Franciscan Alliance, Inc. and Affiliates

Consolidated Financial Statements
December 31, 2018 and 2017

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December 31, 2018 and 2017

Report of Independent Auditors

To the Board of Trustees of Franciscan Alliance, Inc.

We have audited the accompanying consolidated financial statements of Franciscan Alliance, Inc. and Affiliates (collectively referred to as the "Corporation"), which comprise the consolidated statements of financial position as of December 31, 2018 and 2017, and the related consolidated statements of operations and changes in net assets and cash flows for the years then ended.

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

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

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

Opinion
In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Franciscan Alliance, Inc. and Affiliates as of December 31, 2018 and 2017 and the results of their operations, changes in net assets and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter
As discussed in Note 2 to the consolidated financial statements, the Corporation has changed the manner in which it presents net assets and reports certain aspects of its financial statements as a not-for-profit entity in 2018. Our opinion is not modified with respect to this matter.

PricewaterhouseCoopers LLP

April 16, 2019

PricewaterhouseCoopers LLP, One North Wacker, Chicago, IL 60606
T: (312) 298 2000, F: (312) 298 2001, www.pwc.com/us

Franciscan Alliance, Inc. and Affiliates
Consolidated Statements of Financial Position
December 31, 2018 and 2017
(In thousands)

	2018	2017
Assets		
Current assets		
Cash and cash equivalents	$ 70,946	$ 50,601
Short-term investments	135,672	123,440
Patient accounts receivable	375,378	369,839
Inventories of supplies	51,341	51,563
Other current assets	101,202	110,057
Total current assets	734,539	705,500
Board designated and other investments	2,419,481	2,679,484
Property, plant, and equipment, net	1,982,829	1,862,505
Investments in unconsolidated affiliates	14,333	14,047
Goodwill	24,541	24,541
Other assets	134,167	136,252
Total assets	$ 5,309,890	$ 5,422,329

	2018	2017
Liabilities and Net Assets		
Current liabilities		
Current portion of long-term debt	$ 23,168	$ 23,063
Accounts payable and accrued expenses	341,888	376,627
Accrued payroll and related expenses	120,139	129,010
Estimated third-party payor settlements	48,362	32,737
Total current liabilities	533,557	561,437
Long-term debt, net of current portion	1,189,675	1,216,417
Fair value of interest rate swap contracts	53,215	65,171
Accrued pension liability	202,592	218,538
Estimated insurance liabilities	118,611	116,025
Other liabilities	74,939	76,616
Total liabilities	2,172,589	2,254,204
Net assets without donor restrictions		
Controlling interest	3,067,444	3,095,662
Noncontrolling interest in consolidated affiliates	33,546	37,751
Total net assets without donor restrictions	3,100,990	3,133,413
Net assets with donor restrictions	36,311	34,712
Total net assets	3,137,301	3,168,125
Total liabilities and net assets	$ 5,309,890	$ 5,422,329

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

Franciscan Alliance, Inc. and Affiliates
Consolidated Statements of Operations and Changes in Net Assets
Years Ended December 31, 2018 and 2017
(In thousands)

	2018	2017
Changes in net assets without donor restrictions		
Revenues, gains, and other support		
Patient service revenue	$ 2,928,734	$ 2,756,260
Capitation and premium revenue	70,046	78,122
Other operating revenue	163,685	111,908
Equity in (losses) income of investments in unconsolidated affiliates	(1,682)	2,850
Net unrealized investment (losses) gains	(16,354)	9,903
Net assets released from restrictions used for operations	109	101
Total revenues, gains, and other support	3,144,538	2,959,144
Operating expenses		
Salaries	1,209,572	1,178,391
Employee benefits	323,321	330,092
Physicians' fees	77,917	70,400
Medical supplies	231,944	224,817
Drugs and pharmaceuticals	187,868	180,982
Purchased services	264,545	255,968
Hospital assessment fees	93,409	84,467
Insurance	38,058	33,556
Interest	27,002	37,935
Depreciation and amortization	174,964	168,279
Other supplies and expenses	375,248	327,818
Total operating expenses before accelerated depreciation	3,003,848	2,892,705
Operating income before accelerated depreciation	140,690	66,439
Accelerated depreciation	27,401	8,469
Operating income	113,289	57,970
Nonoperating income (expense)		
Investment income	174,816	149,235
Net unrealized investment (losses) gains on trading securities	(275,398)	130,780
Net unrealized gains (losses) and periodic settlements on interest rate swap contracts	4,227	(2,017)
Gain on sale of investments in unconsolidated affiliates	-	5,798
Loss on cash defeasance, refunding, and/or redemption of long-term debt	-	(22,932)
Net assets released from restrictions	3,862	3,341
Contributions	438	990
Other, net	(6,999)	(4,273)
Total nonoperating (expense) income, net	(99,054)	260,922
Consolidated excess of revenues over expenses	14,235	318,892
Less amounts attributable to noncontrolling interest in consolidated affiliates	(18,200)	(21,123)
(Deficit) excess of revenues over expenses attributable to the Corporation	$ (3,965)	$ 297,769

(continued on next page)

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

Franciscan Alliance, Inc. and Affiliates
Consolidated Statements of Operations and Changes in Net Assets (continued)
Years Ended December 31, 2018 and 2017
(In thousands)

	Year Ended December 31, 2018			Year Ended December 31, 2017		
	Total	**Controlling**	**Noncontrolling**	**Total**	**Controlling**	**Noncontrolling**
Changes in net assets without donor restriction						
Excess of revenues over expenses	$ 14,235	$ (3,965)	$ 18,200	$ 318,892	$ 297,769	$ 21,123
Change in pension and postretirement benefits other than net periodic pension costs included in accrued pension liability	(24,497)	(24,497)	-	10,790	10,790	-
(Donations) contributions of property, plant, and equipment	(705)	(705)	-	574	574	-
Distributions to noncontrolling interests in consolidated affiliates	(22,405)	-	(22,405)	(18,167)	-	(18,167)
Net assets released from restrictions used for purchase of property, plant, and equipment	949	949	-	2,223	2,223	-
	(32,423)	(28,218)	(4,205)	314,312	311,356	2,956
Changes in net assets with donor restrictions						
Contributions	7,461	7,461	-	10,206	10,206	-
Investment income	526	526	-	651	651	-
Net assets released from restrictions	(3,971)	(3,971)	-	(3,442)	(3,442)	-
Net assets released from restrictions used for purchase of property, plant, and equipment	(949)	(949)	-	(2,223)	(2,223)	-
Net unrealized investment losses	(497)	(497)	-	(15)	(15)	-
Derecognition of trust	-	-	-	(4,572)	(4,572)	-
Other, net	(971)	(971)	-	160	160	-
	1,599	1,599	-	765	765	-
(Decrease) increase in net assets	(30,824)	(26,619)	(4,205)	315,077	312,121	2,956
Net assets at beginning of year	**3,168,125**	**3,130,374**	**37,751**	**2,853,048**	**2,818,253**	**34,795**
Net assets at end of year	**$ 3,137,301**	**$ 3,103,755**	**$ 33,546**	**$ 3,168,125**	**$ 3,130,374**	**$ 37,751**

