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INVESTOR REPORT

CONTINUING DISCLOSURE

September 30, 2017

UNIVERSITY HOSPITALS HEALTH SYSTEM, INC. D/B/A UNIVERSITY HOSPITALS

AND THE

MEMBERS OF THE OBLIGATED GROUP

The information contained herein has been provided by University Hospitals Health System, Inc. d/b/a University Hospitals

Any statements contained in this report that are not purely historical are forward-looking statements, including statements of the Obligated Group and Consolidated System's expectations, hopes and intentions, or strategies regarding the future. The forward-looking statements herein are necessarily based on various assumptions and estimates that are inherently subject to various risks and uncertainties, including risks and uncertainties relating to the possible invalidity of the underlying assumptions and estimates and possible changes or developments in social, economic, business, industry, market, legal and regulatory circumstances and conditions and actions taken or omitted to be taken by third parties, including customers, suppliers, business partners and competitors, and legislative, judicial and other governmental authorities and officials. Assumptions relating to the foregoing involve judgments with respect to, among other things, future economic, competitive and market conditions and future business decisions, all of which are difficult or impossible to predict accurately and, therefore, there can be no assurance that the forward-looking statements contained in this report would prove to be accurate. Readers should therefore not place undue reliance on forward-looking statements. All forward-looking statements included in this report are based on information available to the Obligated Group and Consolidated System on the date hereof, and University Hospitals assumes no obligation to update any such forward-looking statements.

All information prior to Management's Discussion and Analysis, except where noted, is based on information as of and for the year ended December 31, 2016.

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University Hospitals Health System, Inc. d/b/a/ University Hospitals (the "Parent"), together with its affiliates and subsidiaries (the "System" and/or "UH"), is an integrated, nonprofit health care delivery system that serves patients throughout the Northeast Ohio region. The System is known for providing superior, leading-edge health care across the full range of medical and surgical specialties from infancy to elder care. In addition to delivering quality patient care, the System serves as a preeminent teaching facility for physicians, nurses and ancillary medical personnel. The System's extensive clinical research programs continue to improve the understanding of disease and enhance patient care.

The System includes an academic medical center, twelve suburban medical center locations ("Community Medical Centers"), ambulatory health care centers, skilled nursing, rehabilitation, and home care services. The System also operates one of the State's largest networks of primary and specialty care physicians, with physician practice offices located throughout the region. The System is one of the largest private sector employers in the State. Joint venture affiliations with a regional community hospital, two rehabilitation hospitals, and a specialty hospital in Lorain, Ohio extend the System's care to an even greater number of patients.

The System's 1,032 registered-bed academic medical center, University Hospitals Cleveland Medical Center ("UHCMC") is an affiliate of Case Western Reserve University ("CWRU") School of Medicine. Through this affiliation, CWRU and UHCMC form one of the largest biomedical research centers in Ohio. Total sponsored research funding to CWRU School of Medicine and UHCMC totals $265 million collectively, including $150 million in annual funding from the National Institutes of Health ("NIH") to CWRU. UHCMC provides the principal clinical base for translational researchers at the Case Research Institute, a research program developed by UHCMC and CWRU School of Medicine, as well as a broad and well-characterized patient population for clinical trials involving the most innovative treatments.

UHCMC includes three distinct, nationally recognized Centers of Excellence: UH Rainbow Babies & Children's Hospital ("RB&C"), UH Seidman Cancer Center ("Seidman Cancer Center"), and UH MacDonald Women's Hospital. According to the U.S. News & World Report's 2017-18 annual rankings, RB&C has been ranked in 9 out of the 10 pediatric specialties and is consistently ranked as one of the best children's hospitals in the country marking two decades of achieving national recognition.

The Seidman Cancer Center is part of the National Cancer Institute ("NCI") designated Case Comprehensive Cancer Center at CWRU, one of approximately 41 centers to receive the NCI's highest designations. The System has funded a $34 million proton therapy center, designed to further position Seidman Cancer Center at the forefront of cancer treatment. UH MacDonald Women's Hospital is Ohio's only hospital dedicated solely to women's healthcare, and offers special expertise in urogynecologic, breast and ovarian cancers.

In addition to these distinct hospitals, UHCMC includes a UH Neurological Institute, UH Harrington Heart & Vascular Institute, UH Urology Institute, UH Ear, Nose & Throat Institute, UH Digestive Health Institute, the UH Respiratory Health Institute and the UH Eye Institute. The Orthopedic Surgery Department and the General Surgery Department are other major programs at UHCMC.

Specific highlights of the System include[1]:

- 847 staffed-bed Academic Medical Center
- 12 Community Medical Center Locations
- 3 Joint Venture Hospitals
- 35 Major Outpatient Health Centers
- Revenues of $3.8 billion
- $150 million in NIH Grants (includes CWRU)
- Total assets of $4.8 billion
- 2,202 staffed beds, 103,243 adult discharges

- U.S. News & World Report[2] ranked UHCMC among the top 50 hospitals in 8 out of 10 specialties in 2017, including Cancer (No. 34), Ear, Nose & Throat (12), Gastroenterology & GI Surgery (No. 26), Geriatrics (No. 44), Gynecology (No. 19), Nephrology (No. 32), Neurology & Neurosurgery (No. 32), and Orthopedics (No. 43). Its 2017-18 ranking of "America's Best Children's Hospitals" ranked RB&C in 9 out of 10 specialties Neonatology (7), Cancer (21), Diabetes & Endocrinology (27), Gastroenterology & GI Surgery (43), Nephrology (42), Neurology & Neurosurgery(16), Orthopedics (12), Pulmonology (19) and Urology (50).

1. Highlights are as of and for the year ended December 31, 2016, with the exception of NIH grants, which are quoted on a June 30, fiscal year.
2. U.S. News & World Report includes 16 specialties, 4 of which are reputation oriented, 12 of which are methodology based. These are reported based on 2017-18 rankings.

ORGANIZATIONAL STRUCTURE

The following table illustrates the System's principal lines of business:

Organizational Profile

			2016 Operating Revenues	
	Principal Business	**Registered Beds** (a)	**Dollars in Thousands**	**Percent of Total**
Members of the Obligated Group (c)				
University Hospitals Health System	Parent Holding Corp.	-	$ 52,995	1.4%
University Hospitals Cleveland Medical Center	Academic Medical Center	1,032	1,692,780	44.7%
University Hospitals Elyria Medical Center (b)	Community Medical Center	342	207,853	5.5%
University Hospitals Ahuja Medical Center	Community Medical Center	144	214,300	5.7%
University Hospitals Parma Medical Center (b)	Community Medical Center	335	182,744	4.8%
University Hospitals St. John Medical Center (b)	Community Medical Center	192	165,221	4.4%
University Hospitals Geauga Medical Center	Community Medical Center	225	154,509	4.1%
Intercompany eliminations			(11,645)	-0.3%
Subtotal - Obligated Group		**2,270**	**2,658,757**	**70.2%**
Other University Hospitals Affiliates				
University Hospitals Portage Medical Center (b)	Community Medical Center	302	119,323	3.1%
UH Regional Hospitals - 2 campus locations	Community Medical Center	301	113,527	3.0%
University Hospitals Samaritan Medical Center (b)	Community Medical Center	110	79,471	2.1%
University Hospitals Geneva Medical Center	Community Medical Center	25	43,481	1.1%
University Hospitals Conneaut Medical Center	Community Medical Center	25	29,865	0.8%
University Hospitals Medical Practices (f)	Physician Practices	-	384,865	10.2%
University Hospitals Medical Group	Physician Faculty	-	358,386	9.5%
University Hospitals Home Care Services	Home Care Services	-	63,253	1.7%
Other University Hospitals Affiliates and eliminations		-	(61,356)	-1.6%
Subtotal - Non-obligated Affiliates and Eliminations		**763**	**1,130,815**	**29.8%**
Total Consolidated System		**3,033**	**$ 3,789,572**	**100.0%**
Joint Venture Hospitals				
Southwest General Health Center (d), (e)	Community Medical Center	346	344,669	92.4%
UH Rehabilitation Hospitals (e)	Community Medical Center	100	28,514	7.6%
Total Joint Ventures		**446**	**$ 373,183**	**100.0%**

(a) Beds set forth in this column refer to registered beds. The utilization statistics and occupancy percentages, as well as other references to bed count are based on staffed beds. For the year ended December 31, 2016, the Obligated Group maintained 1,913 staffed beds.

(b) As of January 1, 2014, the Parent became the sole member of Parma Community General Hospital Association ("Parma"), n/k/a University Hospitals Parma Medical Center ("Parma") and Comprehensive Health Care of Ohio, Inc. , the corporate parent of EMH Regional Medical Center, n/k/a University Hospitals Elyria Medical Center ("Elyria"). On June 1, 2015 the Parent became the sole member of Robinson Health System, Inc., n/k/a University Hospitals Portage Medical Center ("Portage"). As of Novermber 2, 2015, the Parent became the sole member of St. John Medical Center ("St. John"), n/k/a University Hospitals St. John Medical Center. On November 12, 2015, the Parent became the sole member of Samaritan Regional Health System, n/k/a University Hospitals Samaritan Medical Center ("Samaritan"). Portage, St. John and Samaritan are included as of January 1, 2015. See "ORGANIZATIONAL STRUCTURE - Community

(c) On July 1, 2014, Parma and Elyria became members of the Obligated Group. On December 1, 2015, St. John became a member of the Obligated Group. See "THE OBLIGATED GROUP" herein.

(d) Represents a partnering agreement whereby the Parent shares in 50% of the net income of Southwest, excluding certain items as outlined in the agreement, but has no specified ownership interest - (see "COMPONENTS OF THE SYSTEM - Joint Ventures - Southwest General

(e) Represents 100% of the Joint Venture Hospitals revenue. The Parent reports its equity share in the Joint Venture Hospitals in other revenue. To be presented consistently, all Joint Ventures' operating revenues shown above exclude investment income.

(f) Affiliated physician groups of Parma, Elyria, Portage, St. John, and Samaritan are included.

Material Event – Medical Mutual of Ohio Agreement

The System completed a new agreement with Medical Mutual of Ohio that expands access for SuperMed enrollees to all UH facilities and providers, effective October 1, 2017. SuperMed enrollees will be able to receive in-network coverage for all services at UH facilities including newly added UH Cleveland Medical Center, UH Rainbow Babies & Children's Hospital, UH Seidman Cancer Center and UH Bedford Medical Center. Other UH community medical centers, UH outpatient health centers and most UH physician offices have previously been included in the SuperMed provider network. Under the new agreement, the System will also participate in Medical Mutual's Medicare Advantage network, effective October 1, 2017. Medical Mutual of Ohio is the oldest and largest health insurance company based in Cleveland and serves more than 1.6 million customers.

