



**Verity Health System of California, Inc.
Unaudited Financial Report and Utilization Statistics
For the Twelve Months Ended June 30, 2018**



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Verity Health System of California, Inc.

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VERITY HEALTH SYSTEM OF CALIFORNIA, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE TWELVE MONTHS ENDED
June 30, 2018

Verity Health System of California, Inc., a California nonprofit public benefit corporation (the "Parent") is the sole corporate member of five California nonprofit public benefit corporations that operate five acute care hospitals and other facilities (collectively, the "Hospitals," see list below) in the state of California. The Parent and the following affiliated entities (collectively, "Verity") operate as a nonprofit health care system in the state of California, with approximately 1,680 licensed acute care and skilled nursing beds.

Verity consists of Parent* and the following:

- O'Connor Hospital*
- Saint Louise Regional Hospital*
- St. Francis Medical Center*
- St. Vincent Medical Center*
- Seton Medical Center (including its unincorporated division Seton Medical Center Coastside)*
- Verity Business Services
- Marillac Insurance Company, Ltd.
- O'Connor Hospital Foundation
- Saint Louise Regional Hospital Foundation
- St. Francis Medical Center Foundation
- St. Vincent Medical Center Foundation
- Seton Medical Center Foundation
- St. Vincent de Paul Ethics Corporation
- St. Vincent Dialysis Center
- De Paul Ventures, LLC
- Verity Medical Foundation
- Verity Holdings, LLC
- Verity BASM Holdco, LLC**

* Member of the Obligated Group, as defined in the Master Indenture of Trust, dated as of December 1, 2001 (as previously amended and supplemented, the "Master Indenture"), among the Parent, the other Initial Members (as defined therein) and U.S. Bank National Association.

** Verity redeemed its investment in Verity BASM Holdco, LLC subsequent to June 30, 2018 (See "Other Events").

The financial information summarized herein represents consolidated financial information for Verity, not financial information solely for the Obligated Group. This summarized financial information includes the operations of all Obligated Group Members, as well as the results of operations of other entities that are not Members of the Obligated Group. For the twelve months ended June 30, 2018, the entities that are not Members of the Obligated Group had revenues and

investment income totaling \$117.9 million (after the elimination of \$59.1 million of inter-company revenues) representing 7.4% of Verity's consolidated revenues and investment income. Additional financial information pertaining to the entities that are not Members of the Obligated Group can be found in the accompanying unaudited financial statements.

The financial information for the twelve months ended June 30, 2018 is unaudited but includes adjustments which Verity management considers necessary to fairly present such information in conformity with United States generally accepted accounting principles. Operating results for the twelve months ended June 30, 2018 are not necessarily indicative of the results that may be expected in future periods.

CONSUMMATION OF THE RESTRUCTURING AGREEMENT

On July 17, 2015, Daughters of Charity Ministry Services Corporation, the Parent, certain funds managed by Blue Mountain Capital Management, LLC, and Integrity Healthcare, LLC entered into a System Restructuring and Support Agreement (the "Restructuring Agreement") to change the governance of and recapitalize the Parent and certain of its subsidiaries. The name of the Parent has been amended to be Verity Health System of California, Inc.

CALIFORNIA HOSPITAL FEE PROGRAM

California legislation established a program in 2009 that imposes a Quality Assurance Fee (the "QA Fee") on certain general acute-care hospitals to make supplemental, grant, and increased capitation payments (the "Supplemental Payments") to hospitals up to the aggregate upper payment limit for various periods. There have been five such programs (collectively, the "Programs") since inception.

The Programs are designed to make supplemental inpatient and outpatient Medi-Cal payments to private hospitals, including additional payments for certain facilities that provide high-acuity care and trauma services to the Medi-Cal population. This hospital QA Fee program provides a mechanism for increasing payments to hospitals that serve Medi-Cal patients, with no impact on the state's General Fund. Payments are made directly by the state or Medi-Cal managed care plans, which will receive increased capitation rates from the state in amounts equal to the Supplemental Payments. Outside of the legislation, the California Hospital Association has created a private program, operated by the California Health Foundation and Trust (CHFT), which was established to alleviate disparities potentially resulting from the implementation of the Programs.

The Programs require full federal approval (i.e., by the Centers for Medicare and Medicaid Services ("CMS")) in order for them to be fully enacted. If final federal approval is not ultimately obtained, provisions in the underlying legislation allowed for the QA Fee, previously assessed, and Supplemental Payments, previously received, to be returned and recouped, respectively.

In October 2013, the fourth program (the "36-Month Program") covering the period from January 2014 to December 2016 was signed into law by the Governor of California. The fee-for-service payments of the 36-Month Program were approved in December 2014 by CMS. The first six months of non-expansion managed care payments were approved by CMS in June 2015. The first six months of expansion managed care payments were approved by CMS in March 2016. On

December 30, 2016, CMS approved the managed care payments spanning July 1, 2014 to December 31, 2014 for the expansion population and July 1, 2014 to June 30, 2015 for the non-expansion population. During April and May 2017, the managed care payments were received covering the expansion population for the period of January 1, 2015 to June 30, 2015. During October 2017, the managed care payments were received covering the period of July 1, 2015 to June 30, 2016. The only remaining period of the 36-Month Program are the managed care payments covering the period of July 2016 to December 2016 which has not been approved by CMS at this time.

In December 2017, the fifth program (the “30-Month Program”) covering the period of January 2017 to June 2019 was enacted after the voters approved Proposition 52 in the November 2016 election amending the California Constitution to make the QA Fee program permanent. CMS approved the fee for service (“FFS”) portion of the program in December 2017. The managed care portion of the program has not been approved by CMS at this time.

For the twelve months ended June 30, 2017, Verity recognized payments to the California Department of Health Care Services (the “DHCS”) for the QA Fee in the amount of \$70.0 million and pledge payments to the CHFT of \$2.4 million within purchased services, medical claims and other expenses. Verity recognized Supplemental Payment revenue for the twelve months ended June 30, 2017 in the amount of \$169.7 million within net patient service revenues. During the twelve months ended June 30, 2017, Verity made fee payments to DHCS of \$87.1 million and received cash receipts of \$185.4 million.

For the twelve months ended June 30, 2018, Verity recognized payments to DHCS for the QA Fee in the amount of \$127.1 million and pledge payments to CHFT of \$3.5 million within purchased services, medical claims and other expenses. Verity recognized Supplemental Payment revenue for the twelve months ended June 30, 2018 in the amount of \$298.9 million within net patient service revenues. During the twelve months ended June 30, 2018, Verity made fee payments to the DHCS of \$88.9 million and received cash receipts of \$272.2 million.

VOLUMES

Patient discharges for the twelve months ended June 30, 2018 increased by 2.9% as compared to the same period of the prior year. Adjusted discharges for the twelve months ended June 30, 2018 increased by 3.4% compared to the same period of the prior year.

Total deliveries decreased by 11.2% during the twelve months ended June 30, 2018 as compared to the same period of the prior year.

Inpatient surgeries for the twelve months ended June 30, 2018 increased 5.4% as compared to the same period of the prior year. Outpatient surgeries for the twelve months ended June 30, 2018 increased 0.2% as compared to the same period of the prior year.

Emergency department visits for the twelve months ended June 30, 2018 decreased 2.0% compared to the same period of the prior year.