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

Franciscan Alliance, Inc. and Affiliates
Consolidated Statements of Cash Flows
Years Ended December 31, 2018 and 2017
(In thousands)

	2018	2017
Cash flows from operating activities		
(Decrease) increase in net assets	$ (30,824)	$ 315,077
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization	202,365	176,748
Gain on sale of investments in unconsolidated affiliates	-	(5,798)
Loss on sale/disposal of assets	1,304	257
Loss on cash defeasance, refunding, and/or redemption of long-term debt	-	22,932
Net investment losses (gains)	116,936	(289,918)
Derecognition of trust	-	4,572
Net unrealized gains on interest rate swap contracts	(11,956)	(8,219)
Distributions to noncontrolling interest in consolidated affiliates, net of contribution	22,405	18,167
Distributions from unconsolidated affiliates	901	5,606
Equity in losses (income) of investments in unconsolidated affiliates	1,682	(2,850)
Restricted contributions and investment income	(7,987)	(10,857)
Change in pension and postretirement benefits other than net periodic pension costs included in accrued pension liability	(24,497)	10,790
Changes in operating assets and liabilities		
Patient accounts receivable	(5,539)	(7,606)
Inventories of supplies and other assets	10,621	(7,640)
Accounts payable and other current liabilities	(7,558)	89,235
Estimated insurance liabilities and other liabilities	909	2,596
Accrued pension liability	8,551	(64,867)
Total adjustments	308,137	(66,852)
Net cash provided by operating activities	277,313	248,225
Cash flows from investing activities		
Purchases of investments	(6,935,533)	(7,321,767)
Proceeds from sale of investments	7,066,368	7,493,525
Purchases of property, plant, and equipment	(342,971)	(360,225)
Proceeds from sale of property, plant, and equipment	565	341
Acquisition of physician practices and other health care providers	(588)	(1,242)
Proceeds from sale of investments in unconsolidated affiliates	-	8,450
Capital contributions to investment in unconsolidated affiliates	(3,007)	(4,849)
Net cash used by investing activities	(215,166)	(185,767)
Cash flows from financing activities		
Proceeds from issuance of long-term debt	-	427,776
Defeasance, refunding, and/or redemption of long-term debt	-	(449,800)
Principal payments on long-term debt	(27,384)	(26,567)
Distributions to noncontrolling interest in consolidated affiliates, net of contributions	(22,405)	(18,167)
Restricted contributions and investment income	7,987	10,857
Net cash used by financing activities	(41,802)	(55,901)
Net increase in cash and cash equivalents	20,345	6,557
Cash and cash equivalents, beginning of year	50,601	44,044
Cash and cash equivalents, end of year	$ 70,946	$ 50,601

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

1. Description of Organization, Mission, and Values

Organization

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

Mission and Values

The Corporation's mission statement is as follows:

Continuing Christ's Ministry in Our Franciscan Tradition

The Corporation's values are as follows:

Respect for Life

Fidelity to Our Mission

Compassionate Concern

Joyful Service

Christian Stewardship

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

	(Unaudited)	
	2018	**2017**
	(in thousands)	
Benefits for the poor and underserved		
Unreimbursed costs of Medicaid and other indigent care programs	$ 131,803	$ 162,160
Cost of charity care provided	96,426	85,984
Other benefits for the poor and underserved	6,256	5,277
Total benefits for the poor and underserved	234,485	253,421
Benefits for the broader community		
Subsidized health services	40,091	29,394
Health professions education	14,657	14,606
Community health improvement services	5,508	4,877
Financial and in-kind contributions	1,408	1,457
Research	1,639	2,038
Community building activities	1,783	2,788
Community benefit operations	315	387
Total benefits for the broader community	65,401	55,547
Total quantifiable community benefits	299,886	308,968
Unreimbursed costs of Medicare	421,646	369,095
Total quantifiable community benefits including unreimbursed costs of Medicare	$ 721,532	$ 678,063

Total quantifiable community benefits including unreimbursed costs of Medicare were approximately 24% and 23% of total operating expenses for the years ended December 31, 2018 and 2017, respectively.

The Corporation also provides a significant amount of uncompensated care to patients which is not reported in the summary of quantifiable community benefits. Effective January 1, 2018, the Corporation adopted the Financial Accounting Standards Board ("FASB") Accounting Standard Update ("ASU") 2014-9, Revenue from Contracts with Customers (Topic 606) which requires revenue to be recognized in an amount that reflects the consideration the entity expects to be entitled to in an exchange for goods or services. Adoption of this ASU does not allow the separate reporting of the uncollectible amounts due from patients; however, the identification of this amount is needed for other purposes including governmental reporting and reimbursement calculations. The Corporation has a system-wide charity care and uninsured discount policy that includes administrative procedures for qualifying and enrolling patients for charity care or uninsured/underinsured discounts. The Corporation also uses various analytical programs to asses a patient's ability to pay and it utilizes numerous mechanisms to inform and educate patients about financial assistance. Despite these rigorous efforts, patients who need subsidized care may not seek this assistance nor choose to enroll in Medicaid or other financial assistance programs. For these and other reasons, the Corporation believes a portion of its uncollectible amounts due from patients represents charity care delivered to individuals in the communities it serves consistent with its charitable health care mission. During the years ended December 31, 2018 and 2017, the Corporation incurred approximately $50.4 million and $34.6 million, respectively, as uncollectible amounts due from patients based on accumulated charges.

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

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

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

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

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

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

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

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

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

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

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

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

2. Summary of Significant Accounting Policies

Principles of Consolidation

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

Use of Estimates

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

New Accounting Standards

Recent Accounting Pronouncements Adopted
On January 1, 2018, the Corporation adopted Financial Accounting Standards Board ("FASB") Accounting Standard Update ("ASU') 2014-09, *Revenue from Contracts with Customers (Topic 606)*, using the full retrospective method of transition. This new requirement converged and replaced existing revenue recognition guidance, including industry-specific guidance and requires revenue to be recognized in an amount that reflects the consideration the entity expects to be entitled in an exchange of goods or services. The adoption of this ASU did not result in changes to previously reported revenues, other than modification to presentation, however it did require additional disclosures.

For the period beginning January 1, 2018, the Corporation adopted ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of the Financial Statements of Not-for-Profit Entities* which changes certain financial statement requirements for not-for-profit entities in an effort to make the information more meaningful to users and to reduce reporting complexity. The Corporation adopted the ASU and has modified the presentation in these consolidated financial statements accordingly. The ASU has been applied retrospectively to all periods presented. The adoption of this ASU did not result in changes to previously reported net assets, other than presentation.

In August 2018, the FASB issued ASU 2018-15, *Intangibles — Goodwill and Other — Internal-Use Software (Subtopic 350-40)*, *Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract*. This ASU aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal – use software. The early adoption of this guidance using the prospective approach did not have an impact on the Corporation's consolidated financial statements.

New Accounting Pronouncements Not Yet Applicable
In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842).* This ASU requires the rights and obligations arising from lease contracts, including existing and new arrangements, to be recognized as assets and liabilities on the consolidated statements of financial position. The ASU also requires disclosure of key information about leasing arrangements. This guidance is effective for the Corporation beginning January 1, 2019 and will be adopted using a modified retrospective approach. The Corporation is currently evaluating the effect of adoption on its consolidated financial statements which will include recording the right-to-use assets and obligations for current operating leases.