Accounting Change – Pension Expense

In March 2017, FASB issued Accounting Standards Update (ASU) 2017-07 Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost, which requires employers to report the service cost component of net benefit cost in the same line item or items as other compensation costs arising from services rendered by the pertinent employees during the period. All other components of net benefit cost (e.g, Interest Cost, Expected return on net assets, Amortization of prior service cost, and Recognized net actuarial loss) are required to be reported separately within the Statement of Operations and Changes in Net Assets. Previously, all components of net benefit cost were reflected in the operating section (compensation cost) of the Statement of Operations. The System adopted this guidance effective January 1, 2017. As this change is applied retrospectively, the impact of adopting the guidance to the Statement of Operations constitutes a reduction to operating expense of $20.5 million, $27.8 million, and $7.2 million for the fiscal years ending December 31, 2016, 2015, and 2014 respectively. The Operating Statement table contained herein has been adjusted in each period reported to reflect this change. Consequently the term "audited" has been removed from prior periods since those audits do not reflect this change. There is a corresponding offset to the Statement of Operations and Changes in Net Assets, therefore this represents no impact to overall results of operations or equity position of the System.

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Payor Mix and Utilization Statistics – Consolidated System

Set forth in the tables below are the payor mix and utilization statistics for the Consolidated System for the nine months ended September 30, 2017 and 2016 as well as for the years ended December 31, 2016, 2015, and 2014. Results from Portage, St. John, and Samaritan are included as of their respective acquisition dates of June 1, 2015, November 2, 2015, and November 12, 2015, except where noted. The System[1] includes entities that are not members of the Obligated Group and not contractually obligated in any manner with respect to the Master Trust Indenture or the Master Notes issued thereunder.

Payor Mix and Utilization Statistics
Consolidated System

UNAUDITED

	Nine Months Ended		Years Ended		
	Actual 30-Sep-17	Actual 30-Sep-16	Actual 31-Dec-16	Actual (7) (8) 31-Dec-15	Actual 31-Dec-14
Payor Mix % : (1)					
Medicare (2)	32.2%	31.3%	31.0%	30.8%	31.9%
Medicaid (2)	14.3%	14.8%	14.7%	15.4%	15.1%
Commercial	41.3%	42.4%	42.5%	42.7%	41.6%
Self Pay	4.9%	4.2%	4.3%	4.1%	5.7%
Other (6)	7.3%	7.3%	7.5%	7.0%	5.7%
	100.0%	100.0%	100.0%	100.0%	100.0%
All Services (3)					
Available beds (4)	1,999	1,880	2,202	2,180	1,790
Patient Days	375,558	381,529	510,093	472,256	446,241
Adjusted Discharges	179,667	179,078	238,204	238,130	186,586
Discharges (excluding newborn)	77,020	77,444	103,243	93,359	88,257
Observations (5)	24,076	25,613	33,258	26,760	21,855
Total Inpatient Activity	101,096	103,057	136,501	120,119	110,112
Surgical Cases:					
Inpatient	22,593	22,739	30,321	26,720	25,091
Outpatient	59,770	60,203	81,038	66,453	59,211
Total Surgical Cases	82,363	82,942	111,359	93,173	84,302
Outpatient procedures	8,162,195	7,572,903	10,072,884	8,930,807	8,017,981
Emergency cases	345,606	325,903	429,858	356,687	315,527
Clinic visits	140,770	103,295	144,090	137,076	142,970

(1) Payor Mix is based on Patient Service Revenue (net of contractual allowances and discounts).
(2) Includes a managed care component.
(3) Utilization statistics presented in this section include newborns, except where disclosed.
(4) Available beds represents the average staffed beds for the period reported.
(5) Excludes patients subsequently admitted during the same encounter.
(6) Other includes volume from UH employees covered under the UH health plan, currently 36,658 lives.
(7) Payor Mix reported for this period excludes Portage, St. John, and Samaritan.
(8) Adjusted Discharges reported for this period reflect a full year for Portage, St. John, and Samaritan.

For the nine months ended September 30 2017, the System reported total discharges of 77,020 down 424 (0.5%) from the level reported for the same period of 2016. On April 1, 2016

[1] On January 1, 2014, the System acquired Parma and Elyria. On June 1, 2015 the System acquired Portage. The System acquired St. John on November 2, 2015 and Samaritan on November 12, 2015.

HealthSpan ceased its operations. For the first quarter of 2016, HealthSpan contributed 916 total discharges, which did not repeat in 2017. Therefore, excluding the impact of HealthSpan business, the System discharges increased by 492, or 0.6%.

UHCMC reported growth in discharges of 3.6%, or 1,115 discharges. Excluding the impact of HealthSpan the growth was 4.9%. Growth in discharge volume was noted across almost every department with Pediatrics leading the way at 560 (8.3%) followed by Seidman 309 (7.5%). The medical-surgical floors of UHCMC reported increased discharges of 1.3%. Modest declines were reported for OB/GYN.

The growth in discharge volume at UHCMC was offset by a 3.3% overall decline at the Community Medical Centers. Net of the impact of HealthSpan, the discharge volume was down 2.2% relative to prior year for the Community Medical Centers. The volume trends in the Community Medical Centers were driven by the Western Region hospitals, namely Parma, St. John and Elyria Medical Centers with declines of 5.8%, 12.7%, and 5.1% respectively. A portion of this decline can be attributed to the opening of a new hospital in the western Cleveland market by the primary competitor of UH. The System successfully recruited 17 new physicians to the west market to reverse this trend. St. John was also impacted by the loss of physicians, resulting from both retirements and movement to other hospitals in the primary market it serves. Softness in volumes were also reported on the Eastern Region hospitals namely Ahuja (-3.7%), Bedford (-7.9%), and Richmond (-7.9%). Portage and Samaritan reported increased discharges of 565 (13.6%) and 69 (4.0%) respectively. The remaining hospitals reported modest increases in discharge volume.

The System reported 82,363 total surgical cases for the first nine months of 2017, down 579 (0.7%) from the level reported for the same period in 2016. Excluding HealthSpan surgical cases declined by 127 (0.2%). Surgical cases at UHCMC increased 3.1% overall and 4.0% net of the HealthSpan impact. UHCMC reported strong growth on the inpatient surgical activity with a 6.3% increase, 7.8% excluding the HealthSpan impact. The outpatient surgical cases at UHCMC, including those at the Ambulatory Surgery Centers, increased 2.1%, excluding the impact of HealthSpan. Tertiary transfers from the more recently acquired hospitals continued to contribute to overall volume growth at UHCMC. Indeed, UHCMC showed continued growth in the acuity of its business with the Medicare Case-Mix index reported at 2.34 year-to-date September 2017 as compared to 2.18 for the same period in 2016. Total surgical cases for the Community Medical Centers were down 1,405 (2.5%) in 2017 with both inpatient (-5.4%) and outpatient (-1.6%) reporting declines. Excluding the effect of HealthSpan business, surgeries at the Community Medical Centers decreased by 2.1%. Ahuja reported increased surgical cases of 433 (3.9%) overall and 5.3% net of the impact of HealthSpan. Portage Medical Center reported a gain in surgeries of 7.7%, driven by newly recruited physicians to the hospital. Cardiology services at Portage were particularly strong in the first nine months of 2017. Parma reported a gain in surgical volume of 1.2%, and 9.0% net of the HealthSpan impact, resulting from new physician recruitments. The remaining Community Medical centers reported declining surgical volume. The Western Region hospitals continue to be impacted by i) loss of physicians and ii) the opening of the new hospital by the competitor in the west Cleveland market as previously discussed. As stated previously many new recruitments have been successfully completed in the Western Region market of the System, although physician turnover has continued.

Year-to-date September 30, 2017 the System reported an increase in outpatient procedures of 7.8% when compared to the same period in 2016 – consistent with the business trend of shifting volume from an inpatient setting to outpatient. UHCMC increased outpatient procedures by 6.2% and the Community Medical Centers gained 9.6%.

In the first nine months of 2017, the System experienced an increase of 6.0% in emergency department volume. UHCMC, with its new Level 1 Trauma designation reported an increase in emergency room activity of 6.2%. UHCMC was awarded Level I trauma status in 2016, which resulted in higher acuity admissions from its emergency department. Furthermore, a free-standing emergency department was opened at the Broadview Heights Ambulatory center, with its volume accounted for within the UHCMC organization. In an effort to improve efficiency within its emergency medicine services, UHCMC created a medical access clinic adjacent to its main emergency room. The medical access clinic experienced 5,312 visits year-to-date September 30, 2017, a decline of 3.5% from the level reported for the same period in 2016. The Community Medical Centers reported an increase of 5.2% in emergency room volume in the first nine months of 2017 as compared to the same period in 2016.

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Review of the Consolidated System Operating Results

Please note that for the discussions and tables presented below Portage, St. John, and Samaritan are included as of their respective acquisition dates of June 1, 2015, November 2, 2015, and November 12, 2015.

The following Statements of Operations for the System are prepared on a consistent basis with the audited consolidated financial statements except for special charges which have been shown as non-operating to facilitate analysis of the patient related activities of the System[1] and pension benefit cost adjustments based on the adoption of FASB Accounting Standards Update (ASU) 2017-07. Please see "Special note on labor costs – Accounting Change" section of this report.

Consolidated System Statements of Operations
Dollars in Thousands

	Nine Months Ended		Years Ended		
	30-Sep-17 (Unaudited)	30-Sep-16 (Unaudited)	31-Dec-16 (Unaudited)	31-Dec-15 (Unaudited) (1)	31-Dec-14 (Unaudited)
Unrestricted revenues:					
Patient service revenue (net of contractual allowances and discounts)	$ 2,814,213	$ 2,717,598	$ 3,659,165	$ 3,176,364	$ 2,808,119
Provision for bad debts	(76,909)	(74,702)	(89,142)	(76,970)	(61,772)
Net patient service revenue (less provision for bad debts)	2,737,304	2,642,896	3,570,023	3,099,394	2,746,347
Other revenue	168,520	159,578	219,549	187,548	195,089
Total unrestricted revenues	2,905,824	2,802,474	3,789,572	3,286,942	2,941,436
Expenses:					
Salaries, wages and employee benefits	1,659,500	1,597,913	2,154,230	1,848,247	1,662,624
Purchased services	207,239	197,188	278,476	220,497	202,658
Patient care supplies	484,327	452,157	609,902	522,309	448,170
Other supplies	34,417	38,076	52,507	48,332	38,907
Insurance	38,286	35,677	42,273	40,342	34,421
Other expenses	251,733	253,126	335,560	313,376	285,196
Depreciation and amortization	113,124	104,237	140,616	121,460	121,994
Interest	35,661	35,559	47,408	46,761	47,785
Total Expenses	2,824,287	2,713,933	3,660,972	3,161,324	2,841,755
Net operating income	81,537	88,541	128,600	125,618	99,681
Nonoperating revenues (expenses):					
Special charges	41	(549)	(3,764)	(4,293)	(7,855)
Investment Income	58,394	16,741	25,233	43,055	59,615
Other-than-temporary decline in investments	(920)	(1,155)	(5,368)	(6,929)	(5,797)
Change in fair value of derivative instruments	1,253	(21,508)	10,456	(2,991)	(17,368)
Disposition of business unit	2,478	2,445	4,039	-	-
Loss on extinguishment of debt	-	(8,156)	(8,156)	(314)	(961)
Member Substitution	-	-	-	100,883	154,641
Total nonoperating revenues (expenses)	61,246	(12,182)	22,440	129,411	182,275
Excess of revenues over expenses	$ 142,783	$ 76,359	$ 151,040	$ 255,029	$ 281,956

(1) Includes Portage, St. John and Samaritan and their respective affiliates since their acquistion dates.

