset allocation percentages of the Long Term Investment Assets (“**LTIA**”) as of December 31, 2016, 2015 and 2014 to the Board approved target ranges:

	<b>Actual at December 31,</b>			<b>IPS Target Ranges</b>
	<b>2016</b>	<b>2015</b>	<b>2014</b>	
Fixed Income	34%	36%	35%	30-60%
Equities	66%	64%	65%	40-70%
Alternative Investments	0%	0%	0%	0-10%

THR currently manages the core fixed income portfolio internally and retains various external investment managers and advisors to manage its investments in different classes of securities according to target allocations set forth in the IPS. Investment results are reviewed monthly by management and quarterly by the Committee. The Committee evaluates performance on a relative and absolute basis, measuring managers and the total fund against appropriate style specific benchmarks and appropriate peer group universes. The Committee has the authority to make decisions regarding engagement, retention, and termination of individual investment managers within the scope of the investment strategies approved in the IPS.

THR maintains a portion of its investments in government money market and fixed income investments that may be liquidated if required to provide funds for repurchase obligations or for retirement of debt. As of December 31, 2016, THR’s discounted coverage ratio of daily liquidity investment holdings to self-liquidity debt was 5.50 times. Basing the calculation on only US Treasury and Agency holdings (excluding the largest money market holdings), the discounted coverage ratio remains 3.79 times coverage. The following table sets forth THR’s investments which can be liquidated on a same day basis to meet tender obligations as of December 31, 2016, 2015 and 2014:

	<b>December 31,</b>		
	<b>2016</b>	<b>2015</b>	<b>2014</b>
	<b>(Dollar in Thousands)</b>		
Money Market Funds	\$ 385,483	\$ 355,825	\$ 389,998
US Treasuries & Agencies (<3 year maturity)	87,941	85,687	141,027
US Treasuries & Agencies (>3 year maturity)	915,809	924,202	648,471
Total	<u>\$ 1,389,233</u>	<u>\$ 1,365,714</u>	<u>\$ 1,179,496</u>

The increase in liquidity supporting THR’s self-liquidity program over these periods is the result of positive operating and investment performance. In addition to its liquid investments above, THR entered into credit agreements for general corporate purposes in December 2012, with Wells Fargo Bank N.A. and U.S. Bank N.A. for lines of credit of \$75,000,000 each (the “**Credit Agreements**”). Under the Credit Agreements, outstanding balances under the lines of credit generally bear interest at a variable rate calculated as a percentage of LIBOR plus a spread. At December 31, 2016, there were no outstanding balances under these Credit Agreements. The Wells Fargo and U.S. Bank Credit Agreements will expire on December 31, 2019 and December 31, 2017, respectively.



The following is a presentation of THR's consolidated liquidity information as of December 31, 2016 (dollars in thousands):

**TABLE XVI  
CONSOLIDATED LIQUIDITY PROFILE**

**ASSETS**

**Accessible on a Daily Basis**

Cash & Money Market Fund (Moody's rated Aaamf)	\$ 501,826
U.S. Treasuries & Agencies (< 3 year maturity)	89,130
U.S. Treasuries & Agencies (> 3 year maturity)	936,059
<b>Sub-Total Daily Liquidity</b>	<b><u>1,527,015</u></b>

General Operating Lines of Credit	150,000
Drawn Portion of Line	-
Net Available Line	<u>150,000</u>

<b>Subtotal Daily Liquidity Including Line of Credit</b>	<b><u>\$ 1,677,015</u></b>
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**Accessible on a Weekly Basis**

Publicly Traded Fixed Income Securities (Investment Grade)	\$ 279,210
Exchange Traded Equities	1,664,773
Funds	761,661
<b>Sub-Total Weekly Liquidity</b>	<b><u>2,705,644</u></b>

<b>Total Daily &amp; Weekly Liquidity</b>	<b><u>\$ 4,382,659</u></b>
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**Accessible Greater than 7 days**

Funds, vehicles, investments allowing withdrawals with one week notice or more	<u>\$ 250,953</u>
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Total Available Cash	4,483,612
Total General Operating Lines of Credit (net)	150,000
<b>Total Liquidity</b>	<b><u>\$ 4,633,612</u></b>

**LIABILITIES**

**Weekly Put Bonds**

VRDB Self Liquidity (7 day put)	\$ 226,055
<b>Total LIABILITIES (Self-Liquidity Debt )</b>	<b><u>\$ 226,055</u></b>

THR has been engaged by certain of its joint ventures to manage a portion of their short term investment assets.

**Historical Capitalization – Debt to Capitalization Ratio.** The following table sets forth, for the fiscal years ended December 31, 2016, 2015 and 2014, THR's calculation of the System's debt to capitalization ratio. This information was derived from the THR audited consolidated financial statements as reclassified (see Note). The information should be read in conjunction with the audited consolidated financial statements, including footnotes.