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

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

In June 2018, the FASB issued ASU 2018-08, *Not-for-Profit Entities (Topic 958) – Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*. This ASU provides a more robust framework to determine when a transaction should be accounted for as a contribution or an exchange transaction and provides additional guidance about how to determine whether a contribution is conditional. The new standard is effective January 1, 2019 and will be applied using a modified prospective approach. The adoption of this ASU is not expected to have a significant effect on the Corporation's consolidated financial statements.

In August 2018, the FASB issued ASU 2018-14, *Compensation – Retirement Benefits – Defined Benefit Plans (Topic 715)*. This ASU modifies the disclosure requirements for employers that sponsor defined benefit pension or other postretirement plans. The ASU is effective January 1, 2021 with retrospective application required and early adoption permitted. The Corporation is currently assessing the impact of this ASU on its consolidated financial statements.

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

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

Patient Accounts Receivable and Patient Service Revenue
Patient accounts receivable and patient service revenue is reported at the amount that reflects the consideration the Corporation expects to be entitled to in exchange for providing patient care.

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

Board Designated and Other Investments and Investment Income
Board designated investments represents investments set aside by board policy for future purposes including capital expenditures, acquisitions, improvements, mission programs, and, in addition, to provide for the Corporation to meet any current liquidity needs. The Corporation's board retains control of these investments and may, at its discretion and in certain circumstances, use them for other purposes. Assets limited as to use include assets under bond indenture and collateral related to interest rate swap agreements, investments maintained for the payment of estimated insurance liabilities, and amounts contributed by donors with stipulated restrictions.

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

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

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

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

Fair Value Measurement

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

Fair value measurements reflected in the consolidated financial statements conceptually represent the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Generally accepted accounting principles establishes a fair value hierarchy that prioritizes the inputs used to measure fair value. This hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs.

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

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

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

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

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

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

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

Property, Plant, and Equipment

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

A conditional asset retirement obligation is recorded for any legal obligation associated with the retirement of long-lived assets resulting from the acquisition, construction, development, and/or normal use of the underlying assets. The associated asset retirement costs are capitalized as part of the carrying amount of the underlying asset and depreciated over the asset's estimated useful life. The liability is accreted through charges to operating expense. If the conditional asset retirement obligation is settled for other than the carrying amount of the liability, a gain or loss on sale/disposal of assets is recognized. As of December 31, 2018 and 2017, conditional asset retirement obligations of approximately \$4.8 million and \$10.8 million, respectively, are included within accounts payable and accrued expenses and other liabilities in the consolidated statements of financial position.

Goodwill and Intangible Assets

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

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

Asset Impairment

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

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

Deferred Financing Costs

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

Estimated Insurance Liabilities

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

Net Assets

The Corporation's financial statements have been prepared in accordance with U.S. GAAP, which require the Corporation to report information regarding its financial position and activities according to the following net asset classifications:

Net Assets Without Donor Restrictions – Net assets that are available for use in general operations and not subject to donor restrictions. These net assets may be used at the discretion of the Corporation and board of trustees.

Net Assets With Donor Restrictions – Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor or grantor. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the consolidated statements of operations and changes in net assets. Donor restricted contributions whose restrictions are met within the same year as received are reported as net assets without donor restrictions in the consolidated financial statements.

During 2018 and 2017, net assets of $4.9 million and $5.7 million, respectively, were released from donor restrictions by incurring expenses or capital expenditures satisfying the restricted purposes or by the passage of time.

Performance Indicator

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

Operating and Nonoperating Activities

The Corporation's primary mission is to meet the health care needs in the communities it is privileged to serve by providing a broad range of general and specialized health care services, including emergency, medical, surgical, behavioral, rehabilitative, and other health services in inpatient and outpatient settings; home health care services; and primary and specialty physician services. Additionally, the Corporation has various accountable care organizations and physician hospital organizations. Activities directly associated with the furtherance of this purpose are considered to be operating activities. Other activities that result in gains or losses peripheral to the Corporation's primary mission are considered to be nonoperating activities.

Charity Care

As an integral part of its mission, the Corporation provides care to patients who meet certain criteria under its charity care and uninsured patient discount policy without charge or at amounts less than its established rates. The cost of charity care as estimated below is determined based on each Health Center's total cost as a percentage of total charges and that ratio is applied to the charges incurred by patients qualifying for charity care under the Corporation's policy. The charges associated with the provision of such care are not included in patient service revenue in the consolidated statements of operations and changes in net assets. The estimated cost of charity care provided approximated $96.4 million and $86.0 million for the years ended December 31, 2018 and 2017, respectively. The Corporation maintains records to identify and monitor the level of charity it provides.

Capitation and Premium Revenue

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

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

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

Income Taxes

The Corporation has established its status as an organization exempt from income taxes under the IRC Section 501(c)(3) and the laws of the states in which it operates. The Corporation is, however, subject to federal and state income taxes on unrelated business income under IRC Section 511. Certain divisions and affiliates are subject to federal and state income taxes; however, such amounts are not material to the consolidated financial statements.

The Tax Cuts and Jobs Act ("TCJA") was enacted on December 22, 2017. For tax-exempt entities, TCJA requires organizations to categorize certain fringe benefits as a source of unrelated business income subject to tax; pay an excise tax on compensation above certain thresholds; and for tax determination purposes, record income or losses from unrelated business activities on an activity-by-activity basis; among other provisions. Regulations necessary to implement certain aspects of TCJA are expected to be promulgated by the Internal Revenue Service ("IRS") in 2019. As of and for the year ended December 31, 2018, the Corporation has made reasonable estimates of the provision for income taxes and the compensation excise tax based on guidance included in Accounting Standards Codification ("ASC") 740, *Income Taxes*. The Corporation will continue to refine its calculations in future periods, as additional regulations and guidance are issued by the IRS.

Derivative Financial Instruments

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

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

Cash paid for interest, net of amounts capitalized, amounted to $35.4 million and $46.7 million for the years ended December 31, 2018 and 2017, respectively.

Net cash paid for income taxes was $9,000 for the year ended December 31, 2018 and net cash received for income tax refunds was $0.9 million for the year ended December 31, 2017.

Included in accounts payable and accrued expenses and other liabilities at December 31, 2018 and 2017 are approximately $10.1 million and $30.5 million, respectively, of costs related to construction in progress and for the acquisition of property, plant, and equipment.

Reclassifications
Certain reclassifications have been made to the 2017 consolidated financial statements to conform to current year presentation. The reclassifications had no significant effect on total assets; total liabilities; total revenues, gains, and other support; or excess of revenues over expenses previously reported.

3. Patient Service Revenue

The Corporation provides health care services through various inpatient, outpatient, and ambulatory care settings. The Corporation recognizes patient service revenue at the amount that reflects the consideration to which it expects to be paid for providing such care. These amounts are due from patients, third-party payors (including health insurers and government programs) and others, and include variable consideration for retroactive adjustments due to settlement of audits and reviews by Medicare, and amounts received under various state Medicaid hospital assessment and disproportionate share programs. Generally, the Corporation bills patients and third-party payors several days after the services are performed and/or when a patient is discharged. Performance obligations are determined based on the nature of the services provided by the Corporation and patient service revenue is recognized as performance obligations are satisfied.