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[1] On January 1, 2014, the System acquired Parma and Elyria. On June 1, 2015 the System acquired Portage. The System acquired St. John on November 2, 2015 and Samaritan on November 12, 2015. The Audited Financial statements classify special charges in the operating indicator, while for this presentation it is listed as non-operating.

Nine Months Ended September 30, 2017 as Compared to the Nine Months Ended September 30, 2016

<u>Consolidated System Operating Income</u>

The System reported a consolidated operating income of $81.5 million for the nine months ended September 30, 2017, representing an operating margin of 2.8%. Operating income in 2017 declined by $7.0 million (7.9%) from the level reported for the same period in 2016. The increase in net operating income of $13.6 million (7.7%) at UHCMC was offset by a decline of $12.1 million (16.6%) in the Community Medical Centers and a $10.8 million (19.6%) increase in the loss reported by the Parent. The decline noted in the Community Medical centers was driven primarily by St. John $4.4 million (37.3%), and the Regional Medical Centers (Bedford and Richmond locations) of $6.2 million, Geauga $1.0 million (8.6%) and Conneaut $2.3 million (270.2%). Ahuja Medical Center reported $30.8 million of operating profit, down $1.4 million (4.5%) from the 2016. Portage and Samaritan Medical Centers reported increased net operating income of $1.2 million, and $1.7 million respectively. The physicians groups, UHMG and UHMP, reported an improvement (reduction) in the operating loss of $1.6 million. The recently acquired HDP entity reported $2.3 million in operating profit, representing strong growth in operations, notably an increase of $1.9 million (440.8%) over 2016. The UH Home Care business unit increased its operating income by $2.5 million (214.9%). UH Lab Services Foundation (formerly reported as a component of UHCMC) reported an increase in operating income of $1.2 million (87.0%) in 2017.

The System reported $2,906 million of unrestricted revenues for the first nine months of 2017, up $103.4 million (3.7%) from the level reported in 2016. UHCMC grew operating revenue by $55.7 million (4.4%) resulting from growth in volumes as noted previously, and some modest improvement in rates at the beginning of 2017. The Community Medical Centers reported operating revenue of $969.3 million, an increase of $1.2 million (0.1%) from the level reported in 2016. Growth in net patient revenue was somewhat muted by (i) softer volume trends at certain facilities, (ii) modest adverse changes in payor mix, and (iii) prior period denial activity which will likely not repeat in future periods. UH management is responding with aggressive denial reduction and process improvement programs at the facility level coupled with improved reporting to identify issues in a more timely fashion. Physician revenues gained $31.6 million (5.8%) resulting from growth in the number of practicing physicians and productivity gains. UH Home Care reported strong growth in revenue of $19.9 million (43.2%) resulting primarily from merging the Home Care Units of Parma, Elyria, and Portage into its operations with the Parma, Elyria, and Portage hospitals reflecting a corresponding decline in revenue. The recently acquired business of HDP grew its revenues by $5.0 million (53.7%) in 2017.

<u>Consolidated System Operating Expenses</u>

For the year-to-date period ending September 30, 2017, the System reported operating expenses of $2,824.3 million, an increase of $110.4 million (4.1%) from the same period in 2016. UHCMC reported growth in operating expenses of $42.0 million (3.9%), while the Community Medical Centers reported increased operating expenses of $13.3 million (1.5%). The physician groups, UHMP and UHMG contributed to the rise in operating expenses with increases of $15.1 million (4.3%) and $15.0 million (4.8%), respectively. The rapid growth of the physician practices experienced in 2015 and 2016 did not repeat in 2017. Furthermore, the System is now working to improve operating efficiencies and physician productivity and seeing many positive results. UH Home care services reported an increase in operating expenses of $17.4 million (38.7%), representing growth through merging the home care units previously reported under the newly acquired hospitals of Parma, Elyria, and Portage.

Labor costs for the system increased by $61.6 million (3.9%) in the first nine months of 2017 as compared to the same period in 2016. The growth in labor cost resulting from annual merit raises, physician growth, and increased direct patient care costs related to volume growth at UHCMC. Management of the hospitals targeted top quartile labor productivity standards and flexed staffing levels in response to softness in volumes and reduced its use of agency and overtime as well. For example, contract labor on a full-time-equivalent basis declined by 53.6% through the first nine months of 2017. These efforts were offset by growth in programs and infrastructure, particularly at the Parent. Despite an overall growth in total full-time-equivalent employees of 4.0% coupled with merit raises of 3.0% on average, the System held total labor cost growth to under 4.0%, demonstrating the value of its labor efficiency improvement efforts. The System reported purchased services expense of $207.2 million for the year-to-date period ending September 30, 2017, up $10.1 million (5.1%) from the level reported for the same period in 2016. UHCMC and the Community Medical Centers reported an increase of $22.4 million and $29.5 million respectively, while the Parent organization reported a decline of $41.7 million. During 2017, the Parent organization allocated to the hospitals more of its purchased services. Therefore, it is important to focus on the $10.1 million overall increase to purchased services. Key drivers of the increase include professional services such as legal, consulting, physician services, and information technology in addition to recruitment expenses offset by declines in other areas.

Patient care supply costs for the System increased by $32.2 million or 7.1%, driven primarily by increases at UHCMC of $8.1 million (3.4%), the Community Medical Centers of $4.8 million (2.8%), and UH Home Care Services of $17.3 million (96.0%.) Increases in volumes and acuity led to higher use of expensive supplies with implantable devices up $6.5 million, surgical supplies up $2.5 million, and lab supplies up $1.1 million. Pharmaceutical costs increased by $18.7 million, primarily driven by UH Home Care Services. The increases at UH Home Care Services business unit were driven by expanded business in Specialty Pharma drugs which have a much higher than average in cost but are offset with higher revenue. The System reported substantial increases in profitability from its Specialty Pharma business expansion.

Depreciation expense for the System was reported at $113.1 million for the first nine months of 2017, up $8.9 million (8.5%) from the level reported for the same period in 2016. The increase in depreciation expense was driven by $179 million of capital spending in fiscal year 2016, up $38 million (27%) from the amount reported in fiscal year 2015. Recent capital spending has involved shorter-lived assets, with limited amounts in physical plant.

Interest expense of $35.7 million reported for the first nine months of 2017, essentially unchanged from the level reported in the same period of 2016. Although the System had a modest reduction in the overall level of debt from annual principal payments, savings from refunding transactions in 2017 were more than enough to offset the impact of increases in short-term rates on the floating rate component of the UH debt structure. The SIFMA index averaged 78 basis points (0.78%) in the first nine months of 2017 up 45 basis points from the level of 33 basis points in the first nine months of 2016. With $230 million of floating rate exposure at September 30, 2017, the impact of higher short-term rates would be approximately $1.3 million annually, or $0.9 million for nine months. However, the savings created from refunding transactions offset the increase in expense resulting from higher short-term rates.

Consolidated System Non-Operating Income

For the nine months ended September 30, 2017, the System reported non-operating income of $142.8 million as compared to a non-operating income of $76.4 million for the same period in

2016. Investment income, net of other-than-temporary declines, of $57.5 million was reported in the first nine months of 2017, up $41.9 million from the $15.6 million figure reported in the 2016. Furthermore, the market value of the System's swap portfolio increased by $1.3 million in the first nine months of 2017, as compared a decline of $21.5 million for the same period in 2016. The market value of the swap portfolio is positively correlated to changes in interest rates. Interest rates increased modestly in 2017, as contrasted to a material decline in the nine months of 2016. Finally, the System reported an $8.2 million loss associated with refunding its 2007A bonds in the first quarter of 2016 that did not repeat in 2017. The refunding transaction, however, will generate material interest savings over the life of the newly issued bonds.

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Review of the Consolidated System Financial Ratios

The table below sets forth the liquidity position (cash and unrestricted investments) for the rolling twelve months ended September 30, 2017 and 2016 as well as for the years ended December 31, 2016, 2015, and 2014.

Liquidity Position - Consolidated System
Dollars in Thousands

	Actual 30-Sep-17	Actual 30-Sep-16	Actual 31-Dec-16	Actual 31-Dec-15	Actual 31-Dec-14
Cash and cash equivalents	193,525	239,501	264,527	201,457	175,868
Unrestricted investments	1,390,582	1,271,752	1,290,173	1,262,873	1,102,831
Total cash and unrestricted investments	1,584,107	1,511,253	1,554,700	1,464,330	1,278,699
Operating expenses	3,771,326	3,595,803	3,660,972	3,161,324	2,841,755
Less: Depreciation and amortization	149,503	138,396	140,616	121,460	121,994
Cash expenses (a)	3,621,823	3,457,407	3,520,356	3,039,864	2,719,761
Days of cash on hand	160	160	161	176	172

(a) Cash expenses are calculated as operatings expenses less depreciation and amortization. Non-operating expenses, such as special charges, other-than-temporary decline in investments, changes in fair value of derivative instruments and loss on early extinguishment of debt are typically either one-time related charges or not cash oriented.

For the rolling twelve months ended September 30, 2017, the System reported 160 days of cash on hand, which is down one day from the level reported at December 31, 2016. Liquidity increased by $29.4 million driven primarily by operating EBITDA (+$230.3 million) and investment income (+$104.0 million). This was offset by cash outflow for capital spending (-$136.0 million), interest expense (-$35.7 million), repayment of short-term and long-term debt, net (-$18.5 million), decrease in accounts payable (-$19.5 million), growth in account receivables, net of provision for bad debt (-$26.6 million), pension funding, net of expense recognized (-$63.3 million), and other unfavorable changes in operating items (-$5.3 million). Please see "MANAGEMENT'S DISCUSSION AND ANALYSIS OF THE RESULTS OF OPERATIONS AND FINANCIAL POSITION – CONSOLIDATED SYSTEM – Review of the Consolidated System Operating Results" for further discussion surrounding cash expenses.

Unrestricted investments listed above include alternative investments of private equity, hedge funds, private real estate, long/short equity, commodities, and distressed debt limited partnerships. Some of the limited partnership investments require management to make estimates of fair market value. Also, some of these investments contain contractual liquidity constraints; however, recognized secondary markets often exist for these alternative investments. Alternative investments included in unrestricted investments totaled $231.5 million at September 30, 2017. The System manages two distinct investment pools organized by the purpose for which they serve. A "Protection Pool" is utilized to preserve balance sheet liquidity, even during times of severe market declines, and an "Opportunity Pool" for which longer term investments are invested in less liquid and potentially higher returning alternative asset classes. This structure exists to improve unrestricted liquidity and provide for protection of unrestricted investments from market volatility.