REVENUES

Net Patient Service Revenue Less Provision for Bad Debts

Net patient service revenue of \$1,373.3 million for the twelve months ended June 30, 2018 represents a net increase of \$106.1 million or 8.4% as compared to the same period of the prior year. The net overall change in net patient service revenue was impacted by an increase of \$129.2 million in Hospital Fee Program revenue. Net patient service revenue per adjusted discharge (excluding premium revenue, other revenue, contributions and investment earnings) of \$18,121 for the twelve months ended June 30, 2018 increased 4.8% as compared to the same period of the prior year. This increase in net patient service revenue per adjusted discharge is primarily due to the increase in the amount of Hospital Fee Program revenue recognized into income during the twelve months ended June 30, 2018.

Premium Revenues, Other Revenues, and Contributions

Premium and other revenues of \$197.9 million for the twelve months ended June 30, 2018 represents an increase of \$51.3 million or 35.0% when compared to the same period of the prior year. This increase is mainly attributable to a gain on sale of an asset within the non-Obligated Group of \$15.5 million, gains of \$5.0 million associated with a settlement, and a \$31.6 million increase in premium revenues associated with additional capitation arrangements. Contributions of \$31.2 million during the twelve months ended June 30, 2018 decreased 52.5% as compared to the same period of the prior year. The decrease in contributions is related to the release of the restricted contribution as part of the consummation of the Restructuring Agreement which was recognized in the same period of the prior year.

Investment Earnings

For the twelve months ended June 30, 2018, investment losses totaled \$7.5 million compared to losses of \$2.6 million during the same period of the prior year. The investment losses in both the current year and the prior year primarily resulted from other-than-temporary impairments of certain surgery center equity-method investments and contingent losses associated with a guarantee within the Non-Obligated Group. Verity redeemed its investments in these surgery centers subsequent to June 30, 2018 (see “Other Events”).

Verity recorded investment income of \$2.4 million and \$2.3 million for the twelve months ended June 30, 2018 and 2017, respectively, within the Obligated Group. Verity includes both realized and unrealized gains/losses as part of investment income. Verity invests in cash, equity securities, domestic and foreign, U.S. federal and corporate obligations.

EXPENSES

Total Operating Expenses

Total operating expenses of \$1,713.8 million for the twelve months ended June 30, 2018 represents an increase of \$199.0 million or 13.1% as compared to the same period of the prior year. The overall net change in operating expenses is due to an increase in salaries and benefits expense of \$73.8 million, an increase in supplies expense of \$26.1 million, an increase of \$95.6 million in purchased services, medical claims and other expense and an increase of \$8.8 million in interest expense, net, partially offset by a decrease in depreciation expense of \$2.3 million and a decrease in goodwill and intangible asset impairment of \$3.0 million. Total expense per adjusted discharge of \$22,614 for the twelve months ended June 30, 2018 represents an increase of 9.4% compared to the same period of the prior year.

Salaries, Wages, and Benefits

Salaries, wages and benefits (“SWB”) expense of \$804.1 million for the twelve months ended June 30, 2018 increased \$73.8 million or 10.1% as compared to the same period of the prior year. SWB as a percent of net patient revenue (excluding premium revenue) for the twelve months ended June 30, 2018 was 58.6%, represents an increase of 1.6% compared to the same period of the prior year. The overall increase was due to staffing for higher volumes, wage increases, and insourcing of multiple functions across the system.

Supplies

Supplies expense of \$198.5 million for the twelve months ended June 30, 2018 increased \$26.1 million or 15.2% as compared to the prior year due to the increase in overall volumes. Supplies expense as a percent of net patient revenue for the twelve months ended June 30, 2018 was 14.5% compared to 13.6% for the twelve months ended June 30, 2017.

Purchased Services, Medical Claims and Other

Purchased services, medical claims and other expense for the twelve months ended June 30, 2018 of \$634.5 million increased by \$95.6 million or 17.8% as compared to the same period of the prior year. The increase in purchased services, medical claims and other expense is primarily due to an increase of \$34.5 million in medical claims corresponding with the increase in capitation arrangements, \$57.1 million in the Hospital Fee Program expense, \$17.6 million in medical fees corresponding to an increase in volumes and expansion at Verity Medical Foundation, partially offset by a decrease of \$16.8 million in consulting and legal fees primarily resulting from insourcing efforts.

Goodwill and Intangible Asset Impairment

Goodwill and intangible asset impairment of \$7.2 million and \$10.2 million for the twelve months ended June 30, 2018 and 2017, respectively, is related to Verity’s controlling ownership interests in its Northern California ambulatory surgery management company, Verity BASM Holdco, LLC, (“BASM”). Verity redeemed its investment in BASM subsequent to June 30, 2018 (see “Other Events”).

Depreciation Expense

Depreciation expense of \$32.6 million for the twelve months ended June 30, 2018 is a decrease of \$2.3 million or 6.6% as compared to the same period of the prior year.

Interest Expense - Net

Interest expense of \$36.9 million for the twelve months ended June 30, 2018 is an increase of \$8.8 million as compared to the same period of the prior year as a result of the issuance of additional debt and tax assessment borrowing.

Management Agreement Fee Activity

The management agreement fee expense for the twelve months ended June 30, 2018 is \$60.3 million of which \$40.2 million was deferred and \$20.1 million was payable in cash.

RESULTS FROM OPERATIONS

Operating Income / Loss

For the twelve months ended June 30, 2018, Verity recorded an operating loss of \$111.4 million, equating to a negative operating margin of 7.0%. This compares to an operating loss of \$35.3 million and a negative operating margin of 2.4% for the same period of the prior year. The operating performance for the twelve months ended June 30, 2018 included \$171.8 million of net income related to the Hospital Fee Program excluding the CHFT pledge.

Excess of Revenues Over Expenses (Net Income)

For the twelve months ended June 30, 2018, Verity recorded a net loss of \$118.9 million, equating to a negative net income margin of 7.5%. The net loss for the twelve months ended June 30, 2017 was \$37.9 million, which equated to a negative net income margin of 2.6%.

Performance Relative to Budget

For the twelve months ended June 30, 2018, Verity's actual operating performance compared to budget was unfavorable by approximately \$116.1 million. Total unrestricted revenues and other support was unfavorable to budget by \$115.0 million. Expenses were unfavorable to budget by \$1.1 million.

FINANCIAL POSITION

Liquidity

The following table summarizes Verity's cash position:

	AS OF JUNE 30, 2018
Days Cash on Hand (DCOH)	
(\$'s in 000s)	
Operating Expenses ¹	\$ 1,631,478
Cash & Equivalents, Balance Sheet ²	<u>68,534</u>
DCOH	15.3

1) As calculated for the trailing twelve months per Amendment No. 2 to the System Restructuring and Support Agreement.

2) Per available month-end financial statements at the time of calculation, including any unrestricted capital contribution funds.

Patient Accounts Receivable

Net patient accounts receivable of \$239.7 million as of June 30, 2018 is a decrease of \$6.0 million or 2.5% when compared to March 31, 2018. Days in net patient accounts receivable decreased to 63.7 days as of June 30, 2018 versus 64.7 days as of March 31, 2018.

Capital Expenditures

Capital expenditures during the quarter ended June 30, 2018 for Members of the Obligated Group total \$20.5 million. However, two single capital expenditures exceeded \$1 million; the System Office expended approximately \$6.8 million associated with the ongoing implementation of a new

electronic health record system and Seton Medical Center expended approximately \$2.2 million for the Seismic Master Facility Plan.