Patient service revenue for performance obligations satisfied over time is recognized based on actual charges incurred in relation to total expected or actual charges. Generally, performance obligations satisfied over time relate to patients in the Corporation's hospitals receiving inpatient acute care services. The performance obligation is measured from admission into the hospital to the point when it is no longer required to provide services to that patient, which is generally at the time of discharge. Outpatient services are performance obligations generally satisfied at a point in time and revenue is recognized when goods or services are provided. The Corporation believes that this method provides a fair depiction of the transfer of services over the term of the performance obligation based on the inputs needed to satisfy the obligations.

Because all of its performance obligations relate to contracts with a duration of less than one year, the Corporation has elected to apply the optional exemption provided in FASB ASU 606-10-50-14(a) and, therefore, is not required to disclose the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied or partially satisfied at the end of the reporting period. The unsatisfied or partially unsatisfied performance obligations referred to above are primarily related to inpatient acute care services at the end of the reporting period. The performance obligations for these contracts are generally completed when the patients are discharged, which typically occurs within days or weeks of the end of the Corporation's reporting period.

The Corporation determines the transaction price based on standard charges for goods and services provided to patients reduced by contractual adjustments provided to third-party payors, discounts provided to uninsured and underinsured patients in accordance with the Corporation's policy, and/or implicit price concessions provided to uninsured and underinsured patients. The Corporation determines its estimates of contractual adjustments and discounts based on contractual agreements, its discount policies, and historical experience. The Corporation determines its estimate of implicit price concessions based on the aging of its patient accounts receivable, historical collection experience with uninsured and underinsured patients, and other relevant factors.

Patients who meet the Corporation's criteria for charity care are provided care without charge or at amounts less than established rates. Such amounts determined to qualify as charity care are not reported as patient service revenue as described in Note 2.

The Corporation uses a portfolio approach to account for categories of patient contracts as a collective group, rather than recognizing revenue on an individual contract basis. The portfolios consist of major payor classes for inpatient, outpatient, and physician revenue. Based on historical collection trends and other relevant factors, the Corporation believes that revenue recognized by utilizing the portfolio approach approximates the revenue that would have been recognized if an individual contract approach was used.

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

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

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

Certain of the Corporation's Health Centers qualify as State of Indiana Medicaid Acute Disproportionate Share and Medicaid Safety Net Hospitals ("DSH") under Indiana law (IC 12-15-16 (1-3)), and are eligible to receive DSH payments linked to the State's fiscal year, which differs from the Corporation's fiscal year. The amount of these additional DSH funds is dependent on regulatory approval by federal and state agencies and is determined by the level, extent, and cost of uncompensated care (as defined) and various other factors. The Corporation records such amounts as revenue when payments are received or based upon data from the State of Indiana that payments are determinable and probable of receipt. For the years ended December 31, 2018 and 2017, the Corporation recognized revenue of approximately $53.9 million and $6.2 million, respectively, related to the DSH program in the consolidated statements of operations and changes in net assets due to delays by the State of Indiana to determine the amount and payment of such balances.

The Corporation's Indiana Health Centers participate in the State of Indiana's Hospital Assessment Fee ("HAF") program. The HAF program is a supplemental reimbursement program designed to help providers offset a portion of the cost of providing care to Medicaid and indigent patients. The HAF program is funded by a combination of federal and state resources and fees levied on hospital providers. The HAF program was initially effective until June 30, 2013, and was subsequently renewed to continue through June 30, 2019. For the years ended December 31, 2018 and 2017, the Corporation's Indiana Health Centers recognized supplemental HAF reimbursement of $84.1 million and $76.8 million, respectively, which is recorded as a component of patient service revenue in the Corporation's consolidated statements of operations and changes in net assets. For the years ended December 31, 2018 and 2017, the Corporation's Indiana Health Centers recognized HAF fees of $79.8 million and $69.1 million, respectively, in the consolidated statement of operations and changes in net assets.

The Corporation's Illinois Health Centers are obligated under Illinois Public Act 95-859 to participate in the State of Illinois' Hospital Assessment Program ("HAP") that assists in financing the State's Medicaid Program. The programs are approved through June 30, 2020. For the years ended December 31, 2018 and 2017, the Corporation's Illinois Health Centers recognized supplemental HAP and related reimbursement of $25.8 million and $31.3 million, respectively, which is recorded as a component of patient service revenue in the Corporation's consolidated statements of operations and changes in net assets. For the years ended December 31, 2018 and 2017, the Corporation's Illinois Health Centers recognized HAP related fees of $13.6 and $15.3 million, respectively, in the consolidated statement of operations and changes in net assets.

The State of Illinois' Medicaid program has operated with budget deficits. The deficits include the continued practice of deferring Illinois Medicaid bills to future periods and have led to the State of Illinois' slowdown in claims processing and payments. As of December 31, 2018 and 2017, the Corporation's patient accounts receivable included amounts due from Illinois Medicaid of approximately $17.6 million and $12.2 million, respectively, representing approximately 8.1 and 5.6 months, respectively, of outstanding claims. Management continues to value these patient accounts receivable using historical collection rates.

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

Like Medicare, commercial insurance companies are entering into various fee-for-value reimbursement programs with qualifying providers. In 2018 and 2017, the Corporation participated in various commercial ACO reimbursement programs in which the Corporation receives a care management fee per ACO participant and the opportunity to receive limited gainsharing and incentives based upon its performance as compared to established quality and efficiency benchmarks.

The composition of patient service revenue by payor for the years ended December 31, 2018 and 2017, is as follows:

	2018	2017
Medicare	$ 616,939	$ 646,589
Medicare managed care	222,372	196,649
Medicaid	134,099	108,838
Medicaid managed care	214,994	181,432
Other third-party payors	1,622,060	1,509,721
Self-pay	92,697	84,705
Other	25,573	28,326
	$ 2,928,734	$ 2,756,260

The Corporation grants credit without collateral to its patients, most of who are insured under third-party payor agreements. The mix of receivables from patients and third-party payors at December 31, 2018 and 2017, is as follows:

	2018	2017
Medicare	$ 51,154	$ 51,794
Medicare managed care	29,247	26,910
Medicaid	28,631	23,682
Medicaid managed care	21,371	33,703
Other third-party payors	183,385	178,340
Self-pay	49,395	43,463
Other	12,195	11,947
	$ 375,378	$ 369,839

The Corporation's practice is to assign a patient to the primary payor and not reflect other uninsured balances (for example, copays and deductibles) as self-pay. Therefore the payors listed contain patient responsibility components, such as co-pays and deductibles.

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. Compliance with such laws and regulations can be subject to future government review and interpretation, as well as regulatory action including fines, penalties, and/or exclusion from the Medicare and Medicaid programs. As a result, there is at least a reasonable possibility that recorded estimates may change in the near term. Patient service revenue increased by approximately $5.6 million and $1.6 million for the years ended December 31, 2018 and 2017, respectively, due to changes in estimates related to prior-year settlements with third party payors.