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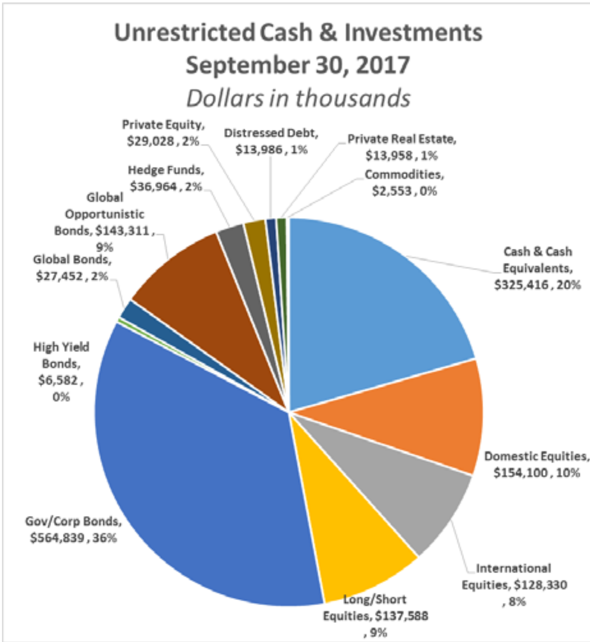
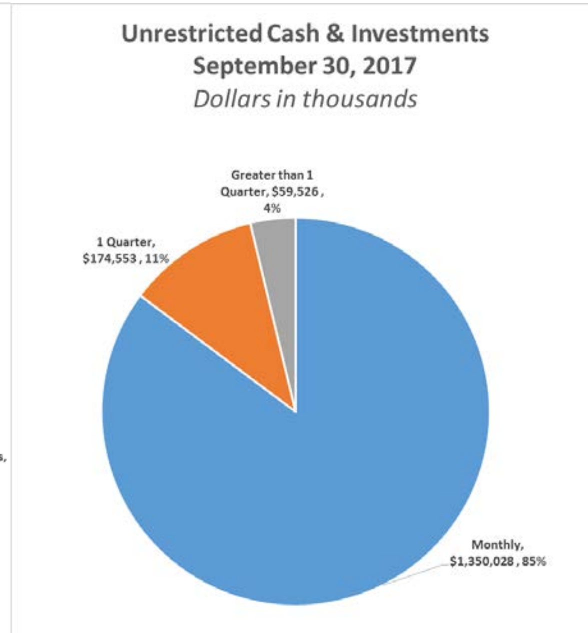
Charts 1 and 2 below display the asset allocation and liquidity structure of the unrestricted cash and investments that comprise the days cash on hand ratio, and illustrate the liquidity and safety of the investments at September 30, 2017.

Chart 1 (Asset Allocation) | **Chart 2 (Liquidity)**





The table below sets forth the leverage position (debt-to-unrestricted capitalization) for the nine months ended September 30, 2017 and 2016 and the years ended December 31, 2016, 2015, and 2014.

Leverage Position - Consolidated System
Dollars in Thousands

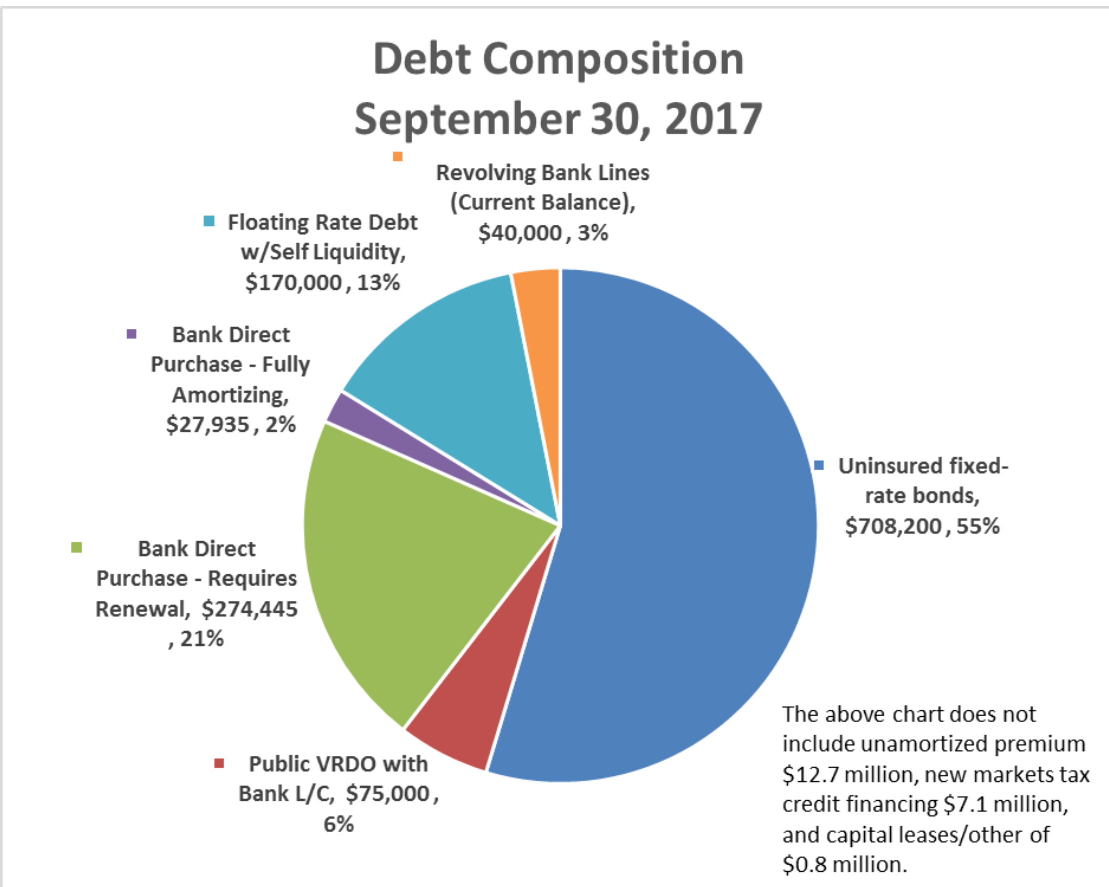
	Actual 30-Sep-17	Actual 30-Sep-16	Actual 31-Dec-16	Actual 31-Dec-15	Actual 31-Dec-14
Current installments of long-term debt	20,687	24,412	23,190	24,827	19,364
Revolving credit borrowing	40,000	40,000	40,000	-	-
Long-term debt, less current installments	1,255,374	1,272,331	1,272,085	1,283,215	1,148,091
Total debt	1,316,061	1,336,743	1,335,275	1,308,042	1,167,455
Unrestricted net assets	1,683,998	1,473,686	1,508,451	1,372,564	1,138,737
Total unrestricted capitalization	3,000,059	2,810,429	2,843,726	2,680,606	2,306,192
Debt-to-unrestricted capitalization	43.9%	47.6%	47.0%	48.8%	50.6%

The leverage position for the System as represented by the debt-to-unrestricted capitalization ratio at September 30, 2017 declined to 43.9% when compared to December 31, 2016 ratio of 47.0%. The decline in the debt-to-unrestricted capitalization ratio resulted from an increase in unrestricted net assets of $175.5 million (11.6%) complemented by a decrease in total debt of $19.2 million (1.4%). An increase in unrestricted investments of $100.4 million was the primary factor driving the increase in unrestricted net assets. The decrease in total debt was a result of recurring, annual principal payments on long-term debt.

In January 2017, the System repaid $45 million of taxable debt and in turn issued the Series 2017A bonds and Series 2017B bonds in March 2017 with par values of $41.0 million and $9.0 million respectively. The proceeds from both series will be used to fund capital projects throughout the System. The Series 2017A and Series 2017B bonds are floating rate bonds based on a spread to LIBOR. In March 2017, UH entered into a total return swap in connection with the Series 2007A bonds for a notional amount equal to the par value of the bonds with cash flows commencing April 2017. This transaction essentially converted fixed rate debt into floating rate and has no impact on total debt outstanding.

Chart 3 below displays the composition of the System's debt at September 30, 2017. The System maintains certain policies that apply to its debt structure that require constant monitoring of the risk profile and reporting to the Finance Committee of the Board. As the chart below illustrates, the capital structure of UH is concentrated in fixed rate debt. The risks associated with market trading of UH bonds and bank renewals are limited to 45% of the total outstanding debt at September 30, 2017.

Chart 3



The table below sets forth the maximum annual debt service coverage for the rolling twelve months ended September 30, 2017 and 2016 and for the years ended December 31, 2016, 2015, and 2014.

Debt Service 'MADS' Coverage (a) - Consolidated System
Dollars in Thousands

	Actual 30-Sep-17	Actual 30-Sep-16	Actual 31-Dec-16	Actual 31-Dec-15	Actual 31-Dec-14
Income available to cover debt service (b)	385,495	339,190	341,857	336,894	329,075
MADS	71,417	71,417	71,417	72,526	68,735
MADS Coverage (x-times)	5.4	4.7	4.8	4.6	4.8

(a) Defined as maximum annual debt service.

(b) Defined as excess revenues over expenses + interest expense + depreciation expense + special charges +swap valuation adjustments +other-than-temporary decline in investments + loss on early extingishment of debt + loss on disposal of equity investments - member substitution

MADS coverage increased to 5.4 times for the rolling twelve months ended September 30, 2017 when compared to December 31, 2016 MADS coverage of 4.8 times. This resulted from an increase in income available to cover debt service of $43.6 million (12.8%).

Please refer to the section, "MANAGEMENT'S DISCUSSION AND ANALYSIS OF THE RESULTS OF OPERATIONS AND FINANCIAL POSITION – CONSOLIDATED SYSTEM – Review of the System's Operating Results," for further discussion regarding income available to cover debt service for the rolling twelve months ended September 30, 2017 and 2016, and for the years ended December 31, 2016, 2015, and 2014.

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Results of Selected Non-Obligated Group Controlled Affiliates of the System

University Hospitals Medical Group

UHMG constitutes the academic medicine business of the System in partnership with the CWRU School of Medicine, involving 1,127 physicians and other providers that teach, conduct research and practice medicine. While this business line produces operating losses viewed independently, it is an integral component of the hospital system and responsible for a majority of the net patient service revenue reported at UHCMC. System management reports this business unit separately to better facilitate management of costs.

For the nine months ended September 30, 2017, UHMG reported an operating loss of $40.0 million, a decrease in the operating loss of $3.4 million (7.8%) from the same period in 2016. UHMG reported unrestricted revenue of $288.6 million for the first nine months of 2017, representing an increase of $18.4 million (6.8%) from the same period in 2016. Total patient visits increased by 10.0% in for the first nine months of 2017 as compared to 2016. Operating expenses increased by $15.0 million (4.8%). An increase of $20.2 million (7.9%) in salary, wages and benefits was driven by growth in the number of employed physicians and related support staff as previously discussed.

University Hospitals Medical Practices

At September 30, 2017, UHMP employed 1,062 providers. UHMP is a business that is critical to the strategy of the System and has operated at industry best practices in terms of loss per physician. Greater than 50% of the patient activity at the System's hospitals and diagnostic units is attributable to UHMP. For the periods ended December 31, 2016, December 31, 2015, and December 31, 2014, the financial performance of Parma and Elyria physician groups have been consolidated and reported herein with the financial performance of UHMP below. The financial performance of Portage, St. John and Samaritan physician groups were consolidated and reported within the UHMP financial performance as of June 1, 2015, November 2, 2015 and November 12, 2015, respectively.

For the nine months ended September 30, 2017, UHMP reported an operating loss of $74.1 million, reflecting an increase in operating loss of $1.8 million (2.5%) when compared to the operating loss for the same period in 2016. UHMP reported unrestricted revenue of $292.6 million for the first nine months of 2017, up $13.3 million (4.7%) from the same period in 2016. The growth in unrestricted revenue was driven by growth in volume reflecting growth in providers and improvement in productivity. UHMP reported total operating expenses of $366.8 million in the first nine months of 2017 as compared to $351.7 million for the same period in 2016. The growth in operating expenses of $15.1 million (4.3%) resulted primarily from a $13.4 million (5.2%) increase to salaries, wages and employee benefits. The increase in salaries, wages and benefits is primarily attributable to the increase in the number of providers. As stated previously, during 2015 and 2016 UHMP experienced rapid growth in the recruitment of new physicians. As physician practices mature, the losses on these practices decline materially. Overall, UHMP is operating in the top quartile across national benchmarks in terms of investment/(loss) per physician. During 2017, new efforts to optimize physician practices have resulted in productivity gains and reduced losses per physician.

