This Preliminary Official Statement and the information contained herein are subject to completion and amendment. These securities may not be sold nor may offers to buy be accepted prior to the time the Official Statement is delivered in final form. Under no circumstances may this Preliminary Official Statement constitute an offer to sell or the solicitation of an offer to buy, nor may there be any sale of these securities such in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any jurisdiction. As of its date, this Preliminary Official Statement has been deemed final by the City for purposes of Rule 15c2-12 of the Securities and Exchange Act.

PRELIMINARY OFFICIAL STATEMENT DATED OCTOBER 16, 2017

NEW ISSUE - Book-Entry Only

RATINGS: S&P: "AA-"
Moody's: "Aa3"
(See "RATINGS" herein)

*In the opinion of Gilmore & Bell, P.C., Bond Counsel, under existing law and assuming continued compliance with certain requirements of the Internal Revenue Code of 1986, as amended (the "**Code**"), (1) the interest on the Bonds (including any original issue discount properly allocable to an owner thereof) is excludable from gross income for federal income tax purposes, and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, (2) the interest on the Bonds is exempt from income taxation by the State of Missouri, and (3) the Bonds have not been designated as "qualified tax-exempt obligations" within the meaning of Section 265(b)(3) of the Code. See "**TAX MATTERS**" in this Official Statement.*

$291,700,000*
HEALTH AND EDUCATIONAL FACILITIES AUTHORITY OF THE STATE OF MISSOURI
HEALTH FACILITIES REVENUE BONDS
(MERCY HEALTH)
SERIES 2017C

Mercy

Dated: Date of Delivery **Due: November 15, as shown on inside cover**

The Health and Educational Facilities Authority of the State of Missouri (the **"Authority"**) is issuing its $291,700,000* Health Facilities Revenue Bonds (Mercy Health), Series 2017C (the **"Bonds"**). The Bonds will be issued and secured under a Bond Trust Indenture (the **"Bond Indenture"**) between the Authority and The Bank of New York Mellon Trust Company, N.A., as bond trustee (the **"Bond Trustee"**). Except as described in this Official Statement, the Bonds will be payable solely from and secured by a pledge of payments to be made under the Loan Agreement and the Series 2017C Obligation (as defined herein) under the Master Indenture (as defined herein), which includes a pledge of the Unrestricted Gross Revenues (as defined herein) of Mercy Health (**"Mercy"**) and the Restricted Affiliates (as defined herein).

The Bonds are issued only as fully registered bonds without coupons and, when issued, will be registered in the name of and held by Cede & Co., as registered owner and nominee for The Depository Trust Company, New York, New York (**"DTC"**). DTC will act as securities depository for the Bonds. Purchases of beneficial interests in the Bonds will be made in book-entry only form, in the denomination of $5,000 or any integral multiple thereof. Except as described herein, such purchasers will not receive certificates representing their beneficial interests in the Bonds.

Interest on the Bonds is payable on May 15 and November 15 of each year, commencing May 15, 2018. The principal or redemption price of and the interest on the Bonds will be paid by the Bond Trustee. So long as DTC or its nominee, Cede & Co., is the registered owner of the Bonds, such payments will be made directly to DTC or such nominee. Disbursement of such payments to DTC's Direct Participants is the responsibility of DTC, and disbursements of such payments to the Beneficial Owners is the responsibility of the Direct Participants and the Indirect Participants, as more fully described herein.

The Bonds are subject to optional, extraordinary and mandatory redemption prior to maturity in each case as herein described.

The Bonds are special limited obligations of the Authority and shall not constitute a debt or liability of the State of Missouri (the "State") or of any political subdivision thereof within the meaning of any State constitutional provision or statutory limitation and shall not constitute a pledge of the faith and credit of the State or of any political subdivision thereof. The issuance of the Bonds shall not, directly, indirectly, or contingently, obligate the State or any political subdivision thereof to levy any form of taxation therefor or to make any appropriation for their payment. The Authority has no taxing power.

The Bonds are offered subject to prior sale, when, as and if issued by the Authority and accepted by the Underwriters, subject to the approval of legality by Gilmore & Bell, P.C., Kansas City, Missouri, Bond Counsel. Certain legal matters will be passed on for the Authority by its counsel, Thompson Coburn LLP, St. Louis, Missouri; for Mercy by its counsel, Husch Blackwell LLP, Kansas City, Missouri; and for the Underwriters by their counsel, Dentons US LLP, St. Louis, Missouri. Mr. William B. Tschudy, Olathe, Kansas, is acting as financial advisor for the Authority with respect to the Bonds. Ponder & Co., Chicago, Illinois, is acting as financial advisor to Mercy with respect to the Bonds. It is expected that the Bonds in definitive form will be available for delivery through the facilities of DTC in New York, New York on or about _________, 2017.

This cover page and the inside cover page contains certain information for quick reference only. It is not a summary of this issue. Investors must read the entire Official Statement to obtain information essential to the making of an informed investment decision.

J.P. Morgan **BofA Merrill Lynch**

The date of this Official Statement is ________, 2017.

* Preliminary, subject to change.

$291,700,000*
HEALTH AND EDUCATIONAL FACILITIES AUTHORITY OF THE STATE OF MISSOURI
HEALTH FACILITIES REVENUE BONDS
(MERCY HEALTH)
SERIES 2017C

MATURITIES, AMOUNTS, INTEREST RATES, PRICES AND YIELDS*

$32,195,000 Serial Bonds

Maturity Date (November 15)	Principal Amount	Interest Rate	Price	Yield	CUSIP^
2033	$ 670,000				
2034	1,370,000				
2035	9,515,000				
2036	10,025,000				
2037	10,615,000				

Term Bonds

$40,795,000 _____% Term Bond due November 15, 2042 Priced _______% to Yield _____% CUSIP: _________
$130,860,000 ____% Term Bond due November 15, 2047 Priced _______% to Yield _____% CUSIP: _________
$87,850,000 _____% Term Bond due November 15, 2049 Priced _______% to Yield _____% CUSIP: _________

* Preliminary, subject to change.
^ A registered trademark of the American Bankers Association. CUSIP is provided by CUSIP Global Services, which is managed on behalf of the American Bankers Association by S&P Global Market Intelligence, a division of S&P Global Inc. The CUSIP numbers have been assigned by an independent company not affiliated with the Issuer or the Underwriters and are included solely for the convenience of the holders of the Series 2017C Bonds. None of the Issuer or the Underwriters is responsible for the selection or uses of these CUSIP numbers, and no representation is made as to their correctness on the Series 2017C Bonds or as indicated above.

Except for information concerning the Authority which appears herein under the headings "**THE AUTHORITY**" and "**LITIGATION-The Authority**" none of the information in this Official Statement has been supplied or verified by the Authority, and the Authority makes no representation or warranty, express or implied, as to the accuracy or completeness of such information.

The Underwriters have provided the following sentence for inclusion in this Official Statement. The Underwriters have reviewed the information in this Official Statement in accordance with, and as part of, their respective responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.

No dealer, broker, salesperson or other person has been authorized by the Authority, the Underwriters, Mercy or the Restricted Affiliates (as defined herein) to give any information or to make any representations, other than those contained in this Official Statement and, if given or made, such information or representations must not be relied upon as having been authorized by any of the foregoing. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of the Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. The information and expressions of opinion set forth herein are subject to change without notice, and neither the delivery of this Official Statement nor any statement nor any sale made hereunder shall under any circumstances create any implication that there has been no change in the affairs of the parties referred to above since the date hereof.

This Official Statement contains statements that are "forward-looking statements" as defined in Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. When used in this Official Statement, the words "will," "plan," "budget," "anticipate," "estimate," "intend," "expect" and similar expressions are intended to identify forward-looking statements. Such forward-looking statements include, but are not limited to, certain statements contained in "**PLAN OF FINANCE**," "**ESTIMATED SOURCES AND USES OF FUNDS**," and "**APPENDIX A**." These forward-looking statements are based on current plans and expectations of Mercy and are subject to a number of known and unknown risks and uncertainties, many of which are beyond the control of Mercy, that could significantly affect current plans and expectations and the future financial position and results of operations of Mercy. Certain of these risks are identified in the "**BONDHOLDERS' RISKS**" section of this Official Statement. You are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this Official Statement.

CUSIP numbers are included in this Official Statement for the convenience of the holders and potential holders of the Bonds. CUSIP is a trademark of the American Bankers Association. The CUSIP numbers are provided by CUSIP Global Services, managed by S&P Global Market Intelligence on behalf of the American Bankers Association. These numbers are not intended to create a database and do not serve in any way as a substitute for the CUSIP Service. The CUSIP numbers shown on the cover hereof have been assigned to this issue by an organization not affiliated with the Authority, the Underwriters or any of the Operating Corporations and are included for convenience only. None of the Authority, the Underwriters or the Operating Corporations is responsible for the selection of CUSIP numbers, nor is any representation made as to their correctness on the Bonds or as indicated herein.

IN CONNECTION WITH THE OFFERING OF THE BONDS, THE UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICE OF SUCH BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

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OFFICIAL STATEMENT

$291,700,000[*]
HEALTH AND EDUCATIONAL FACILITIES AUTHORITY OF THE STATE OF MISSOURI
HEALTH FACILITIES REVENUE BONDS
(MERCY HEALTH)
SERIES 2017C

INTRODUCTORY STATEMENT

*The following introductory statement is subject in all respects to more complete information contained elsewhere in this Official Statement. The order and placement of materials in this Official Statement, including the Appendices, are not to be deemed to be a determination of relevance, materiality or relative importance, and this Official Statement, including the cover page, the inside cover page and appendices, must be considered in its entirety. All capitalized terms used in this Official Statement that are not otherwise defined herein shall have the meanings ascribed to them in **APPENDIX C**.*

Purpose of this Official Statement

The purpose of this Official Statement, including the cover page, the inside cover page and the appendices, is to set forth information in connection with the offering of $291,700,000[*] aggregate principal amount of Health and Educational Facilities Authority of the State of Missouri, Health Facilities Revenue Bonds (Mercy Health), Series 2017C (the "**Bonds**"), to be issued pursuant to a Bond Trust Indenture, to be dated as of November 1, 2017 (the "**Bond Indenture**"), by and between the Health and Educational Facilities Authority of the State of Missouri (the "**Authority**") and The Bank of New York Mellon Trust Company, N.A., as bond trustee (the "**Bond Trustee**"), and a resolution adopted by the Authority on October 4, 2017 (the "**Authorizing Resolution**"). The proceeds of the Bonds are to be loaned by the Authority to Mercy Health ("**Mercy**") pursuant to a Loan Agreement dated as of November 1, 2017 (the "**Loan Agreement**").

The Authority

The Authority is a body politic and corporate and a public instrumentality of the State of Missouri (the "**State**"), created and existing under the Missouri Health and Educational Facilities Authority Act, Chapter 360 of the Revised Statutes of Missouri (the "**Act**"). See "**THE AUTHORITY**."

The System

Mercy is a Missouri nonprofit corporation with its headquarters in St. Louis, Missouri. Through its reserved powers, including the power to appoint and remove members of subsidiary boards and the Commitment Agreements (as defined herein) (collectively, "**control**"), Mercy directly or indirectly controls seven corporations (each a "**Restricted Affiliate**" and collectively the "**Restricted Affiliates**") that control other corporations that own and operate hospitals and other healthcare related facilities or provide other health services (the "**Operating Corporations**").

The Restricted Affiliates are organized along three geographical regions: East, Central and West and cover the following areas: St. Louis, Missouri and surrounding areas; Springfield, Missouri and surrounding areas; Northwest Arkansas (Bentonville/Rogers area); Fort Smith, Arkansas; Southwest Missouri/Kansas (Joplin, Missouri, Carthage, Missouri, Fort Scott, Kansas, and Columbus, Kansas); and

[*] Preliminary, subject to change.

Oklahoma Region (Oklahoma City, Ada and Ardmore). For the fiscal year ended June 30, 2017, the Operating Corporations had, in the aggregate, 4,577 acute available beds, 152,430 acute discharges, 669,632 acute patient days, 3,376,591 outpatient visits, 675,225 emergency room visits, 169,375 surgeries and 6,214,498 provider visits. Mercy is the fifth largest Catholic health system in the United States based on net patient service revenue. All the corporate entities controlled, directly or indirectly, by Mercy, their operating assets and Mercy itself are hereinafter called the "**System**" or the "**Mercy System**."

Mercy, each Restricted Affiliate and most of the Operating Corporations are exempt from federal income taxes under Section 501(a) of the Internal Revenue Code, as amended (the "**Code**") as organizations described in Section 501(c)(3) of the Code and are not private foundations under Section 509(a) of the Code (a "**Tax-Exempt Organization**"). **Certain Operating Corporations, including certain health service joint ventures and certain others, are not Tax-Exempt Organizations.**

For a more detailed description of Mercy, its organization, the communities and the facilities of the Operating Corporations, see **APPENDIX A** attached hereto.

Purpose of the Bonds

The proceeds from the sale of the Bonds will be loaned by the Authority to Mercy and will be applied to (1) finance, refinance and reimburse the costs of certain of Mercy's health facilities (2) currently refund the Refunded Bonds (hereinafter defined), and (3) pay certain costs related to the issuance of the Bonds. See "**PLAN OF FINANCE**" herein.

Security and Source of Payment for the Bonds

The Bonds and the interest thereon are special, limited obligations of the Authority, payable by the Authority solely from certain payments to be made by Mercy under the Loan Agreement and certain other funds held by the Bond Trustee under the Bond Indenture and not from any other fund or source of the Authority. The obligation of Mercy to make payments under the Loan Agreement will be evidenced and secured by the Series 2017C Obligation (as defined herein) issued under the Master Indenture. Pursuant to the Bond Indenture, the Authority will assign to the Bond Trustee, for the benefit and security of the registered owners of the Bonds, substantially all of the rights of the Authority in the Loan Agreement (except for the Authority's rights to payment of its fees and expenses and the Authority's right to indemnification in certain circumstances and as otherwise expressly set forth in the Loan Agreement), including all Loan Payments payable thereunder, and the Series 2017C Obligation. Payments under the Loan Agreement and the Series 2017C Obligation are designed to be sufficient, together with other funds available for such purpose, to pay when due the principal of, premium, if any, and interest on the Bonds.

The Series 2017C Obligation is secured by a pledge by Mercy and the Restricted Affiliates of the Unrestricted Gross Revenues of Mercy and the Restricted Affiliates. "**Unrestricted Gross Revenues**" means all income, revenues, receipts and other moneys received by or on behalf of Mercy and the Restricted Affiliates from revenues generated by or attributable to the Principal Properties of Mercy and the Restricted Affiliates and all rights to receive the same whether in the form of accounts, health-care-insurance receivables, contract rights, chattel paper, instruments, general intangibles or other rights now owned or hereafter acquired by Mercy or any Restricted Affiliate, including all moneys paid to Mercy or the Master Trustee by the Restricted Affiliates under Section 502(b) of the Master Indenture and all moneys paid to Mercy or the Master Trustee by the Restricted Affiliates under the Commitment Agreements (as defined herein), and all rights, interests, powers, privileges and benefits accruing to or vested in Mercy under the Commitment Agreements (including the right to protect and enforce the same in conformity with the Master Indenture from and after the occurrence of any Event of Default thereunder), and all proceeds from any of the foregoing whether cash or noncash, and all deposit accounts of Mercy, all as defined in Article 9 of the Uniform Commercial Code of the applicable State where a

Principal Property is located; excluding, however, gifts, grants, bequests, donations and contributions to Mercy or any Restricted Affiliate made, and the income and gains derived therefrom, which are specifically restricted by the donor, testator or grantor to a particular purpose which is inconsistent with their use for payments required under the Master Indenture or on the Obligations (as defined herein). For a more detailed description of the pledge and assignment of the Unrestricted Gross Revenues, see the caption "**SECURITY AND SOURCES OF PAYMENT FOR THE BONDS**" in this Official Statement and "**SUMMARY OF THE MASTER INDENTURE -- Pledge and Assignment of Unrestricted Gross Revenues**" in **APPENDIX C**.

The Bonds are special, limited obligations of the Authority and shall not constitute a debt or liability of the State or of any political subdivision thereof within the meaning of any State constitutional provision or statutory limitation and shall not constitute a pledge of the faith and credit of the State or of any political subdivision thereof. The issuance of the Bonds shall not, directly, indirectly, or contingently, obligate the State or any political subdivision thereof to levy any form of taxation therefor or to make any appropriation for their payment. The Authority has no taxing power. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS."

The Master Indenture

Pursuant to the Master Trust Indenture, dated as of July 1, 1989, as amended and restated on November 15, 1995 (the "**Master Indenture**"), by and between Mercy and UMB Bank & Trust, N.A., as master trustee (the "**Master Trustee**"), Mercy will issue a designated Master Obligation (Mercy Health), Series 2017C (Bond Note) (the "**Series 2017C Obligation**") to evidence its obligation to repay the loan of the proceeds of the Bonds under the Loan Agreement. The Series 2017C Obligation will be issued pursuant to the Supplemental Master Indenture No. 25, dated as of November 1, 2017, between Mercy and the Master Trustee (the "**Supplemental Indenture**") which will supplement the Master Indenture. Additional obligations may be issued in the future under the Master Indenture on parity with the Outstanding Obligations (as defined herein) and with the Series 2017C Obligation. All obligations from time to time outstanding under the Master Indenture, including the Series 2017C Obligation, are herein called the "**Obligations**."

Security Interest in Unrestricted Gross Revenues. All Obligations are or will be general obligations of Mercy secured by an interest in the Unrestricted Gross Revenues. In the Master Indenture, Mercy has covenanted and agreed that it will cause each Restricted Affiliate to pay, loan or otherwise transfer to Mercy (i) such amounts that are necessary to duly and punctually pay the principal of, premium, if any, and interest on all Outstanding Obligations or portions thereof the proceeds of which were loaned or otherwise made available to such Restricted Affiliate or that were otherwise issued for the benefit of such Restricted Affiliate and any other payments required by the terms of such Obligations, when and as the same become payable and (ii) such amounts that are otherwise necessary to enable Mercy to comply with all covenants, undertakings, stipulations and provisions contained in the Master Indenture and in each and every Obligation. The Master Indenture requires that Mercy cause the Restricted Affiliates to comply with certain covenants contained in the Master Indenture. Mercy, through its ability to control the Restricted Affiliates or through commitment agreements between Mercy and the Restricted Affiliates (the "**Commitment Agreements**"), expects to be able to cause the Restricted Affiliates to comply with such covenants, which include requirements for maintenance of corporate existence, and restrictions on liens on any Principal Property of Mercy and the Restricted Affiliates, and on sale and leaseback transactions. For a more detailed description of the Master Indenture, see the caption "**SECURITY AND SOURCES OF PAYMENT FOR THE BONDS**" in this Official Statement and "**SUMMARY OF THE MASTER INDENTURE**" in **APPENDIX C**.

Debt Service Coverage Ratio. Subject to the limitations and exceptions provided in the Master Indenture, so long as the Bonds are outstanding, Mercy agrees that it will maintain a ratio of Income Available for Debt Service to Annual Debt Service of not less than 1.10:1.00 at the end of each Fiscal Year. It shall not constitute a default under the Master Indenture if such level (ratio of 1.10) is not met, but above 1.00.

Bondholders' Risks

There are risks associated with the purchase of the Bonds. See "**BONDHOLDERS' RISKS**" herein for a discussion of certain of these risks.

Continuing Disclosure

Pursuant to the Continuing Disclosure Agreement, Mercy will provide certain annual financial and operating information, certain quarterly financial information and notices of the occurrence of certain material events. See "**CONTINUING DISCLOSURE**" herein and the Summary of Continuing Disclosure Agreement included in this Official Statement in **APPENDIX E**.

Definitions and Summaries of Legal Documents

Definitions of certain words and terms used in this Official Statement are set forth in **APPENDIX C** of this Official Statement. Summaries of the Master Indenture, the Bond Indenture and the Loan Agreement are also included in this Official Statement in **APPENDIX C**. Such definitions and summaries do not purport to be comprehensive or definitive. All references herein to the specified documents are qualified in their entirety by reference to the definitive forms of such documents, copies of which may be viewed at the office of J.P. Morgan Securities LLC at 383 Madison Avenue, 8th Floor, New York, New York 10179, and, after delivery, at the office of The Bank of New York Mellon Trust Company, N.A. at 911 Washington Avenue, St. Louis, Missouri 63103. Copies of such documents will also be provided to any prospective purchaser requesting the same, upon payment by such prospective purchaser of the cost of complying with such request.

THE AUTHORITY

Organization and Powers

The Authority is a body politic and corporate and a public instrumentality duly organized and existing under the laws of the State, including particularly the Act.

The Authority is empowered under the Act to make loans to any participating health or educational institution to finance the cost of health or educational facilities, to refinance outstanding obligations, mortgages or advances issued, made or given for the cost of such facilities, and to refund bonds of the Authority issued for such purposes. The Authority may issue its bonds, notes or other obligations for any of its corporate purposes. Missouri law requires that the State shall not be liable in any event for the payment of the principal of or interest on any bonds of the Authority or for the performance of any pledge, mortgage, obligation or agreement undertaken by the Authority and no breach of any such pledge, mortgage, obligation or agreement may impose any pecuniary liability upon the State or any charge upon the general credit or taxing power of the State.

Members

The Act provides that the Authority shall consist of seven members who are to be appointed by the governor of the State with the advice and consent of the State Senate. Each member must be a resident of the State and not more than four members of the Authority may be of the same political party. Initial members were appointed to staggered terms of office and successor members are appointed for terms of five years. Members continue to serve after expiration of their term until a successor is appointed and qualified or they are reappointed.

The current members of the Authority and their offices are as follows:

Sarah R. Maguffee, Chair and Member. Ms. Maguffee, a resident of Columbia, Missouri, is an attorney and Clerk to Judge Karen King Mitchell, Missouri Court of Appeals, Western District. Term as a Member expired July 30, 2013.

Joseph A. Cavato, Vice Chair and Member. Mr. Cavato, a resident of University City, Missouri, is owner of JAC Consulting, LLC, provider of consulting and advisory services. Term as a Member expired July 30, 2013.

Jeffrey D. Byrne, Treasurer and Member. Mr. Byrne, a resident of Kansas City, Missouri, is Founder and CEO of Jeffrey Byrne & Associates, Inc., a fundraising and financial development firm specializing in nonprofit organizations. Term as a Member expires July 30, 2019.

Thomas E. George, Member. Mr. George, a resident of St. Louis, Missouri, is the President of the International Brotherhood of Electrical Workers (IBEW) Local One in St. Louis. Term as a Member expired July 30, 2015.

Judith W. Scott, Member. Ms. Scott, a resident of Poplar Bluff, Missouri, is the Executive Director of the Three Rivers Community College Foundation. Term as a Member expired July 30, 2011.

Under the Act, Ms. Scott, Ms. Maguffee, Mr. George and Mr. Cavato continue to serve as members of the Authority until reappointed or a successor is appointed and qualified. There are currently two vacancies.

Executive Director

Michael J. Stanard serves as Executive Director of the Authority. Mr. Stanard has served as Executive Director since May 1, 1998.

Representatives

William B. Tschudy, Olathe, Kansas, serves as financial advisor to the Authority.

Thompson Coburn LLP, St. Louis, Missouri, serves as general counsel to the Authority.

Indebtedness of the Authority

The Authority has previously sold and delivered numerous series of bonds and notes for participating health or educational institutions other than Mercy secured by instruments separate and apart from the instruments issuing and securing the Bonds. The owners of such bonds and notes have no claim on the assets, funds or revenues of the Authority securing the Bonds and the owners of the Bonds will have no claim on assets, funds or revenues of the Authority securing such other bonds and notes except with respect to any outstanding bonds issued by the Authority for Mercy and certain future indebtedness of Mercy.

With respect to additional indebtedness of the Authority, the Authority intends to enter into separate agreements with participating health or educational institutions in the State other than Mercy for the purpose of providing financing for eligible projects and programs. Issues that may be sold by the Authority in the future for participating health or educational institutions other than Mercy will be created under separate and distinct indentures or resolutions and will be secured by instruments, properties and revenues separate from those securing the Bonds.

EXCEPT FOR INFORMATION CONCERNING THE AUTHORITY IN THE SECTIONS OF THIS OFFICIAL STATEMENT CAPTIONED "THE AUTHORITY" AND "LITIGATION -- THE AUTHORITY," NONE OF THE INFORMATION IN THIS OFFICIAL STATEMENT HAS BEEN SUPPLIED OR VERIFIED BY THE AUTHORITY AND THE AUTHORITY MAKES NO REPRESENTATION OR WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY OR COMPLETENESS OF SUCH INFORMATION.

PLAN OF FINANCE

In General

The proceeds of the Bonds will be loaned by the Authority to Mercy pursuant to the Loan Agreement. Mercy will use such proceeds to (1) finance, refinance and reimburse the costs of certain of Mercy's health facilities (the "**Project**"), (2) currently refund the Refunded Bonds (hereinafter defined), and (3) pay certain costs related to the issuance of the Bonds.

The Project

The Project consists of all or a portion of the acquisition, construction, renovation and equipping of health facilities of the Mercy System, including without limitation the following components:

(i) Construction of several clinics across the system including but not limited to an approximately 44,050 square foot multi-specialty clinic in Branson, Missouri that will have primary care physicians, urgent care, specialty clinician groups, lab, optometry, imaging and infusion.

(ii) Relocation and renovation of Cardiovascular services and construction of a new kitchen and cafeteria at Mercy Hospital Springfield in Springfield, Missouri.

(iii) Construction of a patient tower addition, new main entrance, emergency department expansion, renovation of Labor & Delivery and post-partum patient units; and cancer center replacement building including linear accelerator vault and CT simulator at Mercy Hospital Jefferson in Festus, Missouri.

(iv) Construction of a 7 story patient tower at Mercy Hospital NWA in Rogers, Arkansas.

(v) Acquisition and construction of a freestanding emergency department in Edmond, Oklahoma and primary care clinics in Edmond and Piedmont, Oklahoma.

The Refunded Bonds

The Authority previously issued its Variable Rate Demand Health Facilities Revenue Bonds (Mercy Health), Subseries 2014D-1 in the original principal amount of $55,000,000 (the "**Series 2014D Bonds**") and its Variable Rate Demand Health Facilities Revenue Bonds (Mercy Health), Subseries

2014E-1 in the original principal amount of $55,000,000 (the "**Series 2014E Bonds**" and together with the Series 2014D Bonds, the "**Refunded Bonds**").

The Refunded Bonds will be currently refunded with a portion of the proceeds of the Bonds on November 14, 2017* at a redemption price equal to the principal amount thereof, plus accrued and unpaid interest thereon through the redemption date.

JPMorgan Chase Bank, N.A., an affiliate of J.P. Morgan Securities LLC, is the owner of all of the Series 2014D Bonds. As described in the "**Purpose of the Bonds**", proceeds of the Series 2017C Bonds will be used to refinance, in its entirety, the Series 2014D Bonds.

ESTIMATED SOURCES AND USES OF FUNDS

The proceeds expected to be received from the sale of the Bonds are to be applied, together with other moneys described below, as follows:

SOURCES OF FUNDS:	
Par Amount of Bonds	$291,700,000*
Net Original Issue Premium/(Discount)	
TOTAL SOURCES OF FUNDS	
USES OF FUNDS:	
Project Fund Deposit	
Refund Refunded Bonds	
Underwriters' Discount	
TOTAL USES OF FUNDS	

* Preliminary, subject to change.

DEBT SERVICE REQUIREMENTS FOR THE BONDS*

The following table sets forth the annual amounts required to pay scheduled principal, including mandatory sinking fund payments, and interest on the Bonds and all other long term debt which will remain outstanding following the issuance of the Bonds and the refunding of the Refunded Bonds.

	Series 2017C Bonds			
Fiscal Year Ending June 30	Principal	Interest	Other Outstanding Indebtedness(1)	Total
2018	--	$	$ 66,869,535	$
2019	--		67,463,626	
2020	--		71,026,897	
2021	--		71,972,732	
2022	--		67,748,754	
2023	--		67,802,253	
2024	--		64,662,139	
2025	--		93,573,916	
2026	--		90,912,039	
2027	--		89,543,223	
2028	--		90,226,187	
2029	--		91,042,288	
2030	--		91,790,178	
2031	--		92,673,111	
2032	--		92,965,412	
2033	--		88,890,141	
2034	$ 670,000		88,358,097	
2035	1,370,000		87,700,484	
2036	9,515,000		79,773,063	
2037	10,025,000		79,650,528	
2038	10,615,000		79,473,767	
2039	11,220,000		79,359,930	
2040	7,035,000		84,001,403	
2041	7,320,000		84,079,806	
2042	7,595,000		84,177,596	
2043	7,625,000		84,527,484	
2044	--		94,197,114	
2045	2,075,000		90,305,817	
2046	7,675,000		84,904,917	
2047	58,735,000		35,172,154	
2048	62,375,000		33,955,223	
2049	27,720,000		32,730,035	
2050	60,130,000		3,778,700	
2051	--		3,760,983	
2052	--		3,739,767	
2053	--		3,767,400	
Total	**$291,700,000**		**$2,516,576,696**	

(1) Principal and interest. Includes Series 1993A Bonds, Series 2001A-C Bonds, Series 2012 Bonds, Series 2014A-C Bonds, Series 2014F Bonds, Series 2015A-B Bonds, Series 2017A-B Bonds, Other Notes, Mortgage Notes and Capital Leases. Interest on all variable rate debt calculated at an annual rate of 3.5%.

* Preliminary, subject to change.

THE BONDS

The following is a summary of certain terms and provisions of the Bonds. Reference is hereby made to the Bonds and the provisions with respect thereto in the Bond Indenture and the Loan Agreement for the detailed terms and provisions thereof.

General Terms

The Bonds are being issued in the aggregate principal amount of $291,700,000*, are dated the date of their original issuance and delivery, will bear interest from their date or from the most recent interest payment date to which interest has been paid or duly provided for at the rates set forth on the inside cover page, payable semiannually on May 15 and November 15 of each year, beginning on May 15, 2018, and will mature on the dates set forth on the inside cover page. The Bonds are being issued as fully registered bonds without coupons in the minimum authorized denominations of $5,000 and any integral multiple thereof and, when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("**DTC**"). Purchases of beneficial interests in the Bonds will be made in book-entry only form (as described below under the caption "**Book-Entry Only System**"). Purchasers of the Bonds will not receive certificates representing their interests in the Bonds purchased.

The principal of and the redemption premium, if any, on all Bonds are payable by check or draft at maturity or upon earlier redemption to the Persons in whose names such Bonds are registered on the Bond Register at the maturity or redemption date thereof, upon the presentation and surrender of such Bonds at the principal corporate trust office or at such other office designated by the Bond Trustee for such purpose.

The interest payable on each Bond on any interest payment date shall be paid by the Bond Trustee to the Registered Owner as shown on the Bond Register at the close of business on May 1 or November 1 (whether or not a Business Day) immediately prior to each interest payment date (the "**Record Date**"), (a) by check or draft mailed to such Registered Owner at the address as it appears on the Bond Register or at such other address as is furnished to the Bond Trustee in writing by such Owner, or (b) at the written request addressed to the Bond Trustee by any Owner of Bonds in the aggregate principal amount of at least $1,000,000, by electronic transfer to such Owner upon written notice to the Bond Trustee from such Owner containing the electronic transfer instructions (which shall be located in the continental United States) to which such Owner wishes to have such transfer directed, provided such written notice is given by such Owner to the Bond Trustee not less than 5 Business Days before the applicable Record Date. So long as any of the Bonds are in book-entry form, the principal, redemption premium, if any, and interest on such Bonds are payable by check or draft mailed, or wire transfer, to Cede & Co. as registered owner thereof and will be redistributed by DTC and the Participants as described below.

Book-Entry Only System

DTC will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee), or such other name as may be requested by an authorized representative of DTC. One fully-registered bond certificate will be issued for each maturity of the Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "*banking organization*" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "*clearing corporation*" within the meaning of

* Preliminary, subject to change.

the New York Uniform Commercial Code, and a "*clearing agency*" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.6 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("**Direct Participants**") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry such as transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("**DTCC**"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("**Indirect Participants**"). DTC has a Standard & Poor's rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of the Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of the Bonds ("**Beneficial Owner**") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of such Direct or Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all securities deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of the Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent by the Bond Trustee to DTC. If less than all of the Bonds are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Authority as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the Bonds will be made to DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Authority or the Bond Trustee, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Bond Trustee or the Authority, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, and principal of, premium, if any and interest on the Bonds to Cede & Co. is the responsibility of the Authority or the Bond Trustee, disbursement of such payments to Direct Participants shall be the responsibility of DTC, and the disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the Bonds at any time by giving reasonable notice to the Authority or the Bond Trustee. Under such circumstances, in the event that a successor securities depository is not obtained, bond certificates are required to be printed and delivered. Mercy may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, bond certificates will be printed and delivered.

THE INFORMATION PROVIDED ABOVE HAS BEEN PROVIDED BY DTC. NO REPRESENTATION IS MADE BY THE AUTHORITY, MERCY OR THE UNDERWRITER AS TO THE ACCURACY OR ADEQUACY OF SUCH INFORMATION PROVIDED BY DTC OR AS TO THE ABSENCE OF MATERIAL ADVERSE CHANGES IN SUCH INFORMATION SUBSEQUENT TO THE DATE HEREOF.