### HISTORICAL CAPITALIZATION – DEBT TO CAPITALIZATION RATIO

		December 31,		
	Fixed or Variable	2016	2015	2014
(Dollars in Thousands)				
Debt:				
Series 2016A Bonds <sup>1</sup>	Fixed	\$ 703,051	\$ -	\$ -
Series 2015 Taxable Bonds	Fixed	296,786	296,753	-
Series 2015A Bonds <sup>1</sup>	Fixed	59,983	59,983	-
Series 2012A (Taxable) Bonds	Fixed	98,871	98,851	98,831
Series 2012B Bonds <sup>2</sup>	Variable	50,000	50,000	50,000
Series 2010 Bonds <sup>1</sup>	Fixed	151,147	150,998	150,857
Bank Loans <sup>3</sup>	Variable	134,053	134,218	134,502
Series 2008A, B & C Bonds <sup>2</sup>	Variable	176,055	176,055	176,055
Series 2007A Bonds <sup>1</sup>	Fixed	22,254	536,896	552,275
Series 2007B Bonds <sup>1</sup>	Fixed	101,568	101,598	101,627
Other Obligated Group Debt	Fixed	-	-	1,074
FMHP Term and Revolving Loans <sup>4</sup>	Combination	83,946	90,100	92,715
RRH Term and Revolving Loans <sup>5</sup>	Combination	36,432	38,914	44,590
HIP Term and Revolving Loans <sup>6</sup>	Combination	11,973	18,201	23,872
ACL Term and Revolving Loans <sup>7</sup>	Combination	18,159	19,009	19,859
Other Non-Obligated Group Debt <sup>8</sup>	Combination	43,921	43,491	39,847
Total Debt		\$ 1,988,199	\$ 1,815,067	\$ 1,486,104
Unrestricted Net Assets		\$ 4,993,413	\$ 4,470,386	\$ 4,230,358
Debt to Capitalization Ratio <sup>9</sup>		28.5%	28.9%	26.0%

<sup>1</sup> Net of premium/discounts.

<sup>2</sup> Series 2012B Bonds and Series 2008A, B & C Bonds are demand securities supported by self-liquidity provisions.

<sup>3</sup> The unpaid principal balance of the Bank Loans may come due at the option of the respective banks at the end of each respective ten and fifteen year term. The Bank Loans bear interest at variable rates calculated as a percentage of LIBOR plus a spread.

<sup>4</sup> FMHP is Flower Mound Hospital Partners, LLC (d/b/a Texas Health Presbyterian Hospital Flower Mound).

<sup>5</sup> RRH is Rockwall Regional Hospital, LLC (d/b/a Texas Health Presbyterian Hospital Rockwall).

<sup>6</sup> HIP is Health Imaging Partners, LLC.

<sup>7</sup> ACL is AMH Cath Labs, LLC (d/b/a Texas Health Heart & Vascular Hospital Arlington).

<sup>8</sup> Represents loans, notes payable, and capitalized leases of other Consolidated Joint Ventures.

<sup>9</sup> Total Debt divided by Total Debt plus Unrestricted Net Assets of THR.

Note: Certain reclassifications have been made to the fiscal year 2015 and 2014 debt balance information to conform to the fiscal year 2016 presentation. Effective January 1, 2016, THR adopted Financial Accounting Standards Board Accounting Standards Update 2015-03, Interest - Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs requiring debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of the related debt liability, consistent with debt discounts. The consolidated balance sheets and historical capitalization – debt to capitalization ratio table herein are presented in accordance with this new standard. Periods prior to December 31, 2016 have been restated to conform to this new presentation.

**Historical and Pro Forma Debt Service Coverage.** The following table sets forth, for the fiscal years ended December 31, 2016, 2015 and 2014, the consolidated revenue of the System available to pay debt service on System debt including debt attributable to non-controlling interest. The table also indicates the extent to which such consolidated available revenues for debt service would provide coverage for pro forma maximum annual debt service on all outstanding long-term indebtedness of the System.