Payor Mix and Utilization Statistics of the Obligated Group

Set forth in the tables below are the payor mix and utilization statistics for the members of the Obligated Group for the nine months ended September 30, 2017 and 2016 as well as for the years ended December 31, 2016, 2015, and 2014. As of December 1, 2015, the Obligated Group consists of the Parent, UHCMC, Geauga, Ahuja, Parma, Elyria, and St. John. For more information concerning the members of the Obligated Group, see "THE OBLIGATED GROUP" section of the December 31, 2015 report.

Payor Mix and Utilization Statistics
Obligated Group

UNAUDITED

	Nine Months Ended			Years Ended	
	Actual 30-Sep-17	**Actual 30-Sep-16**	**Actual 31-Dec-16**	**Actual (7) (8) 31-Dec-15**	**Actual 31-Dec-14**
Payor Mix % : (1)					
Medicare (2)	31.2%	30.4%	30.0%	29.7%	31.0%
Medicaid (2)	15.0%	15.5%	15.4%	15.7%	15.4%
Commercial	41.7%	42.6%	42.8%	43.7%	42.5%
Self Pay	4.5%	3.8%	3.9%	3.9%	5.4%
Other (6)	7.6%	7.7%	7.9%	7.0%	5.7%
	100.0%	100.0%	100.0%	100.0%	100.0%
All Services (3)					
Available beds (4)	1,619	1,729	1,913	1,875	1,639
Patient Days	330,938	338,259	451,877	430,368	419,081
Adjusted Discharges	139,389	140,465	186,847	189,032	166,124
Discharges (excluding newborn)	65,506	66,488	88,576	83,360	81,864
Observations (5)	18,679	20,305	25,976	22,212	19,107
Total Inpatient Activity	84,185	86,793	114,552	105,572	100,971
Surgical Cases:					
Inpatient	20,321	20,311	27,082	24,191	23,315
Outpatient	46,942	47,200	63,702	55,605	52,068
Total Surgical Cases	67,263	67,511	90,784	79,796	75,383
Outpatient procedures	6,846,771	6,583,593	8,755,999	7,869,900	7,372,448
Emergency cases	247,289	224,638	296,903	261,316	245,728
Clinic visits	140,770	103,295	144,090	137,076	142,970

(1) Payor Mix is based on Patient Service Revenue (net of contractual allowances and discounts).
(2) Includes a managed care component.
(3) Utilization statistics presented in this section include newborns, except where disclosed.
(4) Available beds represents the average staffed beds for the period reported.
(5) Excludes patients subsequently admitted during the same encounter.
(6) Other includes volume from UH employees covered under the UH health plan, currently 36,658 lives.
(7) Payor Mix reported for this period excludes St. John.
(8) Adjusted Discharges reported for this period reflect a full year for St. John.

The utilization trends of the Obligated Group are significantly influenced by the trends of UHCMC. For example, UHCMC accounted for 49.0% of the discharges and 65.0% of the total unrestricted revenues of the Obligated Group for the nine months ended September 30, 2017.

The Obligated Group represents the majority of the Consolidated System activities. For the nine months ended September 30, 2017, the Obligated Group comprised 85.1% of the reported System discharges.

Review of the Obligated Group Operating Results

The following Statements of Operations for the Obligated Group are prepared on a consistent basis with the audited consolidated financial statements, except for special charges which have been shown as non-operating to facilitate analysis of the patient related activities of the Obligated Group and pension benefit cost adjustments based on the adoption of FASB Accounting Standards Update (ASU) 2017-07. Please see "Special note on labor costs – Accounting Change" section of this report. Beginning December 1, 2015, the Obligated Group consists of the Parent, UHCMC, Geauga, Ahuja, Parma, Elyria, and St. John. See "THE OBLIGATED GROUP" section of the December 31, 2015 version of this report. The Statements of Operations for the periods shown below are reflective of these changes.

Obligated Group Statements of Operations
Dollars in Thousands

	Nine Months Ended		Years Ended		
	30-Sep-17 (Unaudited)	30-Sep-16 (Unaudited)	31-Dec-16 (Unaudited)	31-Dec-15 (Unaudited) (1)	31-Dec-14 (Unaudited)
Unrestricted revenues:					
Patient service revenue (net of contractual allowances and discounts)	$ 1,934,977	$ 1,882,932	$ 2,535,044	$ 2,281,785	$ 2,060,909
Provision for bad debts	(39,975)	(36,012)	(41,233)	(42,133)	(34,441)
Net patient service revenue (less provision for bad debts)	1,895,002	1,846,920	2,493,811	2,239,652	2,026,467
Other revenue	125,019	123,063	164,946	166,968	169,592
Total unrestricted revenues	2,020,021	1,969,983	2,658,757	2,406,620	2,196,060
Expenses:					
Salaries, wages and employee benefits	958,964	927,934	1,232,582	1,097,147	1,010,447
Purchased services	109,020	108,857	167,266	150,118	147,113
Patient care supplies	382,319	373,057	499,927	443,232	391,558
Other supplies	24,663	27,981	38,175	37,266	31,049
Insurance	19,372	18,406	19,879	23,475	15,523
Other expenses	209,252	203,235	267,659	247,625	233,657
Depreciation and amortization	101,254	92,383	124,864	110,772	113,460
Interest	35,657	35,552	47,394	46,686	47,245
Total Expenses	1,840,500	1,787,405	2,397,746	2,156,321	1,990,051
Net operating income	179,520	182,579	261,011	250,299	206,009
Nonoperating revenues (expenses):					
Special charges	41	(275)	(2,791)	(2,800)	(7,218)
Investment Income	58,356	16,753	25,237	43,073	60,155
Other-than-temporary decline in investments	(827)	(1,058)	(4,815)	(6,369)	(5,396)
Change in fair value of derivative instruments	1,253	(21,508)	10,456	(2,991)	(17,368)
Disposition of business unit	2,425	2,445	4,039	-	-
Loss on extinguishment of debt	-	(8,156)	(8,156)	(314)	(781)
Member Substitution	-	-	-	9,890	202,003
Total nonoperating revenues (expenses)	61,248	(11,799)	23,970	40,489	231,395
Excess of revenues over expenses	$ 240,768	$ 170,780	$ 284,981	$ 290,788	$ 437,404

(1) Includes St. John as of its November 2, 2015 acquisition date.

The Obligated Group operating results for each period reported are significantly impacted by the trends at UHCMC. For example, UHCMC comprises 65.0% of the total unrestricted revenues and 49.0% of total discharges reported by the Obligated Group for the nine months ended September 30, 2017.

The Obligated Group represents the majority of the Consolidated System activities. At September 30, 2017, the Obligated Group, comprised 95% of the reported System assets and 70% of the reported System unrestricted revenue as of and for the year-to-date period ending September 30, 2017.

Review of the Obligated Group Financial Ratios

The table below sets forth the liquidity position (cash and unrestricted investments) for the Obligated Group for the rolling twelve months ended September 30, 2017 and 2016 as well as for the years ended December 31, 2016, 2015, and 2014. As of December 1, 2015 the Obligated Group consists of the Parent, UHCMC, Geauga, Ahuja, Parma, Elyria, and St. John.

Liquidity Position - Obligated Group
Dollars in Thousands

	Actual 30-Sep-17	Actual 30-Sep-16	Actual 31-Dec-16	Actual 31-Dec-15	Actual 31-Dec-14
Cash and cash equivalents	172,876	192,172	230,490	169,171	165,048
Unrestricted investments	1,306,299	1,190,645	1,209,933	1,184,485	1,033,366
Total cash and unrestricted investments	1,479,175	1,382,817	1,440,423	1,353,656	1,198,414
Operating expenses	2,450,842	2,376,224	2,397,746	2,156,321	1,990,051
Less: Depreciation and amortization	133,735	122,847	124,864	110,772	113,460
Cash expenses (a)	2,317,107	2,253,377	2,272,882	2,045,549	1,876,591
Days of cash on hand	233	224	231	242	233

(a) Cash expenses are calculated as operatings expenses less depreciation and amortization. Non-operating expenses, such as special charges, other-than-temporary decline in investments, changes in fair value of derivative instruments and loss on early extinguishment of debt are typically either one-time related charges or not cash oriented.

For the rolling twelve months ended September 30, 2017, the Obligated Group had 233 days of cash on hand as compared to 231 days of cash on hand for the year ended December 31, 2016. Please refer to the section, "MANAGEMENT'S DISCUSSION AND ANALYSIS OF THE RESULTS OF OPERATIONS AND FINANCIAL POSITION – THE SYSTEM – Review of the Consolidated System Financial Ratios" for further details surrounding the factors driving changes noted in this ratio.

The Obligated Group has a covenant in its Master Trust Indenture that requires it to maintain a minimum of 90 days of cash on hand. The Obligated Group was in compliance with this covenant for the nine months ended September 30, 2017 and 2016, and for the years ended December 31, 2016, 2015, and 2014.

The table on the following page sets forth the leverage position (debt-to-unrestricted capitalization) for the Obligated Group at September 30, 2017 and 2016 and as of December 31, 2016, 2015, and 2014. As of December 1, 2015 the Obligated Group consists of the Parent, UHCMC, Geauga, Ahuja, Parma, Elyria, and St. John.

Leverage Position - Obligated Group
Dollars in Thousands

	Actual 30-Sep-17	Actual 30-Sep-16	Actual 31-Dec-16	Actual 31-Dec-15	Actual 31-Dec-14
Current installments of long-term debt	20,663	24,389	23,095	24,701	19,364
Revolving credit borrowing	40,000	40,000	40,000	-	-
Long-term debt, less current installments	1,248,109	1,272,089	1,271,933	1,282,972	1,148,091
Total debt	1,308,772	1,336,478	1,335,028	1,307,673	1,167,455
Unrestricted net assets	1,671,474	1,470,835	1,506,683	1,378,116	1,137,667
Total unrestricted capitalization	2,980,246	2,807,313	2,841,711	2,685,789	2,305,122
Debt-to-unrestricted capitalization	43.9%	47.6%	47.0%	48.7%	50.6%

The leverage position for the Obligated Group, as represented by the debt-to-unrestricted capitalization ratio, decreased to 43.9% at September 30, 2017. Please refer to the section, "MANAGEMENT'S DISCUSSION AND ANALYSIS OF THE RESULTS OF OPERATIONS AND FINANCIAL POSITION – THE SYSTEM – Review of the Consolidated System Financial Ratios" for further details surrounding the factors driving changes noted in this ratio.

The Obligated Group has a covenant in its Master Trust Indenture that requires it to maintain a leverage ratio of not greater than 70.0%, and prohibits the issuance of new debt if this ratio exceeds 66.7%. The Obligated Group was in compliance with this covenant at September 30, 2017 and 2016, and for the years ended December 31, 2016, 2015, and 2014.