NEITHER THE AUTHORITY, THE UNDERWRITER, MERCY, NOR THE BOND TRUSTEE HAS RESPONSIBILITY OR OBLIGATION TO PARTICIPANTS OR THE PERSONS FOR WHOM PARTICIPANTS ACT AS NOMINEES WITH RESPECT TO THE PAYMENTS OR THE PROVIDING OF NOTICE TO PARTICIPANTS, INDIRECT PARTICIPANTS OR BENEFICIAL OWNERS OR THE SELECTION OF PORTIONS OF THE BONDS FOR REDEMPTION.

Redemption Prior to Maturity

The Bonds are subject to redemption prior to maturity as follows:

Optional Redemption. The Bonds maturing in the year 20__ and thereafter are subject to redemption and payment prior to maturity, at the written direction of Mercy, on and after November 15, 20__, in whole or in part on any date at the redemption price of 100% of the principal amount redeemed, plus accrued interest thereon to the redemption date.

Extraordinary Optional Redemption. The Bonds are subject to redemption and payment prior to the stated maturity thereof, at the written direction of Mercy, in whole or in part on any date, at a redemption price equal to 100% of the principal amount thereof, plus accrued interest thereon to the redemption date, without premium, upon the occurrence of any of the following events:

(1) all or a substantial portion of the facilities financed or refinanced with the proceeds of the Bonds are damaged or destroyed by fire or other casualty, or title to, or the

temporary use of, all or a substantial portion of such facilities are condemned or taken for any public or quasi-public use by any authority exercising the power of eminent domain or title thereto is found to be deficient, to such extent that in the determination of Mercy (A) such facilities cannot be reasonably restored or replaced to the condition thereof preceding such event, or (B) Mercy or any affiliate is thereby prevented from carrying on its normal operations of such facilities, or (C) the cost of restoration or replacement thereof would exceed the net proceeds of any casualty insurance, title insurance or condemnation awards with respect thereto; or

(2) as a result of any changes in the Constitution of the State of Missouri or the Constitution of the United States of America or of legislative or administrative action (whether state or federal) or by final direction, judgment or order of any court or administrative body (whether state or federal) entered after the contest thereof by Mercy in good faith, the Bond Indenture or the Loan Agreement becomes void or unenforceable or impossible of performance in accordance with the intent and purpose of the parties as expressed therein, or unreasonable burdens or excessive liabilities are imposed upon Mercy with respect to such facilities or the operation thereof; or

(3) Mercy is required or ordered, by legislative, judicial or administrative action of the United States or of the State of Missouri, or any agency, department or subdivision thereof, to operate the facilities financed or refinanced with the proceeds of the Bonds in a manner inconsistent with the stated goals, purposes and policies of Mercy, including without limitation its goals, purposes and policies with respect to its primary operations, and such legislative, judicial or administrative action is applicable to Mercy because Mercy is a party to the Loan Agreement.

Mandatory Sinking Fund Redemption. The term bonds maturing November 15, 20__, 20__ and 20__ (the "**Term Bonds**") are subject to mandatory sinking fund redemption and payment prior to maturity on November 15 in each of the years set forth below, at 100% of the principal amount thereof plus accrued interest to the redemption date, without premium:

Term Bond Maturing on November 15, 20__

Year	Principal Amount
20__	$
20__	
20__	
20__*	

* Final Maturity

Term Bond Maturing on November 15, 20__

Year	Principal Amount
20__	$
20__	
20__	
20__*	

* Final Maturity

Term Bond Maturing on November 15, 20__

Year	Principal Amount
20__	$
20__	
20__	
20__*	

* Final Maturity

The Bond Trustee shall make timely selection of such Term Bonds or portions thereof to be redeemed pursuant to the mandatory redemption provisions of the Bond Indenture in $5,000 units of principal amount in such equitable manner as the Bond Trustee determines and shall give notice thereof without further instructions from the Authority or Mercy. At the option of Mercy, to be exercised on or before the 35th day next preceding each mandatory redemption date, Mercy may (1) deliver to the Bond Trustee for cancellation Term Bonds in the aggregate principal amount desired, (2) furnish to the Bond Trustee funds, together with appropriate instructions, for the purpose of purchasing any Term Bonds from any Owner thereof in the open market at a price not in excess of 100% of the principal amount thereof, whereupon the Bond Trustee shall use its best efforts to expend such funds for such purposes, or (3) elect to receive a credit in respect to the mandatory redemption obligation under this subsection for any Term Bonds which prior to such date have been redeemed (other than through the operation of the requirements of this subsection) and cancelled by the Bond Trustee and not theretofore applied as a credit against any redemption obligation under this subsection. Each Term Bond so delivered or previously purchased or redeemed shall be credited at 100% of the principal amount thereof on the obligation to redeem Term Bonds of the same maturity on the next mandatory redemption date applicable to Term Bonds of such maturity that is at least 35 days after receipt by the Bond Trustee of such instructions from Mercy, and any excess of such amount shall be credited on future mandatory redemption obligations for Term Bonds of the same maturity in chronological order or such other order as Mercy may designate, and the principal amount of Term Bonds to be redeemed on such future mandatory redemption dates by operation of the requirements of this subsection shall be reduced accordingly. If Mercy intends to exercise any option granted by the provisions of clauses (1), (2) or (3) of this paragraph, Mercy will, on or before the 35th day next preceding the applicable mandatory redemption date, furnish the Bond Trustee an Officer's Certificate indicating to what extent the provisions of said clauses (1), (2) and (3) are to be complied with in respect to such mandatory redemption payment.

Purchase in Lieu of Redemption. Each bond owner irrevocably grants to Mercy the option to purchase such Bond pursuant to a mandatory tender for purchase by Mercy ("**purchase in lieu of redemption**"), on any date that such Bond is subject to optional redemption, at a purchase price equal to the then applicable redemption price of such Bond. In the event Mercy determines to exercise such option, Mercy shall deliver to the Bond Trustee an Opinion of Bond Counsel to the effect that such purchase, in and of itself, will not adversely affect the exclusion of the interest on the Bonds from gross income for federal income tax purposes. Mercy shall direct the Bond Trustee to provide notice of purchase in lieu of redemption. Such notice shall be provided and Bonds subject to purchase in lieu of redemption shall be selected in the same manner as provided for the redemption of Bonds pursuant to the Bond Indenture. On the date fixed for purchase in lieu of redemption of any Bond, Mercy shall pay the purchase price of such Bond to the Bond Trustee in immediately available funds, and the Bond Trustee shall pay the same to the Owners of the Bonds being purchased against delivery thereof. No purchase in lieu of redemption of any Bond pursuant to the provisions of the Bond Indenture shall operate to extinguish such Bond or the indebtedness of the Authority evidenced by such Bond. No bond owner may elect to retain a Bond subject to mandatory tender for purchase in lieu of redemption.

Selection by Bond Trustee of Bonds to be Redeemed. Bonds may be redeemed only in the principal amount of $5,000 or any integral multiple thereof. Bonds that are to be redeemed and paid prior to maturity pursuant to the optional redemption provisions described above shall be selected from the maturity or maturities selected by Mercy. If less than all Bonds of any maturity are to be redeemed, the particular Bonds to be redeemed shall be selected by the Bond Trustee from the Bonds of such maturity which have not previously been called for redemption, in such equitable manner as the Bond Trustee may determine and which may provide for the selection for redemption of portions of the principal of Bonds equal to the minimum authorized denomination of the Bonds of a denomination larger than the minimum authorized denomination.

Notice of Redemption. Unless waived by any owner of Bonds to be redeemed, official notice of any such redemption shall be given by the Bond Trustee by first class mail or prepaid overnight delivery service, at least 30 days prior to the redemption date to each registered owner of the Bonds to be redeemed at the address shown on the bond register.

All official notices of redemption shall be dated and shall state:

(a) the redemption date;

(b) the redemption price;

(c) the principal amount (and, in the case of partial redemption, the respective principal amounts, identification numbers and maturity dates) of the Bonds to be redeemed;

(d) that on the redemption date the redemption price will become due and payable upon each such Bond or portion thereof called for redemption, and that interest thereon shall cease to accrue from and after said date; and

(e) the place where the Bonds to be redeemed are to be surrendered for payment of the redemption price, which place of payment shall be a corporate trust office of the Bond Trustee.

With respect to optional redemptions, such notice may be conditioned upon moneys being on deposit with the Bond Trustee on or prior to the redemption date in an amount sufficient to pay the redemption price on the redemption date. If such notice is conditional and either the Bond Trustee receives written notice from Mercy that moneys sufficient to pay the redemption price will not be on deposit on the redemption date, or such moneys are not received on the redemption date, then such notice shall be of no force and effect, the Bond Trustee shall not redeem such Bonds and the Bond Trustee shall give notice, in the same manner in which the notice of redemption was given, that such moneys were not or will not be so received and that such Bonds will not be redeemed.

The failure of any owner of Bonds to receive such notice, or any defect therein, shall not affect the validity of any proceedings for the redemption of any Bonds. Any notice mailed as provided in this section shall be conclusively presumed to have been duly given and shall become effective upon mailing, whether or not any owner receives such notice.

In addition to the foregoing notice, further notice shall be given by the Bond Trustee by first class mail or overnight delivery service to all registered securities depositories then in the business of holding substantial amounts of obligations of types comprising the Bonds and by facsimile to one or more national information services that disseminate notices of redemption of obligations such as the Bonds. Each further notice of redemption given shall contain the information required above for an official notice of redemption plus (i) the CUSIP numbers of all Bonds being redeemed; (ii) the date of issue of the Bonds as originally issued; (iii) the rate of interest borne by each Bond being redeemed; (iv) the maturity date of each Bond being redeemed; and (v) any other descriptive information needed to identify accurately the Bonds being redeemed. No defect in said further notice nor any failure to give all or any portion of such further notice shall in any manner defeat the effectiveness of a call for redemption if notice thereof is given to the registered owners of the Bonds as above prescribed.

So long as DTC is effecting book-entry transfers of the Bonds, the Bond Trustee shall provide the notices specified above only to DTC. It is expected that DTC will, in turn, notify the Participants and that the Participants, in turn, will notify or cause to be notified the Beneficial Owners. Any failure on the part of DTC or a Participant, or failure on the part of a nominee of a Beneficial Owner of a Bond to notify the Beneficial Owner of the Bond so affected, shall not affect the validity of the redemption of such Bond.

Registration, Transfer and Exchange

The Bonds are being issued as fully registered bonds without coupons, registered in the name of Cede & Co., as nominee of DTC. So long as the Bonds are subject to the DTC or other book-entry only system, the following provisions, regarding the registration, transfer and exchange of the Bonds during a period when a book-entry only system is not in effect, will not be applicable to the Bonds. During any period when a book-entry only system is not in effect, the Bonds will be transferable by the owner thereof or by such owner's attorney or legal representative duly authorized in writing upon presentation thereof at the corporate trust office of the Bond Trustee, and the Bond Trustee shall authenticate and deliver, in the name of the designated transferee or transferees, one or more new Bonds of any authorized denominations and of a like aggregate principal amount.

The Bond Trustee may require payment from an owner of a sum sufficient to cover any tax or other governmental charge in connection with any transfer or exchange of any Bond. The Bond Trustee shall not be required (a) to transfer or exchange any Bond during a period beginning 15 days before the day of the mailing of a notice of redemption of such Bond and ending at the close of business on the day of such mailing, or (b) to transfer or exchange any Bond selected for redemption in whole or in part, during a period beginning at the opening of business on any Record Date for such Bonds and ending at the close of business on the relevant interest payment date therefor.

SECURITY AND SOURCES OF PAYMENT FOR THE BONDS

General

The Bonds will be issued under and will be equally and ratably secured under the Bond Indenture, under which the Authority will assign and pledge to the Bond Trustee (1) all of the Authority's right, title and interest in the Loan Agreement, including, without limitation, all Loan Payments and other payments to be received by the Authority and paid by Mercy under and pursuant to and subject to the provisions of the Loan Agreement, (2) the Series 2017C Obligation, (3) all money and securities (except money and securities held in the Rebate Fund) from time to time held by the Bond Trustee in the funds and accounts under the terms of the Bond Indenture and (4) any and all other property (real, personal or mixed) of every kind and nature from time to time, by delivery or by writing of any kind, pledged, assigned or transferred as and for additional security under the Bond Indenture.

Special, Limited Obligations

The Bonds and the interest thereon are special, limited obligations of the Authority, payable (except to the extent paid out of Bond proceeds or the income from the temporary investment thereof and under certain circumstances from insurance proceeds and condemnation awards) solely out of the Loan payments derived by the Authority under the Loan Agreement and the Series 2017C Obligation (except for fees and expenses payable to the Authority and the Authority's right to indemnification as set forth in the Loan Agreement), and are secured by a transfer, pledge and assignment of and a grant of a security interest in the Trust Estate to the Bond Trustee and in favor of the owners of the Bonds, as provided in the Bond Indenture.

The Bonds and interest thereon shall not be deemed to constitute a debt or liability of the State of Missouri or of any political subdivision thereof within the meaning of any state constitutional provision or statutory limitation and shall not constitute a pledge of the full faith and credit of the State of Missouri or of any political subdivision thereof, but shall be payable solely from the funds provided for in the Loan Agreement and in the Bond Indenture. The issuance of the Bonds shall not, directly, indirectly or contingently, obligate the State of Missouri or any political subdivision thereof to levy any form of taxation therefor or to make any appropriation for their payment. The State of Missouri shall not in any event be liable for the payment of the principal of, redemption premium, if any, or interest on the Bonds or for the performance of any pledge, mortgage, obligation or agreement of any kind whatsoever which may be undertaken by the Authority. No breach by the Authority of any such pledge, mortgage, obligation or agreement may impose any liability, pecuniary or otherwise, upon the State of Missouri or any charge upon its general credit or against its taxing power. The Authority has no taxing power.

The Bond Indenture

Under the Bond Indenture, the Authority will pledge and assign to the Bond Trustee, for the benefit of the bond owners, all of its rights under the Loan Agreement and the Series 2017C Obligation, including, without limitation, all Loan Payments and other amounts to be received by the Authority and paid by Mercy under the Loan Agreement (except the Authority's rights to payment of its fees and expenses and to indemnification as set forth in the Loan Agreement) and any moneys and securities held in the Rebate Fund as security for the payment of the principal of and interest on the Bonds. See "**SUMMARY OF THE BOND INDENTURE**" in **APPENDIX C**.

The Loan Agreement

Under the Loan Agreement, Mercy is required to make Loan Payments to the Bond Trustee for deposit into the Debt Service Fund in amounts sufficient to pay the principal of and interest on the Bonds when due and to make certain other payments. Mercy's obligations to make Loan Payments and to pay other amounts under the Loan Agreement are absolute and unconditional without any abatement or diminution thereof. See "**SUMMARY OF THE LOAN AGREEMENT**" in **APPENDIX C**.

The Master Indenture and the Supplemental Master Indenture

Series 2017C Obligation. Pursuant to the Master Indenture, Mercy will issue to the Bond Trustee, as assignee of the Authority, for the benefit of the Owners of the Bonds, the Series 2017C Obligation to evidence and secure its obligation to make Loan Payments under the Loan Agreement.

Master Indenture Obligation. Under the Master Indenture, the Series 2017C Obligation is a general obligation secured by an interest in the Unrestricted Gross Revenues of Mercy and the Restricted Affiliates. In addition, under the Master Indenture, Mercy has also covenanted and agreed to maintain a ratio of Income Available for Debt Service to Annual Debt Service of not less than 1.10:1.00 at the end of each Fiscal Year and to cause each Restricted Affiliate to pay, loan or otherwise transfer to Mercy (i) such amounts that are necessary to duly and punctually pay the principal of, premium, if any, and interest on all Outstanding Obligations or portions thereof, the proceeds of which were loaned or otherwise made available to such Restricted Affiliate or that were otherwise issued for the benefit of such Restricted Affiliate and any other payments required by the terms of such Obligations, when and as the same become payable and (ii) such amounts that are otherwise necessary to enable Mercy to comply with all covenants, undertakings, stipulations and provisions contained in the Master Indenture and in each and every Obligation.

The Master Indenture requires that Mercy cause the Restricted Affiliates to comply with certain covenants contained in the Master Indenture. Mercy, through its ability to control the Restricted Affiliates or through Commitment Agreements between Mercy and the Restricted Affiliates, expects to be able to cause the Restricted Affiliates to comply with such covenants, which include requirements for maintenance of corporate existence, and restrictions on liens on any Principal Property of Mercy and the Restricted Affiliates, and on sale and leaseback transactions. The Master Indenture does not contain any limitations on the amount of additional indebtedness that may be incurred by Mercy or the Restricted Affiliates nor does the Master Indenture require Mercy or the Restricted Affiliates to demonstrate compliance with any earnings, capitalization or other tests as a precondition to the incurrence of additional indebtedness.

Under the Master Indenture, to be a Restricted Affiliate, a corporation or other entity must be designated as a Restricted Affiliate by a resolution of the Board of Directors of Mercy, and Mercy must either (i) control such Restricted Affiliate in the manner described below or (ii) have entered into with such Restricted Affiliate a Commitment Agreement that, in the judgment of Mercy, is sufficient to assure Mercy that such Restricted Affiliate will be required to make the payments necessary for Mercy to pay the principal of and interest on the Obligations and to comply with the other provisions of the Master Indenture applicable to Restricted Affiliates. Under the Master Indenture, "control" means the power to direct the management and policies of such entity, directly or indirectly, whether through the ownership of voting securities, by contract, partnership interests, membership, reserved powers or the power to appoint members, trustees or directors or otherwise. Under the Master Indenture, Mercy covenants to cause each Restricted Affiliate to comply with certain covenants and restrictions contained in the Master Indenture. All of the current or expected Restricted Affiliates are controlled by Mercy in the manner described above. In addition, each of the current Restricted Affiliates has also executed a Commitment Agreement. In the future Mercy may elect to permit certain entities to become Restricted Affiliates solely by means of execution of Commitment Agreements ("**Contractual Restricted Affiliates**").

With certain exceptions, the ability to control Restricted Affiliates, as described above, permits Mercy to require compliance by the controlled Restricted Affiliates with the covenants and restrictions contained in the Master Indenture, by replacement of the members of the governing body of such Restricted Affiliate, if necessary. In the future, Mercy's ability to control the operations of Contractual Restricted Affiliates, if any, will be more limited. Should any such Contractual Restricted Affiliates refuse to comply with the covenants and requirements of the Master Indenture, Mercy's remedies may be limited to litigation to specifically enforce the provisions of the Commitment Agreement. Contractual Restricted Affiliates may have certain defenses to such litigation. The execution of a Commitment Agreement by a Contractual Restricted Affiliate will not give Mercy the power or authority to replace the governing body or management of any such non controlled Restricted Affiliate.

Because the Restricted Affiliates do not own the operating assets, the ability of the Restricted Affiliates to meet their obligations to Mercy will depend on their ability to control the Operating Corporations. Management of Mercy believes that the Restricted Affiliates have sufficient control over the Operating Corporations to cause funds as needed to be transferred to the Restricted Affiliates and hence to Mercy.

In addition, and in accordance with the terms and conditions of the Master Indenture, the Board of Directors of Mercy may remove an entity's designation as a Restricted Affiliate and terminate the related Commitment Agreement. No assurance can be given that any entity currently designated as a Restricted Affiliate will remain a Restricted Affiliate during the period the Bonds are outstanding.

ADDITIONAL INDEBTEDNESS

The Master Indenture does not contain any limitations on the amount of additional indebtedness that may be incurred by Mercy or the Restricted Affiliates nor does the Master Indenture require Mercy or the Restricted Affiliates to demonstrate compliance with any earnings, capitalization or other tests as a precondition to the incurrence of additional indebtedness. See "**SUMMARY OF THE MASTER INDENTURE**" in **Appendix C** attached hereto.

As of June 30, 2017, $1,360,605,000 principal amount of obligations issued under the Master Indenture as security for certain prior bond issues and other indebtedness incurred for the benefit of Mercy and certain of its Restricted Affiliates (the "**Outstanding Obligations**") was outstanding. See the caption "**DEBT SERVICE REQUIREMENTS FOR THE BONDS**" herein.

BONDHOLDERS' RISKS

The purchase of the Bonds involves certain investment risks that are discussed throughout this Official Statement. Accordingly, each prospective purchaser of the Bonds should make an independent evaluation of all of the information presented in this Official Statement in order to make an informed investment decision. Certain of these risks are described below. The list of risks described below is not intended to be definitive or exhaustive. Any factor described in this Official Statement could by itself or together with one or more factors, adversely affect the business, results of operations and financial condition and prospects of Mercy, the Restricted Affiliates or the Operating Corporations and the ability of Mercy to make payments with respect to the Bonds. There may be factors not described in this Official Statement that could cause results to differ from Mercy's expectation or that could negatively affect Mercy's ability to make payments with respect to the Bonds.

General

The Bonds are special, limited obligations of the Authority payable by the Authority solely from payments to be made by Mercy pursuant to the Loan Agreement and the Series 2017C Obligation. No representation or assurance can be given that revenues and receipts will be realized by Mercy in amounts necessary to make payments under the Loan Agreement and the Series 2017C Obligation with respect to the Bonds and to pay other expenses and obligations. The realization of future revenues is dependent upon, among other things, government regulations, the capabilities of the management of Mercy and future changes in economic and other conditions that are unpredictable and cannot be determined at this time. The risk factors discussed below should be considered in evaluating the ability of Mercy to make such payments.

Except as noted herein, the Bonds will be payable solely from the payments on the Series 2017C Obligation to be made by Mercy under the Master Indenture, the Supplemental Indenture and under the

Loan Agreement. **THERE CAN BE NO ASSURANCE THAT THE REVENUES OF MERCY OR THE UTILIZATION OF THE FACILITIES OF THE OPERATING CORPORATIONS WILL NOT DECREASE.**

Neither the provisions of the Master Indenture, the Loan Agreement, or the Supplemental Indenture described herein nor the remainder of such documents will afford the Authority or the Bond Trustee on behalf of the Authority, as holder of the Series 2017C Obligation, any assurance that the principal and interest owing under the Series 2017C Obligation will be paid as and when due, if the financial condition of Mercy deteriorates to a point where Mercy is unable to pay its debts as they come due or Mercy otherwise becomes insolvent.

Debt Related Covenants

Mercy has entered into (1) reimbursement agreements, standby bond purchase agreements or similar documents with banks providing credit and liquidity support for certain bonds issued for the benefit of Mercy, (2) term loans and lines of credit with certain banks, and (3) agreements with the purchasers of certain privately placed bonds or notes (such banks and bond purchasers, collectively, the "**Financial Institutions**"). Mercy may also enter into similar agreements in the future. Mercy's obligations to such Financial Institutions are secured, or may be secured, by Master Obligations issued under the Master Indenture. Such agreements described above with the Financial Institutions also contain certain covenants for the sole benefit of the related Financial Institutions (the "**Debt Covenants**"). Debt Covenants can be waived, modified or amended at the sole discretion of the related Financial Institution. Failure by Mercy to make payments due on the related Master Obligations, or failure by Mercy, as the case may be, to comply with the applicable Debt Covenants could cause an Event of Default under the Master Indenture and result in acceleration of such Master Obligations.

Derivative Products

Mercy may use interest rate hedging arrangements in connection with certain Obligations (as defined in the Master Indenture). Such arrangements may be used to manage exposure to interest rate volatility, but may expose Mercy to additional risks, including the risk that a counterparty may fail to honor its obligation.

Swap agreements are subject to periodic "mark-to-market" valuations. A swap agreement may, at any time, have a positive or negative value to Mercy, and such value, if negative could result in Mercy posting collateral related to such mark-to-market valuations. If Mercy were to choose to terminate a swap agreement or if a swap agreement were terminated pursuant to an event of default or a termination event as described in the swap agreement, Mercy could be required to pay a termination payment to the swap provider, and such payment could adversely affect Mercy's financial condition.

Risks Related to Variable Rate or Private Placement Indebtedness

Mercy, like many tax-exempt health care entities, has historically incurred variable rate indebtedness. Generally, the interest cost of variable rate indebtedness is lower than for fixed rate debt of a comparable maturity. In order for variable rate indebtedness to have the desired result of lower borrowing costs, the variable rate indebtedness commonly requires credit enhancement such as bond insurance or a bank letter of credit. Any such indebtedness therefore will bear interest at rates that are directly related to the ratings accorded to, and to investor perceptions of, the financial strength of the applicable provider of credit enhancement. In addition, Mercy, like many tax-exempt health care entities, has historically incurred indebtedness purchased by private placement purchasers in non-public transactions. Such indebtedness generally bears interest at an initial rate and is subject to mandatory tender at the end of the initial holder's purchase period. Similar to the failure to extend or replace a credit facility, the failure to remarket private placement bonds could result in such obligations bearing interest at a penalty rate or default rate, increasing the debt service obligation of Mercy.

The applicable providers of credit enhancement and the purchasers of private placement bonds often are the beneficiaries of covenants in addition to those set forth in the Master Indenture. The additional covenants could restrict the ability of Mercy to enter into certain transactions and the violation of such covenants could result in an event of default under the applicable additional agreement which may result in a default under the Master Indenture. Upon an Event of Default under the Master Indenture, the Master Trustee may be required to accelerate all Obligations then outstanding under the Master Indenture.

Economic Conditions and Financial Markets

The disruption of the credit and financial markets in the last several years led to volatility in the securities markets, significant losses in investment portfolios, increased business failures and consumer and business bankruptcies, and was a major cause of the economic recession in 2008/2009.

In response to the economic recession in 2008 and 2009, the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "**Financial Reform Act**") was enacted in 2010. The Financial Reform Act included broad changes to the existing financial regulatory structure, including the creation of new federal agencies to identify and respond to risks to the financial stability of the United States. In June 2017, the House approved a Dodd-Frank repeal bill, the Financial Choice Act, which scales back or eliminates many of the post-economic crisis rules. The effects of such legislative action, if eventually enacted, is unclear.

President Obama signed into law the American Recovery and Reinvestment Act of 2009 ("**ARRA**"). ARRA includes several provisions that were intended to provide financial relief to the healthcare sector, including a requirement that states promptly reimburse healthcare providers and a subsidy to the recently unemployed for health insurance premium costs. ARRA also established a framework for the implementation of a nationally-based health information technology program, including incentive payments which commenced in 2011 to eligible healthcare providers to encourage implementation of health information technology and electronic health records. Assuming federal funding is available, such incentive payments are payable to eligible hospitals and physicians that comply with the applicable federal requirements, including demonstrating "meaningful use" of electronic health records, in each applicable period. Pursuant to ARRA, as of January 1, 2015, Medicare eligible providers that do not demonstrate "meaningful use" of electronic health records are receiving downward adjustments in their Medicare reimbursement. The Centers for Medicare & Medicaid Services ("**CMS**") has commenced audits of providers that have received meaningful use payments. The Operating Corporations have demonstrated "meaningful use" of electronic health records at their healthcare facilities and are receiving the incentive payments available under ARRA. There is no assurance that such payments will continue. In addition, the Operating Corporations may have to repay certain amounts as a result of CMS audits. The Operating Corporations recognized approximately $5,641,796 and $935,803 in revenue under ARRA in 2016 and 2017 respectively.

Debt Limit Increase

The federal government has through legislation created a debt "ceiling" or limit on the amount of debt that may be issued by the United States Treasury. In the past several years, political disputes have arisen within the federal government in connection with discussions concerning the authorization for an increase in the federal debt ceiling. Any failure by Congress to increase the federal debt limit may impact the federal government's ability to incur additional debt, pay its existing debt instruments and to satisfy its obligations relating to the Medicare and Medicaid programs. See "**BONDHOLDERS' RISKS – Budget Control Act of 2011**" herein.

On September 8, 2017, President Trump signed a bill increasing the debt ceiling to December 8, 2017. Mercy is unable to determine at this time what impact any future failure to increase the federal debt limit may have on the operations and financial condition of the Operating Corporations, although such impact may be material. Additionally, the market price or marketability of the Bonds in the secondary market may be materially adversely impacted by any failure of Congress to increase the federal debt limit.

Influence of Economic Conditions; Bad Debt, Indigent Care and Investment Losses

Hospitals are economically influenced by the environment in which they operate. To the extent that (1) employers reduce their workforces, (2) employers reduce their budgets for employee healthcare coverage, (3) individuals select less coverage, lower cost coverage, or higher deductible coverages under available health plans, or (4) private and public insurers seek to reduce payments to or utilization of healthcare services, hospitals and healthcare providers may experience decreases in insured patient volume and payments for services. In addition, to the extent that state, county or city governments are unable to provide a safety net of medical services, pressure is applied to local hospitals to increase free care. Economic downturns and lower funding of federal Medicare and state Medicaid and other state healthcare programs may increase the number of patients treated by hospitals and healthcare providers who are uninsured or otherwise unable to pay for some or all of their care. An increase in unemployment may result in a significant number of patients no longer having health insurance coverage, which may result in decreased payments to hospitals and healthcare providers or loss of payment for services provided. These conditions may give rise to increased bad debt and higher indigent care utilization. In the current economic environment, non-operating revenue from investments may be reduced or eliminated. Investment losses (even if unrealized) may cause debt covenants to be violated and may jeopardize hospitals' economic security. Losses in pension and benefit funds may result in increased funding requirements by hospitals. Potential failure of lenders, insurers or vendors may negatively impact hospital financial conditions and operations, and philanthropic support may decrease. These factors may have a material adverse impact on hospitals and health systems. For a discussion of Mercy's investments and investment performance, see "**HISTORICAL FINANCIAL INFORMATION — Management's Discussion and Analysis of Financial Performance**" in **APPENDIX A**.

Affordable Care Act

In March 2010, the Patient Protection and Affordable Care Act of 2010 (the "**Affordable Care Act**") was enacted. A significant component of the Affordable Care Act is reformation of the sources and methods by which consumers will pay for healthcare for themselves and their families and by which employers will procure health insurance for their employees and dependents and, as a consequence, expansion of the base of consumers of healthcare services. The Affordable Care Act was designed to make available, or subsidize the premium costs of, healthcare insurance for some of the millions of uninsured (or underinsured) consumers who fall below certain income levels. The Affordable Care Act proposes to accomplish that objective through various provisions, summarized as follows: (i) the creation of active markets (referred to as exchanges or healthcare marketplaces) in which individuals and small employers can purchase healthcare insurance for themselves and their families or their employees and dependents, (ii) providing subsidies for premium costs to individuals and families based upon their income relative to federal poverty levels, (iii) mandating that individual consumers obtain and certain employers provide a minimum level of healthcare insurance, and providing for penalties or taxes on consumers and employers that do not comply with these mandates, (iv) expansion of private commercial insurance coverage generally through such reforms as prohibitions on denials of coverage for pre-existing conditions and elimination of lifetime or annual cost caps, and (v) expansion of existing public programs, including Medicaid, for individuals and families. Six years after the enactment of the Affordable Care

Act, approximately 90% of all U.S. residents had health insurance coverage according to a March 2016 Congressional Budget Office report. Some provisions of the Affordable Care Act may adversely affect some of the Operating Corporations' hospitals and other operations more significantly than others, or may not affect them. Moreover, the Affordable Care Act remains subject to amendment, repeal, delay or lack of implementation, failure to fund and judicial interpretation. Certain provisions of the Affordable Care Act and recent efforts towards its repeal are briefly discussed below.

The Affordable Care Act provides that through September 30, 2019, payments under "Medicare Advantage" programs (Medicare managed care) will be reduced, which may result in increased premiums or out-of-pocket costs to Medicare beneficiaries enrolled in Medicare Advantage plans. Those beneficiaries may terminate their participation in such plans and opt for the traditional Medicare fee-for-service program. The reduction in payments to Medicare Advantage programs may also lead to decreased payments to providers by managed care companies operating Medicare Advantage programs. All or any of these outcomes will have a disproportionately negative effect upon those providers with relatively high dependence upon Medicare managed care revenues.

The Affordable Care Act provides for the expansion of Medicaid programs to a broader population with incomes up to 133% of federal poverty levels. In its decision published on June 28, 2012, the U.S. Supreme Court determined that any expansion of Medicaid must be at the option of individual states and not a mandatory obligation, by restricting the federal government's ability to condition the availability of current Medicaid funding on participation in the expanded Medicaid program. Although the federal government is expected to fund the expanded Medicaid program through 2020, some state officials have expressed reluctance to participate, citing concerns that the administrative and other costs associated with enrolling and managing potentially millions of new individuals would add further stress to already depleted state resources. In the event a state chooses not to participate in the expanded Medicaid program, the net effect of the reforms contained in the Affordable Care Act would be significantly reduced. While numerous states have expanded Medicaid eligibility under the Affordable Care Act, Missouri, Kansas and Oklahoma have not done so. Moreover, even in states that have expanded Medicaid, there are uncertainties. Arkansas, for example, has submitted to CMS a waiver amendment requesting approval for changes to its expansion program. Proposed substantive changes include (1) reducing the income eligibility for expansion adults to 100% of the federal poverty level; (2) instituting work requirements as a condition of eligibility; (3) eliminating Arkansas's employer-sponsored insurance premium assistance program; and (4) implementing the state's waiver of retroactive eligibility on or after July 1, 2017. The degree to which CMS' decision on Arkansas's waiver amendment request and/or other states' legislative actions relating to Medicaid will affect the Operating Corporations is unclear.