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

The composition of short-term, board designated, and other investments, at December 31, 2018 and 2017, is as follows:

	2018	2017
	(in thousands)	
Short-term investments	$ 135,672	$ 123,440
Board designated investments		
Funded depreciation and other Board projects	2,207,275	2,364,962
Other designated investments	1,865	1,944
	2,209,140	2,366,906
Assets limited as to use		
Estimated insurance liability funds	159,920	168,064
Assets under bond indenture and interest rate swap agreements	15,725	111,759
Other restricted investments	34,696	32,755
	210,341	312,578
Short-term, board designated, and other investments	2,555,153	2,802,924
Less short-term investments	135,672	123,440
Board designated and other investments, classified as noncurrent	$ 2,419,481	$ 2,679,484

Short-term, board designated, and other investments at December 31, 2018 and 2017, consist of the following:

	2018	2017
	(in thousands)	
Cash and cash equivalents	$ 61,462	$ 191,458
U.S. government, state, municipal, and agency obligations	254,823	223,389
Other fixed income securities	282,038	340,115
Equity securities	614,213	799,169
Asset backed securities	246,535	232,663
Index funds, exchange traded funds, and mutual funds	55,065	31,588
Unregistered mutual funds	303,091	221,064
Real estate investment trusts	3,237	3,840
Hedge funds	501,811	553,888
Private credit	13,152	15,079
Private equity	64,874	59,861
Real assets	154,852	130,810
	$ 2,555,153	$ 2,802,924

The following tables present the fair value hierarchy of the valuation techniques utilized to determine the fair value of the Corporation's short-term, board designated, and other investments as of December 31, 2018 and 2017:

Asset category	**Level 1**	**Level 2**	**Level 3**	**Balance as of December 31, 2018**
		(in thousands)		
Cash and cash equivalents	$ 61,462	$ -	$ -	$ 61,462
U.S. government, state, municipal, and agency obligations	224,656	30,167	-	254,823
Other fixed income securities	-	282,035	3	282,038
Equity securities	614,092	-	121	614,213
Asset backed securities	-	246,535	-	246,535
Index funds, exchange funds, and mutual funds	55,065	-	-	55,065
Real estate investment trusts	3,237	-	-	3,237
	$ 958,512	$ 558,737	$ 124	1,517,373
Investments measured at net asset value				1,037,780
Total investments at fair value as of December 31, 2018				$ 2,555,153

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

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

Changes in Level 3 hierarchy assets measured at fair value for the Corporation's board designated and other investments at December 31, 2018 are as follows:

	Balances as of December 31, 2017	Net Unrealized Gain (Loss)	Net Realized Gain (Loss)	Balances as of December 31, 2018
		(in thousands)		
Other fixed income securities	$ -	$ 3	$ -	$ 3
Equity securities	121	(139)	139	121
	$ 121	$ (136)	$ 139	$ 124

There were no significant transfers to or from Levels 1 and 2 during the years ended December 31, 2018 and 2017.

The following table summarizes the Corporation's investments calculated on a NAV per share basis (or its equivalent), the unfunded commitments, and the associated redemption provisions at December 31, 2018:

	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
	(in thousands)			
Unregistered mutual funds	$ 303,091	$ -	Monthly	1 day
Hedge funds	501,811	-	Monthly, quarterly, annually	5 - 180 days
Private credit	13,152	4,727	Not currently redeemable	-
Private equity	64,874	78,368	Not currently redeemable	-
Real assets	154,852	12,013	Monthly, quarterly, not currently redeemable	45 days
	$ 1,037,780	$ 95,108		

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

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

Private credit includes investments that are secured by high quality assets or backed by a senior claim on stable cash flows. Investments in this asset class will be made opportunistically during periods of broad market or security specific distress. The fair values of the investments in this class have been estimated using the NAV of the Corporation's ownership interest in the partners' capital. Investments within these funds cannot be currently redeemed. After the expiration of the investment period, distributions from each fund will be received as the underlying investments of the funds are liquidated. It is estimated that the underlying assets of the funds will be liquidated over the next 1 to 3 years. However, the individual investments that will be sold have not yet been determined.

Private equity includes funds that invest globally using strategies that include leveraged buyouts, venture capital, growth capital, distressed investments, and mezzanine capital. The fair values of the investments in this class have been estimated using the NAV of the Corporation's ownership interest in the partners' capital. Investments within these funds cannot be currently redeemed. After the expiration of the investment period, distributions from each fund will be received as the underlying investments of the funds are liquidated. It is estimated that the underlying assets of the funds will be liquidated over the next 1 to 10 years. However, the individual investments that will be sold have not yet been determined.

Real assets include energy and energy-related investments and private real estate funds that invest in both U.S. and international commercial real estate. Energy and energy-related investment exposure mainly relate to oil and gas properties which include exploration, production, processing, servicing, or transportation of oil, natural gas, and other hydrocarbon fuels. Private real estate investment strategies include core, value-add, and opportunistic real estate which typically seek to earn a return over inflation. The fair values of the investments in this class have been estimated using the NAV of the Corporation's ownership interest in the partners' capital. Investments representing approximately 75% of the value of the investments in this class cannot be redeemed because the investments include redemption restrictions that range from 1 to 10 years after acquisition. After the expiration of the investment period, distributions from each fund will be received as the underlying investments of the funds are liquidated. It is estimated that the underlying assets of the funds will be liquidated over the next 1 to 7 years. However, the individual investments that will be sold have not yet been determined.

Investment returns including net unrealized gains (losses) included in the consolidated statements of operations and changes in net assets for the years ended December 31, 2018 and 2017, are as follows:

	2018	2017
	(in thousands)	
Revenues, gains, and other support		
Investment income in other operating revenue	$ 9,911	$ 6,734
Net unrealized investment (losses) gains	(16,354)	9,903
	(6,443)	16,637
Nonoperating income (expense)		
Investment income	174,816	149,235
Net unrealized investment (losses) gains on trading securities	(275,398)	130,780
	(100,582)	280,015
Net assets with donor restrictions, controlling interest		
Investment income	526	651
Net unrealized investment losses	(497)	(15)
	29	636
	$ (106,996)	$ 297,288

5. Property, Plant, and Equipment

A summary of property, plant, and equipment at December 31, 2018 and 2017, is as follows:

	2018	2017
	(in thousands)	
Land and land improvements	$ 161,155	$ 156,893
Buildings and building equipment	1,616,904	1,458,522
Departmental equipment	1,590,881	1,529,833
Construction in progress	252,130	318,312
	3,621,070	3,463,560
Less accumulated depreciation	1,638,241	1,601,055
	$ 1,982,829	$ 1,862,505

At December 31, 2018, the remaining contractual commitments on construction in progress is approximately $10.9 million and will be financed by a combination of cash flow from operations and existing funds.

Certain leases for facilities and medical equipment are accounted for as capital leases. These leases expire in various years through 2024 and are included in property, plant, and equipment on the consolidated statements of financial position. The amortization of assets under capital leases is included in depreciation and amortization expense in the consolidated statements of operations and changes in net assets. The accumulated amortization of assets under capital leases for the years ended December 31, 2018 and 2017 were $13.7 million and $15.0 million, respectively.