The table below sets forth the maximum annual debt service coverage for the Obligated Group for the rolling 12 months ended September 30, 2017 and 2016 as well as for the years ended December 31, 2016, 2015, and 2014. Effective December 1, 2015 the Obligated Group consists of the Parent, UHCMC, Geauga, Ahuja, Parma, Elyria, and St. John. For more information concerning the members of the Obligated Group, see "THE OBLIGATED GROUP" section of the December 31, 2015 version of this report.

Debt Service 'MADS' Coverage (a) - Obligated Group
Dollars in Thousands

	Actual 30-Sep-17	Actual 30-Sep-16	Actual 31-Dec-16	Actual 31-Dec-15	Actual 31-Dec-14
Income available to cover debt service (b)	506,026	450,554	458,506	450,830	426,869
MADS	71,417	71,417	71,417	72,526	68,735
MADS Coverage (x-times)	7.1	6.3	6.4	6.2	6.2

(a) Defined as maximum annual debt service.

(b) Defined as excess revenues over expenses + interest expense + depreciation expense + special charges +swap valuation adjustments +other-than-temporary decline in investments + loss on early extingishment of debt + loss on disposal of equity investments - member substitution

MADS coverage was 7.1 for the rolling twelve months ended September 30, 2017 as compared to 6.4 for the year ended December 31, 2016. While MADS increased slightly for the rolling twelve months ended September 30, 2017, the increase in coverage resulted primarily from an increase in income available to cover debt service of $47.5 million (10.4%).

Please refer to the section, "MANAGEMENT'S DISCUSSION AND ANALYSIS OF THE RESULTS OF OPERATIONS AND FINANCIAL POSITION – THE SYSTEM – Review of the Consolidated System Financial Ratios" for further details surrounding the factors driving changes noted in this ratio in 2015, 2014, and 2013.

The Obligated Group has a rate covenant in its Master Trust Indenture that requires it to maintain a minimum of 1.20x annual debt service coverage. For the purposes of the covenant measure, annual debt service is used instead of MADS. The Obligated Group was in compliance with this covenant for the nine months ended September 30, 2017 and 2016 as well as for the years ended December 31, 2016, 2015, and 2014.

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INSURANCE

Western Reserve Assurance Co., Ltd., SPC ("Western Reserve"), a wholly-owned subsidiary of the Parent, commenced operations on July 1, 2002 to provide primary professional liability, and primary general liability insurance coverage on a claims-made basis for substantially all of the System. The Parent purchases commercial insurance policies for automobile liability; non-owned aircraft liability; heliport operations liability; and employers' liability. Each of these policies is subject to various limits, deductibles, retentions and sub-limits. Western Reserve provides excess liability for the above risks through reinsurance agreements in place with unrelated commercial insurance companies.

In addition to policies provided by Western Reserve, the Parent also purchases commercial insurance policies for directors and officers liability; environmental liability; commercial crime; and all-risk property, including business interruption, cyber liability, and excess workers ' compensation, among others, in which Western Reserve does not participate. Each policy is subject to certain limits, sub-limits and deductibles.

Various claimants have asserted professional liability, general liability, automobile liability and workers' compensation and other claims against the System. These claims are in various stages of processing or litigation. In addition to these known incidents, there may be unknown (incurred but not reported) incidents, which have yet to be asserted against the System. The System has therefore accrued amounts for both asserted and unasserted losses.

LITIGATION

No litigation or proceedings are pending or, to the knowledge of the members of the Obligated Group, threatened against any member of the Obligated Group except (i) litigation involving claims for hospital professional liability in which the probable recoveries and the estimated costs and expenses of defense, in the opinion of the members of the Obligated Group, will be entirely within the applicable insurance policy limits (subject to applicable deductibles) or within the applicable self-insurance reserves of the members of the Obligated Group and (ii) litigation involving other types of claims which if adversely determined would not, in the opinion of the members of the Obligated Group, materially and adversely affect the financial condition of the members of the Obligated Group or the operations of the members of the Obligated Group.

MANAGEMENT CHANGES AND OTHER INFORMATION

Leadership Changes in 2017:

James R. Rowbottom, MD, FCCP has stepped down as Chair of the Department of Anesthesiology and Perioperative Medicine at UH Cleveland Medical Center, effective March 1, 2017. This will allow him to concentrate on clinical duties, teaching and research projects at UH.

Kenneth D. Chavin, MD, PhD, FACS, has been appointed Chief of the Division of Hepatobiliary and Transplant Surgery. Dr. Chavin is an accomplished liver transplant surgeon. He joins us from the Medical University of South Carolina, where he served as Professor and Vice Chair of Research for the Department of Surgery.

David W. Dietz, MD, FACS, FASCRS, has been named Chief of the Division of Colorectal Surgery. Dr. Dietz, who came to UH in 2016, is widely known for his expertise in colorectal surgery. In addition to his new responsibilities as Division Chief, he serves as Vice Chair of Clinical Operations and Quality at UH Cleveland Medical Center, where he holds the Elizabeth King Family Chair. Dr. Dietz is also Vice President of System Surgery Quality and Experience for UH.

Melissa D. Cole, MSN, ARNP, ANP-BC, was promoted to Vice President, Center for Emergency Medicine at UHCMC. Ms. Cole came to UH in 2016 from Tampa General Hospital, the quaternary academic medical center affiliated with the University of South Florida, where she served as the Director of Emergency Services, Trauma and Orthopedics.

Eric D. Hess joined UH in March 2017 as Vice President, Strategy and Operations, for UH Harrington Heart & Vascular Institute. Key responsibilities for Mr. Hess include setting and executing the overall strategy and overseeing business and service operations for the institute. He will develop plans to achieve performance targets, with specific emphasis on patient access, patient experience, professional referrals and quality outcomes. He comes to UH from Children's Hospital of Michigan in Detroit, where he was Chief Operating Officer since 2015.

UH has recruited Henry (Champ) Burgess III, PharmD, as Vice President of Specialty Pharmacy, effective April 10, 2017. He will work to expand UH Ventures, set the strategic direction for the System Specialty Pharmacy and implement operating plans to provide excellent customer service and accelerate revenue growth. Champ comes to UH having served as Assistant Director, Finance and Business Operations, for Pharmacy Services at UNC Health Care, Chapel Hill, since 2009.

Anand R. Kumar, MD, FAAP, FACS has been appointed as Chief of the Division of Plastic and Reconstructive Surgery for University Hospitals Cleveland Medical Center. Since April, Dr. Kumar has been serving as interim Division Chief of Adult Plastic Surgery. He also serves as the Division Chief for Pediatric Plastic/Cranio-Maxillofacial Surgery at UH Rainbow Babies & Children's Hospital and the Director of The Wald Plastic Surgery Research Laboratory in the Department of Plastic and Reconstructive Surgery at Case Western Reserve University School of Medicine.

Marc J. Popovich, MD, FACP, FCCM has been appointed as Chair of the Department of Anesthesiology and Perioperative Medicine at University Hospitals Cleveland Medical Center. Dr. Popovich also serves as Senior Medical Director for Critical Care at UH and is a Professor of Anesthesiology and Perioperative Medicine at Case Western Reserve University School of Medicine. Before coming to UH in 2016, he served as Medical Director of Critical Care Medicine for the Northern Arc Hospitals, Emory Center for Critical Care, Atlanta.

UH has announced the new President and Scientific Director for University Hospitals Seidman Cancer Center, Theodoros N. Teknos, MD. He began his new appointment on Oct. 1. Dr. Teknos will lead the development of strategic, business and marketing plans for UH Seidman, including cancer-related palliative care, integrative care and interface with UH Hospice care. He will oversee all inpatient and ambulatory cancer care delivered at facilities across the UH system. Dr. Teknos will also provide leadership of UH Seidman's academic components and the Clinical Trials Unit. He will direct UH Seidman's involvement in the Case Comprehensive Cancer Center. Dr. Teknos comes to UH from The Ohio State University Wexner Medical Center, where he has served in several leadership roles since 2008.

William L. Annable, MD, Chief Medical Officer for University Hospitals, Chief Quality Officer and Director of the University Hospitals Institute for Health Care Quality & Innovation, has announced his decision to retire in early 2018. Dr. Annable has been instrumental in shaping the Quality Institute since assuming his current role in 2011 and for achieving unprecedented success. During his tenure, UH Cleveland Medical Center was awarded the 2012 American Hospital Association-McKesson Quest for Quality Prize as the nation's top hospital for leadership and innovation in quality improvement and patient safety. UH is in the process of identifying a successor.

Kristi Sink, MHA, FACHE, Chief Operating Officer at UH Elyria Medical Center, will succeed Charlotte Wray, MSN, RN, MBA as Elyria's President. Ms. Wray stepped down as President in October 2017. Ms. Sink joined the health system in 2016 as Chief Operating Officer at UH Parma Medical Center. She served as the interim President at UH Parma before transitioning recently to UH Elyria as Chief Operating Officer. Prior to joining UH, she was Vice President of Ambulatory & Ancillary Services at Mission Hospital, a 795-bed facility that is part of a regional system in western North Carolina.

Other information 2017:

In May 2017, UH exceeded its $1.5 billion goal for Discover the Difference fundraising campaign with a total of $1,511,586,803 raised. UH is one of only two health care systems in the nation, and the only System in Ohio, to attain such an ambitious goal.

UH Rainbow Babies & Children's Hospital is ranked among the nation's premier children's hospitals by U.S. News & World Report. The 2017 pediatric rankings extend University Hospitals' reputation for excellence by including UH Rainbow in nine of the 10 specialties evaluated by U.S. News.

The Level I trauma center at UH Cleveland Medical Center, which opened in December 2015, is joining other trauma-care providers to create a new Northern Ohio Trauma System (NOTS), which will provide coordinated trauma care to patients throughout Cuyahoga County and the seven-county Northeast Ohio region. It has also recently received verification from the American College of Surgeons. NOTS members will coordinate with public safety forces and network hospitals to ensure patients are rapidly triaged and taken to the appropriate level of care within the network. The NOTS network comprises three adult Level I trauma centers, including UH Cleveland Medical Center. UH Rainbow Babies & Children's Hospital serves as a Level I pediatric trauma center.

UH Chief Operating Officer, Jeffrey H. Peters, MD, has been named to Modern Healthcare's inaugural list of Top 25 Chief Operating Officers in Healthcare. Major achievements during Dr. Peter's tenure: Care quality and patient experience have improved substantially; UH innovation-driven Value Improvement Program and High-Reliability Organization transformation have enhanced our care processes; the establishment of a Department of Clinical Integration to align UH diverse physician enterprise; UH entered into a new affiliation agreement with Case Western Reserve University; and the Harrington Project for Discovery & Development at University Hospitals has emerged as an exciting new global model for accelerating breakthrough therapeutic insights to commercialization.

University Hospitals has once again earned global recognition as one of the World's Most Ethical Companies based on the culture of integrity that UH employees, physicians, volunteers, leaders and Board members uphold. UH is one of only 123 other entities from 19 countries on the 2017 World's Most Ethical Companies list, including just six other health care providers worldwide. UH supported its nomination with many examples of initiatives that demonstrate commitment to the UH community and to achieving a healthier, more inclusive world through diversity, sustainability, workforce development and research and development.