Long-Term Debt

Series 2015 Notes. On December 14, 2015, the California Public Finance Authority issued an aggregate of \$160 million of 2015 Revenue Notes (Verity Health System) Series 2015A, B, C, and D (collectively, the “2015 Notes”) for the benefit of the Parent. A portion of the proceeds of the 2015 Notes was used, together with other funds, to pay the principal of and accrued and unpaid interest on prior bonds that matured on December 15, 2015. The 2015A, B, and D Notes are tax exempt, and the Series 2015C Notes are taxable.

The 2015 Notes are secured by an Obligation (as defined in the Master Indenture) on parity with other Obligations issued pursuant to the Master Indenture. In addition to their parity lien under the Master Indenture, the 2015 Notes have additional lien rights on the Obligated Group’s accounts receivable and in certain properties owned by St. Francis Medical Center and Saint Louise Regional Hospital.

In September 2017, the California Public Finance Authority issued \$21 million of tax-exempt notes (the “2017A Notes”) for the benefit of the Parent. All of the 2017A Notes were purchased by NantWorks, LLC (“Nant”), the owner of a majority stake in VHS’s management company, Integrity Healthcare LLC. The 2017A Notes are secured by an Obligation (as defined in the Master Indenture) on parity with other Obligations issued pursuant to the Master Indenture. In addition to their parity lien under the Master Indenture, the 2017A Notes have additional lien rights on the Obligated Group’s accounts receivable and in certain properties owned by St Francis Medical Center and Saint Louise Regional Hospital, all on parity with the 2015 Notes. Further, the 2017A Notes have a lien on property owned by a non-Obligated Group Member. The 2017A Notes bear interest at 7.25% and the principal is due at the maturity date in December 2020.

In October 2017, Verity MOB Financing, LLC, an affiliate of Nant, made a loan in the amount of \$46.2 million to Verity Holdings, LLC (“Holdings”), which is an affiliated entity of VHS; however, it is not a Member of the Obligated Group. The loan is secured by four medical office buildings and matures in October 2020 subject to two successive twelve month extensions. The loan bears interest at a variable rate tied to One Month Libor.

In December 2017, the California Public Finance Authority issued \$21 million of tax-exempt notes (the “2017B Notes” together with the 2017A Notes; collectively the “2017 Notes”) for the benefit of the Parent. All of the 2017B Notes were purchased by Nant. The 2017B Notes are secured by an Obligation (as defined in the Master Indenture) on parity with other Obligations issued pursuant to the Master Indenture. In addition to their parity lien under the Master Indenture, the 2017B Notes have additional lien rights on the Obligated Group’s accounts receivable and in certain properties owned by St Francis Medical Center and Saint Louise Regional Hospital, all on parity with the 2015 Notes. Further, the 2017B Notes have a lien on property owned by a non-Obligated Group Member. The 2017B Notes bear interest at 7.25% and the principal is due at the maturity date in December 2020.

In March 2018, Nant Capital, LLC an affiliate of Nant, made two loans in the aggregate amount of \$40 million to Holdings. The loans are unsecured, mature in March 2020, and bear a fixed interest rate of 7.25%.

In June 2018, Verity MOB Financing II, LLC, an affiliate of Nant, made a loan in the amount of \$20 million to Holdings, which was drawn down in two tranches. The initial loan disbursement of \$15 million was drawn in June 2018 and the second loan disbursement of \$5 million was drawn in July 2018. The loan is secured by nine parcels including two medical office buildings, a storage facility and various other parcels. The loan matures in June 2021 and bears interest at a variable rate tied to One Month Libor.

Total long-term debt, including the current portion as of June 30, 2018 was \$500.6 million for the Obligated Group. Total long-term debt, including the current portion as of March 31, 2018 was \$502.0 million for the Obligated Group.

Annual Debt Service Coverage Ratio

Verity reports the annual debt service coverage ratio for fiscal year to date June 30, 2018 using Annual Debt Service Coverage Ratio methodology and annualized Income Available for Debt Service excluding the 15% Basket Indebtedness.

<u>VHS Obligated Group Only</u>	
Annual Debt Service Coverage Ratio (DSCR)	(\$'s in 000's)
	FYTD 6/30/18
(Deficit) Excess of Revenues over Expenses	\$ (72,770)
Plus: Depreciation and Amortization	29,619
Plus: Interest	32,919
Plus: Unrealized (Gains) Losses	(2,033)
Plus: Management Agreement Fees Deferral	40,188
Income Available for Debt Service	<u>\$ 27,923</u>
Debt Service Requirement *	
Interest Payment	\$ 15,097
Principal Payment	<u>6,740</u>
	<u>\$ 21,837</u>
Annual Debt Service Coverage Ratio	1.28

* Represents Debt Service Requirement calculated pursuant to Schedule C of the Amended and Restated Supplemental Master Indenture Number 20

OTHER EVENTS

In July 2018, Verity announced it is exploring strategic options to alleviate financial and operational pressures on its five acute care hospitals and other facilities. At this time, a range of options is being considered, including the potential sale of some or all of its hospitals and medical buildings, among other possible transactions.

Also, in a series of transactions completed in August 2018, Verity Holdings, LLC, which is not a Member of the Obligated Group, redeemed its controlling interest in its Northern California ambulatory surgery management company, BASM, and its non-controlling ownership interest in five surgery centers managed by BASM.

Management Changes of Members of the Obligated Group for the period

Appointments:

Eileen Fisler, CFO, St. Vincent Medical Center

James Jackson, COO, Seton Medical Center

Kyle Wichelmann, CFO, Seton Medical Center

Resignations:

Glenn Marshak, CMO, Verity Health System

VERITY HEALTH SYSTEM
BALANCE SHEET - UNAUDITED
AS OF JUNE 30, 2018
(In thousands)

	OBLIGATED GROUP	NON- OBLIGATED GROUP	ELIMINATIONS	Verity Total
ASSETS				
CURRENT ASSETS:				
Cash and cash equivalents	\$ 42,960	\$ 25,574	\$ -	\$ 68,534
Net patient accounts receivable	229,282	10,430	-	239,712
Due from government agencies	11,615	-	-	11,615
Due from related organizations	48,478	114,502	(162,980)	-
Other current assets	108,279	18,202	(5,581)	120,900
Other restricted assets	-	2,159	-	2,159
Total current assets	440,614	170,867	(168,561)	442,920
ASSETS LIMITED AS TO USE:				
Other investments	3,069	54,029	-	57,098
Under bond indenture agreements	61,280	-	-	61,280
Total assets limited as to use	64,349	54,029	-	118,378
PROPERTY AND EQUIPMENT, Net	248,584	29,644	-	278,228
OTHER LONG-TERM ASSETS	4,242	3,832	(984)	7,090
TOTAL ASSETS	757,789	258,372	(169,545)	846,616
LIABILITIES AND NET (DEFICIT) ASSETS				
CURRENT LIABILITIES:				
Accounts payable	58,760	6,156	-	64,916
Current portion of long-term debt, net of debt issuance costs	166,675	116	-	166,791
Due to government agencies	4,186	-	-	4,186
Accrued expenses and other current liabilities	291,465	38,338	(6,546)	323,257
Due to related organizations	114,502	48,478	(162,980)	-
Total current liabilities	635,588	93,088	(169,526)	559,150
OTHER LIABILITIES				
Pension and other long-term liabilities	232,110	46,703	(19)	278,794
OTHER LIABILITIES	232,110	46,703	(19)	278,794
LONG-TERM DEBT, Net of current portion and debt issuance costs	333,880	106,146	-	440,026
Total liabilities	1,201,578	245,937	(169,545)	1,277,970
NET (DEFICIT) ASSETS:				
Unrestricted - Verity Health System	(447,182)	(6,586)	-	(453,768)
Unrestricted - Noncontrolling	-	(986)	-	(986)
Temporarily restricted	621	14,531	-	15,152
Permanently restricted	2,772	5,476	-	8,248
Total net (deficit) assets	(443,789)	12,435	-	(431,354)
TOTAL LIABILITIES AND NET (DEFICIT) ASSETS	757,789	258,372	(169,545)	846,616