Several attempts have been made to repeal and replace the Affordable Care Act, but to date, none have been successful. It is unclear whether, when, and how the Affordable Care Act may be changed, what alternative provisions, if any, will be proposed or enacted, the timing of enactment and implementation of alternative provisions, and the impact of alternative provisions on providers as well as other healthcare industry participants. Any legislative action that (i) reduces federal healthcare program spending, (ii) increases the number of individuals without health insurance, (iii) reduces the number of people seeking healthcare, or (iv) otherwise significantly alters the healthcare delivery system or insurance markets could have a material adverse effect on Operating Corporations' businesses, results of operations, cashflow, capital resources, and liquidity.

Executive branch actions can also have a significant impact on the viability of the Affordable Care Act. On January 20, 2017, President Trump issued an executive order requiring all federal agencies with authorities and responsibilities under the Affordable Care Act to "exercise all authority and discretion available to them to waive, defer, grant exemption from, or delay" sections of the Affordable

Care Act that impose "unwarranted economic and regulatory burdens" on states, individuals or healthcare providers. Though it is impossible to predict the effect of this executive order, the Department of Health and Human Services ("**HHS**") could interpret the executive order to require it to freely grant exemptions from the "shared responsibility payment," the tax penalty faced by those who fail to comply with the Affordable Care Act's individual mandate. On October 12, 2017, President Trump issued another executive order, which directs the Labor Department to study how to make it easier for small businesses, and possibly individuals, to collectively buy health insurance through association health plans. The order also allows more consumers to purchase short-term health insurance plans and directs agencies to lengthen the coverage of these policies and permit renewals. Later on the same day, President Trump stated that he plans to end the cost-sharing subsidies that the government currently pays insurance companies in order to reduce deductibles and co-pays for many low-income people. These executive orders have the potential to significantly impact the insurance exchange market by reducing the number of healthy individuals in the Affordable Care Act health insurance exchanges. Further, insurance companies may sustain financial losses and, as a result, increase insurance premiums for health plans offered in the exchange or cease to participate in the exchange. The exchanges have had increasing difficulty in attracting and retaining enough insurance companies to create a competitive insurance market, or even to participate at all. The reasons for withdrawal of many insurance companies from the exchanges are varied and disputed. In light of these challenges and recent executive branch actions, it is unclear whether the exchanges will continue to be a viable mechanism for the provision of health insurance in the future

Government efforts to repeal or modify the Affordable Care Act may have an adverse effect on the Operating Corporations' businesses, results of operations, cash flow, capital resources and liquidity. Also there can be no assurances that any current healthcare laws and regulations, in addition to the Affordable Care Act will remain in the current form. There can be no assurances that any potential changes to the laws and regulations governing healthcare would not have a material adverse financial or operational impact on the Operating Corporations.

Budget Control Act of 2011

The Budget Control Act of 2011 (the "**Budget Control Act**") limits the federal government's discretionary spending caps at levels necessary to reduce expenditures by $917 billion from the current federal budget baseline through fiscal year 2021. Medicare, Social Security, Medicaid and other entitlement programs will not be affected by the limit on discretionary spending caps.

Provisions of the Budget Control Act, as modified by the Taxpayer Relief Act of 2012 (the "**Taxpayer Relief Act**"), set in place a protocol for the sequestration resulting in an automatic 2% reduction in Medicare program payments for all healthcare providers and Medicare Advantage insurers effective March 27, 2013. On November 2, 2015, President Obama signed the Bipartisan Budget Act of 2015, which among other things, extended the 2% reduction to Medicare providers and insurers for another year (to at least March 31, 2025) and suspended the limit on the federal government's debt ceiling until March 2017. On March 16, 2017, the debt limit reset to account for all debt issued while it was suspended. The government used certain accounting maneuvers to temporarily keep the debt under the limit but on September 8, 2017, President Trump signed legislation that would suspend the debt ceiling for another three months.

Because Congress may make changes to the budget in the future, it is impossible to predict the impact any spending cuts that are approved may have on the Operating Corporations. Further, with no long-term resolution in place for federal deficit reduction, hospital and physician reimbursement are likely to continue to be targets for reductions with respect to any interim or long-term federal deficit reduction efforts. These and any additional reductions in Medicare spending could have a material adverse effect upon the financial condition or operations of the Operating Corporations.

21st Century Cures Act

The 21st Century Cures Act (the "**Cures Act**"), which was signed into law on December 13, 2016, is designed to help accelerate medical product development and bring new innovations to patients who need them faster and more efficiently. Among other things, the Cures Act aims to improve the provision of telehealth services in the Medicare program and will advance processes for determining which Medicare treatments are covered. As a result, Medicare beneficiaries will gain increased access to healthcare services. It also contains provisions that will enable Medicare beneficiaries to find the most cost-effective treatments available by comparing differences in out-of-pocket costs and total expenditures for certain services. In addition, the Cures Act contains provisions that affect reimbursement for hospital outpatient departments by expanding the categories of projects that would be exempt from the decrease in the OPPS reimbursement payments.

Payment for Healthcare Services

Most of the patient service revenues of the Operating Corporations are derived from third-party payors which reimburse or pay for services and items provided to patients who are covered by such third parties for such services, including the federal Medicare program, the state Medicaid programs and private health plans and insurers, health maintenance organizations ("**HMOs**"), preferred provider organizations ("**PPOs**") and other managed care payors. Many of these programs make payments to the Operating Corporations at rates that do not reflect the direct and indirect costs of Mercy of furnishing healthcare services and items to patients. Accordingly, there can be no assurance that payments made under these programs will be adequate to cover the Operating Corporations' actual costs of furnishing healthcare services and related supplies. In addition, the financial performance of the Operating Corporations could be adversely affected by the insolvency of, or other delay in receipt of payments from, third-party payors which provide coverage for services to their patients.

Medicare and Medicaid are the commonly used names for healthcare reimbursement or payment programs governed by certain provisions of the federal Social Security Act. Medicare is an exclusively federal program and Medicaid is a combined federal and state program. Medicare provides certain healthcare benefits to beneficiaries who are 65 years of age or older, disabled or qualify for the End Stage Renal Disease Program. Medicare Part A covers inpatient services and certain other services, and Medicare Part B covers outpatient services, certain physician services, medical supplies and durable medical equipment. Medicaid is designed to pay providers for care given to the medically indigent and others who receive federal aid. Medicaid is funded by federal and state appropriations and is administered by state agencies. CMS administers the Medicare program and works with the states regarding Medicaid programs, as well as other healthcare programs.

Healthcare providers have been and will continue to be affected significantly by changes made in the last decade in federal and state healthcare laws and regulations, particularly those pertaining to Medicare and Medicaid. The Medicare Prescription Drug, Improvement and Modernization Act of 2003, among other things described below, generally increased reimbursement levels. The Deficit Reduction Act of 2005 (the "**DRA**"), contained, among other things, a number of provisions to slow the pace of spending growth in the Medicare and Medicaid programs while increasing healthcare providers' focus on quality and efficient delivery of healthcare services. Diverse and complex statutory and regulatory mechanisms, the effect of which is to limit the amount of money paid to healthcare providers under both the Medicare and Medicaid programs, have been enacted in recent years, some of which are being implemented and some of which will be or may be implemented in the future. The Operating

Corporations are unable to predict what effect, if any, current and future legislative initiatives related to Medicare and Medicaid may have on operations of the Operating Corporations.

Medicare

Approximately 46.5% of the gross patient service revenues of the Operating Corporations were derived from the Medicare program for the fiscal year ended June 30, 2017. As a consequence, any adverse development or change in Medicare reimbursement could have a material adverse effect on the financial condition and results of operations of the Operating Corporations. Future changes in the underlying law and regulations, as well as in payment policy and timing, create uncertainty and could have a material adverse impact on hospitals' payment stream from Medicare. With healthcare and hospital spending reported to be increasing faster than the rate of general inflation, Congress and/or CMS may take action in the future to decrease or restrain Medicare outlays for hospitals.

Medicare Part A pays acute care hospitals for most inpatient services under a payment system known as the "Prospective Payment System" or "**PPS**." Separate PPS payments are made for inpatient operating costs and inpatient capital-related costs.

Inpatient Operating Costs. Acute care hospitals that are reimbursed on a PPS basis are paid a specified amount toward their operating costs based on the Diagnosis Related Group ("**DRG**") to which each Medicare patient is assigned, which is determined by the diagnosis and procedure and other factors for each particular inpatient stay. The amount paid for each DRG is established prospectively by CMS based on the estimated intensity of hospital resources necessary to furnish care for each principal diagnosis and is not directly related to a hospital's actual costs. For certain Medicare beneficiaries who have unusually costly hospital stays ("**outliers**"), CMS will provide additional payments above those specified for the DRG. Outlier payments cease to be available upon the exhaustion of such patient's Medicare benefits or a determination that acute care is no longer necessary, whichever occurs first. There is no assurance that any of these payments will cover the actual costs incurred by a hospital. In addition, revisions to the outlier regulations implemented in order to curb outlier payment abuse may adversely affect hospitals' ability to receive such subsidies. In addition to outlier payments, DRG payments are adjusted for area wage differentials. These change on an annual basis.

DRG payments are adjusted each federal fiscal year (which begins October 1) based on the hospital "market basket" index, or the cost of providing healthcare services. Adjustments are also made to take into account any new procedures, reclassify DRGs, and recalibrate the DRG relative weights that reflect the relative hospital resources used by hospitals with respect to discharges classified within a given DRG category. CMS has also implemented a documentation and coding adjustment to account for changes in payments under the new Medicare Severity Diagnosis Related Group, or MS-DRG, system that are not related to changes in case mix. There is no assurance that the Operating Corporations will be paid amounts that will adequately reflect changes in the cost of providing healthcare or in the cost of making healthcare technology available to patients.

The Affordable Care Act reduces the annual Medicare market basket updates each federal fiscal year through federal fiscal year 2019. The Affordable Care Act also provides that annual Medicare market basket updates will be subject to productivity adjustments, further reducing Medicare payments to hospitals. The reductions in market basket updates and the productivity adjustments will have a disproportionately negative effect upon those providers that rely more upon Medicare. The combination of reductions to the market basket updates and the imposition of the productivity adjustments may, in some cases and in some years, result in reductions in Medicare payments per discharge on a year-to-year basis. Changes in the payments received for all services, including specialty services, could have an adverse effect on the Operating Corporations. For further information regarding the Affordable Care Act and its provisions, see "**BONDHOLDERS' RISKS – Affordable Care Act**" herein.

As required by the DRA, hospitals that do not participate in the Hospital Inpatient Quality Reporting Program (formerly known as the Reporting Hospital Quality Data for Annual Payment Update or RHQDAPU) (the "**Hospital Quality Initiative**") will receive the market basket update, less 2%. CMS continues to update the quality measures that hospitals must report in order to qualify for the full market basket update. The Operating Corporations participate in the Hospital Quality Initiative.

For federal fiscal year 2018, acute care hospitals that report quality data and are also meaningful users of EHR will receive a 1.2% increase in Medicare operating rates. CMS projects that this rate increase, together with other changes to inpatient PPS payment policies, will increase inpatient PPS operating payments by approximately 1.3% and that changes in uncompensated care payments will increase inpatient PPS operating payments by an additional 0.7%. Other additional payment adjustments will include continued penalties for excess readmissions, a continued 1% penalty for hospitals in the worst performing quartile under the Hospital Acquired Condition Reduction Program, and continued upward and downward adjustments under the Hospital Value-Based Purchasing Program. CMS projects that total Medicare spending on inpatient hospital services, including capital, will increase by about $2.4 billion in fiscal year 2018.

Two-Midnight Rule. Effective October 1, 2013, CMS adopted the 2014 Final IPPS Rule for 2014, which incorporated a policy known as the Inpatient Hospital Prepayment Review "Probe & Educate" review process or the "Two-Midnight" rule. The "Two-Midnight" rule provides that hospital stays spanning two or more midnights after the patient is properly and formally admitted as an inpatient will be presumed to be "reasonable and necessary" for purposes of inpatient reimbursement. With some exceptions, stays not expected to extend past two midnights should not be admitted and instead be billed as outpatient. Enforcement of the "Two-Midnight" rule was ultimately delayed until the end of 2015. Effective October 1, 2015, responsibility for initial review of inpatient admissions shifted from Medicare administrative contractors to quality improvement organizations ("**QIO**"), and recovery audit contractors will only conduct reviews for providers that have been referred by the related QIO. The Outpatient PPS Final Rule, issued in November 2015 and effective January 1, 2016, revised the "Two-Midnight" rule to allow an exception for Medicare Part A payment on a case-by-case basis for inpatient admissions that do not satisfy the two-midnight benchmark if documentation in the medical records supports that the patient required inpatient care.

Following ongoing industry criticism and a legal challenge, CMS announced it would not continue to impose an inpatient payment cut to hospitals under the "Two-Midnight" rule starting in 2017. On August 2, 2016, in its 2017 Medicare IPPS final rule, CMS eliminated the inpatient pay cuts associated with the "Two-Midnight" rule. In addition, the final rule instituted an increase of approximately 0.8% in fiscal year 2017 to offset the estimated cost of the "Two-Midnight" rule policy in fiscal years 2014 - 2016. Management is unable to predict whether the inpatient pay cuts associated with the "Two-Midnight" rule will be reinstated in the future, or what effect, if any, the "Two-Midnight" rule will have on future hospital revenues.

Hospital Value-Based Purchasing. The Affordable Care Act established a value-based purchasing program to link payments to hospitals to the quality and efficiency of care provided. The program operates by first reducing participating hospitals' Medicare payments by a specified percentage, then using the estimated total amount of those payment reductions to fund value-based incentive payments to hospitals based on their performance under the program. To create a pool to fund the value-based purchasing incentives, CMS will reduce the inpatient PPS DRG payment amounts for all discharges by 2% for 2017. Each federal fiscal year, the total amount collected from these reductions will be pooled and used to fund payments to reward hospitals that meet certain quality performance standards established by HHS.

CMS estimated it would distribute approximately $1.8 billion in federal fiscal year 2017 to hospitals based on their overall performance on a set of quality measures that are linked to improved clinical processes of care and patient satisfaction. Hospitals are scored based on a weighted average of patient experience scores using the Hospital Consumer Assessment of Healthcare Providers and Systems ("**HCAHPS**") survey and clinical process-of-care measures. CMS scores each hospital based on achievement (relative to other hospitals) and improvement ranges (relative to the hospital's own past performance) for each applicable measure. Because the Affordable Care Act provides that the pool will be fully distributed, hospitals that meet or exceed the quality performance standards receive greater reimbursement under the value-based purchasing program than they would have otherwise. Hospitals that do not achieve the necessary quality performance receive reduced Medicare inpatient hospital payments. The Operating Corporations are unable to predict how value-based purchasing will affect its result of operations, however it is possible the program could negatively impact the revenues of the Operating Corporations.

Inpatient Capital Costs. With limited exceptions, hospitals are reimbursed on a fully prospective basis for capital costs (including depreciation and interest) related to the provision of inpatient services to Medicare beneficiaries. Thus, capital costs are reimbursed exclusively on the basis of a standard federal rate (based on average national costs), subject to certain adjustments (such as for disproportionate share, indirect medical education and outlier cases) specific to the hospital. Hospitals are reimbursed at 100% of the standard federal rate for all capital costs. This applies to the standard federal rate before the application of the adjustment factors for outliers, exceptions and budget neutrality.

For the past several years, the prospective payments for capital costs have not been sufficient to cover the actual capital-related costs of the Operating Corporations allocable to Medicare patient stays or to provide flexibility in meeting the Operating Corporations' future capital needs. As a result, in addition to prospective payment amounts, the Operating Corporations have relied upon operating cash flow from non-Medicare operating income sources and investment income to cover capital costs**.**

Disproportionate Share Adjustments. Under PPS, hospitals that serve a disproportionate share of low-income patients may receive an additional disproportionate share hospital adjustment ("**DSH**"). A hospital may be classified as a DSH hospital based upon any of several circumstances related to the number of beds, the hospital's location, and its disproportionate patient percentage. The DSH adjustment is calculated under one of several methods, depending upon the basis for the hospital's classification as a DSH hospital. In the fiscal year ending June 30, 2017, the Operating Corporations' hospitals received aggregate federal DSH payments totaling approximately $103,000,000. Under healthcare reform, with the expected decrease in the uninsured population, federal DSH payments were reduced by 75% commencing in federal fiscal year 2014 through federal fiscal year 2020. The 75% reduction in DSH payments that would otherwise be paid under Medicare DSH will be effectively pooled, and this pool will be reduced further each year by a formula that reflects reductions in the national level of uninsured who are under 65 years of age. Each DSH hospital will then be paid, out of the reduced DSH payment pool, an amount allocated based upon its level of uncompensated care. It is difficult to predict the full impact of the Medicare DSH reductions. There is no assurance that any of the Operating Corporations' hospitals will receive DSH payments in the future. For further information regarding the Affordable Care Act and its provisions, see "**BONDHOLDERS' RISKS – Affordable Care Act**" herein.

Critical Access Hospitals. A Critical Access Hospital ("**CAH**") is a limited service hospital which is located in a rural area and meets other Medicare qualification requirements. Certain of the System's operations are conducted at facilities that have been designated as CAHs. Medicare generally reimburses CAHs on the basis of their current Medicare-allowable costs, or "cost-based reimbursement," for inpatient and outpatient services provided to Medicare beneficiaries, rather than the PPS, under which other acute care hospitals are reimbursed. Regulations limit a CAH to operating 25 beds to provide inpatient services. All 25 beds may be used interchangeably to provide "swing-bed" or post-acute care service to patients. Additionally, the average length of stay is limited to 96 hours and the CAH is required to provide 24-hour emergency care. There can be no assurances that the facilities designated as CAHs will maintain such designation or that the preferential payment approaches applicable to such facilities will remain in place. Any change in designation status of payment methodology could have a material adverse effect on the operations or results of the Operating Corporations.

Costs of Outpatient Services. Hospital outpatient services, including hospital operating and capital costs, are reimbursed on a PPS basis. Several Part B services are specifically excluded from this rule, including certain physician and non-physician practitioner services, ambulance, clinical diagnostic laboratory services and nonimplantable orthotics and prosthetics, physical and occupational therapy, and speech pathology services.

Under the hospital outpatient PPS ("**OPPS**"), predetermined amounts are paid for designated services furnished to Medicare beneficiaries. CMS classifies outpatient services and procedures that are comparable clinically and in terms of resource use into ambulatory payment classification ("**APC**") groups. Using hospital outpatient claims data from the most recent available hospital cost reports, CMS determines the median costs for the services and procedures in each APC group. Subsequently, a payment rate is established for each APC. Depending on the services provided, a hospital may be paid for more than one APC for a patient visit.

The OPPS rates are adjusted annually (on a calendar year schedule) based on the hospital inpatient market basket percentage increase. On July 13, 2017, CMS published the proposed 2018 OPPS rule. Under this proposed rule, CMS estimates that total payments for hospitals paid under the OPPS in 2018 will increase by approximately 2.0%. There can be no assurance that the hospital OPPS rate, which bases payment on APC groups rather than on individual services, will be sufficient to cover the actual costs of the Operating Corporations allocable to Medicare patient care.

In addition to the APC rate, there is a predetermined beneficiary coinsurance amount for each APC group. There can be no assurance that the beneficiary will pay this amount.

Certain provisions of the Affordable Care Act relating to OPPS services have been implemented that may impact the reimbursement and operations of hospitals across the country. Some of the specific reforms that have the potential to impact hospitals are: (i) reduction of the OPPS market basket increase factor by a productivity adjustment (effective 2012) and an additional adjustment for payments to hospital outpatient departments (from 2010 through 2019); (ii) application of similar productivity adjustments for payment for ambulatory surgical center ("**ASC**") services, which began with calendar year 2011; (iii) new provisions relating to the prohibition against referrals to a hospital by a physician who has an ownership or investment interest in the hospital; (iv) adjustments to the area wage adjustment factor for outpatient department services; and (v) changes related to payment for graduate medical education and indirect medical education.

Provider-Based Standards. Some healthcare providers bill for services as "provider-based entities" and, as such, are subject to CMS' provider-based regulations. If CMS makes a determination that an entity which has claimed provider-based status does not in fact meet the criteria for such status, amounts previously paid may be subject to recoupment. Any reclassifications by CMS may adversely affect the entity's reimbursement under the Medicare program.

Section 603 of the Bipartisan Budget Act of 2015 reduces Medicare payments to certain provider-based, off-campus hospital outpatient departments ("**HOPDs**") by excluding such facilities from payment under the OPPS beginning January 1, 2017. However, this change does not affect already existing and enrolled provider-based, off-campus HOPDs that were billing for services prior to November 2, 2015. Provider-based, off-campus HOPDs that began billing after November 15, 2015 began receiving lower payments than in previous years for providing the same services effective January 1, 2017.

Physician Payment. Certain physician services are reimbursed on the basis of a national fee schedule called the "resource based-relative value scale" ("**RB-RVS**"). The RB-RVS fee schedule establishes payment amounts for all physician services, including services of provider-based physicians, and is subject to annual updates. Historically, Medicare payments for physician services have been linked to the Sustainable Growth Rate ("**SGR**"). The SGR acted as a limit to the growth of Medicare payments and was linked to changes in the U.S. Gross Domestic Product over a ten-year period. The use of the SGR in determining physician fee schedule updates was widely criticized, and was consistently neutralized with Congressional intervention which served to delay considerable decreases to Medicare physician payments.

In response to these criticisms, the Medicare Access and Children's Health Insurance Program Reauthorization Act of 2015 ("**MACRA**") replaced the SGR formula with statutorily prescribed physician payment updates and provisions comprising the Quality Payment Program. Specifically, MACRA eliminated the cut to physician payments required by the SGR formula, and substituted annual 0.5% payment increases through 2019. Thereafter, payments rates will be frozen at 2019 levels through 2025. Beginning January 1, 2019, and carrying through 2025, physician payment adjustments will occur through the Quality Payment Program's two reimbursement tracks - the Merit-based Incentive Payment System ("**MIPS**") or an Advanced Alternative Payment Model ("**APM**"). In calculating physician payment adjustments, MIPS streamlines existing quality and value programs, accounting for physician performance under the meaningful use of electronic health records incentive program, the value-based modifier, and physician quality reporting system. Payments to physicians participating in APMs similarly account for performance under such programs. Beginning in 2026, physicians who adequately participate in APMs will receive an annual increase of 0.75% and physicians who participate in MIPs will receive an annual increase of 0.25%. While the payment cuts associated with the SGR formula have been eliminated, it is possible that future legislative action will be taken that would once again trigger physician payment reductions.

Skilled Nursing Care. Medicare Part A reimburses on a PPS basis for certain post-acute inpatient skilled nursing and rehabilitation care for up to 100 days during the same spell of illness. For skilled nursing facilities ("**SNF**"), the federal government has implemented a PPS for Medicare reimbursement, which utilizes prospective, case-mix adjusted per diem rates applicable to all covered SNF services. Reimbursement under PPS also incorporates adjustments to account for facility case-mix using the Resource Utilization Groups ("**RUGs**") system, currently RUGs-IV, with a total of 66 RUGs divided into 16 categories. Payment rates assigned to each RUG are subject to an annual market basket adjustment, based upon the increase or decrease of the medical care expenditure category of the Consumer Price Index, which may be less than inflation. In the final rule setting out Medicare reimbursement rates for SNFs for federal fiscal year 2018, CMS projects Medicare payments will increase by 1.0% (or $370 million) from payments in federal fiscal year 2017. Beginning in October 2018, SNFs that fail to submit the required quality data will be subject to a 2% reduction to the otherwise applicable annual market basket percentage update with respect to that fiscal year.

Home Healthcare. CMS pays home health agencies for 60-day episodes of care based on PPS and reimburses agencies at higher rates for beneficiaries with greater needs. The Operating Corporations use national payment rates that vary with the level of care required by each beneficiary, adjusted to reflect area wage differences. Additional payments may be made to the 60-day case-mix adjusted episode payments for beneficiaries who incur unusually large costs, but pursuant to the Affordable Care Act total national outlier payments for home health services annually will be no more than 2.5% of estimated total payments under home health PPS. To adjust for case-mix, the home health PPS uses a 153-category case-mix classification system to assign patients to a home health resource group ("**HHRG**"). As required by the DRA, agencies that do not submit data to CMS relating to certain quality indicators will have their market basket update percentage reduced by 2%. As required by the Affordable Care Act, the 2015 CMS final rule implements the second year of a four-year phase-in of the rebasing adjustments (3.5% each year) to the home health PPS payment rates, with the stated goal of better aligning payments with costs of care. The Affordable Care Act also requires that the home health market basket annual update be subject to a productivity adjustment, beginning in 2015. The 2018 CMS proposed rule provides that CMS expects that payments to home health agencies in calendar year 2018 would be reduced by 0.4%, or $80 million, based on the proposed policies. For further information regarding the Affordable Care Act and its provisions, see "**BONDHOLDERS' RISKS – Affordable Care Act**" herein.

Ambulatory Surgical Centers. Medicare pays ASC services on a PPS basis. Under the CMS proposed OPPS/ASC rule for calendar year 2018, payments to ASCs increased by 1.9%. This is based on a 2.3% CPI index update, less a multi-factor productivity adjustment of 0.4%. ASCs are required to report on certain quality measures. ASCs that fail to report will have their payments reduced by 2%.

Medicare Advantage. Medicare beneficiaries may obtain Medicare coverage through a managed care "Medicare Advantage" plan (formerly known as a "Medicare+Choice" plan). A Medicare Advantage plan may be offered by a coordinated care plan (such as an HMO or PPO), a provider sponsored organization (a network operated by healthcare providers rather than an insurance company) ("**PSO**"), a private fee-for-service plan, or a combination of a medical savings account ("**MSA**") and contributions to a Medicare Advantage plan. Each Medicare Advantage plan, except an MSA plan, is required to provide benefits approved by the Secretary of HHS. A Medicare Advantage plan will receive a monthly capitated payment from HHS for each Medicare beneficiary who has elected coverage under the plan. Healthcare providers such as the Operating Corporations must contract with Medicare Advantage plans to treat Medicare Advantage enrollees at agreed upon rates or may form a PSO to contract directly with HHS as a Medicare Advantage plan. Covered inpatient and emergency services rendered to a Medicare Advantage beneficiary by a hospital that is an out-of-plan provider (i.e., that has not entered into a contract with a Medicare Advantage plan) will be paid at Medicare fee-for-service payment rates as payment in full.

The Taxpayer Relief Act provided for modifications to the Medicare Advantage coding intensity adjustment, which adjusts Medicare Advantage payments to account for inherent payment and care model differences between fee-for-service Medicare and Medicare Advantage. The Taxpayer Relief Act increased the 2014 Medicare Advantage coding intensity adjustment by setting it at a minimum of 4.91% and mandated an incremental increase in the adjustment annually starting in 2015 which is expected to further reduce payments by 0.25% each year. These modifications seek to adjust for the differences in scope of coverage and other plan factors and level the playing field for all providers despite differences in health status of the enrollees.

Medicare Conditions of Participation. Hospitals must comply with standards called "Conditions of Participation" in order to be eligible for Medicare reimbursement. CMS is the federal agency responsible for ensuring that providers meet the regulatory Conditions of Participation. The Operating Corporations are currently deemed to be in compliance with the Medicare Conditions of Participation through its accreditation with The Joint Commission (a private nonprofit corporation that accredits health care programs and providers in the United States).

CMS has the right to conduct its own survey of deemed status hospitals. Such surveys are conducted by the state agency with hospital licensing authority on behalf of CMS, and can be random or as a result of deficiencies identified in the accrediting organization's survey report or a complaint against the hospital. With a few exceptions, these surveys take the form of an unannounced site visit. Failure to maintain The Joint Commission accreditation or to otherwise comply with the Conditions of Participation could have a materially adverse effect on the continued participation in the Medicare program, and ultimately on the revenues of the Operating Corporations.

Medicaid

Approximately 11.9% of the Operating Corporations' gross patient service revenues for the fiscal year ended June 30, 2017 were derived from the Medicaid program. Medicaid programs vary widely from state to state and are continually being amended and revised. There can be no assurance that the Operating Corporations' patient service revenues will not be adversely affected by any future amendments and revisions to the Medicaid programs in the states where the Operating Corporations' assets are located.

Medicaid is a health insurance program for certain low income and needy individuals that is jointly funded by the federal government and the states. Pursuant to broad federal guidelines, the states and the United States territories each: (1) establish their own eligibility standards; (2) determine the type, amount, duration, and scope of services; (3) set the payment rates for services; and (4) administer their own programs. Some states operate certain Medicaid programs under a waiver of some of the basic Medicaid requirements. The Affordable Care Act provides enhanced federal funding for states to expand their Medicaid program to virtually all non-elderly, non-disabled adults with incomes up to 133% of the federal poverty level. Attempts to balance or reduce the federal and state budgets may negatively impact spending for Medicaid and other state healthcare programs.

Pursuant to the Medicaid program, the federal government supplements funds provided by the various states for medical assistance to the medically indigent. Payment for such medical and health services is made to hospitals in an amount determined in accordance with procedures and standards established by state law under federal guidelines. For each state to continue to receive funding for the cost of its Medicaid program from the federal government, it must administer its program in accordance with federal statutes and regulations. The federal government has on occasion cut off Medicaid funds to states which were not in compliance with these laws. Any such federal action taken with respect to a state in which the Operating Corporations are located would likely have an adverse effect upon such Operating Corporation. Also, reimbursement under the Medicaid program is subject to the timely appropriation of sufficient funds by each state's legislature, as well as complexities inherent in claims' processing and cost-report settlement under the Medicaid program.

Each of the states in which the Operating Corporations are located has faced significant budget shortfalls and there can be no assurance that such states will not experience budgeting shortfalls in the future with respect to its Medicaid program, or that claims-processing or cost-report settlement problems will not arise under the program, which could reduce or delay the payment of Medicaid reimbursements to healthcare providers. For example, in 2014, the Oklahoma Health Care Authority, in response to state budget pressures, implemented a 7.75% reduction in Medicaid provider reimbursement rates; such reductions became effective July 1, 2014. Moreover, increased costs and other factors associated with the Medicaid program are resulting in its restructuring along the lines of managed care, which could potentially have adverse financial consequences for the Operating Corporations.

Certain states in which the Operating Corporations operate or may operate have state provider tax programs used to maximize matching funds from the federal government. The cost of these taxes is typically paid back to the providers through an increase in the Medicaid reimbursement rates for patient treatment and services. The use of such provider assessments has been criticized by Congress and various federal agencies and may be restricted or eliminated in the future. Arkansas, Kansas, Missouri and Oklahoma each have some form of a provider tax program. In Missouri and Oklahoma, such provider tax programs are known as the Federal Reimbursement Allowance and Supplemental Hospital Offset Payment Program, respectively.

Medicare and Medicaid Audits

Hospitals participating in Medicare and Medicaid are subject to audits and retroactive audit adjustments with respect to reimbursement claimed under the programs. Medicare and Medicaid regulations also provide for suspending payment in certain circumstances. CMS also utilizes private contractors to identify and correct improper Medicare payments. For example, the Affordable Care Act expanded the scope of the Recovery Audit Contractor ("**RAC**") program to include managed Medicare plans and Medicaid claims. Without clear guidance from CMS or state Medicaid agencies, new and/or changing billing rules could result in the inadvertent submission of inaccurate claims. Under certain circumstances, payments may be determined to have been made as a consequence of improper claims subject to the Federal False Claims Act (the "**Federal False Claims Act**") or other federal statutes, subjecting the Operating Corporations to civil or criminal sanctions. Medicare and Medicaid audits may result in reduced reimbursement or repayment obligations related to past alleged overpayments. Audits may also delay payments pending the resolution of the appeals process. Management of the Operating Corporations is not aware of any situation whereby a material Medicare or Medicaid payment is being withheld from the Operating Corporations, however, the Operating Corporations cannot anticipate the amount or the volume of future Medicare or Medicaid claims that will be reviewed under any audit programs or the results of any such audits.

Children's Health Insurance Program

The Children's Health Insurance Program ("**CHIP**") is a federally funded insurance program for families which are financially ineligible for Medicaid, but cannot afford commercial health insurance. CHIP was last reauthorized in 2015 and was due to be renewed on September 30, 2017. However, Congress failed to renew CHIP before the deadline. Accordingly, unless Congress takes action to restore the program approximately 9 million children will lose their health insurance.

CMS administers CHIP, but each state creates its own program based upon minimum federal guidelines. CHIP insurance is provided through private health plans contracting with the state. Each state must periodically submit its CHIP plan to CMS for review to determine if it meets the federal requirements. If it does not meet the federal requirements, a state can lose its federal funding for the program. Although current authorization for spending has expired, states can use some of their unspent federal funding to continue their programs. The states in which the Operating Corporations operate may have enough funds to cover the program for the next few months. However, if the states' funds are depleted and/or if Congress does not renew CHIP, the Operating Corporations could experience a material adverse effect on its revenue.

Section 340B Drug Pricing Program

The federal Public Health Service Act (created under Section 602 of the Veterans Health Care Act of 1992) established the 340B Drug Pricing Program which allows certain hospitals and other healthcare providers, known as "covered entities" to obtain discounted prices on "covered outpatient drugs" (prescription drugs and biologics other than vaccines) from drug manufacturers. Manufacturers must offer 340B discounts to covered entities to have their drugs covered under Medicaid. On July 20, 2017, CMS issued a proposed rule which would adjust the payment rate for certain drugs covered under the 340B Drug Pricing Program from average sales price ("**ASP**") plus 6% to ASP minus 22.5%. To the extent the Operating Corporations are covered entities under the 340B Drug Pricing Program, this payment rate adjustment may have a material adverse effect on the business or operations of the Operating Corporations.