#### HISTORICAL AND PRO FORMA DEBT SERVICE COVERAGE

	<u>2016</u>	<u>2015</u>	<u>2014</u>
	(Dollars in Thousands)		
Revenue and Gains in Excess of Expenses and Losses from Continuing Operations Attributable to THR <sup>1</sup>	\$ 521,919	\$ 242,994	\$ 525,229
Depreciation and Amortization	224,263	220,277	209,894
Interest Expense	84,373	78,610	62,323
Revenue and Gains in Excess of Expenses and Losses Attributable to Non-controlling Interest	83,284	67,306	64,077
Other Service Charges on Funded Debt	-	82	466
Excluding -			
Net Unrealized (Gains) Losses on Investments	(167,494)	159,046	21,728
Change in Fair Value of Interest Rate Swap Agreements	98	(1,623)	(1,222)
(Gain) Loss on Extinguishment of Long-Term Debt	(1,057)	487	-
Settlement of Interest Rate Swap Agreements	1,031	-	-
Net (Gains) Losses on Impairment and Disposal of Property and Equipment	(1)	490	(74)
Available Revenues for Debt Service	<u>\$ 746,416</u>	<u>\$ 767,669</u>	<u>\$ 882,421</u>
Actual Annual Debt Service Requirements on the Outstanding Long-Term Indebtedness	\$ 135,555	\$ 118,416	\$ 98,794
Historical Coverage of the Actual Debt Service on the Outstanding Long-Term Indebtedness	5.51x	6.48x	8.93x
Maximum Pro Forma Annual Debt Service Requirements on the Outstanding Long-Term Indebtedness <sup>2</sup>	\$ 154,886	\$ 154,886	\$ 154,886
Historical Pro Forma Coverage of Maximum Pro Forma Annual Debt Service Requirements on the Outstanding Long-Term Indebtedness <sup>2,3</sup>	4.82x	4.96x	5.70x
Maximum Pro Forma Annual Debt Service Requirements on the Outstanding Long-Term Indebtedness, excluding participating convertible obligations <sup>2,4</sup>	\$ 123,965	\$ 123,965	\$ 123,965
Historical Pro Forma Coverage of Maximum Pro Forma Annual Debt Service Requirements on the Outstanding Long-Term Indebtedness, excluding participating convertible obligations <sup>2,4</sup>	6.02x	6.19x	7.12x

<sup>1</sup> For purposes of this Historical and Pro Forma Debt Service Coverage, the term "THR" represents the System less earnings attributable to non-controlling interest.

<sup>2</sup> Maximum Pro Forma Annual Debt Service Requirements are calculated on the assumptions described under "PRO FORMA ANNUAL DEBT SERVICE REQUIREMENTS" in the Series 2016A Bonds Official Statement. Actual debt service requirements could differ and the difference could be substantial.

<sup>3</sup> For the fiscal year ended December 31, 2016, the Obligated Group and the Combined Group accounted for 62.7% and 66.4% of the net patient service revenue generated by the System, respectively. The historical pro forma coverage of maximum pro forma annual debt service requirements for the Combined Group for fiscal years 2016, 2015 and 2014 was 7.55x, 4.89x, and 6.03x, respectively.

<sup>4</sup> Excludes non Combined Group participating convertible notes payable structured as a bullet maturity due in 2032. The amount outstanding as of December 31, 2016 was approximately \$31,935,000.

## Litigation and Regulatory Matters

In May 2013, THR learned sheets of microfiche containing records for patients treated at Texas Health Harris Methodist Hospital Fort Worth from 1980-1990 were not securely handled by the outside vendor with which THR contracted for all of its document destruction. THR has made all legally required notifications of the incident, including letters to the patients involved, a notice posted on THR's public website, and a press release. The Office of Civil Rights has closed this matter; however, to date, the State of Texas has not responded. THR does not anticipate a material financial impact due to this incident.

On March 2, 2015, a lawsuit was filed by a nurse who contracted the Ebola virus while treating the first patient admitted with the disease. In October 2016, the System resolved this matter without material adverse effect on the System's financial position, results of operations, or cash flows.

In March 2015, the System made a disclosure to the Office of Inspector General ("**OIG**") regarding THPG billing of certain PET scan tests and nuclear stress tests that did not meet Medicare medical necessity requirements. Management believes it is too early to predict with certainty the outcome of this matter; however, management does not anticipate a material financial impact.

In December 2011, the federal government approved the Texas Healthcare Transformation and Quality Improvement Program: 1115 Waiver ("**Section 1115 Waiver** Program"), which was implemented by the Texas Health and Human Services Commission ("**HHSC**"). The Section 1115 Waiver Program has been extended through December 31, 2017. The Uncompensated Care ("**UC**") pool under the Section 1115 Waiver Program helps hospitals and certain other providers offset the uncompensated costs they incur by providing services to Medicaid patients. Funding for UC depends on the Tarrant County Hospital District and Dallas County Hospital District providing intergovernmental transfers to HHSC as the state share, which is then matched by federal funds. The public entities have the sole discretion to make or not make intergovernmental transfers. In a letter dated September 1, 2016, to HHSC, Centers for Medicare and Medicaid Services ("**CMS**") disallowed federal matching funds applicable to the Dalls County and Tarrant County affiliations for the quarter ended December 31, 2015. CMS alleges that the private hospitals participating in these affiliations fail to comply with the federal provider-related donation requirements. On October 28, 2016, HHSC requested a reconsideration by the Secretary of Health & Human Services. CMS responded on December 21, 2016 stating they believe HHSC's arguments do not merit a withdrawal or revision to the disallowance. HHSC is currently evaluating a decision to appeal the disallowance to the HHS Departmental Appeals Board. It is too early to predict the outcome of this matter, including whether HHSC will prevail in the litigation and whether CMS will disallow federal matching funds to the Dallas County and Tarrant County affiliations for additional federal fiscal year quarters.

THR's Corporate Compliance Department investigates all compliance matters reported through its compliance program. As of the date of this disclosure, there was no additional pending or, to the knowledge of System management, threatened litigation, including professional liability claims, or reported compliance issues which in the opinion of System management involves any substantial risk of material liability for the System, and where applicable, in excess of available reserves and insurance coverages.