University Hospitals has created the UH Ventures organization which will focus on developing innovative new business models that leverage existing UH capabilities to benefit our patients and grow new revenue for the System. Specialty Pharmacy was launched as the first new enterprise within UH Ventures. Specialty pharmacies connect patients with medications that are prescribed for severe or chronic conditions, while providing patient care services and reimbursement support for these drugs.

Harrington Discovery Institute and Takeda Pharmaceutical Co. have entered a multi-year collaboration to accelerate breakthrough discoveries in rare diseases. This new venture is a first for Harrington Discovery Institute at University Hospitals, part of The Harrington Project for Discovery & Development. The program will provide grant funding and hands-on guidance for early stage drug development, emphasizing new medicines for cancers and disorders of the digestive and central nervous systems. Based in Japan, Takeda is a 236-year-old firm with major U.S. subsidiaries. It is among the world's top 15 pharmaceutical companies.

Five UH Hospitals Earn Top Patient-Safety Scores: UH Cleveland Medical Center, UH Geauga, UH St. John and UH Samaritan medical centers, plus Southwest General Health Center, each earned an "A" grade in the spring 2017 Hospital Safety Score update from The Leapfrog Group. UH St. John Medical Center has earned straight A's since 2012. Leapfrog assesses more than 2,600 U.S. hospitals' success in protecting patients from errors, accidents, injuries and infections.

Four UH Hospitals were named among the top 10 percent in patient safety: UH Geauga, UH Geneva, UH St. John and UH Samaritan medical centers are among the top 10 percent of hospitals nationally to earn a 2017 Patient Safety Excellence AwardTM from Healthgrades, an online consumer resource. And UH Geneva and St. John medical centers received an Outstanding Patient Experience Award, based on a Healthgrades analysis of HCAHPS survey scores. Just 15 percent of U.S. hospitals are represented by this award.

UH earned 15 national environmental excellence awards from Practice Greenhealth, including the prestigious System for Change award. Practice Greenhealth awards recognize the System's achievements in environmental-sustainability programs and improvements during 2016.

Both UH Ahuja Medical Center and UH Geauga Medical Center have recently been recognized as Aetna Institutes of Quality® Orthopedic Care Facilities, helping members make informed decisions for choosing care that is safe and evidence-based. UH Ahuja Medical Center has been designated for spine surgery, and UH Geauga Medical Center for total joint replacement procedures.

UH Cleveland Medical Center, the first Advanced Comprehensive Stroke Center in Northeast Ohio, has been recertified by The Joint Commission, and along with UH Geauga Medical Center, has been approved for the Get With the Guidelines ® Stroke Gold Plus award with Target: Stroke Elite Plus. Additionally, UH Ahuja, UH Elyria and UH Regional Hospitals, Bedford and Richmond Medical Centers have been approved for the GWTG – Stroke Gold Plus award with Target: Stroke Elite. These hospitals are recognized by the American Heart Association/American Stroke Association for meeting rigorous quality measures and providing the latest, evidence-based treatments for stroke patients.

Substantially all UH employees are being trained in the best practices of "high-reliability organizations" (HROs) with the goal of eliminating preventable medical errors throughout our health care system. UH Rainbow Babies & Children's Hospital is an early adopter of this approach, having twice gone an entire year without a serious safety event – one of the only children's hospitals in the country to do so.

UH Samaritan Medical Center was named to the Becker's Hospital Review 2017 list of 100 Great Community Hospitals. The publication cited "clinical quality, operational excellence and economic impact on the surrounding area" as reasons for making the list, which is based on rankings and awards from organizations including the National Rural Health Association, Truven Health Analytics, Healthgrades, the American Nurses Credentialing Center, the Leapfrog Group and more.

UH Elyria Medical Center is one of 22 hospitals in the nation recognized by Premier Inc., a leading health care improvement company, for reducing preventable hospital-acquired conditions and readmissions. Premier worked with more than 450 hospitals as part of the national Hospital Engagement Network 2.0 initiative to meet goals in 11 harm areas. Additionally, UH Conneaut, Geneva, Elyria and Parma medical centers each received a Citation of Merit for the 2017 QUEST® Award for High-Value Healthcare from Premier. Just 63 hospitals achieved top performance in any four of the six areas – cost and efficiency, evidence-based care, mortality, safety, patient and family engagement, and appropriate hospital use – measured in the QUEST collaborative.

UH St. John Medical Center earned a 2017 ACTION Registry Platinum Performance Achievement Award from the American College of Cardiology, recognizing the hospital's commitment and success in implementing a higher standard of care for heart attack patients. The award is presented to providers that consistently follow treatment guidelines over a sustained period of time and meet specific performance measures.

The Division of Nurse-Midwifery at UH MacDonald Women's Hospital was recognized for best practices at the American College of Nurse-Midwives 62nd Annual Meeting. In addition to awards for individual teaching and leadership achievements, UH midwives earned accolades as a best practice for several clinical indicators, including the highest postpartum visit rates at UH Westshore Midwifery Associates. UH has the largest network of midwives in Northeast Ohio, with 25 midwives currently at four hospital sites.

UH Geneva Medical Center is one of only 19 hospitals in the nation to earn the highest-possible ratings from the Centers for Medicare & Medicaid Services: a five-star HCAHPS summary rating and a five-star overall hospital quality rating. CMS assigns hospitals two major star ratings: the HCAHPS summary, based exclusively on patient survey scores; and overall hospital quality, which incorporates outcomes measures as well as patient experience scores.

UH Geauga Medical Center has earned a Platinum Level Award for Excellence from The Partnership for Excellence, which evaluates performance for organizations in Ohio, Indiana and West Virginia. UH Geauga received TPE's highest honor for excellent performance through innovation, results and visionary leadership using the internationally recognized Baldrige

Excellence Framework. Only seven health care organizations have received the Platinum Level Award from TPE since 2000.

UH Cleveland Medical Center, the first Advanced Comprehensive Stroke Center in Northeast Ohio, has been recertified by The Joint Commission, and along with UH Geauga Medical Center, has been approved for the Get With the Guidelines ® Stroke Gold Plus award with Target: Stroke Elite Plus. Additionally, UH Ahuja, UH Elyria and UH Regional Hospitals, Bedford and Richmond Medical Centers have been approved for the GWTG – Stroke Gold Plus award with Target: Stroke Elite. These hospitals are recognized by the American Heart Association/American Stroke Association for meeting rigorous quality measures and providing the latest, evidence-based treatments for stroke patients.

UH has formed the new University Hospitals Diagnostic Institute under the direction of Pablo R. Ros, MD, MPH, PhD, Department Chair of Radiology. This new institute, reporting directly to Jeff Peters, MD, Chief Operating Officer, aligns the UH Departments of Pathology, Radiology and Genetics. The Institute will focus on evolving a robust technology platform integrating digital images, pathology and genetics clinical data, creating an integrated diagnostic tool. The institute will also develop high-level clinical, research and educational programs for both clinicians and technologists, and invigorate collaboration and relationships.

A new, freestanding UH Emergency Department and urgent care facility is now open in Kent, adjacent to UH Kent Health Center. The newly renovated, 14,000-square-foot facility is the closest ED for EMS teams from Kent, Tallmadge, Stow and other area towns, providing an important safety benefit for local residents.

UH has announced a new agreement with SummaCare that will enhance its long-standing relationship and improve care for Medicare beneficiaries in its region. Known as University Hospitals Medicare Advantage from SummaCare, the new agreement creates a co-branded offering with SummaCare’s trusted Medicare Advantage plans that have been offered for the last 22 years. The plans will be centered around the UH Quality Care Network providers and supported by population health services from the UH Accountable Care Organization.

UNIVERSITY HOSPITALS HEALTH SYSTEM, INC.

Consolidated Balance Sheets

September 30, 2017 and December 31, 2016

(In thousands of dollars)

(UNAUDITED)

Assets		**September 30, 2017**	**December 31, 2016**
Current assets:			
Cash and cash equivalents	$	193,525	264,527
Patient accounts receivable, net		576,621	550,057
Other receivables		52,781	71,872
Other current assets		147,496	149,155
Total current assets		970,423	1,035,611
Investments		1,660,806	1,528,680
Property, plant and equipment, net		1,641,195	1,618,013
Other assets:			
Investments in affiliates		92,235	91,163
Beneficial interest in Foundation		170,932	157,985
Perpetual trusts		207,321	191,015
Other		154,129	147,549
Total other assets		624,617	587,712
Total assets	$	4,897,041	4,770,016

UNIVERSITY HOSPITALS HEALTH SYSTEM, INC.

Consolidated Balance Sheets

September 30, 2017 and December 31, 2016
(In thousands of dollars)
(UNAUDITED)

Liabilities and Net Assets		**September 30, 2017**	**December 31, 2016**
Current liabilities:			
Current installments of long-term debt	$	20,687	23,190
Accounts payable and accrued expenses		401,770	421,234
Other current liabilities		85,565	73,602
Estimated amounts due to third-party payors		27,356	24,725
Total current liabilities		535,378	542,751
Long-term debt, less current installments		1,255,374	1,272,085
Revolving credit borrowing		40,000	40,000
Other liabilities		638,181	700,234
Total liabilities		2,468,933	2,555,070
Net assets:			
Unrestricted		1,683,998	1,508,451
Temporarily restricted		349,117	339,121
Permanently restricted		394,993	367,374
Total net assets		2,428,108	2,214,946
Total liabilities and net assets	$	4,897,041	4,770,016

UNIVERSITY HOSPITALS HEALTH SYSTEM, INC.

Consolidated Statements of Operations and Changes in Net Assets

For the nine months ended September 30th, 2017 and 2016

(In thousands of dollars)

(UNAUDITED)

	2017	2016
Unrestricted revenues:		
Net patient service revenue	$ 2,814,213	2,717,598
Provision for bad debts	(76,909)	(74,702)
Net patient service revenue less provision for bad debts	2,737,304	2,642,896
Other revenue	168,520	159,578
Total unrestricted revenues	2,905,824	2,802,474
Expenses:		
Salaries, wages, and employee benefits	1,659,500	1,597,913
Purchased services	207,239	197,188
Patient care supplies	484,327	452,157
Other supplies	34,417	38,076
Insurance	38,286	35,677
Other expenses	251,733	253,126
Depreciation and amortization	113,124	104,237
Interest	35,661	35,559
Special charges	(41)	549
	2,824,246	2,714,482
Net operating income	81,578	87,992
Nonoperating revenues (expenses):		
Investment income	58,394	16,741
Other-than-temporary decline in investments	(920)	(1,155)
Change in fair value of derivative instruments	1,253	(21,508)
Loss on extinguishment of debt	-	(8,156)
Disposition of Business Unit	2,478	2,445
Member substitution	-	-
Excess of revenues over expenses	$ 142,783	76,359

UNIVERSITY HOSPITALS HEALTH SYSTEM, INC.