Commercial Insurance and Other Third Party Plans

Many commercial insurance plans, including group plans, reimburse their customers or make direct payments to the Operating Corporations for charges at established rates. Generally, these plans pay semiprivate room rates plus ancillary service charges, which are subject to various limitations and deductibles depending on the plan.

Managed Care and Integrated Delivery Systems

Many hospitals and health systems, including the Operating Corporations, are pursuing strategies with physicians in order to offer an integrated package of healthcare services, including physician hospital services, to patients, healthcare insurers, and managed care organizations ("**MCOs**"). These integration strategies take many forms, several of which are discussed below. Further, many of these integration strategies are capital intensive and may create certain business and legal liabilities for the Operating Corporations.

Further, the Operating Corporations have entered into contractual arrangements with PPOs, HMOs, and other similar MCOs, pursuant to which they agree to provide or arrange to provide certain healthcare services for these organizations' eligible enrollees. There can, however, be no assurance that revenues received under such contracts will be sufficient to cover all costs of services provided. Failure of the revenues received under such contracts to cover all costs of services provided may have a material adverse effect on the operations or financial condition of the Operating Corporations.

State Laws. States are increasingly regulating the delivery of healthcare services. Much of this increased regulation has centered around the managed care industry. State legislatures have cited their right and obligation to regulate and oversee healthcare insurance and have enacted sweeping measures that aim to protect consumers and, in some cases, providers. A number of states have enacted laws mandating payment of claims within specified time periods, laws regulating access to specialists, and laws generally regulating provider agreements with MCOs.

Due to this increased state oversight, the Operating Corporations could be subject to a variety of state healthcare laws and regulations affecting both MCOs and healthcare providers. In addition, the Operating Corporations could be subject to state laws and regulations prohibiting, restricting, or otherwise governing preferred provider organizations; third-party administrators, physician-hospital organizations, independent practice associations or other intermediaries; fee-splitting; the "corporate practice of medicine"; selective contracting ("any willing provider" laws and "freedom of choice" laws); coinsurance and deductible amounts; insurance agency and brokerage, quality assurance, utilization review, and credentialing activities; provider and patient grievances; mandated benefits; rate increases; and many other areas.

In the event that the Operating Corporations choose to transact businesses subject to such laws, or is considered by a state in which they operate to be engaging in such businesses, the Operating Corporations may be required to comply with these laws or to seek the appropriate license or other authorization from that state. Such requirements may impose operational, financial, and legal burdens, costs, or risks on the Operating Corporations.

Dependence Upon Third-Party Payors. The Operating Corporations' ability to develop and expand their services and, therefore, their profitability, is dependent upon the Operating Corporations' ability to enter into contracts with HMOs and other third-party payors at competitive rates. There can be no assurance that the Operating Corporations will be able to attract third-party payors, and where they do, no assurance that they will be able to contract with such payors on advantageous terms. The inability of the Operating Corporations to contract with a sufficient number of such payors on advantageous terms would have a material adverse effect on the Operating Corporations' operations and financial results. Further, while Operating Corporations employ a system to control healthcare service utilization and increase quality, the Operating Corporations cannot predict changes in utilization patterns or the system's effect on healthcare providers.

Physician Contracting and Relations. The Operating Corporations may wish to contract with physician organizations ("**POs**") (e.g., independent physician associations, physician-hospital organizations, etc.) to arrange for the provision of physician and ancillary services. Because POs are separate legal entities with their own goals, obligations to shareholders, financial status, and personnel, there are risks involved in contracting with POs. In addition, the Operating Corporations can also attract physicians through employment. As of June 30, 2017, the Operating Corporations employed approximately 2,062 physicians, including hospitalists, pathologists, radiologists, anesthesiologists, emergency room physicians and other hospital-based physicians.

The success of the Operating Corporations will be partially dependent upon their ability to attract physicians to join the POs and to attract POs to participate in the Operating Corporations' network, and upon the physicians', including the employed physicians', abilities to perform their obligations and deliver high quality patient care in a cost-effective manner. There can be no assurance that the Operating Corporations will be able to attract and retain the requisite number of physicians, or that such physicians will deliver high quality healthcare services. Without impaneling a sufficient number and type of providers in the Operating Corporations' network, the Operating Corporations could fail to be competitive, fail to keep or attract payor contracts, or be prohibited from operating until their panel provides adequate access to patients. Such occurrences could have a material adverse effect on the business or operations of the Operating Corporations.

Regulatory Environment

General. The healthcare industry is highly dependent on a number of factors that may limit the ability of Mercy to meet its obligations under the Loan Agreement, the Master Indenture and the Series 2017C Obligation. Among other things, participants in the healthcare industry (such as the Operating Corporations) are subject to significant regulatory requirements of federal, state and local governmental agencies and independent professional organizations and accrediting bodies, technological advances and changes in treatment modes, various competitive factors and changes in third-party reimbursement programs. Discussed below are certain of these factors which could have a significant effect on the future operations and financial condition of the Operating Corporations.

Conviction of healthcare-related crimes can result in either mandatory or permissive exclusion from participation in federal and certain state healthcare programs for various periods of time depending on the nature of such crimes. Under the Balanced Budget Act of 1997, those convicted of three healthcare-related crimes for which mandatory exclusion is the penalty will be permanently excluded from participation. Those convicted of two healthcare-related crimes for which mandatory exclusion is the penalty will be excluded for a minimum of ten years. The Secretary of HHS will be able to deny entry into Medicare or Medicaid or deny renewal to any provider or supplier convicted of any felony that the Secretary deems to be "inconsistent with the best interests" of the program's beneficiaries.

Restrictions on Referrals. The federal physician self-referral law and its implementing regulations (commonly referred to as the "**Stark Law**") prohibits a physician from referring patients to an entity for the furnishing of designated health services ("**DHS**") covered by Medicare if the physician (or one of his immediate family members) has a financial relationship with the entity, unless an exception applies. Designated health services include: clinical laboratory services; physical therapy services; occupational therapy services; radiology services, including magnetic resonance imaging, computerized axial tomography scans and ultrasound services; radiation therapy services and supplies; durable medical equipment and supplies; parenteral and enteral nutrients, equipment and supplies; prosthetics, orthotics and prosthetic devices and supplies; home health services; outpatient prescription drugs; and inpatient and outpatient hospital services. The Stark Law also prohibits the furnishing entity from submitting a claim for reimbursement or otherwise billing Medicare or any other person or entity for improperly referred DHS.

A provider that submits a claim for reimbursement in violation of the Stark Law must refund any amounts collected and may be (1) subject to a civil penalty of up to $24,253 for each prohibited self-referred service, subject to annual inflation increases and (2) excluded from participation in federal healthcare programs. In addition, a physician or entity that has participated in a "scheme" to circumvent the operation of the Stark Law is subject to a civil penalty of up to $161,692, subject to annual inflation increases, and possible exclusion from participation in federal healthcare programs.

The provisions of the Stark Law are broad and complex. CMS, the federal agency with primary responsibility for enforcement of the Stark Law has, over the years, published a number of regulations interpreting the Stark Law. CMS, on September 23, 2010, published a self-referral disclosure protocol ("**SRDP**") pursuant to Section 6409(a) of the Affordable Care Act under which hospitals and other entities may report Stark Law violations. The SRDP sets forth a process to enable providers of services and suppliers to self-disclose actual or potential violations of the Stark Law. Additionally, Section 6409(b) of the Affordable Care Act gives the Secretary of HHS the authority to reduce the amount due and owing for violations under the Stark Law. It is difficult to predict how CMS will react to any specific voluntary self-disclosure, since self-disclosure submissions remain under consideration by CMS for an extended period of time.

Claims submitted by hospitals for services provided pursuant to referrals from physicians with whom the hospital has a financial relationship (including employed physicians) that violates the Stark Law are considered to be "false" claims and, therefore, violations of the Stark Law will also expose a hospital to potential liability under the Federal False Claims Act. The enforcement of the Stark Law through the Federal False Claims Act, particularly through qui tam lawsuits, has resulted in a number of extremely large judgments and settlements in recent years, including a $237 million Federal False Claims Act judgment against Tuomey Healthcare System, affirmed by the U.S. 4th Circuit Court of Appeals in July 2015. Many of these judgments and settlements, including the judgment against Tuomey Healthcare System, have involved compensation arrangements between hospitals and their employed physicians, including allegations that incentive compensation based on a physician's personal productivity constitutes a potential violation of the Stark Law if the employed physician performs those services in the employer's hospital, and that losses incurred by hospitals on employed physicians render the employment relationship commercially unreasonable and therefore a violation of the Stark Law. Management of the Operating Corporations believes that the Operating Corporations are currently in material compliance with the Stark Law provisions. However, in light of the breadth and complexity of these provisions, there can be no assurances that the Operating Corporations will not be found to have violated the Stark Law provisions, and if so, whether any sanction imposed would have a material adverse effect on the operations of the Operating Corporations or the financial condition of the Operating Corporations.

Corporate Practice of Medicine. The Operating Corporations have attempted to structure their operations to avoid implicating state laws related to the corporate practice of medicine. However, there can be no assurance that state agencies will not challenge the Operating Corporations' activities as they relate to their management of the provider networks and find violations of the corporate practice of medicine prohibition, which may have a material adverse effect on the Operating Corporations' operations and financial results.

Certificate of Need. Provided below for certain of the states in which the Operating Corporations' assets are located is certain relevant state regulatory information related to Certificates of Need ("**CON**") and facility licensing.

<u>Arkansas</u>

Arkansas administers its CON, or Permit of Approval, law through the Arkansas Health Services Permit Agency (the "**Arkansas Agency**"). The Arkansas Agency requires a Permit of Approval for nursing homes, residential care facilities, assisted living facilities, home health and hospice agencies, psychiatric residential care facilities, and intermediate care facilities for the mentally retarded.

<u>Kansas</u>

Kansas does not have a CON law. The Kansas Department of Health and Environment licenses and certifies all types of medical care facilities in Kansas, including ambulatory surgery centers, home health agencies and hospitals. Its programs exist to assure quality care through two primary means: establishing licensing standards and inspecting facilities to assure these standards are being met.

<u>Missouri</u>

Missouri requires that a CON be obtained prior to engaging in certain projects. Currently, only the following types of projects require a CON: (a) the establishment of new hospitals; (b) the purchase of major medical equipment at a cost of $1,000,000 or more; and (c) various projects involving long term care beds and facilities. The CON law no longer applies to expansion and renovations at existing hospitals, ambulatory surgery centers, diagnostic imaging centers and other similar facilities, or the addition of new services at such facilities, except to the extent that any such expansion, renovation or new services involves the purchase of major medical equipment which exceeds the expenditure threshold. Issuance of a CON signifies that Missouri has determined that there is a need for the proposed project. Such a determination may be based on any number of criteria including, but not limited to, population trends, the number of existing health resources, the present and projected future utilization of health resources, and financial feasibility. Changing medical technology, population patterns, or other factors may require new or expanded major medical equipment for which CON approval would be required. The possibility exists that such approval would not be granted, with the result that the Operating Corporations may suffer a decrease in revenues. In addition, the Operating Corporations could face increased competition from healthcare facilities that are not part of the Operating Corporations because the narrowing of Missouri's CON law would allow these other facilities to pursue expansion projects that might not have been permitted under Missouri's earlier CON laws. The Missouri CON law could have a significant impact on Mercy's expansion in the St. Louis and other Missouri markets.

<u>Oklahoma</u>

Oklahoma administers its CON through the Oklahoma State Department of Health (the "**Oklahoma Agency**"). The Oklahoma Agency requires a CON for psychiatric and chemical dependency treatment facilities and long term care facilities.

Health Insurance Portability and Accountability Act. The Health Insurance Portability and Accountability Act of 1996 ("**HIPAA**") added two prohibited practices, the commission of which may lead to civil monetary penalties: (1) the practice or pattern of presenting a claim for an item or service on a reimbursement code that the person knows or should know will result in greater payment than appropriate, i.e., upcoding, and (2) engaging in a practice of submitting claims for payment for medically unnecessary services. Violation of such prohibited practices due to civil neglect could amount to civil monetary penalties ranging from $50,000 to $1.5 million for all identical violations in a calendar year and/or imprisonment. As of the date of this Official Statement, management of the Operating Corporations is not aware of any violations of the above described prohibited practices of HIPAA that would have a material adverse effect on the Operating Corporations.

HIPAA also includes administrative simplification provisions intended to facilitate the processing of healthcare payments by encouraging the electronic exchange of information and the use of standardized formats for healthcare information. Congress recognized, however, that standardization of information formats and greater use of electronic technology presents additional privacy and security risks due to the increased likelihood that databases of personally identifiable healthcare information will be created and the ease with which vast amounts of such data can be transmitted. Therefore, HIPAA requires the establishment of distinct privacy and security protections for individually identifiable health information ("**Protected Health Information**" or "**PHI**").

HHS promulgated privacy regulations under HIPAA (the "**Privacy Rule**") that protect the privacy of PHI maintained by healthcare providers (including hospitals), health plans, and healthcare clearinghouses (collectively, "**Covered Entities**") and provides individuals with certain rights regarding their PHI (including, for example, access to PHI, amending PHI, and receiving an accounting of disclosures of PHI). Security regulations also have been promulgated under HIPAA (the "**Security Rule**"). The Security Rule requires Covered Entities to have certain administrative, technical, and physical safeguards in place to ensure the confidentiality, integrity, and availability of all electronic PHI they create, receive, maintain, or transmit. Additionally, HHS promulgated regulations, the Transactions and Code Sets Rule, to standardize the electronic transfer of information pursuant to certain enumerated transactions.

On February 17, 2009, President Obama signed into law the Health Information Technology for Economic and Clinical Health Act (the "**HITECH Act**"), which is part of ARRA. The HITECH Act significantly changed the landscape of federal privacy and security law with regard to PHI. The HITECH Act (i) extended the reach of HIPAA, certain provisions of the Privacy Rule, and the Security Rule, (ii) imposed a breach notification requirement on Covered Entities and their business associates, (iii) limited certain uses and disclosures of PHI, (iv) increased individuals' rights with respect to PHI, and (v) increased enforcement of, and penalties for, violations of privacy and security of PHI.

The HITECH Act also created a federal breach notification law that mirrors protections that many states have passed in recent years. The breach notification obligation may expose Covered Entities, such as hospitals, to heightened liability. Under HITECH, notification to patients of any unauthorized access, acquisition, or disclosure of their unsecured PHI is required unless it is demonstrated that there is a low probability that the PHI was not compromised. In addition, all breaches must be reported to the Secretary of HHS. If more than 500 individuals are affected by the breach (i) the Covered Entity must also notify the media and (ii) the federal government posts a description of the breach on its website. In addition, the Operating Corporations' facilities remain subject to any state laws that relate to the reporting of data breaches that are more restrictive than the regulations issued under HIPAA and the requirements of the HITECH Act. On January 17, 2013, HHS issued an omnibus final rule interpreting and implementing various provisions of the HITECH Act including a final breach notification rule.

Any violation of HIPAA and regulations promulgated thereunder are subject to civil and criminal penalties that include monetary penalties and/or imprisonment. Significantly, the HITECH Act created a tiered approach to the imposition of civil monetary penalties ("**CMP**") for violations of HIPAA, the HITECH Act, and the regulations promulgated under each that became effective immediately upon President Obama signing the HITECH Act into law on February 17, 2009. The new tiered approach provides for penalties ranging from a minimum of $100 per violation for an unknowing violation to $1,000 per violation for a violation due to reasonable cause, but not willful neglect. For a violation due to willful neglect, the penalty is a minimum of $10,000 or $50,000 per violation, depending on whether the violation was corrected within 30 days of the date the violator knew or should have known of the violation. Maximum penalties may reach up to $1.5 million for identical violations.

On September 29, 2015, the Office of Inspector General ("**OIG**") released two reports that reviewed the Office of Civil Rights' ("**OCR**") enforcement of HIPAA. The Privacy Report suggests that OCR strengthen its oversight of Covered Entities' compliance with the Privacy Rule. The Breach Enforcement Report suggests that OCR strengthen its follow-up of reported HIPAA breaches. In response to the reports, there has been a dramatic increase in the number of HIPAA enforcement actions and settlements, and OCR announced plans to conduct random audits of covered entities and business associates beginning in 2016.

From time to time, Mercy and the Restricted Affiliates discover and are investigated by the Office of Civil Rights for breaches of PHI. Such PHI breaches may result in Mercy being subject to monetary penalties for the violation. As of the date of this Official Statement, management of the Operating Corporations is not aware of any breaches of PHI that are expected to have a material adverse effect on the Operating Corporations.

Compliance/OIG Investigations. Medicare requires that extensive financial information be reported on a periodic basis and in a specific format or content. These requirements are numerous, technical and complex and may not be fully understood or implemented by billing or reporting personnel. With respect to certain types of required information, the False Claims Act and the Social Security Act may be violated by mere recklessness in the submission of information to the government even without any intent to defraud. New billing systems, new medical procedures and procedures for which there is no clear guidance from CMS may all result in liability. The penalties for violation include criminal or civil liability and may include, for serious or repeated violations, exclusion from participation in the Medicare program.

HHS, through the OIG, conducts national investigations of Medicare billings for certain services. The focus of these investigations varies annually according to the OIG Workplan. While the Operating Corporations make every effort to be in compliance with Medicare billing requirements, there can be no assurance that any of the Operating Corporations will not be subject to an investigation.

Both federal and state government agencies have increased their investigative and enforcement initiatives. Such initiatives relate to a wide-range of healthcare operations including billing practices, arrangements between providers and physicians, outliers and cost reports.

The Federal False Claims Act. The Federal False Claims Act provides that any person "who knowingly presents, or causes to be presented" a "false or fraudulent claim for payment or approval" to the United States, and its agents and contractor is liable for a civil penalty. The government may use the Federal False Claims Act to prosecute Medicare and other government program fraud in areas such as coding errors, billing for services not provided and submitting false cost reports. When a defendant is determined by a court of law to be liable under the Federal False Claims Act, the defendant may be required to pay three times the actual damages sustained by the government, plus civil penalties of between $10,957 and $21,916, subject to annual inflation increases. Liability under the Federal False Claims Act arises when an entity "knowingly" submits or presents a false, fictitious or fraudulent claim for reimbursement to the federal government. "Knowingly" is defined to include reckless disregard.

The Federal False Claims Act provides that an individual may bring a civil action for a violation of the Federal False Claims Act on behalf of the government alleging that the defendant has defrauded the federal government. These actions are referred to as qui tam actions or whistleblower suits. If the federal government intervenes and proceeds with an action brought by an individual, then that individual could receive as much as 25% of any money recovered plus legal fees. Even if the federal government does not intervene and proceed with an action, the individual could still proceed and receive up to a 30% portion of any money recovered plus legal fees. These qui tam actions have played and will continue to play a significant role in enforcement under the Federal False Claims Act.

Under the Affordable Care Act, the Federal False Claims Act has been expanded to include overpayments that are discovered by a healthcare provider and are not promptly refunded to the applicable federal healthcare program, even if the claims relating to the overpayment were initially submitted without any knowledge that they were false. The final rule which took effect on March 14, 2016 requires that providers report and return identified overpayments by the later of 60 days after identification, or the date the corresponding cost report is due, if applicable. If the overpayment is not so reported and returned, it becomes an "obligation" under the Federal False Claims Act. This expansion of the Federal False Claims Act exposes hospitals and other healthcare providers to liability under the Federal False Claims Act for a considerably broader range of claims than in the past. There was initially great uncertainty in the industry as to when an overpayment is technically "identified" and the ability of a provider to determine the total amount of an overpayment and satisfy its repayment obligation within the required time period. The March 14, 2016 final rule clarified that an overpayment is considered to have been identified when the person has or should have, through the exercise of reasonable diligence, determined that the person has received an overpayment and quantified the amount of the overpayment. That final rule also established a six year lookback period, meaning overpayments must be reported and returned only if a person identifies the overpayment within six years of the date the overpayment was received.

Federal "Fraud and Abuse" Laws and Regulations. The Federal Medicare/Medicaid Anti-Fraud and Abuse Amendments to the Social Security Act (the "**Anti-Kickback Law**") make it a felony offense to knowingly and willfully offer, pay, solicit or receive remuneration in order to induce business for which reimbursement is provided under the Medicare or Medicaid programs. In addition to criminal penalties, including fines of up to $25,000 and five years' imprisonment, violations of the Anti-Kickback Law can lead to CMP of $74,792 per violation subject to annual inflation increases and an assessment of not more than three times the total amount of "remuneration" involved, and may lead to exclusion from Medicare, Medicaid and certain other state and federal healthcare programs. The IRS has taken the position that hospitals in violation of the Anti-Kickback Law may also be subject to revocation of their tax-exempt status.

The scope of prohibited payments in the Anti-Kickback Law is broad and includes economic arrangements involving hospitals, physicians and other healthcare providers, including joint ventures, space and equipment rentals, purchases of physician practices and management and personal services contracts. HHS has published regulations which describe certain "safe harbor" arrangements that will not be deemed to constitute violations of the Anti-Kickback Law. The safe harbors described in the regulations are narrow and do not cover a wide range of economic relationships which many hospitals, physicians and other healthcare providers consider to be legitimate business arrangements not prohibited by the statute. Because the regulations describe safe harbors and do not purport to describe comprehensively all lawful or unlawful economic arrangements or other relationships between healthcare providers and referral sources, hospitals and other healthcare providers having these arrangements or relationships may be required to alter them in order to ensure compliance with the Anti-Kickback Law.

Management of the Operating Corporations has attempted to structure its contracts with physicians and other referral sources to be in compliance with the Anti-Kickback Law. However, in light of the narrowness of the safe harbor regulations and the scarcity of case law interpreting the Anti-Kickback Law, there can be no assurances that the Operating Corporations will not be found to have violated the Anti-Kickback Law and, if so, whether any sanction imposed would have a material adverse effect on the operations of the Operating Corporations.

State "Fraud and Abuse" Laws and Regulations. In addition to the federal fraud and abuse laws, each state in which the Operating Corporations conduct their operations may have its own fraud and abuse laws. These laws may be similar to the federal False Claims Act, Anti-Kickback Law, and the Stark Law. Violations of these laws could result in civil monetary penalties or criminal prosecution. Management of the Operating Corporations has attempted to operate in compliance with these state specific fraud and abuse laws and regulations. However, there can be no assurances that the Operating Corporations will not be subject to enforcement actions related to these state specific fraud and abuse laws and regulations.

Enforcement Affecting Clinical Research. In addition to increasing enforcement of the laws discussed in this section, the Federal government has also stepped up enforcement of laws and regulations governing the conduct of clinical trials at hospitals. HHS elevated and strengthened its Office of Human Research Protection, one of the agencies with responsibility for monitoring federally funded research. In addition, the National Institutes of Health significantly increased the number of facility inspections that it performs. The Food and Drug Administration ("**FDA**") also has authority over the conduct of clinical trials performed in hospitals when these trials are conducted on behalf of sponsors seeking FDA approval to market the drug or device that is the subject of the research. Moreover, the OIG, in recent years' Work Plans has included several enforcement initiatives related to reimbursement for experimental drugs and devices (including kickback concerns) and has issued compliance program guidance directed at recipients of extramural research awards from the National Institutes of Health and other agencies of the U.S. Public Health Service. These agencies' enforcement powers range from substantial fines and penalties to exclusion of researchers and suspension or termination of entire research programs. Furthermore, errors in billing of the Medicare Program for care that is provided to patients enrolled in clinical trials, but not eligible for Medicare reimbursement can subject healthcare organizations to sanctions and repayment obligations.

Patient Transfers. In response to concerns regarding inappropriate hospital transfers of emergency patients based on a patient's inability to pay for services provided, Congress enacted the Emergency Medical Treatment and Active Labor Act ("**EMTALA**"). Among other things, EMTALA imposes certain requirements which must be met before transferring a patient to another facility, including conducting a medical screening examination of all patients that present on hospital property and request examination and treatment for an emergency medical condition, or have a request made on his or her behalf. While failure to comply with EMTALA can result in exclusion from the Medicare and/or Medicaid programs as well as imposition of civil and criminal penalties, compliance with the requirements of EMTALA, specifically the treatment of uninsured patients, could also affect the financial condition of the Operating Corporations.

Licensing, Certification and Accreditation. The Operating Corporations and their facilities are subject to numerous licensing, certification and accreditation requirements by various federal, state and local government agencies and by certain nongovernmental agencies such as The Joint Commission. No assurance can be given as to the effect on current and future operations of the Operating Corporations of existing laws, regulations and standards or the application thereof for certification or accreditation or of any future changes in such laws, regulations and standards. Renewal and continuation of certain of these licenses, certifications and accreditations are based on inspections, surveys, audits, investigations or other reviews generally conducted in the normal course of business of health facilities. Loss of, or limitations imposed on, hospital licenses or accreditations could reduce hospital utilization or revenues, or a hospital's ability to operate all or a portion of its facilities or to bill various third party payors.

Environmental Laws and Regulations. Healthcare providers are subject to a wide variety of federal, state and local environmental and occupational health and safety laws and regulations which address, among other things, hospital operations, facilities and properties owned or operated by hospitals. Among the types of regulatory requirements faced by hospitals, in addition to others, are (a) air and water quality control requirements, (b) waste management requirements, (c) specific regulatory requirements applicable to asbestos, polychlorinated biphenyls and radioactive substances, (d) requirements for providing notice to employees and members of the public about hazardous materials handled by or located at the hospital, (e) requirements for training employees in the proper handling and management of hazardous materials and wastes, and (f) other requirements.

At the present time, management of the Operating Corporations is not aware of any pending or threatened claim, investigation or enforcement action regarding such environmental issues which, if determined adversely to Mercy or an Operating Corporation, would have a material adverse effect on its operations or financial condition. There can be no assurance, however, that the Operating Corporations will not encounter such risks in the future, and such risks may result in material adverse consequences to the operations or financial condition of the Operating Corporations.

Nonprofit and Tax Exemption Matters

Nonprofit Healthcare Environment. Mercy, the Restricted Affiliates, and certain of the Operating Corporations are nonprofit corporations, exempt from federal income taxation as organizations described in Section 501(c)(3) of the Internal Revenue Code of 1986, as amended (the "**Code**"). As nonprofit tax-exempt organizations, the Operating Corporations are subject to federal, state and local laws, regulations, rulings and court decisions relating to their organizations and operations, including their operation for charitable purposes.

Over the last several years, an increasing number of the operations or practices of healthcare providers have been challenged or questioned to determine if they are consistent with the regulatory requirements for nonprofit tax-exempt organizations and in particular whether such organizations are providing sufficient community benefit to justify their continuing tax-exemption. These challenges are broader than concerns about compliance with federal and state statutes and regulations, such as Medicare and Medicaid compliance, and instead in many cases are examinations of core business practices of the healthcare organizations. Areas which have come under examination have included pricing practices, billing and collection practices, charitable care, community benefit, executive compensation, exemption of property from real property taxation, and others. These challenges and questions have come from a variety of sources, including state attorneys general, the Internal Revenue Service (the "**IRS**"), local and state tax authorities, labor unions, Congress, state legislatures, and patients, and in a variety of forums, including hearings, audits and litigation.

Congressional Hearings. A number of House and Senate Committees, including, the House Committee on Energy and Commerce, the House Committee on Ways and Means and the Senate Finance Committee, have conducted hearings and/or investigations into issues related to nonprofit tax-exempt healthcare organizations. These hearings and investigations have included a nationwide investigation of hospital billing and collection practices, charity care and community benefit and prices charged to uninsured patients and possible reforms to the nonprofit sector. These hearings and investigations may result in new legislation. The effect on the nonprofit healthcare sector or the Operating Corporations of any such legislation, if enacted, cannot be determined at this time.

Challenges to Real Property Tax Exemptions. Recently, the real property tax exemptions afforded to certain nonprofit healthcare providers by certain state and local taxing authorities have been challenged on the grounds that the healthcare providers were not engaged in charitable activities. These challenges have been based on a variety of grounds, including allegations of aggressive billing and collection practices and excessive financial margins. Several of these disputes have been determined in favor of the taxing authorities or resulted in settlements. In addition, some states have proposed overhauling their property tax exemption laws. While the Operating Corporations are not aware of any current challenge to the tax exemption afforded to any of their material properties, there can be no assurance that these types of challenges will not occur in the future.

Unrelated Business Taxable Income. The IRS and state, county and local taxing authorities have been undertaking audits and reviews of the operations of tax-exempt hospitals with respect to their exempt activities and the generation of unrelated business taxable income ("**UBTI**"). Certain of the Operating Corporations participate in activities that generate UBTI. Management believes it has properly accounted for and reported UBTI; nevertheless, an investigation or audit could lead to a challenge that could result in taxes, interest and penalties with respect to unreported UBTI and in some cases could ultimately affect the tax-exempt status of Mercy, a Restricted Affiliated, or an Operating Corporation, as well as the exclusion from gross income for federal income tax purposes of the interest payable on the Bonds and other tax-exempt obligations of Mercy, a Restricted Affiliated, or an Operating Corporation.

Risks Related to Tax Exempt Status

Tax Exemption for Nonprofit Hospitals and Corporations. Loss of tax-exempt status by the Operating Corporations or by any user of property financed or refinanced with the proceeds of the Bonds could result in loss of tax exemption of the Bonds and of other tax-exempt debt issued therefor, and defaults in covenants regarding the Bonds and other tax-exempt debt would likely be triggered. Such an event would have material adverse consequences on the financial condition of the Operating Corporations.

The maintenance by an entity of its tax-exempt status depends, in part, upon its maintenance of its status as an organization described in Section 501(c)(3) of the Code. The maintenance of such status is contingent upon compliance with general rules promulgated in the Code and related regulations regarding the organization and operation of tax-exempt entities, including its operation for charitable and educational purposes and its avoidance of transactions which may cause its assets to inure to the benefit of private individuals. The IRS has announced that it intends to closely scrutinize transactions between nonprofit hospitals and for-profit entities, and in particular has issued revised audit guidelines for tax-exempt hospitals. Although specific activities of hospitals, such as medical office building leases and compensation arrangements and other contracts with physicians, have been the subject of interpretations by the IRS in the form of Private Letter Rulings, many activities have not been addressed in any official opinion, interpretation or policy of the IRS. Because the Operating Corporations conduct large-scale and diverse operations involving private parties, there can be no assurance that certain of its transactions would not be challenged by the IRS, which could adversely affect the tax-exempt status of the Operating Corporations. Management of the Operating Corporations believes that all such material transactions or arrangements in which it is involved are in material compliance with applicable IRS rules and regulations, but there can be no assurance that such transactions or arrangements will not be challenged.

Code Section 501(r). The provisions of the Affordable Care Act provided for a new Code Section 501(r), which adds certain requirements that nonprofit hospital organizations must meet in order to attain or to maintain Code Section 501(c)(3) tax-exempt status. Among other things, a hospital must: (i) establish a written financial assistance policy ("**FAP**") and a policy relating to emergency medical care meeting the requirements of Code Section 501(r)(4); (ii) limit the amounts charged for emergency or other medically necessary care provided to individuals eligible for assistance under the hospital's FAP to not more than the amounts generally billed to individuals who have insurance covering such care; and (iii) make reasonable efforts to determine whether an individual is FAP-eligible before engaging in extraordinary collection actions. Mercy believes it, the Restricted Affiliates and all applicable Operating Corporations are currently in compliance with the requirements of Section 501(r).

On December 31, 2014, the IRS released final regulations regarding the requirements of Section 501(r) applicable to tax-exempt hospital organizations. These regulations provided guidance regarding Section 501(r)'s requirements for community health needs assessments, financial assistance policies, limitations on charges, and billing and collection policies, and clarify the consequences for failing to meet the various requirements thereunder.

A failure to comply with the provisions of Section 501(r) and the final regulations could result in a loss of Section 501(c)(3) tax-exempt status. For further information regarding the Affordable Care Act, see "**BONDHOLDERS' RISKS – Affordable Care Act**" herein.

Anti-Kickback Statute. The IRS has taken the position that hospitals which are in violation of the Anti-Kickback Law may also be subject to revocation of their tax-exempt status. See the information above under the caption "**BONDHOLDERS' RISKS –** ***Federal "Fraud and Abuse" Laws and Regulations***." As a result, tax-exempt hospitals, such as those owned or operated by the Operating Corporations, which have, and will continue to have, extensive transactions with physicians are subject to an increased degree of scrutiny and perhaps enforcement by the IRS.

Intermediate Sanctions. Section 4958 of the Code, and the regulations implementing this provision, provide the IRS with an "intermediate" tax enforcement tool that may be used as an alternative to revoking the federal tax exemption of an organization that violates the private inurement prohibition or otherwise engages in "excess benefit" transactions with certain types of related parties, including the payment of unreasonably high compensation to executive leadership. An excess benefit transaction is one in which a disqualified person or entity receives more than fair market value from the exempt organization or pays the exempt organization less than fair market value for property or services, or shares the net revenues of the tax-exempt entity. A disqualified person is a person (or an entity) who is in a position to exercise substantial influence over the affairs of the exempt organization during the five years preceding an excess benefit transaction. The statute imposes excise taxes on the disqualified person and any "organization manager" who knowingly participates in an excess benefit transaction. These rules do not penalize the exempt organization itself, so there would be no direct impact on the Operating Corporations or the tax status of the Bonds if an excess benefit transaction were subject to IRS enforcement, pursuant to these "intermediate" sanctions rules.