The Corporation consolidated the majority of its clinical services from its Franciscan Health Chicago Heights campus to its Franciscan Health Olympia Fields campus during 2018. In January 2019, the Corporation relocated the majority of clinical operations at its Franciscan Health Michigan City campus to a newly constructed campus. Both of these activities required a change in the estimated useful life of the campus assets resulting in the acceleration of depreciation for the years ended December 31, 2018 and 2017 of $27.4 million and $8.5 million, respectively.

6. Long-Term Debt

Long-term debt at December 31, 2018 and 2017, consists of the following:

	Year of Final Maturity	Interest Rate Range over Life of Bonds		2018	2017
				(in thousands)	
Tax Exempt Hospital and Health System Revenue and Refunding Bonds					
Fixed rate term and serial bonds					
Series 2008C	2022	5.0%		$ 32,270	$ 41,555
Series 2009A	2019	5.0%		3,310	9,760
Series 2016A	2051	4.0%-5.0%		200,000	200,000
Series 2016B	2041	3.0%-5.0%		83,810	83,890
Series 2017B	2032	5.0%		148,135	148,135
Series 2017C	2039	3.0%-5.0%		191,140	191,140
Bond discounts and premiums, net				49,696	54,226
Total fixed rate term and serial bonds				$ 708,361	$ 728,706
		Interest Rate Range 2018	**Interest Rate Range 2017**		
Variable rate direct placement bonds					
Series 2012A	2048	2.19% - 2.81%	1.39%-1.80%	$ 75,000	$ 75,000
Series 2014A	2048	1.83% - 2.77%	1.30%-1.69%	50,000	50,000
Series 2016C	2041	1.76% - 2.31%	1.20%-1.61%	74,705	76,335
Series 2016D	2041	1.69% - 2.24%	1.13%-1.54%	74,590	76,215
Series 2016E	2048	1.76% - 2.31%	1.20%-1.61%	63,895	63,895
Series 2017A	2048	1.60% - 2.38%	1.33%-1.40%	45,250	45,250
Total variable rate direct placement bonds				$ 383,440	$ 386,695
Variable rate demand bonds, subject to seven-day or daily put provisions supported by direct pay bank letters of credit					
Series 2008F	2048	0.95% - 1.86%	0.60%-1.75%	45,200	45,200
Series 2008I	2037	0.52% - 1.84%	0.61%-1.75%	35,985	35,985
Series 2008J	2037	0.52% - 1.84%	0.60%-1.75%	35,995	35,995
Total variable rate demand bonds				$ 117,180	$ 117,180
Other debt					
Capital lease obligations (excluding imputed interest of $1,073 and $1,514 at December 31, 2018 and 2017, respectively)				$ 8,846	$ 12,223
Deferred financing costs and other				(4,984)	(5,324)
Total long-term debt				1,212,843	1,239,480
Less current portion of long-term debt				(23,168)	(23,063)
Long-term debt, net of current portion				$ 1,189,675	$ 1,216,417

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

Years ended December 31	Fixed and Variable Rate Bonds	Capital Lease Obligations & Other (in thousands)	Total
2019	$ 19,985	$ 3,183	$ 23,168
2020	19,975	2,132	22,107
2021	20,920	1,400	22,320
2022	21,835	1,030	22,865
2023	22,885	882	23,767
Thereafter	1,053,685	219	1,053,904
	$ 1,159,285	$ 8,846	$ 1,168,131

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

	2018 (in thousands)	2017
Interest costs incurred	$ 37,702	$ 43,173
Less capitalized interest	10,700	5,238
Interest expense included in operating income	$ 27,002	$ 37,935

The fair value of the Corporation's long-term debt at December 31, 2018 and 2017 approximates $1.264 billion and $1.309 billion, respectively. The fair values of the Corporation's underlying tax exempt Hospital and Health System Revenue Bonds and Refunding Bonds are based on current traded values for similar types of borrowings which are considered Level 2 inputs as described in Note 2.

Obligated Group and Designated Group Affiliates and Other Requirements - The Corporation has long-term debt outstanding under a Master Trust Indenture dated November 1, 1997, as amended and supplemented ("MTI"). The MTI permits the Corporation to issue obligations to finance certain activities. The Corporation and any future other members of the Obligated Group created under the MTI are jointly and severally liable with respect to the payment of each obligation issued under the MTI. In addition, the MTI provides that certain affiliates of the Corporation may be designated as Designated Group Affiliates from time to time and the Corporation covenants to cause each of its Designated Group Affiliates to pay, loan, or otherwise transfer to the Obligated Group such amounts necessary to pay the obligations issued under the MTI. The Designated Group Affiliates are not members of the Obligated Group and are not directly liable for payments on the obligations. The Corporation has granted a security interest in its unrestricted receivables for the benefit of the owners of the obligations. The MTI includes covenants which require the Corporation to maintain a minimum debt service coverage ratio of 1.10 and limit the Obligated Group's and Designated Affiliates' ability to encumber certain of their assets. As of December 31, 2018 and 2017, the Corporation was in compliance with the terms of the MTI and there were no other Obligated Group members nor any Designated Group Affiliates.

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

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

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

Variable Rate Demand Bonds – Included in the Corporation's debt is approximately $117.2 million of variable rate demand bonds, Series 2008F, Series 2008I, and Series 2008J. The Corporation has entered into irrevocable letters of credit with multiple financial institutions to secure bond repayment and interest obligations associated with its variable rate demand bonds. These liquidity facilities are available to the Corporation should the obligations be presented for purchase and not remarketed. There were no outstanding draws on the letters of credit as of December 31, 2018. Additionally, these facilities (if utilized) generally have repayment terms for bonds held by the letter of credit banks that amortize ratably over 3 to 5 years, depending on the facility used. Termination dates for the various liquidity facility agreements have expiration dates extending through October 2022.

Variable Rate Direct Placement Bonds – Included in the Corporation's debt is approximately $383.4 million of direct placement bonds, Series 2012A, Series 2014A, Series 2016C through 2016E, and Series 2017A. The Corporation has executed various variable rate direct placement agreements whereby the credit provider purchased these bonds for a predetermined period after which the agreement must be extended or the bonds must be remarketed or refinanced. Termination dates for these various variable rate direct placement agreements have expiration dates extending from November 2021 through October 2026.

During 2018, the Corporation amended the Series 2012A, Series 2014A, and Series 2017A variable rate direct placement bond agreements to minimize the increase in interest rates when the federal tax rate was decreased under TCJA. As part of these amendments, the Series 2012A variable rate direct placement bond was extended for three years; however, the Series 2014A and Series 2017A variable rate direct placements bond tenors remained unchanged.