Consolidated Statements of Changes in Net Assets

For the nine months ended September 30th, 2017 and year ended December 31, 2016

(In thousands of dollars)

(UNAUDITED)

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Net assets at December 31, 2015	1,372,564	334,026	359,968	2,066,558
Excess of revenues over expenses	151,040	—	—	151,040
Investment income	—	8,173	—	8,173
Other support and revenue	—	29,489	4,524	34,013
Change in beneficial interest in Foundations and perpetual trusts	—	4,011	2,882	6,893
Net assets released from restrictions used for operations	—	(32,646)	—	(32,646)
Change in net unrealized gains and (losses) on other-than-trading securities	31,929	214	—	32,143
Pension liability adjustment	(30,993)	—	—	(30,993)
Pension Non-Service Costs	(20,514)	—	—	(20,514)
Net assets released from restrictions for acquisition of property and equipment	4,146	(4,146)	—	—
Contributed capital	279	—	—	279
Increase in net assets	135,887	5,095	7,406	148,388
Net assets at December 31, 2016	1,508,451	339,121	367,374	2,214,946
Excess of revenues over expenses	142,783	—	—	142,783
Investment income	—	2,894	—	2,894
Other support and revenue	—	22,031	5,911	27,942
Change in beneficial interest in Foundations and perpetual trusts	—	818	13,321	14,139
Net assets released from restrictions used for operations	—	(18,894)	—	(18,894)
Change in net unrealized gains and (losses) on other-than-trading securities	46,484	323	—	46,807
Change in joint venture unrestricted net assets	(325)	—	—	(325)
Pension Non-Service Costs	(17,641)	—	—	(17,641)
Net assets released from restrictions for acquisition of property and equipment	4,044	(4,044)	—	—
Contributed capital	202	—	—	202
Increase in net assets	175,547	3,128	19,232	197,907
Net assets at September 30, 2017	$ 1,683,998	342,249	386,606	2,412,853

UNIVERSITY HOSPITALS HEALTH SYSTEM, INC.

Consolidated Statements of Cash Flows

For the nine months ended September 30th, 2017 and 2016

(In thousands of dollars)

(UNAUDITED)

		2017	2016
Operating activities:			
Increase in net assets	$	213,162	99,081
Adjustments to reconcile increase in net assets to net cash provided by operating activities:			
Depreciation and amortization		112,779	104,235
Amortization of bond premium, discount, and financing costs		(680)	1,132
Provision for bad debts		76,909	74,702
Loss on extinguishment of debt		—	8,156
Other than temporary decline in investments		920	451
Change in beneficial interest in Foundations and perpetual trusts		(29,253)	(3,479)
Change in net unrealized investment gains and losses		(62,062)	(37,276)
Net realized gains and losses on sale of investments		(38,132)	(60)
Net change attributable to investments in joint ventures		(1,072)	127
Restricted revenue and investment income		(7,618)	(1,534)
Net change in operating assets and liabilities:			
Patients accounts receivable		(103,473)	(145,259)
Other current assets		22,541	(45,866)
Accounts payable, accrued expenses, and other current liabilities		(37)	17,917
Other assets and liabilities		(67,793)	62,453
Net cash provided by operating activities		116,191	134,780
Investing activities:			
Acquisition of property, plant and equipment		(135,961)	(127,119)
Change in property and equipment payables		(2,954)	(11)
Proceeds from sales of investments		262,535	2,119,339
Purchases of investments		(295,387)	(2,115,784)
Net cash used in investing activities		(171,767)	(123,575)
Financing activities:			
Proceeds from restricted revenue and investment income		7,618	1,534
Repayment of long-term debt		(68,534)	(240,770)
Proceeds from issuance of long-term debt		50,000	229,726
Bond issuance costs		—	94
Proceeds from revolving credit borrowing		—	40,000
Decrease in treasury service agreement		(4,510)	(3,745)
Net cash used in financing activities		(15,426)	26,839
Decrease (increase) in cash and cash equivalents		(71,002)	38,044
Cash and cash equivalents at beginning of year		264,527	201,457
Cash and cash equivalents at end of period	$	193,525	239,501

UNIVERSITY HOSPITALS HEALTH SYSTEMS, INC.

Supplementary Information - Balance Sheet

September 30, 2017

(In thousands of dollars)

(UNAUDITED)

	Obligated Group	Nonobligated Group	Eliminations	Consolidated
Assets				
Current assets:				
Cash and cash equivalents	$ 172,876	20,649	-	193,525
Patient accounts receivable, net	442,281	134,340	-	576,621
Other receivables	44,966	29,625	(21,810)	52,781
Other current assets	122,075	25,421	-	147,496
Total current assets	782,198	210,035	(21,810)	970,423
Investments	1,576,523	84,283	-	1,660,806
Property, plant and equipment, net	1,500,494	140,701	-	1,641,195
Other assets:				
Investments in affiliates	331,098	3,119	(241,982)	92,235
Beneficial interest in Foundation	114,602	56,330	-	170,932
Perpetual trusts	206,142	1,179	-	207,321
Other	153,956	13,739	(13,566)	154,129
Total other assets	805,798	74,367	(255,548)	624,617
Total assets	$ 4,665,013	509,386	(277,358)	4,897,041
Liabilities and Net Assets				
Current liabilities:				
Current installments of long-term debt	$ 20,663	24	-	20,687
Accounts payable and accrued expenses	355,200	46,570	-	401,770
Other current liabilities	79,087	28,288	(21,810)	85,565
Estimated amounts due to third party payors	24,479	2,877	-	27,356
Total current liabilities	479,429	77,759	(21,810)	535,378
Long-term debt, less current installments	1,248,109	20,831	(13,566)	1,255,374
Revolving credit borrowing	40,000	-	-	40,000
Other liabilities	541,747	96,434	-	638,181
Total liabilities	2,309,285	195,024	(35,376)	2,468,933
Net assets:				
Unrestricted	1,671,474	254,506	(241,982)	1,683,998
Temporarily restricted	290,841	58,276	-	349,117
Permanently restricted	393,413	1,580	-	394,993
Total net assets	2,355,728	314,362	(241,982)	2,428,108
Total liabilities and net assets	$ 4,665,013	509,386	(277,358)	4,897,041

UNIVERSITY HOSPITALS HEALTH SYSTEMS, INC.

Supplementary Information - Balance Sheet

December 31, 2016

(In thousands of dollars)

(UNAUDITED)

		Obligated Group	Nonobligated Group	Eliminations	Consolidated
Assets					
Current assets:					
Cash and cash equivalents	$	230,490	34,037	-	264,527
Patient accounts receivable, net		424,752	125,305	-	550,057
Other receivables		75,096	120,130	(123,354)	71,872
Other current assets		124,461	24,694	-	149,155
Total current assets		854,799	304,166	(123,354)	1,035,611
Investments		1,448,440	80,240	-	1,528,680
Property, plant and equipment, net		1,488,894	129,119	-	1,618,013
Other assets:					
Investments in affiliates		391,998	4,950	(305,785)	91,163
Beneficial interest in Foundation		101,855	56,130	-	157,985
Perpetual trusts		189,904	1,111	-	191,015
Other		134,440	13,109	-	147,549
Total other assets		818,197	75,300	(305,785)	587,712
Total assets	$	4,610,330	588,825	(429,139)	4,770,016
Liabilities and Net Assets					
Current liabilities:					
Current installments of long-term debt	$	23,095	95	-	23,190
Accounts payable and accrued expenses		367,841	53,393	-	421,234
Other current liabilities		124,820	72,136	(123,354)	73,602
Estimated amounts due to third party payors		22,573	2,152	-	24,725
Total current liabilities		538,329	127,776	(123,354)	542,751
Long-term debt, less current installments		1,271,933	152	-	1,272,085
Revolving credit borrowing		40,000	-	-	40,000
Other liabilities		606,074	94,160	-	700,234
Total liabilities		2,456,336	222,088	(123,354)	2,555,070
Net assets:					
Unrestricted		1,506,682	307,554	(305,785)	1,508,451
Temporarily restricted		281,450	57,671	-	339,121
Permanently restricted		365,862	1,512	-	367,374
Total net assets		2,153,994	366,737	(305,785)	2,214,946
Total liabilities and net assets	$	4,610,330	588,825	(429,139)	4,770,016

UNIVERSITY HOSPITALS HEALTH SYSTEMS, INC.

Supplementary Information - Schedule of Operations

For the nine months ended September 30th, 2017
(In thousands of dollars)
(UNAUDITED)

	Obligated Group	Nonobligated Group	Eliminations	Consolidated
Unrestricted revenues:				
Patient service revenue (net of contractual allowances and discounts)	$ 1,934,977	879,236	-	2,814,213
Provision for bad debts	(39,975)	(36,934)	-	(76,909)
Net patient service revenue less provision for bad debts	1,895,002	842,302	-	2,737,304
Other revenue	125,019	158,564	(115,063)	168,520
Total unrestricted revenues	2,020,020	1,000,866	(115,063)	2,905,824
Expenses:				
Salaries, wages and employee benefits	958,964	714,256	(13,720)	1,659,500
Purchased services	109,020	167,474	(69,255)	207,239
Patient care supplies	382,319	102,008	-	484,327
Other supplies	24,663	9,754	-	34,417
Insurance	19,372	33,272	(14,358)	38,286
Other expenses	209,252	60,114	(17,633)	251,733
Depreciation and amortization	101,254	11,870	-	113,124
Interest	35,657	101	(97)	35,661
Special charges	(41)	-	-	(41)
	1,840,459	1,098,849	(115,063)	2,824,246
Net operating income (loss)	179,561	(97,983)	-	81,578
Nonoperating revenues (expenses):				
Investment income	58,356	38	-	58,394
Other-than-temporary decline in investments	(827)	(93)	-	(920)
Change in fair value of derivative instruments	1,253	-	-	1,253
Disposition of Business Unit	2,425	53	-	2,478
Excess (deficiency) of revenues over expenses	$ 240,768	(97,985)	-	142,783

UNIVERSITY HOSPITALS HEALTH SYSTEMS, INC.

Supplementary Information - Schedule of Operations

For the nine months ended September 30th, 2016
(In thousands of dollars)
(UNAUDITED)

	Obligated Group	Nonobligated Group	Eliminations	Consolidated
Unrestricted revenues:				
Patient service revenue (net of contractual allowances and discounts)	$ 1,882,932	834,666	-	2,717,598
Provision for bad debts	(36,012)	(38,690)	-	(74,702)
Net patient service revenue less provision for bad debts	1,846,920	795,976	-	2,642,896
Other revenue	123,063	147,241	(110,726)	159,578
Total unrestricted revenues	1,969,983	943,216	(110,726)	2,802,474
Expenses:				
Salaries, wages and employee benefits	927,934	683,527	(13,548)	1,597,913
Purchased services	108,857	156,193	(67,862)	197,188
Patient care supplies	373,057	79,100	-	452,157
Other supplies	27,981	10,095	-	38,076
Insurance	18,406	32,057	(14,786)	35,677
Other expenses	203,235	64,421	(14,530)	253,126
Depreciation and amortization	92,383	11,854	-	104,237
Interest	35,552	7	-	35,559
Special charges	275	274	-	549
	1,787,680	1,037,528	(110,726)	2,714,482
Net operating income (loss)	182,304	(94,312)	-	87,992
Nonoperating revenues (expenses):				
Investment income	16,753	(12)	-	16,741
Other-than-temporary decline in investments	(1,058)	(97)	-	(1,155)
Change in fair value of derivative instruments	(21,508)	-	-	(21,508)
Loss on extinguishment of debt	(8,156)	-	-	(8,156)
Disposition of Business Unit	2,445	-	-	2,445
Excess (deficiency) of revenues over expenses	$ 170,780	(94,421)	-	76,359