Tax-Exempt Status of the Bonds. The tax-exempt status of the Bonds is based on the continued compliance by the Authority, the Operating Corporations and users of property financed or refinanced with proceeds of the Bonds with certain covenants relating generally to restrictions on the use of the facilities financed or refinanced with the proceeds of the Bonds, arbitrage limitations and rebate of certain excess investment earnings to the federal government and status of users of the properties financed or refinanced with the proceeds of the Bonds as organizations described in Section 501(c)(3) of the Code. See "***Tax Exemption for Nonprofit Hospitals and Corporations***" above. Failure to comply with such covenants with respect to the Bonds could cause interest on all of the Bonds to become subject to federal income taxation retroactively to the original date of issue of the Bonds. In such event, the Bonds are not subject to redemption solely as a consequence thereof, although the principal thereof may be accelerated.

In recent years, the IRS has increased the frequency and scope of its examination and other enforcement activity regarding tax-exempt organizations and tax-exempt bonds. Currently, the primary penalties available to the IRS under the Code are the revocation of tax-exempt status of an organization and a determination that interest on tax-exempt bonds is subject to federal income taxation. Although the IRS has not frequently revoked the 501(c)(3) tax-exempt status of nonprofit corporations, it could do so in the future. Loss of tax-exempt status by any of the Operating Corporations or another user of property financed or refinanced with proceeds of the Bonds could potentially result in loss of the tax exemption of the interest on the Bonds, and defaults in covenants regarding the Bonds could be triggered. Loss of tax-exempt status could also result in substantial tax liabilities on income of the Operating Corporations.

In addition, although the IRS has only infrequently taxed the interest received by holders of bonds that were represented to be tax-exempt, the IRS has examined a number of bond issues and concluded that such bond issues did not comply with applicable provisions of the Code and related regulations. No assurance can be given that the IRS will not examine the purchaser, a Bondholder, any of the Operating Corporations or the Bonds. If the Bonds are examined, it may have an adverse impact on their marketability and price. Based on the use of proceeds from the sale of the Bonds described herein and in **APPENDIX A**, and on the representations and warranties of Mercy as to factual matters and the opinions of counsel to Mercy, Bond Counsel will deliver its opinion in the form attached as **APPENDIX D**. See "**LEGAL MATTERS**" and "**TAX MATTERS**" herein.

Charity Care. Hospitals are permitted to acquire tax exempt status under the Code because the provision of healthcare historically has been treated as a "charitable" enterprise. This treatment arose before most Americans had health insurance, when charitable donations were required to fund the healthcare provided to the sick and disabled. Some commentators and others have taken the position that, with the onset of employer health insurance and governmental reimbursement programs, there is no longer any justification for special tax treatment for the healthcare industry, and the availability for tax exempt status should be eliminated. Management cannot predict the likelihood of such a dramatic change in the law. Federal and state tax authorities are beginning to demand that tax exempt hospitals justify their tax exempt status by documenting their charitable care and other community benefits.

Schedule H to the Form 990 asks whether the organization has a charity care policy and asks for a description of that policy. This schedule also requires an organization to report the community benefits that it provides, including the costs of providing charity care and other benefits. The reporting of this information on the Form 990 will make the information more readily available and perhaps lead to additional IRS compliance efforts.

Future Nonprofit Legislation. Legislative proposals which could have an adverse effect on Mercy, the Restricted Affiliates or the Operating Corporations include: (a) any changes in the taxation of nonprofit, tax-exempt corporations or in the scope of their exemption from income or property taxes; (b) limitations on the amount or availability of tax-exempt financing for corporations recognized under Section 501(c)(3) of the Code; (c) regulatory limitations affecting the Operating Corporations' ability to undertake capital projects or develop new services; (d) a requirement that nonprofit healthcare institutions pay real estate property tax and sales tax on the same basis as for-profit entities; (e) mandating certain levels of free or substantially reduced care that must be provided to low income uninsured and underinsured populations; and (f) placing ceilings on executive compensation of nonprofit, tax-exempt corporations.

Legislative bodies have considered proposed legislation on the charity care standards that nonprofit, charitable hospitals must meet to maintain their federal income tax exempt status under the Code and legislation mandating nonprofit, charitable hospitals to have an open-door policy toward Medicare and Medicaid patients as well as to offer, in a non-discriminatory manner, qualified charity care and community benefits. Excise tax penalties on nonprofit, charitable hospitals that violate these charity care and community benefit requirements could be imposed or their tax exempt status under the Code could be revoked. As described above, because of the complexity of health reform generally, additional legislation is likely to be considered and enacted over time beyond the Affordable Care Act. The scope and effect of legislation, if any, which may be adopted at the federal or state levels with respect to charity care of nonprofit hospitals cannot be predicted. Any such legislation or similar legislation, if enacted, may have the effect of subjecting a portion of Mercy's, the Restricted Affiliates' or the Operating Corporations' income to federal or state income taxes or to other tax penalties.

Bond Audits

IRS officials have indicated that more resources will be invested in audits of tax exempt bonds in the charitable organization sector. The Bonds may be, from time to time, subject to audits by the IRS. Mercy believes that the Bonds properly comply with the tax laws applicable to tax exempt bonds. In addition, Bond Counsel will render an opinion with respect to the tax exempt status of the Bonds, as described under the caption, "**TAX MATTERS**." No ruling with respect to the tax exempt status of the Bonds has been or will be sought from the IRS, however, and opinions of counsel are not binding on the IRS or the courts and are not guarantees. There can be no assurance that an audit of the Bonds will not adversely affect the Bonds.

Corporate Compliance Program

The Operating Corporations have developed and implemented compliance programs for themselves and their affiliates which includes compliance plans to assist all employees in understanding and adhering to the legal and ethical standards that govern the provision of patient care (the "**Compliance Plans**"). The Compliance Plans have been designed to (i) comply with the standards set forth in the Federal Sentencing Guidelines for Organizational Defendants (the "**Federal Sentencing Guidelines**"), and (ii) help assure that the Operating Corporations act in accordance with their mission, values and known legal duties. The Federal Sentencing Guidelines recommend an effective compliance and ethics program with knowledgeable and reasonable oversight by the governing authority of an organization. Responsive to these amendments, the Operating Corporations have established Compliance Committees which report to their Boards of Directors, which have the overall responsibility for the implementation of Compliance Plan policies for the Operating Corporations. In addition, to facilitate implementation of the Compliance Plans, local compliance officers have been appointed to coordinate implementation of the Compliance Plans. Finally, there is an Operating Corporations' Compliance Steering Committee which oversees the implementation of the Compliance Plan and helps ensure that the process is functioning effectively and that the Compliance Plan is being followed appropriately.

Violations of the Compliance Plans could result in an Operating Corporation being required to enter into a Corporate Integrity Agreement ("**CIA**") with HHS in order to remain eligible to participate in the Medicare, Medicaid and other Federal healthcare programs. A CIA could result in significant third party oversight of the Operating Corporation and have a material adverse effect on the operations and financial condition of the Operating Corporation. No assurances can be made that such violations will not occur in the future and that if such violations occur the related parties would not be required to enter into a CIA. Mercy Hospital Springfield and Mercy Clinic Springfield are subject to the terms of a 5-year CIA. See "**Mercy Health Springfield Communities** -- Corporate Integrity Agreement" in **APPENDIX A**.

Antitrust

Enforcement of the antitrust laws against healthcare providers is becoming more common, and antitrust liability may arise in a wide variety of circumstances, including medical staff privilege disputes, third-party contracting, physician relations, and joint venture, merger, affiliation and acquisition activities. In some respects, the application of federal and state antitrust laws to healthcare is still evolving, and enforcement activity by federal and state agencies appears to be increasing. At various times, healthcare providers may be subject to an investigation by a governmental agency charged with the enforcement of antitrust laws, or may be subject to administrative or judicial action by a federal or state agency or a private party. Violators of the antitrust laws could be subject to criminal and civil enforcement by federal and state agencies, as well as by private litigants.

The ability to consummate mergers, acquisitions or affiliations may also be impaired by the antitrust laws, potentially limiting the ability of healthcare providers to fulfill their strategic plans. Liability in any of these or other antitrust areas of liability may be substantial, depending on the facts and circumstances of each case.

Issues Related to the Healthcare Markets of the Operating Corporations

Affiliation, Merger, Acquisition, Joint Venture and Divestiture. Significant numbers of affiliations, mergers, acquisitions, joint ventures and divestitures have occurred in the healthcare industry in recent years, and the Operating Corporations have undertaken a variety of such transactions. As part of their ongoing planning process, the Operating Corporations consider potential affiliations, joint ventures and acquisitions of operations or properties which may become affiliated with or become part of the Operating Corporations in the future, and also consider the divestiture of certain operations or properties. As a result, it is possible that certain newly acquired or affiliated organizations and their assets and liabilities may be added to the Operating Corporations. In addition, the Operating Corporations may divest certain assets although after divesture, it is possible that the Operating Corporations would continue to be responsible for any remaining liabilities attributable to the divested facilities, if the consideration received for the divested property is insufficient to pay all related liabilities.

Possible Increased Competition and Consumer Choice. The Operating Corporations could face increased competition in the future from other hospitals, skilled nursing facilities, and other forms of healthcare delivery that offer healthcare services to the populations which the Operating Corporations currently serve. This could include the construction of new, or the renovation of existing, hospitals, skilled nursing facilities, health maintenance organization facilities, ambulatory surgery centers, freestanding emergency facilities, private laboratory and radiological services, specialized nursing facilities, home care, intermediate nursing home care, preventive care, drug and alcohol abuse programs and competition between integrated clinic and independent physicians.

In addition, competition could result from forms of healthcare delivery that are able to offer lower priced services to the population served by the Operating Corporations. These services could be substituted for some of the revenue-generating services currently offered by the Operating Corporations. The services that could serve as substitutes for hospital treatment include skilled and specialized nursing facilities, home care, intermediate nursing home care, preventive care, and drug and alcohol abuse programs. Competition may also come from specialty hospitals or organizations, particularly those facilities providing specialized services in areas with high visibility and strong margins, such as cardiac services and surgical services, and having specialty physicians as investors. Competition is also likely to come from disruptive technologies, including technologies that can reduce the necessity for facility-based services, enable healthcare services to be provided remotely in patients' homes, or supplement caregivers' services with artificial intelligence.

These sources of competition may have a material adverse impact on hospitals, particularly where a group of a hospital's principal physician admitters may curtail their use of a hospital service in favor of competing facilities. Hospitals and other healthcare providers face increased pressure to operate transparently and make available information about cost and quality of services. Consumers and payors accessing cost and quality information accumulated on various data bases may shift business among providers or make different healthcare choices based on such information.

Hospital Star Ratings. On July 27, 2016, CMS published its overall hospital quality star ratings. The ratings are a composite metric consisting of one to five stars (five being the best) and intended to convey the overall quality of nearly 4,000 hospitals in the U.S. Ratings are posted to the CMS website, Hospital Compare. Each rating summarizes up to 64 quality measures reflecting common conditions that hospitals treat, such as heart attacks and pneumonia. Along with the overall rating, Hospital Compare includes information on other aspects of quality, such as rates of infection and complications and patients' experiences. The overall rating shows how well each hospital performed, on average, compared to other hospitals in the U.S. CMS maintains its star ratings will provide consumers an important tool for comparing hospitals both locally and nationwide. If the star ratings of any of the Operating Corporations were to decline, it could have an adverse effect on the utilization rates and overall financial condition of the affected Operating Corporations.

Rate Pressure from Insurers and Major Purchasers. Health insurers and, in some cases, major purchasers of health services may have significant influence over the rates, utilization and competition of hospitals and other healthcare providers. Rate pressure imposed by health insurers or other major purchasers, including managed care payors, may have a material adverse impact on the financial condition of the Operating Corporations, particularly if major purchasers put increasing pressure on payors to restrain rate increases. Business failures by health insurers also could have a material adverse impact on the Operating Corporations in the form of payment shortfalls or delays, and/or continuing obligations to care for managed care patients without receiving payment. In addition, disputes with non-contracted payors may result in the Operating Corporations' inability to collect billed charges from these payors.

Preferred Provider Designations. Certain major employers and health plan providers have initiated programs that designate individual healthcare facilities as preferred or exclusive providers of selected medical procedures for their covered plan participants. When implemented, these programs have the effect of causing covered participants to sometimes travel to "out of market" healthcare providers for the designated procedures. These designations can enhance an Operating Corporation's operations and financial condition if the designation results in admissions from outside its market area; however, such designations may also result in market area residents seeking treatment at facilities outside the service area, thereby reducing the number of potential admissions in the Operation Corporation's service area.

Telemedicine. The advancement of telemedicine techniques and its use by health plan participants could result in decreased demand for traditional healthcare facilities and providers, which could have a material adverse effect on the operations and financial condition of the Operating Corporations. While telemedicine offers another care delivery model and may result in additional revenue, there are risks to the Operating Corporations associated with offering telemedicine services. State practice of medicine statutes differ in their treatment of telemedicine, and interstate credentialing and licensing requirements create additional compliance concerns. The Operating Corporations are responsible for ensuring the privacy and security of all patient communications and with ensuring its systems comply with all applicable specifications. To the extent the Operating Corporations are unable to meet the applicable credentialing and licensing requirements or their system fails to comply with applicable specifications, their operating results could be adversely affected.

Termination of Managed Care Contracts

Certain health maintenance and preferred provider organization contracts (including managed Medicare contracts) account for more than approximately 37.0% of the revenue of the Operating Corporations. Some of these contracts can be terminated by the third-party payor at any time without the necessity of showing cause upon as little as ninety days' prior written notice. Termination of such contracts could have an adverse effect on the financial performance of the Operating Corporations.

Professional Liability Claims and General Liability Insurance

In recent years, the number of professional and general liability suits and the dollar amounts of damage recoveries have increased in healthcare nationwide, resulting in substantial increases in malpractice insurance premiums, higher deductibles and generally less coverage. Professional liability and other actions alleging wrongful conduct and seeking punitive damages are often filed against healthcare providers. Insurance does not provide coverage for judgments for punitive damages.

Beginning in 2008, CMS refused to reimburse hospitals for medical costs arising from certain "never events," which include specific preventable medical errors. Certain private insurers and HMOs followed suit. The occurrence of "never events" is more likely to be publicized and may negatively impact a hospital's reputation, thereby reducing future utilization and potentially increasing the possibility of liability claims.

Litigation also arises from the corporate and business activities of hospitals, from a hospital's status as an employer or as a result of medical staff or provider network peer review or the denial of medical staff or provider network privileges. As with professional liability, many of these risks are covered by insurance, but some are not. For example, some antitrust claims or business disputes are not covered by insurance or other sources and may, in whole or in part, result in liability for the applicable Operating Corporations if determined or settled adversely.

There is no assurance that the Operating Corporations will be able to maintain coverage amounts currently in place in the future, that the coverage will be sufficient to cover judgments rendered against an Operating Corporation or that such coverage will be available at a reasonable cost in the future.

Class Actions and Litigation

Hospitals and health systems have long been subject to a wide variety of litigation risks, including liability for care outcomes, employer liability, property and premises liability, and peer review litigation with physicians, among others. In recent years, consumer class action litigation has emerged as a potentially significant source of litigation liability for hospitals and health systems. These class action suits have most recently focused on hospital billing and collections practices and breaches of privacy, and they may be used for a variety of currently unanticipated causes of action. Since the subject matter of class action suits may involve uninsured risks, and since such actions often involve alleged large classes of plaintiffs, they may have material adverse consequences on the Operating Corporations in the future.

Labor & Employment

Labor Relations. Not-for-profit healthcare providers and their employees are under the jurisdiction of the National Labor Relations Board. At the present time, none of the Operating Corporations' employees are members of unions or receive union wages and benefits. The Operating Corporations are recruiting nurses, medical technicians, physicians in certain specialties and other qualified professional personnel. Availability of such qualified professionals in most markets served by the Operating Corporations is limited. The nursing shortage has resulted in increased costs due to overtime payments and an increased use of contract nurses. Unionization of employees or a shortage of qualified professional personnel could cause an increase in payroll costs beyond those projected. The Operating Corporations cannot control the prevailing wage rates in their respective service areas and any increase in such rates will directly affect the costs of their operations.

Employer Status. Hospitals are major employers with mixed technical and nontechnical workforces. Labor costs, including salaries, benefits and other liabilities associated with a workforce, have significant impacts on hospital operations and financial condition. Developments affecting hospitals as major employers include: (1) imposing higher minimum or living wages; (2) enhancing occupations health and safety standards; and (3) penalizing employers of undocumented immigrants. Legislation or regulation on any of the above or related topics could have a material adverse impact on the Operating Corporations.

Healthcare Worker Classification. Healthcare providers, like all businesses, are required to withhold income taxes from amounts paid to employees. If the employer fails to withhold the tax, the employer becomes liable for payment of the tax imposed on the employee. Businesses are generally not required to withhold federal taxes from amounts paid to a worker classified as an independent contractor. The IRS has established criteria for determining whether a worker is an employee or an independent contractor for tax purposes. If the IRS were to reclassify a significant number of hospital independent contractors (e.g., physician medical directors) as employees, back taxes and penalties could be material.

Construction Risks

Construction projects are subject to a variety of risks, including but not limited to delays in issuance of required building permits or other necessary approvals or permits, strikes, shortages of materials and adverse weather conditions. Such events could delay occupancy. Cost overruns may occur due to change orders, delays in the construction schedule, scarcity of building materials and other factors. Cost overruns could cause the costs to exceed available funds.

Pension Funding Impact

Changes in market interest rates and debt and equity market fluctuations also potentially could have an impact on Mercy's pension fund liabilities and its requirement for funding its related pension. Like any other entity with pension fund liabilities, Mercy finds that increases or decreases in interest rates have an impact on the discounted pension benefit obligation and the assumed earnings rates on pension assets needed to match pension fund liabilities, which accordingly affects the levels of actuarial pension investment assets required to meet future pension obligations. Consequently, any substantial and sustained decline in long-term interest rates could have the effect of increasing the current pension funding requirements of Mercy.

Information Technology

The ability to adequately price and bill healthcare services and to accurately report financial results depends on the integrity of the data stored within information systems, as well as the operability of such systems. Information systems require an ongoing commitment of significant resources to maintain, protect and enhance existing systems and develop new systems to keep pace with continuing changes in information processing technology, evolving systems and regulatory standards. There can be no assurance that efforts to upgrade and expand information systems capabilities, protect and enhance these systems, and develop new systems to keep pace with continuing changes in information processing technology will be successful or that additional systems issues will not arise in the future.

Electronic media are also increasingly being used in clinical operations, including the conversion from paper to electronic medical records, computerization of order entry functions and the implementation of clinical decision-support software. The reliance on information technology for these purposes imposes new expectations on physicians and other workforce members to be adept in using and managing electronic systems. It also introduces risks related to patient safety, and to the privacy, accessibility and preservation of health information. See "**BONDHOLDERS RISKS--*Health Insurance Portability and Accountability Act***" above. Technology malfunctions or failure to understand and use information systems properly could result in the dissemination of or reliance on inaccurate information, as well as in disputes with patients, physicians and other healthcare professionals. Health information systems may also be subject to different or higher standards or greater regulation than other information technology or the paper-based systems previously used by healthcare providers, which may increase the cost, complexity and risks of operations. All of these risks may have adverse consequences on hospitals and healthcare providers. Future government regulation and adherence to technological advances could result in an increased need of the Operating Corporations to implement new technology. Such implementation could be costly and is subject to cost overruns and delays in application, which could negatively affect the financial condition of the Operating Corporations.

Cybersecurity

Healthcare providers and insurers, as Covered Entities under HIPAA, have PHI and other sensitive information stored in its electronic systems, and could be subject to cyber-attacks and other potential breaches of their systems. In addition to regulatory fines and penalties, healthcare entities subject to such breaches may be liable for the costs of remediating the breaches, damages to individuals (or classes) whose information has been breached, reputation damage and business loss, and damage to the information technology infrastructure.

The Operating Corporations have taken, and continue to take measures to protect its information technology system against cyber-attacks. Nevertheless, their information technology systems may be vulnerable to breaches, ransom malware, hacker attacks, computer viruses, physician or electronic break-ins and other similar events or issues. Such events or issues could have an adverse effect on the ability of the Operating Corporations to provide healthcare services, or any breach of PHI could result in government civil, criminal or monetary penalties. There can be no assurance that the Operating Corporations will not experience a breach as a result of a cyber-attack. The financial consequences of any breach could have a materially adverse impact on the Operating Corporations. See "**BONDHOLDERS RISKS--*Health Insurance Portability and Accountability Act***" herein.

Payment Card Industry Data Security Standards and EMV

Healthcare providers have seen significant changes in the method, amount of transactions and dollar amount of patient payments. Healthcare providers recognize that cardholder data security is a paramount concern as is continuing to protect and secure patient information.

Chip cards used at Europay, MasterCard and Visa ("**EMV**") terminals protect against counterfeit transactions by replacing static data with dynamic data. Merchants are in the process of migrating to EMV chip card technology to improve the security of the card-present payments infrastructure. As a result, EMV is being introduced to healthcare providers. In October 2015, the liability for card-present fraud shifted to whichever party is the least EMV-compliant in a fraudulent transaction. This means in practice that if a healthcare provider has not updated its system to accept chip cards and fraud occurs when a chip card is inserted into the terminal, the healthcare provider would be liable for the costs. It is not a requirement to use EMV compliant terminals and there are no fines or other penalties, however, a healthcare provider that does not use EMV-compliant terminals may face much higher costs in the event of a large data breach.

International Classification of Diseases, 10th Revision Coding System

In 2009, CMS published the final rule for adopting the International Classification of Disease, 10th Revision coding system ("**ICD-10**"), which required healthcare organizations to implement ICD-10 by October 1, 2015. ICD-10 provides a common approach to the classification of diseases and other health problems, allowing the United States to align with other nations to better share medical information, diagnosis and treatment codes. On October 1, 2017, updates to the ICD-10 will take effect for certain services for fiscal year 2018. These updates, posted to the CMS website, include 360 new diagnosis codes and 3,562 new surgical procedure codes. The clinical systems of the Operating Corporations transitioned to ICD-10 by the required date and Operating Corporations continue to monitor annual coding changes. Nonetheless, healthcare organizations such as Operating Corporations are dependent upon the ability of Medicare, Medicaid and other payers to process and pay claims under ICD-10.

Certain Other Risks

The following factors, among others, may also affect the future operations or financial performance of the Operating Corporations:

(a) Medical and other scientific advances resulting in decreased usage of hospital facilities or services, including the Operating Corporations;

(b) Limitations on the availability of nursing and technical personnel;

(c) Decreases in population within the service areas of the Operating Corporations' hospitals;

(d) Increased unemployment or other adverse economic conditions which could increase the proportion of patients who are unable to pay fully for the cost of their care;

(e) Imposition of wage and price controls for the healthcare industry, such as those that were imposed and adversely affected healthcare facilities in the early 1970s;

(f) The ability of, and the cost to, the Operating Corporations to continue to insure or otherwise protect itself against malpractice claims in light of escalating increases in insurance premiums;

(g) The attempted imposition of or the increase in taxes related to the property and operations of nonprofit organizations;

(h) The occurrence of natural disasters, including, but not limited to, tornadoes, hurricanes, floods and earthquakes or terrorist actions, which may damage the Operating Corporations' facilities, interrupt utility service to the facilities, or otherwise impair the operation and generation of revenues from said facilities;

(i) Any increase in the quantity of indigent care provided which is mandated by law or required due to increased needs of the community in order to maintain the charitable status of the Operating Corporations;

(j) Availability of and increased compensation necessary to secure physicians, nurses and other healthcare personnel; any termination or alteration of existing agreements between Operating Corporations and individual physicians and physician groups or any termination or alteration of referral patterns by individual physicians and physician groups with whom the Operating Corporation does not contract;

(k) The impairment or complete disruption of availability of information systems;

(l) Changes in governmental and judicial interpretations of laws and regulations;

(m) Any failure by Mercy to remain in compliance with its covenants in its bond financing documents or other debt agreements;

(n) Any downgrade in Mercy's credit rating or other event that would affect its ability to obtain, or cost of, capital; and

(o) Adverse economic conditions that result in losses in Mercy's investment portfolio.

The occurrence of one or more of the foregoing, or the occurrence of other unanticipated events, could adversely affect the financial performance of the Operating Corporations.

No Mortgage

The Operating Corporations' facilities are not pledged as security for the Bonds or the Series 2017C Obligation.

LITIGATION

The Authority

There is not now pending or, to the knowledge of the Authority, threatened any litigation against the Authority seeking to restrain or enjoin the issuance or delivery of the Bonds, or questioning or affecting the validity of the Bonds or the proceedings or authority under which they are to be issued, or which in any manner questions the right of the Authority to enter into the Bond Indenture or the Loan Agreement or to secure the Bonds in the manner provided in the Bond Indenture and the Act.

Mercy

No litigation, proceedings or investigations are pending or, to the knowledge of Mercy, threatened against Mercy or its officers or property except litigation, proceedings or investigations being defended by or on behalf of Mercy in which the probable ultimate recoveries and the estimated costs and expenses of defense, in the opinion of management of Mercy, will be entirely within Mercy's applicable self-insurance and insurance policy limits (including primary and excess insurance policies and subject to applicable deductibles and self-insured retentions), or will not have a material adverse effect on the operations or condition, financial or otherwise, of Mercy. No litigation, investigations or proceedings are now pending or, to Mercy's knowledge, threatened against Mercy which would in any manner challenge or adversely affect the corporate existence or powers of Mercy to enter into and carry out the transactions described in or contemplated by, or the execution, delivery, validity or performance by Mercy of, the Master Indenture, the Loan Agreement or the Series 2017C Obligation, or the status of Mercy, the Restricted Affiliates or the Operating Corporations as a tax-exempt organization.

LEGAL MATTERS

Certain legal matters incident to the authorization and issuance of the Bonds by the Authority are subject to the approval of Gilmore & Bell, P.C., Kansas City, Missouri, Bond Counsel, whose approving opinion will be delivered with the Bonds. Bond Counsel has not reviewed this Official Statement except for (1) the sections entitled "**INTRODUCTORY STATEMENT – Security and Source of Payment for the Bonds**" and "**– The Master Indenture**," "**THE BONDS**" (except the subsection "**Book-Entry Only**

System"), "**SECURITY AND SOURCES OF PAYMENT FOR THE BONDS**," and "**TAX MATTERS**," (2) **APPENDIX C – "DEFINITIONS OF WORDS AND TERMS AND SUMMARIES OF CERTAIN PROVISIONS OF THE PRINCIPAL DOCUMENTS**," and (3) **APPENDIX D – "FORM OF OPINION OF BOND COUNSEL**" insofar as such sections purport to summarize certain provisions of the Bonds, the Bond Indenture, the Master Indenture and the Loan Agreement or provisions of federal or State of Missouri income tax laws relating to interest on the Bonds, and except for such portions Bond Counsel has not participated in the preparation of this Official Statement. Certain legal matters will be passed upon for the Authority by its counsel, Thompson Coburn LLP, St. Louis, Missouri; for Mercy by its counsel, Husch Blackwell LLP, Kansas City, Missouri; and for the Underwriters by their counsel, Dentons US LLP, St. Louis, Missouri.

TAX MATTERS

The following is a summary of the material federal and State of Missouri income tax consequences of holding and disposing of the Bonds. This summary is based upon laws, regulations, rulings and judicial decisions now in effect, all of which are subject to change (possibly on a retroactive basis). This summary does not discuss all aspects of federal income taxation that may be relevant to investors in light of their personal investment circumstances or describe the tax consequences to certain types of owners subject to special treatment under the federal income tax laws (for example, dealers in securities or other persons who do not hold the Bonds as a capital asset, tax-exempt organizations, individual retirement accounts and other tax deferred accounts, and foreign taxpayers), and, except for the income tax laws of the State of Missouri, does not discuss the consequences to an owner under any state, local or foreign tax laws. The summary does not deal with the tax treatment of persons who purchase the Bonds in the secondary market. Prospective investors are advised to consult their own tax advisors regarding federal, state, local and other tax considerations of holding and disposing of the Bonds.

Opinion of Bond Counsel

In the opinion of Gilmore & Bell, P.C., Bond Counsel, under the law existing as of the issue date of the Bonds:

Federal and Missouri Tax Exemption. The interest on the Bonds (including any original issue discount properly allocable to an owner thereof) is excludable from gross income for federal income tax purposes and is exempt from income taxation by the State of Missouri.

Alternative Minimum Tax. Interest on the Bonds is not an item of tax preference for purposes of computing the federal alternative minimum tax imposed on individuals and corporations, but is taken into account in determining adjusted current earnings for the purpose of computing the alternative minimum tax imposed on certain corporations.

Bank Qualification. The Bonds have not been designated as "qualified tax-exempt obligations" for purposes of Section 265(b)(3) of the Code.

Bond counsel's opinions are provided as of the date of the original issue of the Bonds, subject to the condition that the Authority and Mercy comply with all requirements of the Code that must be satisfied subsequent to the issuance of the Bonds in order that interest thereon be, or continue to be, excludable from gross income for federal income tax purposes. The Authority and Mercy have covenanted to comply with all such requirements. Failure to comply with certain of such requirements may cause the inclusion of interest on the Bonds in gross income for federal income tax purposes retroactive to the date of issuance of the Bonds. Bond Counsel is expressing no opinion regarding other federal, state or local tax consequences arising with respect to the Bonds but has reviewed the discussion under the heading "**TAX MATTERS**."

Other Tax Consequences

Original Issue Discount. For federal income tax purposes, original issue discount ("**OID**") is the excess of the stated redemption price at maturity of a Bond over its issue price. The issue price of a Bond is the first price at which a substantial amount of the Bonds of that maturity have been sold (ignoring sales to bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents, or wholesalers). Under Section 1288 of the Code, OID on tax-exempt bonds accrues on a compound basis. The amount of OID that accrues to an owner of a Bond during any accrual period generally equals (1) the issue price of that Bond, plus the amount of OID accrued in all prior accrual periods, multiplied by (2) the yield to maturity on that Bond (determined on the basis of compounding at the close of each accrual period and properly adjusted for the length of the accrual period), minus (3) any interest payable on that Bond during that accrual period. The amount of OID accrued in a particular accrual period will be considered to be received ratably on each day of the accrual period, will be excludable from gross income for federal income tax purposes, and will increase the owner's tax basis in that Bond. Prospective investors should consult their own tax advisors concerning the calculation and accrual of OID.

Original Issue Premium. If a Bond is issued at a price that exceeds the stated redemption price at maturity of the Bond, the excess of the purchase price over the stated redemption price at maturity constitutes "premium" on that Bond. Under Section 171 of the Code, the purchaser of that Bond must amortize the premium over the term of the Bond using constant yield principles, based on the purchaser's yield to maturity. As premium is amortized, the owner's basis in the Bond and the amount of tax-exempt interest received will be reduced by the amount of amortizable premium properly allocable to the owner. This will result in an increase in the gain (or decrease in the loss) to be recognized for federal income tax purposes on sale or disposition of the Bond prior to its maturity. Even though the owner's basis is reduced, no federal income tax deduction is allowed. Prospective investors should consult their own tax advisors concerning the calculation and accrual of bond premium.

Sale, Exchange or Retirement of Bonds. Upon the sale, exchange or retirement (including redemption) of a Bond, an owner of the Bond generally will recognize gain or loss in an amount equal to the difference between the amount of cash and the fair market value of any property received on the sale, exchange or retirement of the Bond (other than in respect of accrued and unpaid interest) and such owner's adjusted tax basis in the Bond. To the extent a Bond is held as a capital asset, such gain or loss will be capital gain or loss and will be long-term capital gain or loss if the Bond has been held for more than 12 months at the time of sale, exchange or retirement.

Reporting Requirements. In general, information reporting requirements will apply to certain payments of principal, interest and premium paid on the Bonds, and to the proceeds paid on the sale of the Bonds, other than certain exempt recipients (such as corporations and foreign entities). A backup withholding tax will apply to such payments if the owner fails to provide a taxpayer identification number or certification of foreign or other exempt status or fails to report in full dividend and interest income. The amount of any backup withholding from a payment to an owner will be allowed as a credit against the owner's federal income tax liability.

Collateral Federal Income Tax Consequences. Prospective purchasers of the Bonds should be aware that ownership of the Bonds may result in collateral federal income tax consequences to certain taxpayers, including, without limitation, financial institutions, property and casualty insurance companies, individual recipients of Social Security or Railroad Retirement benefits, certain S corporations with "excess net passive income," foreign corporations subject to the branch profits tax, life insurance companies, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry or have paid or incurred certain expenses allocable to the Bonds. Bond Counsel expresses no opinion regarding these tax consequences. Purchasers of Bonds should consult their tax advisors as to the applicability of these tax consequences and other federal income tax consequences of the purchase, ownership and disposition of the Bonds, including the possible application of state, local, foreign and other tax laws.

INDEPENDENT AUDITORS

The consolidated financial statements of Mercy Health as of June 30, 2017 and 2016 and for the years then ended, are included in **Appendix B** to this Official Statement, have been audited by Ernst & Young LLP, independent auditors, as stated in their report appearing therein.