7. Other Liabilities and Commitments

Interest Rate Swap Contracts – The Corporation utilizes interest rate swaps to manage interest rate risk associated with its variable rate bonds. Cash payments on the interest rate swap contracts totaled $7.7 million and $10.2 million for the years ended December 31, 2018 and 2017, respectively. At December 31, 2018 and 2017, the interest rate swap contracts were in a liability position with a fair value of approximately $53.2 million and $65.2 million, respectively. The fair value of the Corporation's interest rate swap contracts are based on observable inputs, such as interest rates and credit risk spreads, that fall within Level 2 of the hierarchy of fair value inputs as described in Note 2. Certain of the Corporation's interest rate swap agreements include collateral funding requirements based on the market value of these contracts. At December 31, 2018 and 2017, the Corporation had posted $15.7 million and $21.5 million, respectively, to satisfy its collateral funding obligations on these contracts which are included in assets under bond indenture and interest rate swap agreements within board designated and other investments on the consolidated statements of financial position.

Operating Leases – The Corporation leases various facilities, equipment, and software. Total rental expense under operating leases approximated $48.0 million and $46.8 million for the years ended December 31, 2018 and 2017, respectively. Future minimum lease payments under operating leases as of December 31, 2018 that have initial or remaining lease terms in excess of one year are as follows:

	(in thousands)
Years ended December 31	
2019	$ 42,221
2020	40,382
2021	39,443
2022	38,633
2023	36,284
Thereafter	53,547
	$ 250,510

8. Retirement Benefits

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

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

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

In 2016, the Corporation amended its defined benefit plan to allow active participants to take their benefits as a lump sum when they terminate employment or retire. The plan's projected benefit obligations decreased by $57.8 million and $35.0 million in 2018 and 2017, respectively, related to these lump sum distributions and no settlement charges were recognized.

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

The change in projected benefit obligation, change in plan assets, and funded status of the Corporation's pension plans as of December 31, 2018 and 2017, are as follows:

	2018	**2017**
	(in thousands)	
Change in benefit obligation		
Benefit obligation, beginning of year	$ 1,652,255	$ 1,501,260
Service cost	50,238	45,271
Interest cost	60,266	62,597
Plan curtailment and termination	-	(21,880)
Actuarial (gain) loss	(146,421)	139,776
Benefits paid	(102,887)	(74,769)
Benefit obligation, end of year	1,513,451	1,652,255
Change in plan assets		
Fair value of plan assets, beginning of year	1,433,894	1,223,688
Actual return on plan assets	(102,726)	204,361
Employer contributions	82,578	99,830
Plan settlements	-	(19,216)
Benefits paid	(102,887)	(74,769)
Fair value of plan assets, end of year	1,310,859	1,433,894
Funded status	$ (202,592)	$ (218,361)
Amounts recognized in the consolidated statements of finanical position		
Noncurrent assets	$ -	$ 177
Noncurrent liabilities	(202,592)	(218,538)
Total amount recognized	$ (202,592)	$ (218,361)

The amounts in net assets without donor restriction, including amounts arising during the year and amounts reclassified into net periodic benefit cost, are as follows:

	Net Gain (Loss)	Prior Service Cost (in thousands)	Total
December 31, 2016	$ (397,788)	$ 34,651	$ (363,137)
Amounts reclassified into net periodic benefit cost	26,941	(4,798)	22,143
Amounts arising during the year	(11,353)	-	(11,353)
December 31, 2017	(382,200)	29,853	(352,347)
Amounts reclassified into net periodic benefit cost	28,198	(4,767)	23,431
Amounts arising during the year	(47,928)	-	(47,928)
December 31, 2018	$ (401,930)	$ 25,086	$ (376,844)

The following are estimated amounts to be amortized from net assets without donor restriction into net periodic pension cost in the next fiscal year. Unrecognized prior service cost/credit is amortized on a straight line basis over the average remaining service period of participants who are expected to receive a benefit and are active at the date of the plan amendment.

	(in thousands)
Unrecognized prior service cost	$ 4,767
Unrecognized loss	(29,284)
Total amount expected to be amortized from net assets in 2019	$ (24,517)

The accumulated benefit obligation ("ABO") at December 31, 2018 and 2017 was $1.41 billion and $1.53 billion, respectively. The following information is provided for plans with an ABO in excess of plan assets at December 31, 2018 and 2017:

	2018	2017
	(in thousands)	
Projected benefit obligation	$ 1,513,451	$ 1,647,849
ABO	1,409,010	1,529,506
Fair value of plan assets	1,310,859	1,429,312

Components of net periodic pension cost for the years ended December 31, 2018 and 2017 are as follows:

	2018	2017
	(in thousands)	
Service cost	$ 50,238	$ 45,271
Interest cost	60,266	62,597
Expected return on plan assets	(91,622)	(78,603)
Amortization of prior service cost	(4,767)	(4,934)
Amortization of net loss	28,198	27,798
Curtailment loss recognized	-	137
Settlement gain recognized	-	(857)
Net periodic pension cost	$ 42,313	$ 51,409

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

	2018	2017
Benefit obligation		
Discount rate	4.43 %	3.71 %
Rate of compensation increase	4.70 %	4.70 %
Net periodic pension cost		
Discount rate	3.71 %	4.34 %
Expected rate of return on plan assets	6.46 %	6.45 %
Rate of compensation increase	4.70 %	4.70 %

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

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

As of December 31, 2016, the Corporation adopted the Society of Actuaries RP-2014 Mortality Table and MP-2017 Mortality Improvement Projection Scale to update longevity expectations related to the pension plans.

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

Pension Plan Funded Status	De-Risking Assets	Return Seeking/ Growth Assets
< 90%	45%	55%
90% - 95%	55%	45%
95% - 100%	65%	35%
100% - 105%	75%	25%
105% - 110%	80%	20%
110%+	85%	15%

The funded status of the Corporation's pension plans was 87% for both the years ended December 31, 2018 and 2017, when measured on a projected benefit obligation basis. For each level of funded status, the acceptable range of allocation among the de-risking and return seeking/growth assets, is plus or minus 10% around the strategic targets outlined above. The Corporation's asset allocation as of December 31, 2018 and 2017 was as follows:

	Percentage of Plan Assets	
	2018	2017
De-Risking Portfolio	48%	47%
Return Seeking/Growth Portfolio	52%	53%
	100%	100%

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

Cash Flows

During 2019, the Corporation anticipates making contributions of approximately $32.6 million to fund the normal service cost in accordance with its standard funding policy. The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid as follows:

	(in thousands)
2019	$ 93,482
2020	96,491
2021	98,301
2022	101,047
2023	102,539
Years 2024-2028	523,777

The following tables summarize the Corporation's pension assets, measured at fair value as of December 31, 2018 and 2017, respectively.

Asset category	Level 1	Level 2	Level 3	Balance as of December 31, 2018
		(in thousands)		
Cash and cash equivalents	$ 56,498	$ -	$ -	$ 56,498
U.S. government, state, municipal, and agency obligations	115,970	38,042	-	154,012
Other fixed income securities	-	468,690	-	468,690
Equity securities	430,806	-	952	431,758
Real estate investment trusts	3,059	-	-	3,059
	$ 606,333	$ 506,732	$ 952	1,114,017
Investments measured at net asset value				196,842
Total investments at fair value as of December 31, 2018				$ 1,310,859

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

Changes in Level 3 hierarchy assets measured at fair value for the Corporation's pension assets at December 31, 2018 are as follows:

	Balances as of December 31, 2017	Net Unrealized Gain (Loss)	Purchases	Sales	Balances as of December 31, 2018
			(in thousands)		
Equity Securities	$ 565	$ (484)	$ 947	$ (76)	$ 952
	$ 565	$ (484)	$ 947	$ (76)	$ 952

There were no significant transfers to or from Levels 1 and 2 during the years ended December 31, 2018 and 2017.