VERITY HEALTH SYSTEM
BALANCE SHEET - UNAUDITED
AS OF MARCH 31, 2018
(In thousands)

	OBLIGATED GROUP	NON- OBLIGATED GROUP	ELIMINATIONS	Verity Total
ASSETS				
CURRENT ASSETS:				
Cash and cash equivalents	\$ 30,121	\$ 25,865	\$ -	\$ 55,986
Net patient accounts receivable	238,606	7,156	-	245,762
Due from government agencies	14,154	-	-	14,154
Due from related organizations	44,900	105,222	(150,122)	-
Other current assets	158,830	14,073	(1,476)	171,427
Total current assets	486,611	152,316	(151,598)	487,329
ASSETS LIMITED AS TO USE:				
Other investments	3,113	57,081	-	60,194
Under bond indenture agreements	61,210	-	-	61,210
Total assets limited as to use	64,323	57,081	-	121,404
PROPERTY AND EQUIPMENT, Net	229,815	28,703	-	258,518
OTHER LONG-TERM ASSETS	3,685	18,170	(569)	21,286
TOTAL ASSETS	784,434	256,270	(152,167)	888,537
LIABILITIES AND NET (DEFICIT) ASSETS				
CURRENT LIABILITIES:				
Accounts payable	51,987	3,114	-	55,101
Current portion of long-term debt, net of debt issuance costs	6,510	5,116	-	11,626
Due to government agencies	3,753	-	-	3,753
Accrued expenses and other current liabilities	300,818	30,832	(2,026)	329,624
Due to related organizations	105,222	44,900	(150,122)	-
Total current liabilities	468,290	83,962	(152,148)	400,104
OTHER LIABILITIES				
Pension and other long-term liabilities	258,800	38,471	(19)	297,252
OTHER LIABILITIES	258,800	38,471	(19)	297,252
LONG-TERM DEBT, Net of current portion and debt issuance costs	495,528	85,616	-	581,144
Total liabilities	1,222,618	208,049	(152,167)	1,278,500
NET (DEFICIT) ASSETS:				
Unrestricted - Verity Health System	(441,632)	29,864	-	(411,768)
Unrestricted - Noncontrolling	-	1,692	-	1,692
Temporarily restricted	631	11,188	-	11,819
Permanently restricted	2,817	5,477	-	8,294
Total net (deficit) assets	(438,184)	48,221	-	(389,963)
TOTAL LIABILITIES AND NET (DEFICIT) ASSETS	784,434	256,270	(152,167)	888,537

VERITY HEALTH SYSTEM
STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS - UNAUDITED
FOR THE TWELVE MONTHS ENDED JUNE 30, 2018
(In thousands)

	OBLIGATED GROUP	NON- OBLIGATED GROUP	ELIMINATIONS	Verity Total
UNRESTRICTED REVENUES AND OTHER SUPPORT:				
Net patient service revenue	\$ 1,374,876	\$ 57,832	\$ (695)	\$ 1,432,013
Provision for doubtful accounts	(57,686)	(1,016)	-	(58,702)
Net patient service revenue less provision for doubtful accounts	1,317,190	56,816	(695)	1,373,311
Premium revenue	131,000	20,915	-	151,915
Other revenue	20,647	83,710	(58,373)	45,984
Contributions	5,797	25,447	-	31,244
Total unrestricted revenues and other support	1,474,634	186,888	(59,068)	1,602,454
EXPENSES:				
Salaries and benefits	747,236	63,162	(6,314)	804,084
Supplies	179,210	19,306	-	198,516
Purchased services, medical claims and other	560,802	126,451	(52,754)	634,499
Goodwill and intangible asset impairment	-	7,218	-	7,218
Depreciation and amortization	29,619	3,005	-	32,624
Interest, net	32,919	3,968	-	36,887
Total expenses	1,549,786	223,110	(59,068)	1,713,828
OPERATING LOSS	(75,152)	(36,222)	-	(111,374)
INVESTMENT INCOME (LOSS)	2,382	(9,927)	-	(7,545)
(DEFICIT) EXCESS OF REVENUES OVER EXPENSES	(72,770)	(46,149)	-	(118,919)
LESS (DEFICIT) EXCESS OF REVENUES OVER EXPENSES				
ATTRIBUTABLE TO NONCONTROLLING INTEREST	-	(3,352)	-	(3,352)
(DEFICIT) EXCESS OF REVENUES OVER EXPENSES, NET OF				
NONCONTROLLING INTEREST	(72,770)	(42,797)	-	(115,567)
Net unrealized (loss) gains on investments	-	-	-	-
Net assets released from restrictions used for purchase of property and equipment	870	-	-	870
Change in funded status of pension and other postretirement benefit plans	19,304	-	-	19,304
Other	(14,477)	14,246	-	(231)
INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS	(67,073)	(31,903)	-	(98,976)
TEMPORARILY RESTRICTED NET ASSETS				
Contributions	132	10,017	-	10,149
Net realized and unrealized gains (losses) on investments	-	(19)	-	(19)
Net assets released from restrictions:				
Operations	(86)	(6,883)	-	(6,969)
Property, plant and equipment	-	(870)	-	(870)
Other	-	(583)	-	(583)
INCREASE (DECREASE) IN TEMPORARILY RESTRICTED NET ASSETS	46	1,662	-	1,708
PERMANENTLY RESTRICTED NET ASSETS				
Net realized and unrealized gains (losses) on investments	29	17	-	46
INCREASE (DECREASE) IN PERMANENTLY RESTRICTED NET ASSETS	29	17	-	46
INCREASE (DECREASE) IN NET ASSETS	(66,998)	(30,224)	-	(97,222)
NET (DEFICIT) ASSETS AS OF JUNE 30, 2017	(376,791)	42,659	-	(334,132)
NET (DEFICIT) ASSETS AS OF JUNE 30, 2018	(443,789)	12,435	-	(431,354)

VERITY HEALTH SYSTEM
STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS - UNAUDITED
FOR THE QUARTER ENDED JUNE 30, 2018
(In thousands)