CONTINUING DISCLOSURE

Pursuant to the terms of a Master Continuing Disclosure Agreement dated as of December 18, 2012 between Mercy and UMB Bank & Trust N.A., as Dissemination Agent, as amended by a First Amendment to Master Continuing Disclosure Agreement (the "**Master Continuing Disclosure Agreement**"), for the benefit of the owners and Beneficial Owners of the Bonds and in order to assist the Underwriters in complying with Rule 15c2-12 of the Securities and Exchange Commission (the "**Rule**"), Mercy has agreed to provide certain annual financial and operating information, certain quarterly financial information and notices of the occurrence of certain material events to the Municipal Securities Rulemaking Board (the "**MSRB**") through the MSRB's Electronic Municipal Market Access System ("**EMMA**") pursuant to the requirements of Section (b)(5) of the Rule. Mercy will execute a Continuing Disclosure Certificate (together with the Master Continuing Disclosure Agreement, the "**Continuing Disclosure Agreement**") concurrently with the issuance of the Bonds designating the Master Continuing Disclosure Agreement as Mercy's undertaking under the Rule. A summary of the Continuing Disclosure Agreement is included in this Official Statement in **APPENDIX E**. The Authority has undertaken no responsibility with respect to any reports, notices or disclosures provided or required under the Continuing Disclosure Agreement, and has no liability to any person, including any owner or Beneficial Owner of the Bonds, with respect to the Rule. See the "**SUMMARY OF CONTINUING DISCLOSURE AGREEMENT**" in **APPENDIX E**.

Compliance with Disclosure Obligations

Except as described below, for the last five years Mercy has timely filed all continuing disclosure reports required by the Continuing Disclosure Agreement and its prior agreements under the Rule. The exceptions noted below include instances where filings were not made on a timely basis or where filings were made as part of other disclosures filed on EMMA.

- For fiscal year 2013, Mercy filed its first quarter financial disclosure, which was due by December 29, 2012, as part of an official statement filed on December 5, 2012 rather than as an isolated filing; and filed its fourth quarter financial disclosure, which was due by October 28, 2013, late on December 17, 2013 as part of its audited financial statements rather than as an isolated filing.

- For fiscal year 2012, Mercy filed its first quarter financial disclosure, which was due by December 29, 2011, late on March 12, 2012; filed its third quarter financial disclosure, which was due by June 29, 2012, late on November 15, 2012; filed its fourth quarter financial disclosure, which was due by October 28, 2012, late on November 15, 2012 as part of its audited financial statements rather than as an isolated filing; and filed its annual operating information due by December 27, 2012 as part of an official statement filed on December 5, 2012 rather than as an isolated filing.

In some instances Mercy made timely filings of continuing disclosure reports, but the reports were not linked to all bond issues subject to continuing disclosure undertakings on EMMA.

Mercy makes no representation as to any potential materiality of these late filings. Mercy has reviewed and revised its continuing disclosure procedures to ensure timely compliance with its continuing disclosure obligations in the future.

RATINGS

S&P Global Ratings and Moody's Investors Service, Inc. have assigned to the Bonds ratings of "AA-" and "Aa3", respectively. Such ratings may be obtained from such organizations and reflect only the views of such organizations at the time the ratings were given. The Authority, the Underwriters and Mercy make no representation as to the appropriateness of such ratings. An explanation of the significance of such ratings also may be obtained only from the issuing organization. There is no assurance that the ratings currently assigned to the Bonds will continue for any given period of time or will not be revised downward or withdrawn entirely if, in the judgment of the rating agency, circumstances so warrant. A downward revision or withdrawal of such ratings may have an adverse effect on the market price of the Bonds.

UNDERWRITING

The Bonds are being purchased by J.P. Morgan Securities LLC, as a representative of itself and the underwriters listed on the cover page of this Official Statement (collectively, the "**Underwriters**"). The Underwriters have agreed to purchase the Bonds at an aggregate purchase price of $_________ (which takes into account an Underwriters' discount of $_________ and a net original issue premium of $_________). The Underwriters intend to offer the Bonds to the public initially at the offering prices set forth on the inside cover page hereof, which may subsequently change without any requirement of prior notice. The Underwriters may offer and sell the Bonds to certain dealers (including dealers depositing Bonds into investment trusts) and others at prices lower than the public offering prices stated on the inside cover page hereof. The contract of purchase provides that the Underwriters will purchase all of the Bonds, if any are purchased, and requires Mercy to indemnify the Underwriters and the Authority against losses, claims, damages and liabilities arising out of any statement or information contained in this Official Statement pertaining to the Operating Corporations that is incorrect in any material respect.

The Underwriters and their respective affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, principal investment, hedging, financing and brokerage services. Certain of the Underwriters and their respective affiliates have, from time to time, performed, and may in the future perform, various financial advisory and investment banking services for the Authority and Mercy, for which they received or will receive customary fees and expenses.

In the ordinary course of their various business activities, the Underwriters and their respective affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities, which may include credit default swaps) and financial instruments (including bank loans) for their own account and for the accounts of their customers and may at any time hold long and short positions in such securities and instruments. Such investment and securities activities may involve securities and instruments of the Authority.

The Underwriters and their respective affiliates may also communicate independent investment recommendations, market color or trading ideas and/or publish or express independent research views in respect of such assets, securities or instruments and may at any time hold, or recommend to clients that they should acquire, long and/or short positions in such assets, securities and instruments.

J.P. Morgan Securities LLC ("**JPMS**"), one of the Underwriters of the Bonds, has entered into negotiated dealer agreements (each, a "**Dealer Agreement**") with each of Charles Schwab & Co., Inc. ("**CS&Co.**") and LPL Financial LLC ("**LPL**") for the retail distribution of certain securities offerings at the original issue prices. Pursuant to each Dealer Agreement, each of CS&Co. and LPL may purchase Bonds from JPMS at the original issue price less a negotiated portion of the selling concession applicable to any Bonds that such firm sells.

FINANCIAL ADVISOR

Ponder & Co. has served as financial advisor to Mercy for purposes of assisting with the development and implementation of a bond structure in connection with the Bonds. Ponder & Co. is not obligated to undertake, and has not undertaken, an independent verification or to assume responsibility for the accuracy, completeness or fairness of the information contained in this Official Statement. Ponder & Co. is an independent advisory firm and is not engaged in the business of underwriting or distributing municipal securities or other public securities.

CERTAIN RELATIONSHIPS

The law firm of Thompson Coburn LLP, St. Louis, Missouri, serves as general counsel to the Authority and has represented the Authority in connection with the Bonds. Thompson Coburn LLP also represents certain of the Underwriters from time to time but has not done so in connection with the Bonds. Thompson Coburn LLP also represents Mercy and certain Restricted Affiliates in various matters not involving issuance of the Bonds.

MISCELLANEOUS

The references herein to the Act, the Master Indenture, the Bond Indenture and the Loan Agreement are brief outlines of certain provisions thereof and do not purport to be complete. For full and complete statements of the provisions thereof, reference is made to the Act, the Master Indenture, the Bond Indenture and the Loan Agreement. Copies of such documents are on file at the offices of J.P. Morgan Securities LLC and following delivery of the Bonds will be on file at the office of the Bond Trustee.

The agreement of the Authority with the owners of the Bonds is fully set forth in the Bond Indenture, and neither any advertisement of the Bonds nor this Official Statement is to be construed as constituting an agreement with the purchasers of the Bonds. Statements made in this Official Statement involving estimates, projections or matters of opinion, whether or not expressly so stated, are intended merely as such and not as representations of fact.

The cover page and the inside cover page hereof and the appendices hereto are integral parts of this Official Statement and must be read together with all of the foregoing statements.

All information contained in this Official Statement related to Mercy and the Restricted Affiliates has been provided and approved by Mercy for use with this Official Statement.

The execution and delivery of this Official Statement has been duly authorized by Mercy, and its use has been approved by the Authority.

MERCY HEALTH

By: ____
Shannon Sock, Executive Vice President, Strategy and Chief Financial Officer

APPENDIX A

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Overview & History

Mercy Health ("Mercy") is the fifth largest Catholic healthcare system in the U.S. with hospitals, physician clinics, telehealth services, outpatient facilities, outreach ministries and other health and human services primarily in Missouri, Oklahoma, Arkansas and Kansas. The contiguous coverage of the Mercy footprint creates a super-regional presence extending from St. Louis, Missouri southwest to the southern border of Oklahoma. Mercy's integrated physician organization, Mercy Clinic, with over 2,000 physicians, is ranked by Specialized Knowledge & Applications (SK&A) as the fourth largest clinic in the U.S. Mercy Virtual is recognized as a leader in virtual care health technology and innovation as evidenced by the fact that in 2016, it became the first standalone comprehensive Joint Commission accredited provider of clinical care in the virtual setting.

Mercy's worldview and ethos are rooted in Christian and Catholic beliefs that began in 1827 when Catherine McAuley, founder of the Sisters of Mercy religious order, opened the House of Mercy in Dublin, Ireland. Its mission today is enduring and not negotiable, and states: "As the Sisters of Mercy before us, we bring to life the healing ministry of Jesus through our compassionate care and exceptional service." Mercy's values and charism are how we live out our mission in a Mercy way; they are our personality and define who we are, why we exist, and how we work:

- Values: Dignity, Justice, Service, Excellence & Stewardship
- Charism: Bias for Action, Entrepreneurialism, Hospitality, Right Relationship, Fullness of Life

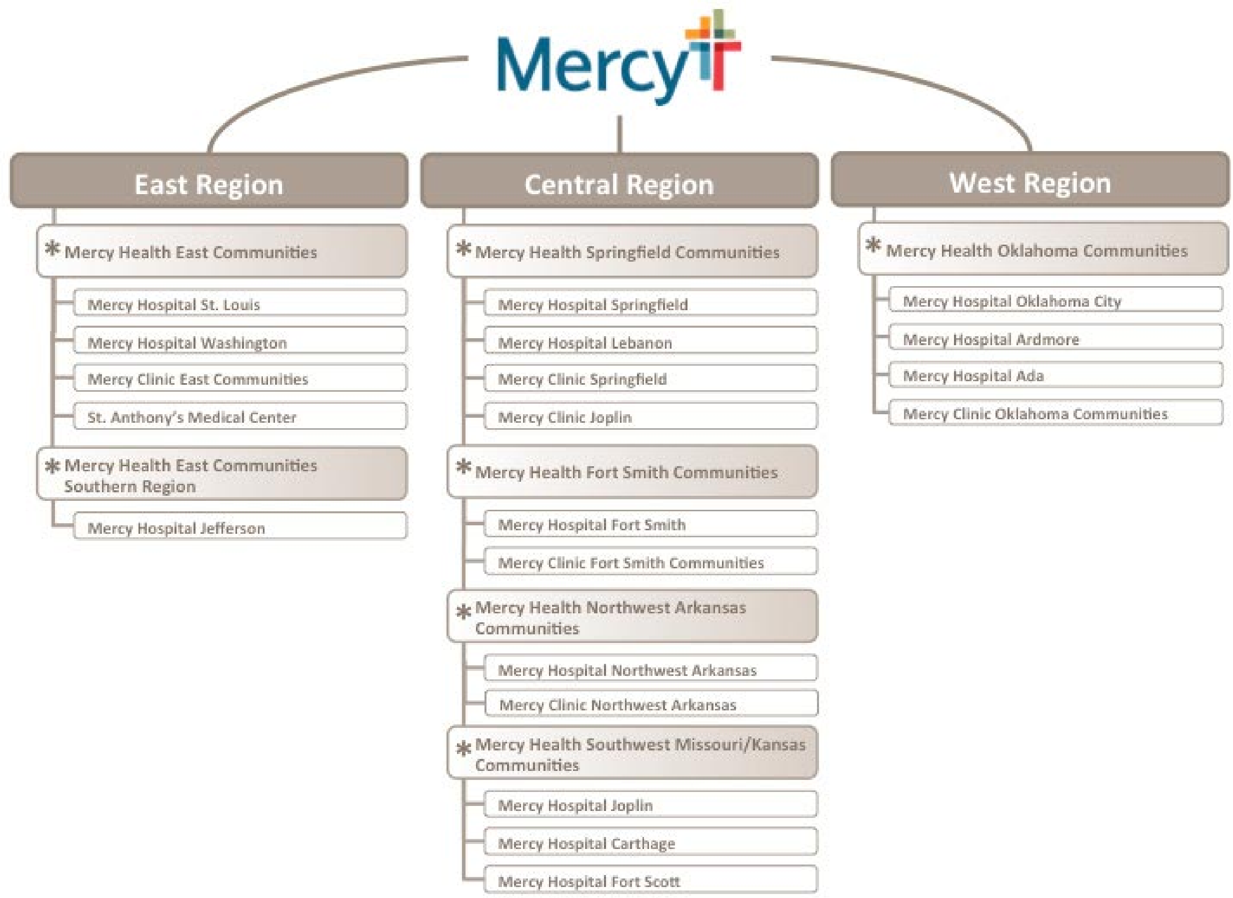
Mercy's vision is as follows, "We are the people of Mercy Health Ministry. Together, we are pioneering a new model of care. We will relentlessly pursue our goals to get health care right. Everywhere and every way that Mercy serves, we will deliver a transformative health experience."

Mercy traces its roots to 1871, when the Sisters of Mercy established a 25-bed infirmary for women and children in St. Louis, Missouri. Over the years, the health ministry has expanded to include over 140 communities and seven states (Missouri, Arkansas, Kansas, Louisiana, Mississippi, Oklahoma and Texas), all of which joined together in 1986 under one legal entity.

Services to the Community

In support of its mission, Mercy sponsors and administers community outreach programs to help meet the needs of the poor, sick, and uneducated. These community benefit programs include various clinics and outreach programs, medical education and research activities, and direct cash and in-kind charitable contributions. These programs are conducted by Mercy, Mercy Ministries of Laredo, Mercy Caritas, Catherine's Fund, Mercy Family Center, Mississippi Health Advocacy Program and Cooper-Anthony Mercy Child Advocacy Center. In fiscal years 2016 and 2017, Mercy provided $393.7 million and $381.0 million in community benefits, respectively, in the communities it served. These amounts include charity care as well as a portion of services reimbursed at amounts less than cost under government programs such as Medicare and Medicaid.

Mercy is organized around the communities it serves. Listed below are the seven Restricted Affiliates (denoted by *) in each of the regions, along with the primary hospital operations and clinic operations.



An overview and other pertinent information for each of Mercy's communities are included under the caption "**OVERVIEW OF COMMUNITIES**."

An Overview of Mercy

Services & Locations

Headquartered in St. Louis, Mercy is one of the largest Catholic health systems in the US, serving millions each year over a multi-state footprint through touchpoints including outreach ministries and virtual care.

Hospitals & Ambulatory Sites

As of June 2017

30 acute care hospitals
4 managed/affiliated hospitals
4 heart hospitals
3 rehab hospitals
2 children's hospitals
2 orthopedic hospitals
1 virtual care center
764 physician practices
332 clinic locations
9 outpatient surgery centers
21 urgent care sites
21 convenient care centers

Medical Staff & Co-workers

43,000 co-workers including:
2,062 integrated physicians
1,100 integrated advanced practitioners

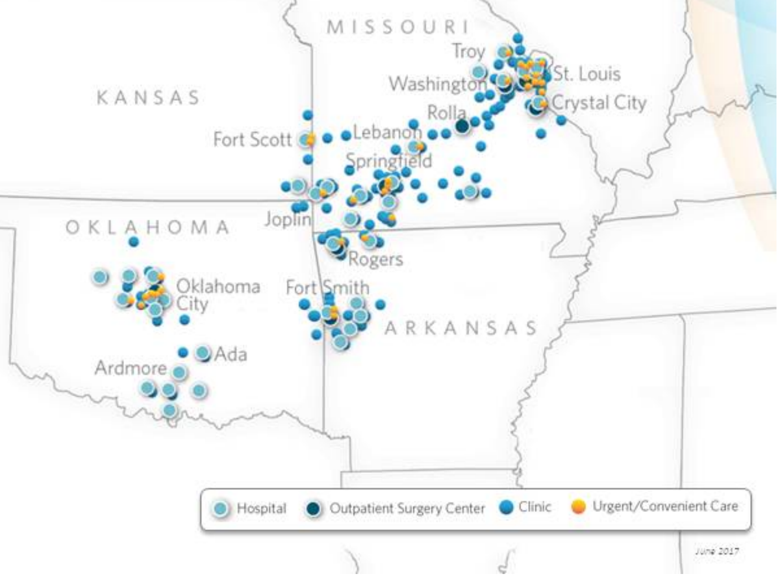
Utilization FY17

3,079 staffed beds
23,986 births
169,375 surgeries
166,701 inpatient discharges
9,591,089 outpatient/office visits
675,225 ED visits

Financial Information FY17

$5.5 billion total operating revenue
$7.1 billion total assets
$381 million community benefit/charity care

Mercy



Performance

Over the past three fiscal years, Mercy has achieved strong results despite industry pressures on operational and financial measures. During the three year period ended June 30, 2017, Mercy's operating margin increased from (0.9%) to 3.0% and EBITDA increased from $353.9 million to $497.1 million. Over the same three year period, days cash on hand ("DCOH") increased from 153.5 to 170.9. Mercy's operating results for fiscal year 2017 include the operating results of St. Anthony's Medical Center ("SAMC") from June 1, 2017, the date of acquisition. Excluding SAMC, Mercy's operating margin and DCOH were 3.1% and 187.4 days, respectively, as of June 30, 2017.

Since 2014, Mercy's quality and safety, as measured by Centers for Medicare & Medicaid Services ("CMS") Star ratings, has continued to improve. The majority of Mercy's hospitals are rated 3 stars and above. Of the thirteen eligible hospitals scored by CMS, five have 4-star ratings. In addition, for each of the past two years Mercy has been named by Truven as one of the Top 5 Large Health Systems in the U.S. A key component to the Truven recognition is the measurement of quality and safety metrics across all Mercy hospitals and the consistency in strength of the defined metrics they measure across the entire portfolio.

Five Dimensions of Excellence

Mercy believes its recent performance results from its ongoing commitment to excellence. Mercy has identified Five Dimensions of Excellence as its primary focus with the objective to rank in the top quartile or decile in each:

- ***Clinical Excellence***: Demonstrate national leadership for quality and safety by making evidence-based decisions through a highly-integrated, patient/community centered system of care.
- ***Service Excellence:*** Deliver a best-in-class patient and customer experience.
- ***Cultural Excellence:*** Sustain the Mercy culture grounded in its mission, values and charism that enriches the experience of its co-workers and physicians and is reflected in the exceptional service they provide to Mercy's patients.
- ***Community Excellence:*** Demonstrate commitment to its communities through focused efforts to meet local needs for health care services.
- ***Stewardship Excellence:*** Ensure its long-term viability by achieving specific financial goals.

Key Drivers of Performance

Mercy's recent performance has also been driven by five key initiatives:

Revenue Cycle and Working Capital

Management's focus and execution on revenue cycle and working capital initiatives has led to a 47% improvement in the cash conversion cycle from fiscal year 2014 to 2017. During this period, Mercy's cash conversion cycle was reduced from 66.6 days to 35.3 days (excluding the recent June 1, 2017 acquisition of SAMC). Mercy's revenue cycle performance metrics are in the top quartile and approaching top decile as defined by the Healthcare Financial Management Association. Hospital and ambulatory operations have seen improvement in revenue rate as a result, which has contributed to the improved operating cash flow performance over the same time period. In addition to revenue cycle performance, inventory and payables management have contributed to strengthening the balance sheet with improved liquidity and leverage metrics.

Operating Expense Improvement and Cost Structure Leverage

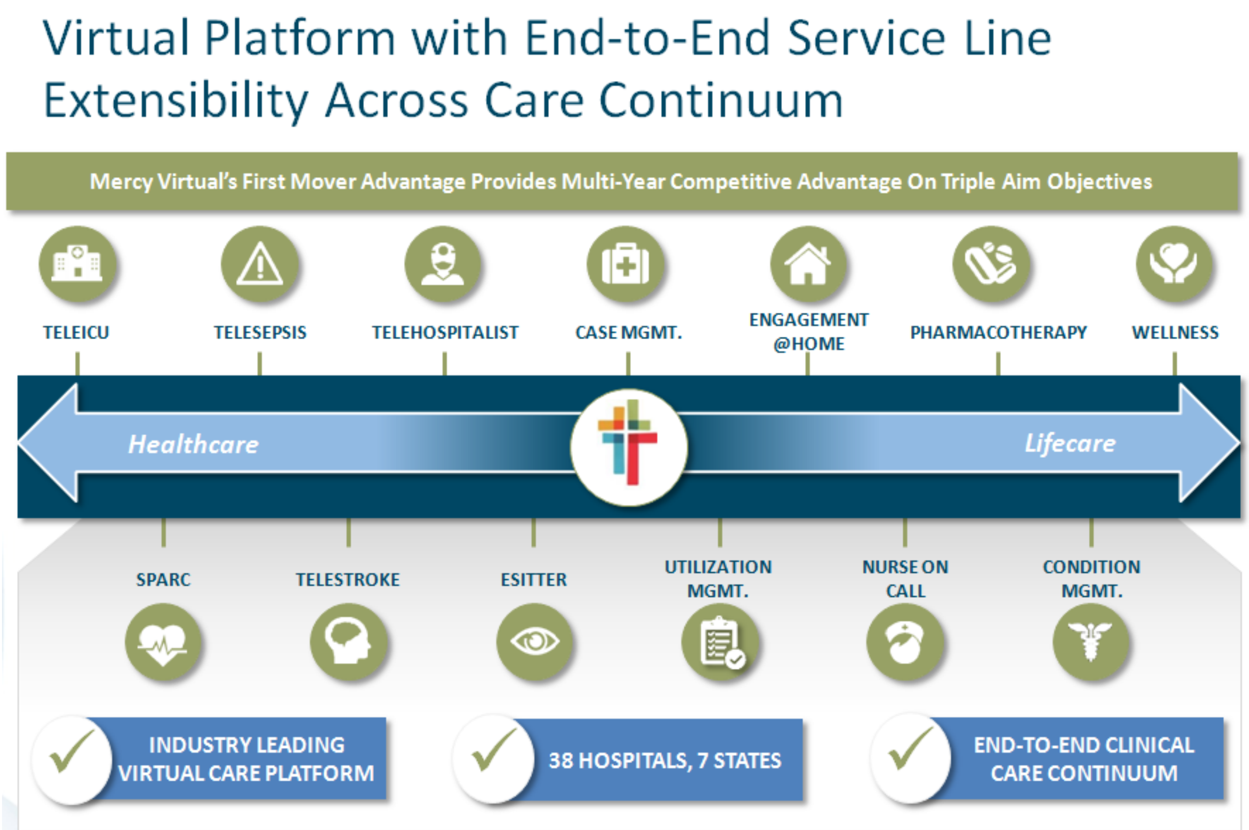
One of the key drivers of EBITDA and margin improvement for Mercy is the management of its cost structure accomplished by leveraging the scale of the organization, while still investing in key areas. Consistent and sustained management of span of control ratios, a net reduction in support service functions and a multi-year initiative to reduce operational costs across the board have led to a reduction in salaries and benefits as a percentage of revenue from 57.8% in 2015 to 55.8% in 2017.

A Focused, Quality Approach

Mercy has made an intentional and thoughtful investment in delivering high quality care in each community it serves. For example, starting in 2013, Mercy developed specialty councils that pulled together physicians from each community and medical and administrative leaders across the health system to focus on delivering quality health care at a lower cost. Today there are 44 specialty councils with 569 physicians and administrators participating on a regular basis, each working to achieve near and long term objectives centered on providing quality care at a lower cost. Mercy's development and commitment to initiatives such as specialty councils has resulted in improved financial performance and recognition for its quality, safety and patient experience by CMS and Truven. Mercy's recognition as one of the top five Large Health Systems in the nation by Truven is a result of it being ranked in the top quartile in five of nine quality and safety metrics and with three of those metrics in the top decile. Other large health systems recognized by Truven include: Mayo Clinic (Rochester, MN), St. Luke's Health System (Boise, ID), Spectrum Health (Grand Rapids, MI) and Scripps Health (San Diego, CA).

Broader and Deeper Adoption of Virtual Care Infrastructure

As health systems, insurers, and ASO employers transition from fee for service to fee for value arrangements, the adoption of Mercy Virtual's platform and infrastructure continues to deepen both within Mercy as well as with third party providers. Mercy Virtual services do not replace care; they augment clinical and operational teams to drive improved performance to efficiently manage population health and mitigate medical expenditures. As of June 30, 2017, Mercy Virtual had 582 licensed beds in its Tele ICU service line with an average daily census of 388, and more than 500 enrollees in its Engagement at Home service line. Mercy Virtual is the first standalone comprehensive Joint Commission accredited provider of clinical care in the virtual setting with five service lines fully operational. Currently, five health systems (including Mercy) purchase virtual care support services from Mercy Virtual.



Brand Driven Growth

As more employers, physicians and communities continue to choose Mercy as their provider of choice, it is further proof of the value of the integrated care model which Mercy implemented as a part of Care Model 2015 and expects to continue to enhance with Strategy 2020. Employers such as Boeing and Wal-Mart have made deliberate decisions to partner with Mercy to care for their employees and their families via ACO and direct contracting relationships. Mercy expects these relationships to continue to grow and expand annually. Payors are recognizing the quality and value of the Mercy network by virtue of its lower cost of services per beneficiary and are seeking partnership arrangements to better serve the populations they insure. In addition, hospitals in communities such as Lincoln County, Missouri and South St. Louis County have affiliated with Mercy to be the new provider of care to those they have previously served for generations.

Disciplined Growth

Mercy believes that its financial performance will be augmented by disciplined and strategic acquisitions that will further solidify its positions in each market. In June 2017, Mercy Health East Communities became the sole member of St. Anthony's Medical Center ("SAMC"). As a result, Mercy assumed all hospital and clinic operations including $183.6 million of debt and $35.5 million of cash. Mercy's fiscal year 2017 audited financials reflect an additional non-operating gain of $120.2 million for the inherent contribution of acquired entities above the actual acquisition value.

SAMC is Mercy's third largest hospital, serving an inpatient population of almost 900,000 in South St. Louis County, Missouri. Prior to the acquisition, Mercy provided outpatient services to this population, and it believes that its existing network of 64 providers in the area will help grow both SAMC's inpatient and outpatient revenues in the future. SAMC is expected to add approximately $500 million in revenues to the Mercy Health East Communities in fiscal year 2018. Mercy believes with the addition of SAMC, it is now the leading provider of outpatient services and the third leading provider of inpatient services in the St. Louis metropolitan area, based on June 30, 2017 data from the Hospital Industry Data Institute. According to the St. Louis Business Journal's Book of Lists, Mercy is the leading provider of ambulatory/clinic services in the St. Louis metropolitan area. Mercy's average monthly clinic visits of 191,400 is twice the next closest competitor in the St. Louis market.

Mercy's Executive Vice President and Chief Operating Officer, Mike McCurry, has assumed the role of President of SAMC and will be leading the transition and integration of SAMC. Through the first five months of integration Mercy has been able to assess and validate the opportunities which exist. Cultural alignment between Mercy and the existing SAMC co-workers and leaders is enabling progress to be made on and or ahead of schedule in many key integration areas. The technology and infrastructure timeline and roadmap has been defined, physician integration is progressing on schedule and early progress has been made with payors as SAMC has been able to gain network access to products they were previously locked out of such as Medicaid Managed plans. As part of the integration of SAMC into the health system, Mercy intends to implement many of the initiatives described above and believes that its discipline and experience in integrating and operating hospitals will lead to future financial and operational improvements at SAMC.

Mercy continuously evaluates opportunities for strategic growth and alignment. These opportunities include potential joint ventures as well as acquisitions of medical practices, hospitals and health systems. Mercy is routinely in discussions regarding these opportunities. Specific negotiations which are public are mentioned in other sections of this Appendix A.

Strategic Planning: From Care Model 2015 to Strategy 2020

From 2010 to 2015 Mercy pursued its Care Model 2015 strategy, which laid the foundation and infrastructure for the current Strategy 2020. Care Model 2015's six objectives (all of which were achieved) were:

- Integrate and align physicians and advanced practitioners creating Mercy Clinic, the fourth largest integrated physicians clinic in the country with approximately 2,062 physicians and 1,100 integrated advanced practitioners as of June 30, 2017.
- Leverage technology, including system-wide implementation of the EPIC electronic health record system, development of the MyMercy patient portal, construction of a new Central Data Center, and creation of the ROi supply chain and Mercy Virtual health care organizations.
- Broaden access and improve continuity of services with the creation of a strategic ambulatory footprint in all markets with integrated physician leadership.

- Build lifelong consumer relationships whereby patients and communities choose Mercy for its quality and reputation as evidenced by market share growth.
- Influence the transformation of health care financing by engaging in pay-for-performance contracting, shared savings relationships, ACO activity, and direct employer contracting.
- Develop the virtual care infrastructure that is now Mercy Virtual.

In 2016, Mercy embarked on the next phase of strategy execution with Strategy 2020, building on the accomplishments of Care Model 2015. Mercy believes that Strategy 2020 will enable Mercy to become a consumer-centric organization that remains strong and enables it to meet the changing needs of its communities. The objectives of Strategy 2020 are to:

- Implement a consumer-centric operating model to complement its patient centric care model.
- Implement a singular system of care that creates a seamless experience between ambulatory, acute and virtual care.
- Achieve extraordinary engagement of all 43,000 co-workers and physicians.
- Achieve sustainable advantages in quality, service and cost.
- Be intentional and focused about acquiring new patients, while exceeding the expectations of those Mercy already serves.

Mercy believes its long-term success as a health ministry with a strong Catholic-Christian identity will be tied to differentiated performance and a full realization of its brand. Mercy expects the achievement of Strategy 2020 objectives will be driven by success in these three areas:

Performance: Sustainable Value Differentiation

Ranked by SK&A as the 4th largest integrated clinic in the U.S, Mercy's physician clinic operations are mature, stable and focused on maximizing the value of an integrated multi-specialty clinic. The focus of clinic and physician leadership is to maintain the culture of engagement and drive quality outcomes through the further advancement of Mercy's specialty councils. Mercy believes that extraordinary engagement of all physicians and co-workers across all settings and care, hospital, ambulatory and post-acute, will drive the organization forward as it works toward achieving sustainable advantages in quality, service and cost.

Brand Driven Growth: People, Analytics, Consumer Centric Operating Model, Contracting

Mercy intends to leverage the infrastructure implemented as a part of Care Model 2015 to deliver value for patients, employers and other providers of healthcare. For patients, Mercy is building new consumer centric capabilities that it believes will make it easier for new patients to choose Mercy and for existing patients to stay with Mercy. These capabilities include: making it easier for patients to schedule appointments, offering options for after-hours care, simplifying billing and focusing on meeting the expectations for convenience. Mercy is also working to partner with a national brand to improve access via urgent care locations. Mercy expects direct to employer contracting relationships to continue to grow as a result of its early success in demonstrating both improved quality and service at a lower price point to the employer as well as their co-workers and their families. At the end of fiscal year 2017, the direct to employer strategy included 71,000 covered lives and continues to grow each year. Established partnerships with peer health systems through Mercy Virtual as well as commercial payers are providing new avenues for both top line revenue growth as well as opening up opportunities to service more patients and grow.

Community Position: Network Development and Capital Allocation

Mercy has continued to grow and strengthen its position in each of the communities it serves over the past three years.

St. Louis Community

As discussed above, the acquisition of SAMC strengthens Mercy's position in the St. Louis Metropolitan Area. In addition, Mercy Hospital St. Louis has been recognized as a top 100 hospital by Truven and a Leap Frog "A" hospital for patient safety since 2013. Mercy's near term focus is on the successful integration of the co-workers and physicians of SAMC and opening up the growth opportunities that now exist in South St. Louis County as a result of SAMC joining Mercy.

Springfield Community
Mercy's position in Springfield, a primarily two hospital provider service area, has remained stable over time; however Mercy believes that recent changes in the commercial payor environment will provide Mercy with an opportunity to grow its market share. As of January 1, 2017, Mercy gained access to 40,000 new United Healthcare covered lives and as of January 1, 2018, Mercy will have access to an additional 70,000 covered lives through Anthem. These two market changes will allow 110,000 new patients that previously were unable to choose Mercy as their health care provider the opportunity to now do so. Mercy continues to invest in both its ambulatory footprint and key service lines. Current plans are underway for ambulatory expansion in Bolivar, Missouri and construction is underway on a $110 million dollar Heart and Vascular Center of Excellence on the main campus of its Springfield Hospital. Mercy's program offers progressive cardiovascular therapies and services including advanced ECMO care, and ventricular assisted device (VAD) placement. Mercy Springfield is also one of the leading transcatheter aortic valve replacement (TAVR) sites in the country.

Southwest Missouri Community
Since opening a new replacement hospital in Joplin, Missouri in March of 2015, Mercy's position in the Joplin service area has improved and strengthened. From June 30, 2015 through June 30, 2017, Mercy Joplin has generated $38 million of operating cash flow improvement and finished fiscal 2017 cash flow positive. Mercy expects the Joplin community to be breakeven on a net operating income basis in 2019. The commercial payor market in Joplin is also improving, and as of January 1, 2017, Mercy gained access to an additional 10,000 covered lives through United Healthcare. Additionally, Mercy expects that as of January 1, 2018 an additional 40,000 patients, through Anthem, will be able to choose Mercy Hospital Joplin and its clinic as their provider of choice for the first time.