Defined Contribution Benefit Plans - The Corporation sponsors various defined contribution benefit plans covering eligible employees. These employees may contribute a portion of their pre-tax and/or after-tax compensation to the plans, in accordance with specified guidelines. In addition to any discretionary contributions, these plans provide for established contribution percentages up to certain limits for eligible employees. The defined contribution benefit plan expense for the years ended December 31, 2018 and 2017 aggregated $24.4 million and $23.0 million, respectively.

9. Liability Insurance and Contingencies

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

The estimated insurance liabilities provide for reported losses and for losses incurred but not reported based on projections by independent actuaries using information provided by the Corporation's management. The estimated insurance liabilities, which consist of professional liability, general liability, long-term disability insurance, workers' compensation, and amounts self-insured for allocated loss adjustment expenses, approximated $139.3 million and $136.1 million on an undiscounted basis at December 31, 2018 and 2017, respectively.

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

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

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

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

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

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

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

At December 31, 2018 and 2017, the Corporation had a 33%, economic interest in Alverno Clinical Laboratories, LLC ("ACL, LLC"), an Indiana limited liability company created to direct, operate, maintain, and manage a centralized clinical laboratory in Hammond, Indiana supporting the Corporation and an unrelated health care system. The Corporation is also an owner of Alverno Provena Hospital Laboratories, LLC ("APHL"), a non-profit cooperative corporation created to direct, operate, maintain, and manage the on-site laboratories of the owners' health centers. Governance of ACL, LLC and APHL (collectively referred to as the "Laboratories") is shared between the health system members. The Corporation accounts for its investment in ACL, LLC under the equity method, which approximated $6.0 million and $5.3 million at December 31, 2018 and 2017, respectively. The Corporation's capital account in APHL approximates $50,000 at both December 31, 2018 and 2017.

The Corporation's share of the equity in (losses) income of investments in unconsolidated affiliates accounted for on the equity method is approximately ($1.7) million and $2.9 million for the years ended December 31, 2018 and 2017, respectively, which is included in total revenues, gains, and other support in the consolidated statements of operations and changes in net assets.

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

	2018	2017
	(in thousands)	
Total assets	$ 63,636	$ 63,986
Total liabilities	31,677	34,006
Net assets	31,959	29,980
Total revenues, gains, and other support	275,752	296,549
Excess (deficiency) of revenues over expenses	3,565	(646)

11. Net Assets with Donor Restrictions

Net assets with donor restrictions are available for the following purposes at December 31, 2018 and 2017:

	2018	2017
	(in thousands)	
Capital needs and equipment	$ 4,288	$ 1,047
Medical education programs	7,550	7,158
Health care operations and patient services	18,632	14,941
Other restrictions - spiritual care and mission related activities	5,841	11,566
	$ 36,311	$ 34,712

The Corporation had acted as a holding agent of a donor restricted endowment. During 2017, the Corporation derecognized approximately $4.6 million of this restricted endowment.

12. Liquidity and Availability

The following table represents the financial assets and liquidity resources available for general expenditure within one year as of December 31, 2018 and 2017. The Corporation defines general expenditures as the normal expenditures related to operations of the Corporation, excluding capital expenditures. The Corporation invests cash in excess of daily requirements needed to satisfy general expenditures in short-term investments and board designated and other investments. The Corporation has structured its financial assets to be available as its general expenditures, liabilities, and other obligations come due. Board designated investments represent investments set aside by board policy for future purposes including capital expenditures, acquisitions, improvements, mission programs, and, in addition, to provide for the Corporation to meet any current liquidity needs.

	2018	2017
	(in thousands)	
Financial assets:		
Cash and cash equivalents	$ 70,946	$ 50,601
Short-term investments	135,672	123,440
Patient accounts receivable	375,378	369,839
Board designated and other investments	2,419,481	2,679,484
Total financial assets	3,001,477	3,223,364
Less amounts not available within one year or not designated for general expenditures:		
Estimated insurance liability funds	159,920	168,064
Assets under bond indenture and swap agreements	15,725	111,759
Other restricted investments	34,696	32,755
Private credit	13,152	15,079
Private equity	64,874	59,861
Total financial assets not available within one year	288,367	387,518
Financial assets and liquidity resources available for general expenditures within one year	$ 2,713,110	$ 2,835,846

The estimated insurance liability funds are set aside for the Corporation's captive insurance program and are not available for general expenditures. The Corporation's other restricted investments consist of foundation assets not available within one year or for general expenditures. Private credit and private equity investments are not available within one year due to the nature of those investments or contractual restrictions which prevent redemption of all or a portion of such funds.

13. Related Party Transactions

The Corporation's Health Centers incurred clinical laboratory charges from the Laboratories of approximately $73.0 million and $71.5 million for the years ended December 31, 2018 and 2017, respectively, which is included in purchased services in the consolidated statements of operations and changes in net assets. The Corporation provides information technology services, central procurement and disbursement services, and rents the core lab facilities to the Laboratories for which the Corporation has recorded approximately $3.4 million and $3.9 million for the years ended December 31, 2018 and 2017, respectively, as other operating revenue on the consolidated statements of operations and changes in net assets.

14. Functional Expenses

The tables below present expenses by both their nature and function for the years ending December 31, 2018 and 2017:

	Health Care Servcies	General and Administrative	Construction Company	Accountable Care Organizations	Total
			(in thousands)		
Year ended December 31, 2018					
Salaries, benefits, and physician fees	$ 1,270,732	$ 312,165	$ 9,732	$ 18,181	$ 1,610,810
Supplies, drugs, purchased services, and other	810,337	187,920	33,430	65,976	1,097,663
Hospital assessment fees	93,409	-	-	-	93,409
Depreciation and amortization	176,106	26,060	197	2	202,365
Interest	27,002	-	-	-	27,002
	$ 2,377,586	$ 526,145	$ 43,359	$ 84,159	$ 3,031,249
Year ended December 31, 2017					
Salaries, benefits, and physician fees	$ 1,256,069	$ 305,048	$ 422	$ 17,344	$ 1,578,883
Supplies, drugs, purchased services, and other	687,369	256,402	3,019	76,351	1,023,141
Hospital assessment fees	84,467	-	-	-	84,467
Depreciation and amortization	154,445	22,292	8	3	176,748
Interest	37,935	-	-	-	37,935
	$ 2,220,285	$ 583,742	$ 3,449	$ 93,698	$ 2,901,174

The consolidated financial statements report certain categories of expenses that are attributable to more than one supporting function. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. These expenses are allocated on a variety of factors including hours worked and areas supported.

15. Subsequent Events

Management has evaluated events and transactions occurring subsequent to December 31, 2018 through April 16, 2019, the date the consolidated financial statements were issued. During this period, there were noted no material subsequent events requiring recognition in the consolidated financial statements or disclosure.