	OBLIGATED GROUP	NON- OBLIGATED GROUP	ELIMINATIONS	Verity Total
UNRESTRICTED REVENUES AND OTHER SUPPORT:				
Net patient service revenue	\$ 324,129	\$ 15,068	\$ (695)	\$ 338,502
Provision for doubtful accounts	(5,206)	(303)	-	(5,509)
Net patient service revenue less provision for doubtful accounts	318,923	14,765	(695)	332,993
Premium revenue	32,576	4,990	-	37,566
Other revenue	3,589	22,566	(20,090)	6,065
Contributions	1,105	1,387	-	2,492
Total unrestricted revenues and other support	356,193	43,708	(20,785)	379,116
EXPENSES:				
Salaries and benefits	180,910	17,316	(2,099)	196,127
Supplies	44,429	5,878	-	50,307
Purchased services, medical claims and other	139,433	41,393	(18,686)	162,140
Goodwill and intangible asset impairment	-	7,218	-	7,218
Depreciation and amortization	7,700	912	-	8,612
Interest, net	8,508	1,745	-	10,253
Total expenses	380,980	74,462	(20,785)	434,657
OPERATING INCOME (LOSS)	(24,787)	(30,754)	-	(55,541)
INVESTMENT INCOME (LOSS)	1,000	(9,439)	-	(8,439)
(DEFICIT) EXCESS OF REVENUES OVER EXPENSES	(23,787)	(40,193)	-	(63,980)
LESS (DEFICIT) EXCESS OF REVENUES OVER EXPENSES				
ATTRIBUTABLE TO NONCONTROLLING INTEREST	-	(2,678)	-	(2,678)
(DEFICIT) EXCESS OF REVENUES OVER EXPENSES, NET OF				
NONCONTROLLING INTEREST	(23,787)	(37,515)	-	(61,302)
Net unrealized gains (losses) on investments	-	(3)	-	(3)
Net assets released from restrictions used for purchase of property and equipment	87	-	-	87
Change in funded status of pension and other postretirement benefit plans	19,304	-	-	19,304
Other	(1,154)	1,068	-	(86)
INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS	(5,550)	(39,128)	-	(44,678)
TEMPORARILY RESTRICTED NET ASSETS				
Contributions	-	7,694	-	7,694
Net realized and unrealized gains (losses) on investments	-	(49)	-	(49)
Net assets released from restrictions:				
Operations	(10)	(2,891)	-	(2,901)
Property, plant and equipment	-	(87)	-	(87)
Other	-	(1,324)	-	(1,324)
INCREASE (DECREASE) IN TEMPORARILY RESTRICTED NET ASSETS	(10)	3,343	-	3,333
PERMANENTLY RESTRICTED NET ASSETS				
Net realized and unrealized gains (losses) on investments	(45)	(1)	-	(46)
INCREASE (DECREASE) IN PERMANENTLY RESTRICTED NET ASSETS	(45)	(1)	-	(46)
INCREASE (DECREASE) IN NET ASSETS	(5,605)	(35,786)	-	(41,391)
NET ASSETS AS OF MARCH 31, 2018	(438,184)	48,221	-	(389,963)
NET ASSETS AS OF JUNE 30, 2018	(443,789)	12,435	-	(431,354)

VERITY HEALTH SYSTEM
STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS - UNAUDITED
FOR THE TWELVE MONTHS ENDED JUNE 30, 2017
(In thousands)

	OBLIGATED GROUP	NON- OBLIGATED GROUP	ELIMINATIONS	Verity Total
UNRESTRICTED REVENUES AND OTHER SUPPORT:				
Net patient service revenue	\$ 1,269,567	\$ 31,438	\$ -	\$ 1,301,005
Provision for doubtful accounts	(33,318)	(452)	-	(33,770)
Net patient service revenue less provision for doubtful accounts	1,236,249	30,986	-	1,267,235
Premium revenue	98,607	21,686	-	120,293
Other revenue	12,647	45,294	(31,637)	26,304
Contributions	4,288	61,429	-	65,717
Total unrestricted revenues and other support	1,351,791	159,395	(31,637)	1,479,549
EXPENSES:				
Salaries and benefits	703,146	35,575	(8,422)	730,299
Supplies	166,520	5,872	-	172,392
Purchased services, medical claims and other	479,996	82,070	(23,215)	538,851
Goodwill and intangible asset impairment	-	10,232	-	10,232
Depreciation and amortization	32,123	2,795	-	34,918
Interest, net	27,641	493	-	28,134
Total expenses	1,409,426	137,037	(31,637)	1,514,826
OPERATING (LOSS) INCOME	(57,635)	22,358	-	(35,277)
INVESTMENT INCOME (LOSS)	2,303	(4,876)	-	(2,573)
(DEFICIT) EXCESS OF REVENUES OVER EXPENSES	(55,332)	17,482	-	(37,850)
LESS (DEFICIT) EXCESS OF REVENUES OVER EXPENSES				
ATTRIBUTABLE TO NONCONTROLLING INTEREST	-	(5,087)	-	(5,087)
(DEFICIT) EXCESS OF REVENUES OVER EXPENSES, NET OF				
NONCONTROLLING INTEREST	(55,332)	22,569	-	(32,763)
Net unrealized gains on investments	-	5	-	5
Net assets released from restrictions used for purchase of property and equipment	610	-	-	610
Change in funded status of pension and other postretirement benefit plans	7,667	-	-	7,667
Other	26,212	(18,427)	-	7,785
INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS	(20,843)	(940)	-	(21,783)
TEMPORARILY RESTRICTED NET ASSETS				
Contributions	39	5,270	-	5,309
Net realized and unrealized gains on investments	-	173	-	173
Net assets released from restrictions:				
Operations	(137)	(64,414)	-	(64,551)
Property, plant and equipment	-	(610)	-	(610)
Other	-	(207)	-	(207)
INCREASE (DECREASE) IN TEMPORARILY RESTRICTED NET ASSETS	(98)	(59,788)	-	(59,886)
PERMANENTLY RESTRICTED NET ASSETS				
Net realized and unrealized gains (losses) on investments	72	(7)	-	65
INCREASE (DECREASE) IN PERMANENTLY RESTRICTED NET ASSETS	72	(7)	-	65
INCREASE (DECREASE) IN NET ASSETS	(20,869)	(60,735)	-	(81,604)
NET (DEFICIT) ASSETS AS OF JUNE 30, 2016	(355,922)	103,394	-	(252,528)
NET (DEFICIT) ASSETS AS OF JUNE 30, 2017	(376,791)	42,659	-	(334,132)

VERITY HEALTH SYSTEM
STATEMENT OF CASH FLOWS - UNAUDITED
FOR THE TWELVE MONTHS ENDED JUNE 30, 2018
(In thousands)

	OBLIGATED GROUP	NON- OBLIGATED GROUP	ELIMINATIONS	Verity Total
Operating activities				
Increase (Decrease) in net assets	\$ (66,998)	\$ (30,224)	\$ -	\$ (97,222)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by (used in) operating activities:				
Depreciation and amortization	29,619	3,005	-	32,624
Provision for doubtful accounts	57,686	1,016	-	58,702
Changes in fair value and unrealized and realized gains (losses) on investments, net	-	779	-	779
Amortization of bond premium	845	-	-	845
Amortization of deferred debt issuance cost	172	-	-	172
Change in funded status of pension and other postretirement benefit plans	(19,347)	-	-	(19,347)
Goodwill and intangible asset impairment	-	7,218	-	7,218
Gain on disposal of property and equipment	(8)	(15,481)	-	(15,489)
Changes in operating assets and liabilities:				
Patient accounts receivable	(56,327)	(6,321)	-	(62,648)
Due to/from government agencies	3,209	-	-	3,209
Other current assets	(32,275)	(96,350)	97,881	(30,744)
Other long-term assets	(2,907)	15,420	728	13,241
Accounts payable	(18,575)	(166)	-	(18,741)
Accrued liabilities	150,404	17,326	(98,599)	69,131
Other short-term liabilities	166,638	115	-	166,753
Workers' compensation Change	(768)	160	-	(608)
Change in Pension obligations	(40,705)	-	-	(40,705)
Other long-term liabilities	(166,160)	6,129	(10)	(160,041)
Net cash provided by (used in) operating activities	4,503	(97,374)	-	(92,871)
Investing activities				
Purchases of investments	-	(4,948)	-	(4,948)
Purchase of asset for health-related activity	-	(2,801)	-	(2,801)
Proceeds from disposal of property and equipment	-	17,784	-	17,784
Proceeds from sales of investments	2,182	5,391	-	7,573
Changes in interest in pooled investment fund - short term	-	(493)	-	(493)
Changes in loans and receivables	-	1,074	-	1,074
Changes in assets under bond indenture agreements	2,213	-	-	2,213
Additions to property and equipment	(50,681)	(3,986)	-	(54,667)
Net cash provided by (used in) investing activities	(46,286)	12,021	-	(34,265)
CASH FLOWS FROM FINANCING ACTIVITIES				
Repayment of debt	(6,554)	(5,952)	-	(12,506)
Issuance of debt	42,000	107,279	-	149,279
Debt issuance costs	(800)	(950)	-	(1,750)
Net cash provided by (used in) financing activities	34,646	100,377	-	135,023
Net Increase (Decrease) in Cash and Cash Equivalents	(7,137)	15,024	-	7,887
CASH AND CASH EQUIVALENTS JUNE 30, 2017	50,097	10,550	-	60,647
CASH AND CASH EQUIVALENTS AS OF JUNE 30, 2018	42,960	25,574	-	68,534