Oklahoma Community
Mercy has continued to solidify its position in north Oklahoma City and is growing into the southern portion of the city. The Oklahoma City metropolitan area is forecasted to grow by seven percent, or 94,000 individuals, over the next five years. In June 2016, Mercy Hospital Oklahoma opened the Colletta Cancer Center on its main campus to meet the current and forecasted market demands for cancer care services. In the summer of 2017, the Mercy Clinic added twelve integrated primary care physicians in Norman, Oklahoma, which it expects will help solidify its position in that southern portion of Oklahoma City. Additional clinic and ambulatory expansion is underway in the communities of Moore and Edmond.

Northwest Arkansas Community
Mercy's footprint and scale continues to grow in Northwest Arkansas where it has experienced a 37% increase in top line revenue over the last 3 years and strong financial performance trends. Today the existing hospital facility is regularly at capacity. To meet the growing population and market demand, Mercy is investing in a new patient tower on the main campus and expanded ambulatory footprint, in Springdale. The Northwest Arkansas service area is expected to grow another eight percent over the next five years with the addition of an estimated 46,000 individuals. Mercy believes that with its ambulatory footprint and provider base it has the ability to capture a large portion of population growth over the next 5 years.

Fort Smith Community
The stabilization and strengthening of Mercy Clinic in Fort Smith has enabled significant growth and financial improvement from 2014 to 2017. Mercy's EBITDA grew $27 million over the same period. Current discussions are underway to integrate the last remaining significant primary care and specialty group in the market, Cooper Clinic. The planned integration of 50 plus primary care and specialists will further solidify Mercy's position in the market in both the hospital and ambulatory setting, further strengthen the clinic and support forward looking sustainable growth opportunities.

Thought Leadership

As the landscape of healthcare continues to change, Mercy expects policy reform will have a significant impact on the future of providers, payors and patients. Mercy believes it is well positioned to influence or to gain insights about the future landscape of health care with several executives serving in leadership roles at both the state and national level, including the following:

Dr. David Barbe
Mercy Clinic Family Medicine
President, American Medical Association

Donn Sorensen
Executive Vice President–Operations
Chair, American Medical Group Association

David Whitaker
Chief Administrative Officer, Mercy Oklahoma
Chair Elect, Oklahoma Hospital Association

Jeff Johnston
Regional President, East Communities
Chair Elect, Missouri Hospital Association

Jon Swope
President, Mercy Central Communities
Missouri Hospital Association – Board of Trustees

Awards and Recognition

Mercy's position as a leader in the health care industry is evidenced by the awards and recognition it receives. Significant recent examples include the following:

- Mercy was named one of the top five large healthcare systems in the nation in 2017 by Truven Health Analytics®/IBM Watson Health, the second year in a row it received this honor.

- Mercy won the 2016 Healthcare Information and Management Systems Society Enterprise Davies Award for achieving improvements in patient care and cost savings through the use of health information technology.

- In 2017, Mercy was named one of the nation's most innovative health care organizations by *Healthcare Informatics* magazine, achieving a second place Healthcare Informatics Innovator Award.

- Mercy was named a Most Wired health system by the American Hospital Association Health Forum in 2017 for the 13th time in 18 years, and placed in the "Advanced" category for exceeding core criteria along with only 19 other companies for the second time in three years.

- Mercy was awarded the EPIC Gold Stars achievement for its use of EPIC electronic health records, becoming one of only three other EPIC health system clients in the U.S. to achieve this honor. Mercy also earned EPIC's accreditation to extend EHR services to other hospitals and clinics for a second year. Mercy is EPIC's only client to achieve both accreditation and this exceptional Gold Stars level.

- Mercy and Resource Optimization & Innovation (ROi), our supply chain organization, were ranked by Gartner as a Top 10 global supply chain in health care, securing the No. 4 spot. Mercy is the only provider to be in the Top 10 for eight consecutive years.

- *Prevention Magazine* named Mercy Virtual second among the "20 Best Medical Breakthroughs of 2016" in its December 2016 issue.

- Mercy's rehabilitation hospitals in St. Louis, Springfield, and Oklahoma City all ranked in the top 10 percent for quality, according to a Report Card from inpatient rehabilitation facilities Uniform Data System for Medical Rehabilitation in 2016.

- Mercy Hospital Springfield achieved Healthgrades' Excellence Award for Neurosciences in 2016 and 2017, as well as the Spine Surgery Excellence Award in 2015, 2016 and 2017.

- For the second consecutive year and fifth time overall, in 2017, Mercy Hospital St. Louis was named one of the nation's 100 Top Hospitals® by Truven Health Analytics®/IBM Watson Health.

- Mercy Hospital St. Louis and Mercy Hospital Washington are both CMS 4-star hospitals and have been since inception of the program. There are less than 100 hospitals in the U.S. with this prestigious designation and Mercy Hospital St. Louis is one of the few acute care facilities (versus single specialty hospitals) in this category.

Mercy Quick Facts

As of June 30, 2017
Dollars in thousands

Community	Primary Care Physicians	Specialist/ Hospitalist Physicians	Total Integrated Physicians	Fiscal 2017 Operating Revenues
Mercy Health Springfield Communities	181	365	546	$1,575,146
Mercy Health East Communities (A)	371	472	843	1,950,131
Mercy Health Oklahoma Communities	111	164	275	933,499
Mercy Health SW MO/KS Communities	39	79	118	340,440
Mercy Health Fort Smith Communities	49	85	134	378,819
Mercy Health NW Arkansas Communities	65	71	136	344,610
Mercy Virtual	1	9	10	54,630
Sub Total	817	1,245	2,062	$5,577,275
Other *				(49,445)
Grand Total	817	1,245	2,062	$5,527,830

(A) Includes $38,563 of operating revenue related to SAMC.

*** Other includes the ministry office (headquarters), Mercy Ministries of Laredo, Mercy Research, Mercy Family Center, and the eliminations of intercompany revenues of $801,837.**

Historical Utilization and Operational Statistics

The following table sets forth historical utilization and statistical data of Mercy and Restricted Affiliates only, for the fiscal years ended June 30, 2017, 2016, and 2015.

	2017	2016	2015
Staffed beds – acute(A)	2,559	3,458	3,518
Discharges – total	166,701	165,334	165,343
Discharges – acute	152,430	150,878	150,470
Patient days – acute	669,632	660,559	644,914
Length of stay (days) – acute	4.4	4.4	4.3
Provider visits	6,214,498	5,965,446	5,727,014
Outpatient visits	3,376,591	3,192,921	2,923,103
Emergency room visits	675,225	664,551	659,391
Surgeries	169,375	171,183	163,883

(A) In 2017, Mercy transitioned the bed statistic from available to staffed. 2017 reflects staffed acute beds, while 2016 and 2015 reflect available acute beds.

Sources of Gross Patient Service Revenue

The table below presents gross patient service revenue for Mercy for fiscal years ended June 30, 2017, 2016, and 2015.

Sources of Gross Patient Service Revenue

	Fiscal Years Ended June 30,		
	2017	**2016**	**2015**
Medicare	46.5%	45.6%	45.2%
Medicaid	11.9%	12.0%	11.8%
Managed Care	37.0%	37.4%	38.3%
Private/Others	4.6%	5.0%	4.7%
	100.0%	100.0%	100.0%

Governance Structure

Mercy Health is the parent corporation of the health system for civil law purposes and in that capacity is the sole member of the Restricted Affiliates and directly or indirectly controls the members of the health system. Under the Articles and Bylaws of Mercy, the Board of Directors is composed of between five and 16 persons divided into two classes – Class A Directors and Class B Directors. The Class A and Class B Directors are appointed for staggered terms and vacancies of the Class A and B Directors are filled annually by appointment by the Class A Directors consistent with the competencies set forth in Mercy's Bylaws. The four Class A Directors are and must each be a religious Sister of Mercy so long as there are Sisters qualified and willing to serve.

As a Catholic health care organization, Mercy is sponsored and controlled by Mercy Health Ministry ("MHM"), a public juridic person under the Code of Canon Law of the Catholic Church. MHM is an entity under Canon Law and is not incorporated under the civil laws of any state. MHM exercises reserved powers with respect to Mercy through the Class A Directors by requiring the consent of the Class A Directors for any change in Mercy's philosophy and mission, any change in the purposes of the ministry, the appointment and removal of Directors, any lease, sale or encumbrance or other disposition of property in excess of a certain established amount and any amendments to the governing documents of each entity wherein a power reserved to the Class A Directors would be modified or deleted. Annually, MHM reports to the Catholic Church demonstrating how it is upholding the requirements necessary to preserve its status as an official body of the Church.

Board Committees

The following discussion identifies certain committees of the Mercy Board and their roles.

Executive Committee – The Executive Committee acts on behalf of the Board, exercising its authority over the management of the affairs of Mercy, including all authority necessary or appropriate to enter into any transactions, projects or activities previously approved by the Board and to carry out the ordinary, ongoing operations of Mercy.

Governance Committee – The Governance Committee assists the Board with its duties and responsibilities for the establishment and oversight of effective ministry governance consistent with the purposes of Mercy and its mission, vision and values. These duties include Board member nominating and re-nominating process and procedures, Board member formation, education and development, Board and Committee meeting effectiveness, Board Member and Board leader evaluations, Board succession planning, oversight of Mercy's overall formation programs, and oversight and review of Mercy compliance programs.

Compensation Committee – The Compensation Committee is authorized to act on the Board's behalf in determining and evaluating the appropriate compensation and benefit plans for executives and other disqualified persons.

Stewardship (Finance) Committee – The Stewardship Committee develops and recommends to the Board the long-range financial plan for Mercy. The Committee reviews and recommends to the Board the guidelines for and approval of the operating and capital budgets and also monitors the financial condition and performance of Mercy, including all treasury functions. The Committee also oversees audit, both external and internal.

Quality Committee – The Quality Committee provides oversight for quality and safety across all Mercy venues of care. The Committee discusses key topics and makes recommendations related to areas that impact Mercy's ability to achieve exceptional clinical and personal service.

Co-worker and Service Committee – The Co-worker and Service Committee assists the Board in providing oversight related to human resource matters impacting co-workers across all Mercy venues of care. The Committee reviews key topics and makes recommendations to the Board and Mercy leadership related to areas that affect Mercy's ability to achieve exceptional service.

Benefits Committee – The Benefits Committee maintains and monitors employee benefit programs, retirement plans and deferred compensation plans that are considered to be ERISA-exempt church plans sponsored by Mercy, which conform to the tenets of the Roman Catholic Church and are consistent with sound business principles.

Information Systems Security Committee - The Information Systems Security Committee provides oversight of, and counsel on, matters relating to information technology and systems, cybersecurity, and eCommerce. In discharging its role, the Committee is empowered to inquire into any matter it considers appropriate to carry out its responsibilities, with technological oversight, formulating and executing policies, and effective security monitoring of books, records, facilities and personnel of Mercy.

<u>Investment Committee</u> - The Investment Committee is charged with developing and overseeing the investment program for Mercy's investment portfolios, including short-term operating reserves, long-term operating reserves, foundation assets, and pension plan assets. The Committee works with Mercy's internal investment management team to develop and monitor investment strategies and performance with sound business principles to further the mission and purpose of the ministry consistent with Mercy's values and charism.

<u>Community Committee</u> – The Community Committee assists the Board with its duties and responsibilities in overseeing Mercy's multiple dimensions focusing on community service. These duties include oversight of charity care, community health strategies, community needs assessments, prioritizations and action plans, community collaborations and leadership involvement in the community.

Board of Directors

The following table identifies the members of the Board of Directors of Mercy as of June 30, 2017:

	Term Expires		**Term Expires**
David Pratt (Chairperson) President Rex Realty Co St. Louis, Missouri	2020	**Rollin Ford** Retired Executive Miromar Lakes, FL	2020
Cheryl Alston Executive Director and CIO Employees' Retirement Fund City of Dallas Dallas, TX	2020	**Reginald R. Mebane** Chief Regulatory Employment Officer Director, Senior Executive Service (SES) U.S. Dept of Health & Human Services (HHS) Centers for Disease Control and Prevention Atlanta, Georgia	2019
Sister Helen Amos, RSM Executive Chair, Board of Trustees Mercy Health Services Baltimore, Maryland	2019	**Timothy I. Morgenthaler, M.D.** Patient Safety Officer Mayo Clinic Rochester, Minnesota	2018
Lynn Britton President/CEO Mercy St. Louis, Missouri	Ex Officio	**Cheryl P. Morley** Retired Executive Kiawah Island, South Carolina	2020
Richard (Dick) Clarke Retired Executive Fort Lauderdale, FL	2021	**Ronald A. Paulus, M.D., MBA** President/CEO Mission Health System Asheville, North Carolina	2018
Sister Mary Ann Dillon, RSM, Ph.D. Sr. VP, Mission and Sponsorship Mercy Health System Conshohocken, Pennsylvania	2021	**Sister Mary Roch Rocklage, RSM** Health Ministry Liaison Mercy St. Louis, Missouri	2020
Sister Mary Chabanel Finnegan, RSM Catherine's Manor Fort Smith, Arkansas	2019	**Sister Rose Weidenbenner, RSM** Sisters of Mercy Alamo, Texas	2020

Organizational Structure

Mercy Health provides centralized functions and services to the members of the health system. These functions and services include:

- Finance (including treasury services, financial accounting and reporting, revenue management, internal audit, accounts payable operations and payroll operations, analytics, and decision support)
- Environmental Services Support
- Clinical Integration
- Care Management
- Clinical Performance Acceleration
- Clinical Engineering Services
- Clinical Quality Management
- Compliance
- Grants and Research Services
- Legal and Compliance Counsel
- Marketing and Communications
- Planning, Design and Construction
- Product Development Informatics
- Real Estate
- Supply Chain Management
- Managed Care Strategy Support
- Human Resources (including compensation, benefits and recruiting)
- Mission Services and Ethics
- Philanthropy Support
- Information Technology
- Community Relations

Mercy is organized along three geographical regions: East, Central and West. Each region is organized under a Regional President responsible for coordinating hospital and physician efforts. The Regional Presidents report to Mercy's Executive Vice President–Operations. In addition to the Regional President, each region has a management team, which consists of representatives from each of the region's hospitals and clinics.

Local governing boards have been established for each of the regions. Each local governing board must operate in compliance with policies and guidelines established by Mercy. The local boards are subject to the decisions and actions of the Mercy Board.

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Senior Leadership

The following are brief biographical descriptions of the principal members of the leadership of Mercy as of June 30, 2017.

James (Lynn) Britton – President/Chief Executive Officer (Age 57)

Mr. Britton has served as President and CEO of Mercy since January 2009, after serving as Senior Vice President since 2004. Mr. Britton has been with Mercy for over twenty years, serving as President for Mercy's supply chain entity, Resource Optimization & Innovation (ROi) from 2000 to 2004. Prior to that, he served as Executive Director of Materials and Resource Management for Mercy Health East Communities in St. Louis and Director of Materials Management at Mercy Hospital Oklahoma City. Mr. Britton holds a master's degree in business from Oklahoma City University and a bachelor's degree in accounting from Abilene Christian University.

Michael McCurry – Executive Vice President/Chief Operating Officer (Age 59)

Mr. McCurry has served Mercy since 1988. Since March 2009, he has been Executive Vice President and Chief Operating Officer. He concurrently served as President of Mercy Hospital St. Louis from 2010 to 2011 and also as Regional President of Mercy's East Communities from 2010 to March 2012. Prior to that, he served as Vice President/Chief Information Officer and as President of Mercy's supply chain operating division, ROi, from 2004 through 2006. Mr. McCurry began his career with Mercy in Springfield, Missouri, and served in various operational roles for twelve years. Mr. McCurry holds a bachelor's degree in business administration from Southwest Missouri State University.

Shannon Sock – Executive Vice President, Strategy /Chief Financial Officer (Age 48)

Mr. Sock was named Executive Vice President of Organizational Effectiveness in 2011 and assumed the role of Executive Vice President of Strategy and Chief Financial Officer in February 2014. In this role, he is responsible for financial oversight of the organization, the implementation and execution of Strategy 2020 and Mercy's consumer-centric operating model, as well as oversight of strategic planning, business development and innovation initiatives. Mr. Sock joined Mercy in 1999 and has served in a variety of leadership roles focused on major business and clinical transformation initiatives, including ROi, Mercy Meds, Mercy SafeWatch, electronic health record systems and most recently, the Mercy Virtual. Prior to joining Mercy, he worked in consulting for CSC Healthcare, focusing primarily on performance improvement across a variety of health care settings. Mr. Sock holds a master's degree in business administration, as well as a bachelor's degree in engineering and public policy, both from Washington University in St. Louis, Missouri.

Donn Sorensen – Executive Vice President–Operations (Age 56)

Mr. Sorensen has served Mercy since 2000. In April 2017, he was named Executive Vice President–Operations for the health ministry. Prior roles include president of Mercy's East Region (2012-2017) and Vice President/COO of Mercy Clinic, also in the East Region (2011-2012). Mr. Sorensen previously served in Mercy's Springfield, Missouri region, where he was Executive Vice President with responsibility for Mercy's hospitals and services in Springfield, Missouri and surrounding communities, as well as Senior Vice President/COO for Mercy Clinic in southwestern Missouri. He has more than 25 years of experience in health care, having served with Premier Practice Management (a national practice operations organization), several specialty and multispecialty groups in Nashville, Tennessee, and Baton Rouge, Louisiana, and with the Mayo Clinic in Rochester, Minnesota. He holds a master's degree in business administration from Missouri State University. In addition to his contributions to Mercy, Mr. Sorensen is a longtime board member of the AMGA, an organization that represents some of the country's largest health care delivery systems, and is serving a second term as chair for the AMGA's board of directors. He is a fellow of the American College of Medical Practice Executives.

Fred Ford – Senior Vice President, Ambulatory Care (Age 60)

Mr. Ford was named Senior Vice President in 2008. He provides executive oversight for managed care contracting, ambulatory care and Mercy's physician integration. Mr. Ford joined Mercy's senior management team in 1999 as Vice President for Revenue Management. Prior to this, Mr. Ford served as President of Unity Health of Arkansas, a joint venture between Washington Regional Medical Center in Fayetteville and Mercy Hospital Rogers (formerly St. Mary's Hospital). Prior to joining Unity, he was a partner at KPMG, where he was involved in the integration of health systems. Mr. Ford holds a bachelor's degree in accounting from Kansas State University and is a certified public accountant.

Joseph Kelly – Senior Vice President/Chief Marketing Officer (Age 43)

Mr. Kelly joined Mercy as Senior Vice President and Chief Marketing Officer in November 2014 and leads the health system's Integrated Marketing Department. He previously served as Senior Vice President of marketing at Aetna, one of the nation's leading health care benefits companies. While there, Mr. Kelly led marketing efforts in Europe, Latin America, the Caribbean, Middle East, Africa and Asia Pacific. Prior to Aetna, he led worldwide strategic marketing and sales effectiveness efforts for Swiss Re's commercial business, as well as global marketing and strategy planning for multiple General Electric businesses before they were acquired by Swiss Re. He began his career at J. Walter Thompson, the world's oldest advertising agency. Mr. Kelly holds a master's degree in business administration from the University of Notre Dame and a bachelor's degree in marketing from DePaul University, and studied at the Universidad de Alberto Hurtado in Santiago, Chile.

Tony Krawat – Senior Vice President/Chief Compliance Officer (Age 47)

Mr. Krawat joined Mercy in 2004 and initially led Health Information Services at Mercy's St. Louis hospital. In 2012, he was named Executive Director of Compliance for the East Region and two years later, he transitioned to a ministry-wide role as Vice President of Corporate Compliance. Mr. Krawat assumed the role of Chief Compliance Officer in October 2016. Mr. Krawat holds a master's degree in social work from St. Louis University and a master's degree in health care administration from Washington University. Prior to establishing his career in health information management and compliance, Mr. Krawat served as a health care social worker.

Cynthia Mercer –Chief Administrative Officer and President, Mercy Health Foundation (Age 50)

Ms. Mercer joined Mercy in January 2011 as Senior Vice President, Human Resources and assumed the role of Chief Administrative Officer in October 2013. She added the role of President of the Mercy Health Foundation in June 2017. Ms. Mercer previously served as Chief Human Resources Officer for Ameristar Casinos in Las Vegas, Nevada, where she had organizational oversight of corporate Human Resources and seven property Human Resources departments. She also has held executive human resources positions for The Cheesecake Factory in Calabasas, California, and Oakwood World/R&B Realty Group in Los Angeles. Ms. Mercer holds a bachelor's degree in broadcasting and film from the University of Central Missouri and a master's degree in business administration from the University of Phoenix. She also holds the Senior Professional in Human Resources designation from the Society of Human Resource Management (SHRM) and a certification in organizational development from DePaul University.

Vance Moore – President, Business Integration (Age 56)

Mr. Moore became President of Business Integration in March 2016. In this role, he has oversight of Mercy Virtual, ROi, Mercy's supply chain division, and the Mercy Technology Services (MTS) business unit. Prior to that, he served as Senior Vice President–Operations, with responsibility for corporate oversight of ROi, MTS and Mercy's Clinical Informatics team. From 2004 to 2006, Mr. Moore served as President of ROi and Vice President of Resource Optimization for Mercy, where he was responsible for coordinating and managing ROi's three service divisions and their support to Mercy's communities. Mr. Moore joined Mercy and ROi in 2002 as Vice President of Performance Consulting and was named Chief Operating Officer of ROi in 2004. Prior to joining Mercy, he held various positions with Cardinal Health. Mr. Moore holds a bachelor's degree in industrial management from the University of Arkansas in Fayetteville.

Brian O'Toole, Ph.D. – Senior Vice President, Mission and Ethics (Age 63)

Dr. O'Toole was named Senior Vice President with responsibility for mission, ethics and leadership formation/development in 2009. Previously, he served as Vice President of Mission and Ethics, a position he held since joining Mercy in January 1999. Prior to joining Mercy, Dr. O'Toole served as Director of Ethics in the Mission Services Department at Mercy Health Services in Farmington Hills, Michigan, Ethicist for three health care institutions sponsored by the Sisters of St. Francis Health Services in the Chicago area, and Educator in ethics and theology at Chicago-area schools. Dr. O'Toole holds a doctorate in moral philosophy with a specialization in health care ethics from Loyola University, a master's degree in divinity from the Catholic Theological Union, and bachelor's degrees in psychology and philosophy from Quincy College in Illinois.

Jon Vitiello – Senior Vice President, Financial Operations and Chief Analytics Officer (Age 48)

Mr. Vitiello was named Senior Vice President of Financial Operations in February 2014. In this role, he has direct responsibility for ministry and community finance activities, as well as management of controls and risk. Mr. Vitiello joined Mercy in 2003, leading financial planning and business development efforts. In 2006, he assumed the CFO and COO responsibilities for Mercy in Northwest Arkansas. His CFO responsibilities were expanded to include all of Mercy's Arkansas communities in 2010 and again in 2011, when he was named regional CFO for Mercy's Oklahoma communities. Prior to joining Mercy, Mr. Vitiello worked as a consultant with Deloitte in the national health care practice, focused on finance, strategic planning and business improvement for hospitals, health systems, insurance companies and physician groups. Mr. Vitiello holds master's degrees in both business administration and health care administration from St. Louis University, with an emphasis on finance and operations research.

Philip D. Wheeler – Senior Vice President, General Counsel (Age 61)

Mr. Wheeler was named Senior Vice President–General Counsel in 2009. He previously served as Vice President–General Counsel, a position he held since joining Mercy in January 2007. Prior to that, he served as Assistant General Counsel for the Cleveland Clinic in Cleveland, Ohio. He has also held the positions of Senior Vice President, General Counsel and Secretary for HealthTrust, Inc.–The Hospital Company and as Executive Vice President and co-founder of Netcare Health Systems, Inc., an organization that owned and managed hospitals. Mr. Wheeler received his law degree from New York University School of Law and holds a bachelor's degree in political science from Miami University of Ohio.

Community Regional Presidents

Jeff Johnston – Regional President, East Communities (Age 48)

Mr. Johnston was named Regional President of Mercy's East Communities in May 2017. He previously was President of Mercy Hospital St. Louis for six years, during which time the hospital received numerous quality awards including Truven Health Analytics/IBM Watson Health's Top 100 Hospitals award in both 2016 and 2017 as well as the Top 50 Cardiovascular Hospitals award in the same years. Mr. Johnston came to Missouri from Mercy Hospital Fort Smith, Arkansas, where he served as president for three years and was instrumental in expanding Mercy's physician group as well as leading a community master planning process. Prior roles with Mercy include Senior Vice President–Operations for Mercy Hospital Ardmore in Oklahoma, Chief Operating Officer for Mercy Hospital Oklahoma City, and interim CEO of Mercy Health Oklahoma Communities. Before joining Mercy, Mr. Johnston held several leadership positions over a six-year period with MetroHealth System in Cleveland, Ohio. He holds a bachelor's degree in business administration from Southern Nazarene University in Bethany, Oklahoma., and a master's in business administration and hospital and health administration from Xavier University in Cincinnati, Ohio.

Diana Smalley, FACHE – Regional President, West Communities (Age 66)

Ms. Smalley has served with Mercy since 2007, when she was appointed Regional President of Mercy's West Communities. Previously, she served in various leadership roles with Alegent Health in Omaha, Nebraska. While at Alegent, Ms. Smalley co-founded Avantas, an Omaha, Nebraska-based company nationally recognized for proven best-practice work strategies for the health industry. She holds a master's degree in public health from the University of Minnesota and a bachelor's degree in biology from Midland Lutheran College in Fremont, Nebraska. Ms. Smalley is a graduate of the Nebraska Methodist School of Nursing, Omaha, Nebraska. She is a fellow and former regent of the American College of Healthcare Executives (ACHE).

Jon Swope – Regional President, Central Communities (Age 56)

Mr. Swope was named Regional President of Mercy's Central Communities (covering southwest Missouri, southeast Kansas and northwest Arkansas) in March 2013. Previously, he served as President/CEO of Mercy Springfield Communities since December 2009. Mr. Swope has been with Mercy since 1980 and has served in many leadership roles. He holds a bachelor's degree in business administration from Maryville University in St. Louis and a master's degree in health administration from Webster University, St. Louis, Missouri.

HISTORICAL FINANCIAL INFORMATION

The following tables set forth Mercy's consolidated balance sheets and consolidated statements of operations for June 30, 2017, 2016, and 2015. Mercy has a June 30 fiscal year-end. The June 30, 2017 and 2016 year-end information was derived from the audited consolidated financial statements of Mercy included in Appendix B. The June 30, 2015 information was derived from Mercy's June 30, 2015 audited consolidated financial statements not included herein. Certain balances in the 2015 consolidated financial statements have been reclassified to conform to the 2017 and 2016 presentation for consistency.

Consolidated Balance Sheets

	(Dollars in thousands)		
		June 30	
	2017	2016	2015
Assets			
Current assets:			
Cash and cash equivalents	$523,451	$543,962	$361,447
Accounts receivable, net of allowance for uncollectible receivables of $146,144 in 2017, $142,518 in 2016, and $171,523 in 2015	659,818	594,873	581,667
Inventories	104,510	106,544	109,106
Short term investments	32,610	34,160	33,891
Other current assets	148,484	122,316	85,433
Total current assets	1,468,873	1,401,855	1,171,544
Investments	2,093,175	1,753,214	1,856,536
Property and equipment, net	2,941,387	2,630,379	2,708,477
Other assets	579,686	563,163	551,115
Total assets	$7,083,121	$6,348,611	$6,287,672
Liabilities and net assets			
Current liabilities:			
Current maturities of long-term obligations	$13,449	$7,167	$14,801
Accounts payable	228,872	170,487	127,389
Accrued payroll and related liabilities	428,141	418,323	418,504
Accrued liabilities and other	250,878	247,609	198,470
Total current liabilities	921,340	843,586	759,164
Insurance reserves and other liabilities	455,828	449,485	428,066
Pension liabilities	363,384	436,661	344,983
Long-term obligations, less current maturities	1,524,860	1,359,288	1,406,438
Total liabilities	3,265,412	3,089,020	2,938,651
Net assets:			
Unrestricted	3,713,187	3,168,997	3,253,253
Restricted	104,522	90,594	95,768
Total net assets	3,817,709	3,259,591	3,349,021
Total liabilities and net assets	$7,083,121	$6,348,611	$6,287,672

Consolidated Statements of Operations

	(Dollars in thousands) Fiscal Years Ended June 30		
	2017	2016	2015
Operating revenues:			
Patient service revenues (net of contractuals and discounts)	$5,305,455	$4,983,335	$4,823,591
Provision for uncollectible receivables	(330,078)	(215,926)	(347,366)
Net patient service revenues	4,975,377	4,767,409	4,476,225
Capitation revenues	258,899	234,240	263,085
Other operating revenues	293,554	299,586	291,653
Total operating revenues	5,527,830	5,301,235	5,030,963
Operating expenses:			
Salaries and benefits	3,083,012	3,000,028	2,905,853
Supplies and other	1,863,582	1,784,546	1,673,935
Medical claims expense	84,169	97,027	92,255
Interest	33,432	35,394	18,265
Depreciation and amortization	295,763	311,445	300,840
Impairment and restructuring losses, net	–	6,351	12,899
Total operating expenses	5,359,958	5,234,791	5,004,047
Operating income	167,872	66,444	26,916
Nonoperating gains (losses):			
Investment returns, net	158,254	(38,932)	(7,155)
Realized and unrealized gains (losses) on interest rate swaps, net	20,797	(36,001)	(20,317)
Inherent contribution of acquired entities	120,206	–	–
Other, net	(2,244)	2,978	(12,565)
Total nonoperating gains (losses), net	297,013	(71,955)	(40,037)
Excess (deficit) of revenues over expenses	464,885	(5,511)	(13,121)
Other changes in unrestricted net assets:			
Pension liability adjustments	66,706	(82,662)	(23,735)
Net assets released from restrictions for property restrictions	10,104	8,703	6,354
Other	2,495	(4,786)	3,012
Increase (decrease) in unrestricted net assets	$544,190	$(84,256)	$(27,490)

Management's Discussion of Financial Performance

Mercy has a strong commitment to exhibit good stewardship over all of its resources. Mercy's financial strength enables it to carry out its mission of providing quality healthcare services to those in need, and to reinvest in its communities. Mercy experienced year over year growth in key categories (provider visits, outpatient visits, emergency room visits). Strong volume growth in provider and outpatient services offset the impact of inpatient discharges being converted to observation stays. In addition, Mercy continues to focus on medical documentation improvements, including accuracy, compliance and clinical care.

Fiscal 2017 Compared to Fiscal 2016. Mercy's financial performance for the year ended June 30, 2017 improved from the prior year. Operating income for fiscal year 2017 was $167.9 million, compared to prior year of $66.4 million. Mercy achieved 4% revenue growth yet managed expense growth to only 1.9%, excluding SAMC, leading to the improvement. The operating margin percentage for fiscal year 2017 was 3.0%, compared to prior year of 1.3%. Mercy's balance sheet as of June 30, 2017 remained strong, with days cash on hand of 170.9 and cash to debt of 1.68.

On a same store basis of internal cost allocation methodology Fort Smith, Northwest Arkansas, St. Louis, Springfield, and Joplin all showed growth and improvement in both operating margin and EBITDA performance over the prior year. Key drivers of the performance improvement trends were top line revenue growth coupled with cost control measures. Oklahoma continues to perform well but has been negatively impacted by a reduction in Medicaid funding at the state level. Mercy has a balanced portfolio of assets, as Joplin moved to cash flow break even in fiscal 2017, the remainder of the communities operated with operating EBITDA percentages in the range of 5.7% to 9.4%.

From a utilization perspective, Mercy had year over year growth in key indicators, including provider visits, outpatient visits, and emergency room visits. Total clinic visits grew from 5,965,446 in fiscal 2016 to 6,214,498 in fiscal 2017. Acute discharges were relatively flat with the prior year. Acute length of stay remained consistent with prior year of 4.4 days.

Key expense indicators included: salaries and benefits as a percentage of total operating revenues of 55.8% and 56.6% in fiscal 2017 and 2016, respectively, and supplies and other expense as a percentage of total operating revenues of 33.7% in fiscal 2017 and 2016. The increase in salaries and benefits expense from the prior year is due to an increase in the number of FTEs (related to both volume growth and acquisitions), wage increases, and additional use of contract labor and overtime. The increase in supplies and other expense is due to the impact of growth related to volume increases and acquisitions, as well as higher medical supply and drug costs as a result of higher acuity/change in case mix.

Mercy's investment performance for the twelve months ended June 30, 2017 was a positive return of 10.0%, which is in line with the policy benchmark of 10.1% for the fiscal year. Mercy achieved this return with a lower level of volatility than its 10% target level of volatility (over a five-year period).

On June 1, 2017, Mercy acquired SAMC, a not-for-profit hospital located in South St. Louis County, Missouri. The acquisition provided Mercy's patients with access to a greater number of specialists and enhanced the coordination of health services. This transaction was accounted for as an acquisition in accordance with Accounting Standards Codification (ASC) Topic 958-805, Business Combinations – Not-for-Profit Entities, and acquired assets and liabilities were recorded at fair value, a Level 3 measurement.