VERITY HEALTH SYSTEM
UTILIZATION STATISTICS, PAYOR MIX, AND CAPITAL EXPENDITURES - UNAUDITED
FOR THE TWELVE MONTHS ENDED JUNE 30, 2018 AND JUNE 30, 2017

	O'Connor Hospital		Saint Louise Regional Hospital		St. Francis Medical Center		St. Vincent Medical Center		Seton Medical Center		Seton Medical Center Coastside		Verity Total	
	FOR THE TWELVE MONTHS ENDED JUNE 30, 2017	FOR THE TWELVE MONTHS ENDED JUNE 30, 2018	FOR THE TWELVE MONTHS ENDED JUNE 30, 2017	FOR THE TWELVE MONTHS ENDED JUNE 30, 2018	FOR THE TWELVE MONTHS ENDED JUNE 30, 2017	FOR THE TWELVE MONTHS ENDED JUNE 30, 2018	FOR THE TWELVE MONTHS ENDED JUNE 30, 2017	FOR THE TWELVE MONTHS ENDED JUNE 30, 2018	FOR THE TWELVE MONTHS ENDED JUNE 30, 2017	FOR THE TWELVE MONTHS ENDED JUNE 30, 2018	FOR THE TWELVE MONTHS ENDED JUNE 30, 2017	FOR THE TWELVE MONTHS ENDED JUNE 30, 2018	FOR THE TWELVE MONTHS ENDED JUNE 30, 2017	FOR THE TWELVE MONTHS ENDED JUNE 30, 2018
Total Licensed Beds	358	358	93	93	384	384	366	366	357	357	121	121	1,679	1,679
Total Available Beds	357	357	72	72	384	384	366	366	294	294	121	121	1,594	1,594
Total Discharges	9,652	9,387	2,703	3,023	21,049	22,687	11,088	11,289	5,695	5,283	121	76	50,308	51,745
Total Patient Days	44,282	45,046	9,280	10,948	103,599	105,438	64,539	65,289	45,242	44,359	39,889	41,503	306,831	312,583
Acute Licensed Beds	334	334	72	72	314	314	320	320	250	250	5	5	1,295	1,295
Acute Available Beds	333	333	72	72	314	314	320	320	250	250	5	5	1,294	1,294
Acute Discharges	9,615	9,357	2,703	3,023	18,653	20,019	10,102	10,378	5,668	5,151	-	-	46,741	47,928
Acute Patient Days	36,343	36,587	9,280	10,948	82,854	86,406	50,965	53,098	30,269	26,955	-	-	209,711	213,994
Acute Average Length of Stay	3.78	3.91	3.43	3.62	4.44	4.32	5.05	5.12	5.34	5.23	-	-	4.49	4.46
Adjusted Discharges	14,835	14,570	5,689	5,979	29,197	31,646	15,205	15,433	8,231	8,073	142	88	73,298	75,787
Adjusted Patient Days	68,059	69,916	19,532	21,653	143,702	147,074	88,500	89,254	65,390	67,782	46,743	47,813	431,927	443,492
ADC	121	123	30	30	284	289	177	179	124	122	109	114	841	856
ALOS	4.6	4.8	3.4	3.6	4.9	4.6	5.8	5.8	7.9	8.4	329.7	546.1	6.1	6.0
Surgery OP	2,544	2,350	2,088	1,532	2,310	2,774	3,186	3,322	2,721	2,900	-	-	12,849	12,878
Surgery IP	1,897	1,961	684	762	3,112	3,347	2,651	2,941	1,267	1,116	-	-	9,611	10,127
Newborn Days	3,491	3,240	704	656	10,344	9,914	-	-	-	-	-	-	14,539	13,810
OP ED Visits	46,087	45,627	26,431	27,038	64,480	61,831	23,231	22,684	23,478	22,894	2,635	2,631	186,342	182,705
OP & Clinic Visits excluding ED OP	80,508	74,566	26,170	23,984	76,138	76,039	51,875	50,864	93,720	99,162	3,071	5,394	331,482	330,009
Clinical Visits	80,508	41,696	26,170	23,984	-	-	-	-	93,720	99,162	3,071	5,394	203,469	170,236
GM1 - Total	1.42	1.49	1.18	1.17	1.18	1.22	1.73	1.66	1.81	1.80	1.40	1.41	1.66	1.61
FTEs Paid	1,020	999	314	324	1,599	1,660	883	945	830	849	130	135	4,776	4,913
FTEs Prod	865	836	264	270	1,399	1,456	753	808	706	710	114	120	4,100	4,201

Payor Mix		
Medicare		32.8%
Medi-Cal		31.7%
HMO/PRO		30.4%
Self-Pay		4.0%
Other		1.1%
Total		100.0%

Inpatient		68.5%
Outpatient		31.5%
Total		100.0%

Capital Expenditures					Verity Total
Verity - System Office		Saint Louise Regional Hospital	St. Francis Medical Center	St. Vincent Medical Center	Seton Medical Center Coastside
FOR THE THREE MONTHS ENDED JUNE 30, 2018	FOR THE THREE MONTHS ENDED JUNE 30, 2018	FOR THE THREE MONTHS ENDED JUNE 30, 2018	FOR THE THREE MONTHS ENDED JUNE 30, 2018	FOR THE THREE MONTHS ENDED JUNE 30, 2018	FOR THE THREE MONTHS ENDED JUNE 30, 2018
\$9,488,947	\$2,220,404	\$248,037	\$2,148,170	\$2,219,405	\$66,809
				\$4,090,075	\$20,481,847

VERITY HEALTH SYSTEM
CONSOLIDATING BALANCE SHEET - UNAUDITED
AS OF JUNE 30, 2018
(In thousands)

ASSETS

CURRENT ASSETS:

Cash and cash equivalents	\$ 7,209	\$ 4,815	\$ 17,967	\$ 2,206	\$ 9,142	\$ 887	\$ 734	\$ -	\$ 42,960	\$ 25,574	\$ -	\$ 68,534
Net patient accounts receivable	54,022	17,633	65,285	38,635	49,142	4,565	-	-	229,282	10,430	-	239,712
Due from government agencies	879	1,030	4,513	3,709	1,484	-	-	-	11,615	-	-	11,615
Due from related organizations	10,928	5,233	364,863	7,953	17,682	48	508,081	(866,310)	48,478	114,502	(162,980)	-
Other current assets	17,506	5,817	45,653	16,412	9,776	295	12,820	-	108,279	18,202	(5,581)	120,900
Other restricted assets	-	-	-	-	-	-	-	-	-	2,159	-	2,159
Total current assets	90,544	34,528	498,281	68,915	87,226	5,795	521,635	(866,310)	440,614	170,867	(168,561)	442,920

ASSETS LIMITED AS TO USE:

Other investments	-	-	-	3,069	-	-	-	-	3,069	54,029	-	57,098
Under bond indenture agreements	-	-	-	-	36,585	-	24,695	-	61,280	-	-	61,280
Total assets limited as to use	-	-	-	3,069	36,585	-	24,695	-	64,349	54,029	-	118,378

PROPERTY AND EQUIPMENT, Net

	29,176	14,170	91,184	47,125	42,506	684	23,739	-	248,584	29,644	-	278,228
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OTHER LONG-TERM ASSETS

	626	7	256	13	261	-	3,079	-	4,242	3,832	(984)	7,090
TOTAL ASSETS	120,346	48,705	589,721	119,122	166,578	6,479	573,148	(866,310)	757,789	258,372	(169,545)	846,616

LIABILITIES AND NET (DEFICIT) ASSETS

CURRENT LIABILITIES:

Accounts payable	11,168	2,972	7,886	13,432	8,704	168	14,430	-	58,760	6,156	-	64,916
Current portion of long-term debt, net of debt issuance costs	774	469	4,076	867	1,241	-	159,248	-	166,675	116	-	166,791
Due to government agencies	161	2	2,039	1,728	256	-	-	-	4,186	-	-	4,186
Accrued expenses and other current liabilities	24,035	7,529	56,521	42,289	46,248	2,427	112,416	-	291,465	38,338	(6,546)	323,257
Due to related organizations	278,884	77,857	1,324	261,718	188,778	23,513	168,738	(866,310)	114,502	48,478	(162,980)	-
Total current liabilities	315,022	88,829	71,846	320,034	225,227	26,108	454,832	(866,310)	635,588	93,088	(169,526)	559,150

OTHER LIABILITIES

Pension and other long-term liabilities	41,157	4,512	78,127	58,923	2,494	24	46,873	-	232,110	46,703	(19)	278,794
Total other liabilities	41,157	4,512	78,127	58,923	2,494	24	46,873	-	232,110	46,703	(19)	278,794

LONG-TERM DEBT, Net of current portion and debt issuance costs

	47,636	28,854	64,108	53,325	96,805	-	43,152	-	333,880	106,146	-	440,026
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Total liabilities

	403,815	122,195	214,081	432,282	324,526	26,132	544,857	(866,310)	1,201,578	245,937	(169,545)	1,277,970
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NET (DEFICIT) ASSETS:

Unrestricted - Verity Health System	(283,469)	(73,490)	375,542	(316,455)	(157,948)	(19,653)	28,291	-	(447,182)	(6,586)	-	(453,768)
Unrestricted - Noncontrolling	-	-	-	-	-	-	-	-	-	(986)	-	(986)
Temporarily restricted	-	-	98	523	-	-	-	-	621	14,531	-	15,152
Permanently restricted	-	-	-	2,772	-	-	-	-	2,772	5,476	-	8,248
Total net (deficit) assets	(283,469)	(73,490)	375,640	(313,160)	(157,948)	(19,653)	28,291	-	(443,789)	12,435	-	(431,354)
TOTAL LIABILITIES AND NET (DEFICIT) ASSETS	120,346	48,705	589,721	119,122	166,578	6,479	573,148	(866,310)	757,789	258,372	(169,545)	846,616

VERITY HEALTH SYSTEM
STATEMENT OF OPERATIONS - UNAUDITED
FOR THE TWELVE MONTHS ENDED JUNE 30, 2018
(In thousands)

	O'Connor Hospital	Saint Louise Regional Hospital	St. Francis Medical Center	St. Vincent Medical Center	Seton Medical Center	Seton Medical Center Coastside	System Office	System Elimination - Obligated Group	Obligated Group Subtotal	Non- Obligated Group	System Elimination - Non Obligated Group	Verity Total
\$	307,193	\$ 102,343	\$ 496,142	\$ 216,593	\$ 238,621	\$ 22,686	\$ -	\$ (8,702)	\$ 1,374,876	\$ 57,832	\$ (695)	\$ 1,432,013
	(11,051)	(3,741)	(23,483)	(12,283)	(6,512)	(616)	-	-	(57,686)	(1,016)	-	(58,702)
	296,142	98,602	472,659	204,310	232,109	22,070	-	(8,702)	1,317,190	56,816	(695)	1,373,311
	-	-	100,579	31,091	-	-	-	(670)	131,000	20,915	-	151,915
	4,205	207	1,700	1,213	7,743	579	177,687	(172,687)	20,647	83,710	(58,373)	45,984
	200	40	4,184	1,021	352	-	-	-	5,797	25,447	-	31,244
	300,547	98,849	579,122	237,635	240,204	22,649	177,687	(182,059)	1,474,634	186,888	(59,068)	1,602,454
	170,681	57,205	214,622	114,432	144,752	17,699	36,547	(8,702)	747,236	63,162	(6,314)	804,084
	42,572	8,093	42,452	52,176	31,826	1,954	137	-	179,210	19,306	-	198,516
	110,882	32,533	244,547	128,875	84,758	6,453	126,111	(173,357)	560,802	126,451	(52,754)	634,499
	-	-	-	-	-	-	-	-	-	7,218	-	7,218
	6,947	1,600	9,201	5,800	5,525	132	414	-	29,619	3,005	-	32,624
	2,483	1,544	3,951	2,751	5,339	(9)	16,860	-	32,919	3,968	-	36,887
	333,565	100,975	514,773	304,034	272,200	26,229	180,069	(182,059)	1,549,786	223,110	(59,068)	1,713,828
	(33,018)	(2,126)	64,349	(66,399)	(31,996)	(3,580)	(2,382)	-	(75,152)	(36,222)	-	(111,374)
	-	-	-	-	-	-	2,382	-	2,382	(9,927)	-	(7,545)
	(33,018)	(2,126)	64,349	(66,399)	(31,996)	(3,580)	-	-	(72,770)	(46,149)	-	(118,919)
	-	-	-	-	-	-	-	-	-	(3,352)	-	(3,352)
	(33,018)	(2,126)	64,349	(66,399)	(31,996)	(3,580)	-	-	(72,770)	(42,797)	-	(115,567)

UNRESTRICTED REVENUES AND OTHER SUPPORT:

Net patient service revenue
Provision for doubtful accounts
Net patient service revenue less provision for doubtful accounts
Premium revenue
Other revenue
Contributions

Total unrestricted revenues and other support

EXPENSES:

Salaries and benefits
Supplies
Purchased services, medical claims and other
Goodwill and intangible asset Impairment
Depreciation and amortization
Interest, net

Total expenses

OPERATING (LOSS) INCOME

INVESTMENT INCOME (LOSS)

EXCESS (DEFICIT) OF REVENUES OVER EXPENSES
LESS (DEFICIT) EXCESS OF REVENUES OVER EXPENSES
ATTRIBUTABLE TO NONCONTROLLING INTEREST

EXCESS (DEFICIT) OF REVENUES OVER EXPENSES, NET OF
NONCONTROLLING INTEREST

VERITY HEALTH SYSTEM
STATEMENT OF CASH FLOWS - UNAUDITED
FOR THE TWELVE MONTHS ENDED JUNE 30, 2018
(In thousands)

	O'Connor Hospital	Saint Louise Regional Hospital	St. Francis Medical Center	St. Vincent Medical Center	Seton Medical Center	Seton Medical Center Coastside	System Office	System Elimination - Obligated Group	Obligated Group Subtotal	Non- Obligated Group	System Elimination - Non Obligated Group	Verify Total
Operating Activities												
Increase (Decrease) in net assets	\$ (31,862)	\$ (1,750)	\$ 66,209	\$ (64,008)	\$ (31,996)	\$ (3,400)	\$ (1,721)	\$ 1,530	\$ (66,998)	\$ (30,224)	\$ -	\$ (97,222)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by (used in) operating activities:												
Depreciation and amortization	6,947	1,600	9,201	5,800	5,525	132	414	-	29,619	3,005	-	32,624
Provision for doubtful accounts	11,051	3,741	23,483	12,283	6,512	616	-	-	57,686	1,016	-	58,702
Changes in fair value and unrealized and realized gains on investments, net	-	-	-	-	-	-	-	-	-	779	-	779
Amortization of bond premium	-	-	-	-	-	-	845	-	845	-	-	845
Amortization of deferred debt issuance cost	-	-	-	-	-	-	172	-	172	-	-	172
Change in funded status of pension and other postretirement benefit plans	(2,906)	(225)	(8,337)	(5,209)	(12)	-	(1,128)	(1,530)	(19,347)	-	-	(19,347)
Goodwill and intangible asset impairment	-	-	-	-	-	-	-	-	-	7,218	-	7,218
Gain on disposal of property and equipment	(3)	-	-	(5)	-	-	-	-	(8)	(15,481)	-	(15,489)
Changes in operating assets and liabilities:												
Patient accounts receivable	(20,987)	(8,437)	(1,552)	(5,056)	(19,025)	(1,270)	-	-	(56,327)	(6,321)	-	(62,648)
Due to/from government agencies	94	(1,056)	524	2,043	1,604	-	-	-	3,209	-	-	3,209
Other current assets	(8,144)	(946)	(57,452)	6,585	4,827	80	(163,583)	186,358	(32,275)	(96,350)	97,881	(30,744)
Other long-term assets	(319)	-	(158)	(30)	199	3	(2,602)	-	(2,907)	15,420	728	13,241
Accounts payable	(846)	235	(3,749)	(374)	(468)	7	(13,380)	-	(18,575)	(166)	-	(18,741)
Accrued liabilities	62,911	13,097	(11,672)	64,782	45,690	4,846	157,108	(186,358)	150,404	17,326	(98,599)	69,131
Other short-term liabilities	588	469	4,076	867	1,241	-	159,397	-	166,638	115	-	166,753
Workers' compensation Change	-	-	-	-	-	-	(768)	-	(768)	160	-	(608)
Change in Pension obligations	(9,176)	(1,705)	(17,506)	(9,522)	(627)	(3)	(2,166)	-	(40,705)	-	-	(40,705)
Other long-term liabilities	(764)	(469)	(4,076)	(734)	(1,023)	-	(159,094)	-	(166,160)	6,129	(10)	(160,041)
Net cash provided by (used in) operating activities	6,584	4,554	(1,009)	7,422	12,447	1,011	(26,506)	-	4,503	(97,374)	-	(92,871)
Investing activities												
Purchases of investments	-	-	-	-	-	-	-	-	-	(4,948)	-	(4,948)
Purchase of asset for health-related activity	-	-	-	-	-	-	-	-	-	(2,801)	-	(2,801)
Proceeds from disposal of property and equipment	-	-	-	-	-	-	-	-	-	17,784	-	17,784
Proceeds from sales of investments	-	-	-	-	-	-	2,182	-	2,182	5,391	-	7,573
Changes in interest in pooled investment fund - short term	-	-	-	-	-	-	-	-	-	(493)	-	(493)
Changes in loans and receivables	-	-	-	-	-	-	-	-	-	1,074	-	1,074
Changes in assets under bond indenture agreements	-	-	-	-	2,074	-	139	-	2,213	-	-	2,213
Additions to property and equipment	(5,613)	(2,788)	(5,112)	(7,887)	(12,449)	(288)	(16,544)	-	(50,681)	(3,986)	-	(54,667)
Net cash provided by (used in) investing activities	(5,613)	(2,788)	(5,112)	(7,887)	(10,375)	(288)	(14,223)	-	(46,286)	12,021	-	(34,265)
Financing activities												
Repayment of debt	(558)	(451)	(3,800)	(833)	(912)	-	-	-	(6,554)	(5,952)	-	(12,506)
Issuance of debt	-	-	-	-	-	-	42,000	-	42,000	107,279	-	149,279
Debt issuance costs	-	-	-	-	-	-	(800)	-	(800)	(950)	-	(1,750)
Net cash provided by (used in) financing activities	(558)	(451)	(3,800)	(833)	(912)	-	41,200	-	34,646	100,377	-	135,023
Net Increase (Decrease) in Cash and Cash Equivalents	413	1,315	(9,921)	(1,298)	1,160	723	471	-	(7,137)	15,024	-	7,887
CASH AND CASH EQUIVALENTS JUNE 30, 2017	6,796	3,500	27,888	3,504	7,982	164	263	-	50,097	10,550	-	60,647
CASH AND CASH EQUIVALENTS AS OF JUNE 30, 2018	7,209	4,815	17,967	2,206	9,142	887	734	-	42,960	25,574	-	68,534

QUARTERLY CERTIFICATE FOR 6/30/18 RE: (Q) OF “PERMITTED LIENS”

August 14, 2018

The undersigned, an Authorized Representative (as defined in the Master Indenture referred to herein) of Verity Health System of California, Inc. (“Verity”) as Obligated Group Representative pursuant to the Master Indenture of Trust (as supplemented and amended, the “Master Indenture”) dated as of December 1, 2001 among Verity, the Members of the Obligated Group and U.S. Bank National Association as Master Trustee, hereby certifies pursuant to clause (q) of the definition of “Permitted Liens” in the Master Indenture as follows:

As of the end of the fiscal quarter ending June 30, 2018, any Liens granted under clause (q) of the definition of Permitted Liens do not exceed the maximum permitted value of such Liens under such clause (q).

The Computations Regarding Permitted Liens, Paragraph (q) is attached hereto.

[Signature Page to Follow]

In Witness Whereof, the undersigned has executed this Quarterly Certificate as of the day and year first above written.

**VERITY HEALTH SYSTEM OF CALIFORNIA,
INC.**

By: 

 David Sachs
Chief Financial Officer

Computations Regarding Permitted Liens, Paragraph (q)*\$ in thousands*

A. Book Value of Property Subject to Liens ⁽¹⁾	St. Francis Medical Center	\$91,184
	St. Louise Regional Hospital	\$14,170
	<u>Total property subject to Liens</u>	<u>\$105,354</u>
B. Total Property of Obligated Group ⁽¹⁾	Obligated Group Total Property	\$757,789
C. Property Subject to Liens as a % of Total	A Divided by B	13.9%
	Threshold Percentage (Maximum)	20.0%

1. Historical financial data for the Obligated Group reflects June 30, 2018 unaudited financial statements.