The fair value of net assets of $126.9 million was recognized in the consolidated statement of operations and changes in net assets for the year ended June 30, 2017, as a nonoperating inherent contribution of acquired entities of $120.2 million and contribution of restricted net assets of $6.7 million.

The operating results of SAMC are included in Mercy's consolidated financial statements from June 1, 2017, the date of acquisition. Operating revenues of the entities acquired in fiscal 2017 included in the consolidated statement of operations were $38.6 million.

Fiscal 2016 Compared to Fiscal 2015. Mercy's financial performance for the year ended June 30, 2016 improved from the prior year. Operating income for fiscal year 2016 was $66.4 million, compared to prior year of $26.9 million. The operating margin percentage for fiscal year 2016 was 1.3%, compared to prior year of 0.5%. Mercy's balance sheet as of June 30, 2016 remained strong, with days cash on hand of 169.9 and a cash to debt ratio of 1.66.

Several communities had favorable operating results in fiscal 2016, with net operating income exceeding prior year, including the East Region and the Fort Smith, and Oklahoma communities. In the East Region, strong inpatient hospital volumes, particularly specific service lines in St. Louis, contributed to the positive operating results. In addition, other hospital volumes included strong growth over prior year, including outpatient visits, surgery cases, emergency visits, and provider visits. Fort Smith community continued to experience strong volumes in inpatient, emergency, surgeries, provider visits and outpatient visits. Oklahoma community experienced improved volumes in surgeries, provider visits, and outpatient visits.

During fiscal 2016, Mercy continued to expand its physician integration efforts, ending the year with close to 1,700 integrated physicians. Mercy's investment to support clinic operations in fiscal 2016 was $419 million, compared to prior year of $367 million. Physician FTE's increased by 2% from fiscal 2015 to fiscal 2016.

From a utilization perspective, Mercy had year over year growth in key indicators, including provider visits, hospital outpatient visits, births, and surgery volumes. Total clinic visits in fiscal 2016 were 5,965,446 up from 5,726,681 in the prior year. Acute length of stay at 4.4 was slightly higher than the prior year of 4.3.

Key expense indicators included: salaries and benefits as a percentage of total operating revenues of 56.6% and 57.8% in fiscal 2016 and 2015, respectively, and supplies and other expense as a percentage of total operating revenues of 33.7% and 33.3% in fiscal 2016 and 2015, respectively. Operating expenses increased in fiscal 2016 versus 2015, as expense growth has kept pace with revenue growth. Labor expense growth was impacted by competitive labor markets pressuring rates, contract and premium labor, and co-worker benefits. Increases in supplies and other expenses were impacted by medical supply utilization and select pricing on implants and oncology drugs.

Mercy's investment performance for the twelve months ended June 30, 2016 was a negative return of 2.5%.

In March 2015, the new Joplin hospital opened. Mercy recognized $22.7 million of grant revenue in other operating revenue for funds received from the Federal Emergency Management Association (FEMA).

Investments. Mercy currently manages an invested portfolio of assets for capital needs of the organization, which includes the Mercy Health Investment Fund ("MIF") and the Mercy Health MyRetirement Personal Pension Account Plan ("Pension Fund"). Mercy's Investment Committee updated the Investment Policy Statement for the MIF and Pension Fund effective July 1, 2016. Per the policy, the overall financial objective of the MIF is to achieve the highest return available at a 10% target level of volatility. It is expected that Mercy will be able to attain an average annual real return (return above inflation) of at least 4% over rolling five-year periods while maintaining realized volatility between 8-12% during that time period. The overall financial objective of the Pension Fund is to protect the interest of plan participants by maintaining a prudent funding level that ensures Mercy can fully satisfy the pension liabilities. The investment objective is to attain an average annual absolute return of 6% over the long term while maintaining a volatility target of 9%. Mercy seeks to attain this average annual net return while maintaining realized volatility between 7-11% over rolling five-year periods. It is recognized that the risk and return objectives may not be attainable in every five-year period, but should be attainable over a series of five-year periods.

Mercy allocates capital in the portfolio to third party investment managers who are subject to performance standards, strategies, policies, and asset allocation guidelines established and monitored by Mercy and the Investment Committee of the Board.

As of June 30, 2017, Mercy's unrestricted cash and investments was $2.567 billion. The liquidity profile was:

	Millions	Cumulative %
Cash Equivalents	$ 660	27%
Available within 30 days	$1,641	64%
Available within 12 months	$2,207	86%
Available within 12+ months	$2,567	100%

For more information on Investments, please refer to Note 4 of Mercy's audited consolidated financial statements.

Insurance. Mercy administers a liability management program to provide general and professional liability risks within certain limits. The recorded liabilities are based upon actuarial estimates of reported claims and IBNR claims using historical claim experience and other relevant industry and hospital-specific factors and trends, discounted at an interest rate of 4.75% for 2017 and 2016. The discounted general and professional liability was $125.0 million and $134.1 million at June 30, 2017 and 2016, respectively, which is included in accrued liabilities and insurance reserves and other liabilities in the consolidated balance sheets.

SAMC maintains a separate liability program for general and professional liability risks. Losses from asserted and unasserted claims are accrued based on estimates that incorporate past experience, the nature of each claim or incident and relevant trend factors. The discounted general and professional liability was $9.7 million at June 30, 2017, which is included in insurance reserves and other liabilities.

For more information on this liability program, please refer to Note 8 of Mercy's audited consolidated financial statements.

Retirement Plan Investments and Actuarial Assumptions. Mercy's retirement benefits are provided through the frozen Personal Pension Account Plan, the 401(k) Plan and the 403(b) Plan.

The 401(k) plan and 403(b) plan are offered for the benefit of substantially all employees. The 401(k) plan originally provided for employee contributions and an employer-provided matching contribution. Employee contributions to the 403(b) plan were, and continue to be, eligible for matching contributions to the 401(k) plan. The 401(k) plan was amended effective July 1, 2011, to enhance the matching contribution and add a non-matching service-based contribution designed to replace the pay credit previously earned under the frozen defined benefit plan.

Employees who work at a rate of 1,000 hours or more during the year and are employed on December 15th of the calendar year are eligible for the employer-provided contribution in the 401(k) plan. The matching contribution is equal to 50% of the first 4% of the participant's compensation contributed and 25% of the next 2% of the participant's compensation contributed. The service-based contribution is equal to a percentage of pay based on years of service (1%–9% for employees hired prior to July 1, 2011, and 1%–4% for those hired on July 1, 2011 or later). All contributions to the plan are subject to Internal Revenue Service ("IRS") limitations on contributions and includable compensation. Employees become vested in both matching and service contributions upon the completion of three years of vesting service.

Mercy maintains various non-qualified defined benefit retirement plans that provide retirement income in excess of the limitations on benefits imposed by IRS limitations to certain key executives. These plans are closed to new entrants.

The frozen Personal Pension Account Plan (the "Plan") is a defined benefit retirement plan that was closed to new entrants and pay credits on June 30, 2011. The Plan was designed to provide retirement benefits to substantially all co-workers under a single plan, including groups acquired in business combinations. The Plan was amended over time to provide service credit for those co-workers who entered the plan as a result of acquisitions or business combinations. Retirement benefits were originally provided based on a final average pay formula but were later transitioned to a cash balance-type formula. The cash balance formula provided an annual pay credit, based on employee compensation and years of service, and an annual interest credit based on the 30-year U.S. Treasury bill rate, subject to a minimum rate of 5.25%. Co-workers with benefits earned under the cash balance formula continue to earn interest credits each year. The interest credit continues to be based on the 30-year U.S. Treasury bill rate, but the minimum rate was reduced effective January 1, 2016 to comply with government regulations. The Plan is funded consistent with actuarial funding recommendations and the funding policy.

SAMC has historically sponsored a defined benefit pension plan covering all employees. The plan was frozen effective June 30, 2009. The cash balance interest credit is the rate the participant's cash balance account is expected to grow with interest based upon a four quarter average of the 3-Yr Treasury rates. The interest crediting rate is the rate the plan participant's cash balance account is expected to grow and the change in estimate is anticipated to be based on current market conditions. SAMC also sponsors elective defined contribution plans available to substantially all employees, consisting of both a 401(k) plan and a 403(b) plan.

A more detailed description of the investment strategies of Mercy's defined benefit retirement plans, funding levels, and actuarial assumptions can be found in Note 9 of Mercy's audited consolidated financial statements.

Long-Term Obligations and Derivatives. Tax-exempt revenue bonds have been issued by various issuing authorities, the proceeds of which were used by Mercy primarily to finance capital projects and to refinance existing indebtedness of certain subsidiaries.

The Unrestricted Gross Revenues of Mercy and its Restricted Affiliates collateralize the outstanding borrowings under the Master Indenture. The Restricted Affiliates have executed Commitment Agreements governing borrowing arrangements under the Mercy Indenture and related agreements ("Financing Agreements"). Under the Commitment Agreements each of the Restricted Affiliates has committed to transfer funds to Mercy to pay the amounts due on borrowings when they come due.

The Financing Agreements contain certain restrictive covenants, including debt service coverage and liquidity ratios. At June 30, 2017, Mercy was in compliance with all financial covenants.

As of June 30, 2017, Mercy had approximately $500 million of bonds directly purchased by five banks with final maturities between 2019 and 2053. The bonds include mandatory puts by the purchasing bank in the amount of $55 million, $46 million, $64 million, $89 million, $103 million, $75 million, and $55 million in the years 2018, 2019, 2020, 2021, 2022, 2023, and 2024, respectively.

For more information on long-term obligations and derivative instruments, please refer to Notes 10 and 11 of Mercy's audited consolidated financial statements.

Critical Accounting Policies. The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Mercy bases its estimates on historical experience and other assumptions believed to be reasonable under the circumstances. A description of Mercy's accounting policies can be found in Note 2 of Mercy's audited consolidated financial statements.

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Debt Service Coverage

The following table sets forth Mercy's debt service coverage ratio for the fiscal years ended June 30, 2017, 2016 and 2015 and the pro forma ratio.

Mercy Debt Service Coverage

	2017	Fiscal Years Ended June 30, (Dollars in Thousands)		
	ProForma	**2017**	**2016**	**2015**
Excess of Revenues over Expenses	$464,885	$464,885	($5,511)	($13,121)
Plus: Depreciation, amortization, and interest expense (1)	331,587	331,587	348,417	320,350
Unrealized (gain) loss on investments/SAMC	(217,917)	(217,917)	111,875	129,754
Unrealized (gain) loss on interest rate swaps	(30,155)	(30,155)	25,525	9,335
Funds available for debt service coverage	$548,400	$548,400	$480,306	$446,318
Actual Debt Service (2)		$49,273	$44,139	$34,311
Debt Service Coverage		11.13 x	10.88 x	13.01 x
Pro Forma Maximum Annual Debt Service (3)	$105,644			
Pro Forma Maximum Annual Debt Service Coverage	5.19 x			

(1) Includes Interest Expense in Non-Operating Other, Net.

(2) FY 2015 Annual Debt Service includes Series 1993A Bonds, Series 2001A-C Bonds, Series 2012 Bonds, Series 2014A-F Bonds, Other Notes, Mortgage Notes and Capital Leases.

FY 2016 Annual Debt Service includes Series 1993A Bonds, Series 2001A-C Bonds, Series 2012 Bonds, Series 2014A-F Bonds, Other Notes, Mortgage Notes and Capital Leases.

FY 2017 Annual Debt Service includes Series 1993A Bonds, Series 2001A-C Bonds, Series 2012 Bonds, Series 2014A-F Bonds, Series 2015A-B Bonds, Series 2017A-B Bonds, Other Notes, Mortgage Notes and Capital Leases.

(3)

Includes Series 1993A Bonds, Series 2001A-C Bonds, Series 2012 Bonds, Series 2014A-C Bonds, Series 2014F Bonds, Series 2015A-B Bonds, Series 2017A-B Bonds, Series 2017C Bonds, Other Notes, Mortgage Notes and Capital Leases.

Interest on all variable rate debt calculated at 3.50%.

Preliminary, subject to change.

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OVERVIEW OF COMMUNITIES

Presented below and on the following pages are brief descriptions of each community, as well as selected utilization and operating statistics for each community for the fiscal years ended June 30, 2017, 2016, and 2015. These descriptions are included for informational purposes only and are not meant to give a complete description of the condition (financial or otherwise) of each community.

Market Landscape

In each of the communities Mercy serves it has a unique and strong market position. With the exception of the St. Louis and Oklahoma markets, Mercy's facilities operate in markets where Mercy is the sole or one of two hospital providers. The ambulatory and outpatient footprint of Mercy creates numerous access points that is hard for others to match and aligns with where the majority of all healthcare interactions with patients occur, outside of the inpatient setting. In fiscal 2017 inpatient acute discharges for Mercy were 152,430 total outpatient and ambulatory visits were in excess of 9 million.

Mercy Health Springfield Communities

Overview. Mercy Health Springfield Communities ("Mercy Springfield") is a Springfield, Missouri, based integrated health system that includes Mercy Hospital Springfield; five regional hospitals in Lebanon, Aurora, Cassville, and Mountain View, Missouri and Berryville, Arkansas; Mercy Clinic Springfield; and a managed care organization capable of directly contracting with employers for network services. Located about 215 miles southwest of St. Louis, Springfield's service area includes 13 Missouri counties and one Arkansas county, an area with a total population of approximately 728,000 people. Mercy Hospital Springfield is designated as a Level 1 (highest) trauma and burn center for adults and children. Mercy Hospital is recognized as a nationally certified stroke center and the regional leader in cardiovascular, orthopedic, and oncology treatment. Mercy Orthopedic Hospital Springfield opened in the fall of 2013, and Mercy Rehabilitation Hospital, a joint venture with Centerre Healthcare to provide inpatient rehabilitation for patients recovering from strokes, brain or spinal cord injuries, amputations, complex orthopedic injuries, and other complex conditions, opened in the spring of 2014. Mercy Hospital Springfield earned the Distinguished Hospital Award for Clinical Excellence for 2017 from HealthGrades and the CareChex award for clinical care as the number one hospital in Missouri. Mercy Hospital Springfield is ranked as a 4-star facility by CMS and is committed to clinical excellence.

Mercy Clinic Springfield includes 211 Mercy Clinic practices, 571 integrated physicians and provides more than 1.7 million clinic visits annually. The community is further supported by its managed care infrastructure. The Springfield managed care organization provides services including: care management, nurse on call, wellness, and disease management services. This full complement of services enables Mercy Springfield to manage gain sharing at risk-based contracts with regional and national payers including two Medicare Advantage risk arrangements covering 35,000 lives.

Corporate Integrity Agreement. In the spring of 2017, Mercy Hospital Springfield and Mercy Clinic Springfield reached a settlement with the Department of Justice and the Office of Inspector General of the Department of Health and Human Services to resolve a qui tam lawsuit related to physician compensation. Mercy Hospital Springfield and Mercy Clinic Springfield collectively paid $34 million as part of the settlement; and entered into a five-year Corporate Integrity Agreement ("CIA"). The CIA requires, among other things, that Mercy Hospital Springfield and Mercy Clinic Springfield provide general and specific training to covered employees and notify the government of any material deficiency in its compliance program. It also requires annual reports of several specific activities which includes a certification of compliance with the terms of the CIA during the year.

Mercy Hospital Springfield was subject to an unannounced survey by the Missouri Department of Health and Social Services, as an agent of CMS, on August 22, 2017. As a result of that survey, CMS issued "condition level" deficiencies to Mercy Hospital Springfield related to patient rights and nursing services. Deficiencies of these types are occasionally identified during surveys and must be addressed by the hospital to ensure continued compliance with Medicare's Conditions of Participation. If these deficiencies are not corrected by a hospital in a prescribed time period, they could lead to termination of the hospital's participation in the Medicare program. After receiving the "condition level" deficiencies, Mercy Hospital Springfield worked diligently to identify and resolve CMS's concerns. Mercy Hospital Springfield prepared and submitted a "Plan of Correction" on September 15, 2017, which CMS has accepted. CMS, through its agents, intends to conduct a follow-up survey of Mercy Hospital Springfield by November 5, 2017 to ensure the Plan of Correction has been properly implemented and the issues causing the deficiencies have been abated. Mercy Hospital Springfield believes that it has fully executed its Plan of Correction and expects to pass the survey, at which time the deficiencies will be removed. If however, Mercy Hospital

Springfield does not pass the survey such result could lead to termination of Mercy Hospital Springfield's participation in Medicare.

Patient Utilization. The following table provides patient utilization information for the fiscal years ended June 30, 2017, 2016, and 2015:

	2017	2016	2015
Staffed beds – acute[(A)]	512	714	741
Discharges – total	38,103	38,431	40,091
Discharges – acute	36,018	36,065	38,111
Patient days – acute	160,614	161,027	163,864
Length of stay (days) – acute	4.5	4.5	4.3
Provider visits	1,643,344	1,654,004	1,654,412
Outpatient visits	610,799	614,855	635,488
Emergency room visits	151,129	153,719	163,724
Surgeries	42,255	43,912	44,615

(A) In FY2017, Mercy transitioned the bed statistic from available to staffed. FY2017 reflects staffed acute beds, while FY2016 and FY2015 reflect available acute beds.

Population. The total population in 2016 for the Springfield service area was 728,350. By 2021, the population is expected to grow by 2% to 745,315. In 2016, 18% of the population was over age 65 and the median age of the population was 43. *Source: Sg2 Market Demographics; Nielsen zip code data, 2016*

Employment. Largest employers in the Springfield Metro area as listed with the Springfield Business Development Corporation:

Company	Industry	Staff
Mercy Hospital Springfield	Health Care	10,460
CoxHealth	Health Care	10,069
Walmart	Retail	3,717
Springfield Public Schools	Education	3,000
Bass Pro Shops/Tracker Marine	Retail/Manufacturing	2,434
US Government	Government	2,400
State of Missouri	Government	2,331

Source: Springfield Business Development Corporation Data Profile, Springfield, MO MSA, FTE Employees as of Spring 2016 (www.springfieldregion.com)

Mercy Health East Communities

Overview. The St. Louis area includes St. Louis City and County and reaches out to six surrounding counties in Missouri and five in Illinois, with a total population of over 2.75 million. Mercy serves these communities through Mercy Hospital St. Louis, Mercy Heart and Vascular Hospital, Mercy Children's Hospital (both on the Mercy Hospital campus), Mercy Rehabilitation Hospital (operated in partnership with Centerre Healthcare), SAMC, 191 Mercy Clinic practices throughout the area, and the Mercy Health Ministry headquarters office. Mercy Hospital St. Louis is the only Level I (highest) trauma provider in St. Louis County. The campus includes a cancer center, birthing center (including the only hospital-based low risk birthing center in the region), the only burn center in the region, stroke center, surgery center, and home health and hospice. Mercy Children's Hospital offers a full range of pediatric services and a Level III neonatal intensive care unit, which is the largest in the state.

SAMC is a 767 bed facility with an average inpatient census of approximately 320 and offers general medicine, cardiac care, oncology, neuroscience, surgery, acute rehabilitation, behavioral health, and labor and delivery services. Before affiliating with Mercy in 2017, SAMC was the largest independent hospital in the St. Louis area. It also has the area's only 20 bed hospice house. The SAMC physician organization has 140 integrated physicians and 43 advanced practitioners that provide over 329,000 clinic visits annually.

Mercy also serves the community through Mercy Hospital Washington, Hermann Area District Hospital (Mercy affiliated) and 60 Mercy Clinic practices throughout the area. Washington, Missouri, is approximately 50 miles west of St. Louis, with a service area population of about 110,000 people. Mercy Hospital Washington offers services for general medical, surgical, obstetric, cardiology and pediatric patients and is a Level III trauma center.

Mercy Hospital Jefferson joined Mercy in February 2013. Located in Jefferson County (Crystal City, Missouri), it provides cancer care, heart and vascular, bariatric, behavioral health, women's and children's care, home care and urgent care access to the southern portion of the St. Louis service area. This care is supported by 36 Mercy Clinic practices throughout the area. Crystal City is approximately 35 miles south of St. Louis, with a service area population of about 304,000 people. Some of Mercy's patients in this area also travel to Mercy Hospital St. Louis for additional services. Mercy Hospital Jefferson is currently in the process of building an all-private-room patient tower that is expected to open in December 2017.

Mercy Hospital Lincoln is a 25-bed hospital located 50 miles northwest of St. Louis, and includes 11 Mercy Clinic practices. This hospital serves a population of approximately 63,500 in communities primarily in Lincoln County but also extending into Pike and Warren Counties in Missouri. Mercy Hospital Lincoln is a critical access hospital providing general medicine, surgery, and intensive care services. Mercy Hospital Lincoln also provides ambulatory services such as therapy, imaging, urgent and emergency care.

Mercy Clinic East Communities is a growing integrated multispecialty physician group of approximately 833 integrated physicians that provide almost 2.1 million clinic visits annually.

Patient Utilization. The following table provides patient utilization information for Mercy Health East Communities for the fiscal years ended June 30, 2017, 2016, and 2015:

	2017	2016	2015
Staffed beds – acute[(A)]	1,111	1,112	1,121
Discharges – total	59,679	58,631	58,852
Discharges – acute	52,497	51,659	50,866
Patient days – acute	239,820	233,139	219,904
Length of stay (days) – acute	4.6	4.5	4.3
Provider visits	2,285,111	2,148,423	2,006,782
Outpatient visits	1,559,572	1,408,316	1,257,300
Emergency room visits	182,321	175,165	160,197
Surgeries	52,334	53,865	48,816

(A) In FY2017, Mercy transitioned the bed statistic from available to staffed. FY2017 reflects staffed acute beds, while FY2016 and FY2015 reflect available acute beds.

Population. The total population in 2016 for the St. Louis service area was 2.75 million. By 2021, the population is expected to grow by 1% to 2.78 million. In 2016, 15% of the population was over age 65 and the median age of the population was 40. *Source: Sg2 Market Demographics; Nielsen zip code data, 2016*

The total population in 2016 for the Washington service area was 110,649. By 2021, the population is expected to increase by 1% to 111,967. In 2016, 16% of the population was over age 65 and the median age of the population was 43. *Source: Sg2 Market Demographics; Nielsen zip code data, 2016*

The total population in 2016 for the Jefferson service area was 304,996. By 2021, the population is expected to grow by 2% to 309,843. In 2016, 15% of the population was over age 65 and the median age of the population was 41. *Source: Sg2 Market Demographics; Nielsen zip code data, 2016*

Employment. Largest employers in the St. Louis MO-IL MSA as reported by the St. Louis Regional Chamber:

Company	Industry Type	Staff
BJC HealthCare	Health Care	24,182
Walmart	Retail	21,721
Boeing Defense, Space & Security	Aeronautics	15,000
Washington University in St. Louis	Education	14,451
SSM Health	Health Care	13,301
Scott Air Force Base	Government	13,000
Mercy	**Health Care**	**12,547**

Source: St. Louis Regional Chamber, 2016 (www.stlregionalchamber.com)

Largest employers in the Washington area as listed with the Washington, MO Community and Economic Development Council:

Company	Industry Type	Staff
Mercy Hospital Washington	**Health Care**	**1,423**
Parker Hanifin-Sporlan Valve Division	Manufacturing	979
Washington School District	Education	675
CG Power Systems USA, Inc.	Transformers	441
Walmart	Retail	400
Magnet, Inc.	Advertising	320
RTI Advanced Forming, Inc.	Aircraft Parts	221

Source: Washington, MO Community and Economic Development Council, Existing Industry List, March 2016 (www.washmoworks.com)

Largest employers in Jefferson County as reported by the St. Louis Regional Chamber:

Company	Industry	Staff
Fox C-6 School District	Education	1,800
Mercy Hospital Jefferson	**Health Care**	**1,300**
Northwest R-1 School District	Education	800
Jefferson County, MO	Government	746
Dobbs Tire & Auto Centers	Retail	600
Metal Container Corporation	Manufacturing	405
Hillsboro School District	Education	400

Source: St. Louis Regional Chamber, Jefferson County data, 2016 (www.stlregionalchamber.com)

Mercy Health Oklahoma Communities

Overview. The Oklahoma City service area includes the greater Oklahoma City area, as well as seven surrounding counties, with a total population of about 1.29 million people. Mercy serves the region through Mercy Hospital Oklahoma City, two Oklahoma Heart Hospital campuses in Oklahoma City, Mercy Rehabilitation Hospital, and Mercy Hospital El Reno. Critical access hospitals include Mercy Hospital Logan County in Guthrie, Mercy Hospital Watonga and Mercy Hospital Kingfisher. Physicians from 62 Mercy Clinic practices provide primary and specialty care to these communities

Services provided by Mercy Hospital Oklahoma City include general and intensive care medicine, general surgery, labor and delivery, a neonatal intensive care unit, joint replacement center, sleep disorders center, hyperbaric medicine and wound care, home health, hospice, and palliative care. Mercy Hospital Oklahoma City is one of only three Joint Commission certified comprehensive stroke centers in Oklahoma. Mercy Hospital Oklahoma City opened the Coletta Building in summer of 2016 housing an extensive breast health and research program and a comprehensive cancer center. Heart and vascular services are provided in Oklahoma City by Oklahoma Heart Hospital which is a nationally recognized, regional referral center for cardiovascular services. Oklahoma Heart Hospital is one of four hospitals in the state of Oklahoma to have achieved a 5-star rating from CMS and was also named a Truven Analytics Top 50 Heart Hospital. Mercy owns 45.4% of Oklahoma Heart Hospital.

Ardmore is about 100 miles southwest of Oklahoma City with a service area of six counties totaling approximately 106,000 people. Mercy serves the region through Mercy Hospital Ardmore and critical access facilities including Mercy Hospital Tishomingo and Mercy Hospital Healdton. Mercy also has managed/affiliated hospitals in Marietta and Sulphur, as well as 15 Mercy Clinic practices. Mercy Hospital Ardmore is a full-service community hospital located in southern Oklahoma that includes general medical services, a cancer center, women's center, heart and vascular services, joint replacement center, wound center and hyperbaric medicine, general surgery, sleep lab and outpatient physical therapy.

Ada is 85 miles southeast of Oklahoma City with a four-county service area of about 110,000 people. Mercy serves the region through Mercy Hospital Ada, as well as 10 Mercy Clinic practices. Mercy Hospital Ada provides inpatient and outpatient services, including general medicine, cancer care, general surgery, cardiovascular services, labor and delivery, physical therapy, wound care and hyperbaric medicine, home health, and sleep lab.

In addition to general inpatient services, all five critical access hospitals referenced previously provide ambulatory services such as therapy, imaging, urgent and emergency care. Mercy's hospitals in Kingfisher and Guthrie are CMS 4-star hospitals.

Mercy Clinic Oklahoma Communities is an integrated multi-specialty provider group that includes 306 integrated physicians (87 dedicated to primary care) and an additional 100 advanced practitioners (65 dedicated to primary care) who provide over 990,000 clinic visits annually across the state of Oklahoma.

Patient Utilization. The following table provides patient utilization information for the fiscal years ended June 30, 2017, 2016, and 2015:

	2017	2016	2015
Staffed beds – acute[(A)]	392	767	767
Discharges – total	27,979	27,858	27,802
Discharges – acute	26,293	26,038	26,277
Patient days – acute	113,571	113,504	119,054
Length of stay (days) – acute	4.3	4.4	4.5
Provider visits	990,273	930,905	911,804
Outpatient visits	508,404	494,208	451,017
Emergency room visits	141,956	142,649	150,581
Surgeries	32,541	31,880	30,789

(A) In FY2017, Mercy transitioned the bed statistic from available to staffed. FY2017 reflects staffed acute beds, while FY2016 and FY2015 reflect available acute beds.

Population. The total population in 2016 for the Oklahoma City service area was 1.29 million. By 2021, the population is expected to grow by 6% to 1.37 million. In 2016, 13% of the population was over age 65 and the median age of the population was 37. *Source: Sg2 Market Demographics; Nielsen zip code data, 2016*

The total population in 2016 for the Ardmore service area was 107,078. By 2021, the population is expected to grow by 3% to 110,403. In 2016, 18% of the population was over age 65 and the median age of the population was 41. *Source: Sg2 Market Demographics; Nielsen zip code data, 2016*

The total population in 2016 for the Ada service area was 110,936. By 2021, the population is expected to grow by 2% to 112,853. In 2016, 17% of the population was over age 65 and the median age of the population was 41. *Source: Sg2 Market Demographics; Nielsen zip code data, 2016*

Employment. Largest employers as listed with the Greater Oklahoma City Chamber. Mercy is listed as ninth largest with 4,500 staff:

Company	Industry	Staff
State of Oklahoma	Government	45,600
Tinker Air Force Base	Military	24,000
OU – Norman Campus	Education	12,700
FAA Mike Monroney Aeronautical Ctr.	Aerospace	7,000
Integris Health	Health Care	6,000
Hobby Lobby Stores, Inc.	Wholesale/Retail	5,100
OU Health Sciences Center	Education	5,000

Source: Economic Development Division of the Greater Oklahoma City Chamber, October 2016 (www.greateroklahomacity.com)

Largest employers in Ardmore as listed by the Ardmore Development Authority:

Company	Industry	Staff
Michelin North America	Manufacturing	1,950
Mercy Hospital Ardmore	**Health Care**	**807**
Dollar General	Distribution	730
Walmart	Retail	500
Dollar Tree	Distribution	489
Ardmore City Schools	Education	450
EJ Ardmore Foundry	Manufacturing	350

Source: Ardmore Development Authority (www.ardmoredevelopment.com)

Largest employers in the Ada area as listed with the Ada Chamber of Commerce:

Company	Industry	Staff
Chickasaw Nation	Government	2,709
Mercy Hospital Ada	**Health Care**	**817**
East Central University	Education	657
Legal Shield	Finance & Insurance	600
Dart Container Company	Manufacturing	500
Walmart	Retail	450

Source: Ada Jobs Foundation—AdaWorks, 2016 (www.adaworks.org)

Mercy Health Southwest Missouri/Kansas Communities

Overview. Mercy Health Southwest Missouri/Kansas Communities serves 15 counties in Missouri, Oklahoma, and Kansas, and provides state-of-the-art health care services, specializing in cardiology, orthopedics, neurosciences, and oncology. Mercy Health Southwest Missouri/Kansas Communities includes the operations of Mercy Hospital Joplin, Mercy Hospital Fort Scott, Mercy Hospital Carthage, Mercy Hospital Columbus, and clinics in Joplin and southeastern Kansas. Mercy has also entered into a joint venture with Via Christi Health, a Catholic health care system in Wichita, Kansas, to expand new primary and specialty care services in Pittsburg, Kansas. A new clinic facility is under construction and is expected to open in December 2017.

Joplin is about 70 miles southwest of Springfield. Its service area includes nine counties in southeast Kansas, northeast Oklahoma and southwest Missouri, with a total population of about 372,000. Services are provided to Joplin and surrounding areas by Mercy Hospital Joplin. The hospital and medical office buildings in the Joplin community were destroyed by an EF-5 tornado in May 2011. After the disaster, Mercy Hospital Joplin operated a component hospital from 2012 to 2015. In April 2015, Mercy opened the new Joplin hospital and clinic. The new facility is comprised of an eight-story patient tower licensed for 208 beds with an additional 32 psych beds on a separate campus. Attached to the bed tower are four stories of treatment space for hospital-based outpatient services and physician clinic space to support the multi-specialty medical group. For two consecutive years, Mercy Hospital Joplin has been awarded a Leapfrog Safety Grade A.

The Fort Scott service area includes three counties in southeast Kansas, with a population of approximately 64,500. Mercy serves the region through Mercy Hospital Fort Scott and 17 Mercy Clinic practices. Mercy Hospital Fort Scott is a general, acute care hospital that provides essential primary and limited secondary inpatient services and skilled level care services in southeastern Kansas. In 2016, the Fort Scott Clinic entered into a joint venture relationship with Via Christi to develop a new primary care clinic in Pittsburg, Kansas. Currently the new joint venture clinic has four providers with plans to expand up to a total of 10 providers after the new clinic construction is completed in December 2017.

The area is also served by Mercy Hospital Carthage (previously Mercy McCune-Brooks Hospital) in Carthage, Missouri, Mercy Hospital Columbus (previously Mercy Maude Norton Hospital) in Columbus, Kansas, both of which have 25 beds and 67 Mercy Clinic practices. Mercy Hospital Carthage has a 4-star rating from CMS.

The Joplin Clinic consists of 116 integrated physicians and 49 advanced practitioners and provides over 312,000 clinic visits annually. Primary care is comprised of 42 providers (23 physicians and 19 advanced practitioners). The Fort Scott Clinic consists of 30 providers (13 physicians and 17 advanced practitioners) and provides over 57,000 clinic visits annually. Primary care is comprised of 20 providers (eight physicians and 12 advanced practitioners).

Patient Utilization. The following table provides patient utilization information for Mercy Health Southwest Missouri/Kansas Communities for the fiscal years ended June 30, 2017, 2016, and 2015:

	2017	2016	2015
Staffed beds – acute[(A)]	179	308	320
Discharges – total	12,956	12,873	11,853
Discharges – acute	10,765	10,780	9,960
Patient days – acute	50,035	47,057	41,303
Length of stay (days) – acute	4.6	4.4	4.1
Provider visits	360,798	344,188	321,625
Outpatient visits	288,409	288,011	242,426
Emergency room visits	65,391	64,662	60,633
Surgeries	7,296	7,470	6,926

(A) In FY2017, Mercy transitioned the bed statistic from available to staffed. FY2017 reflects staffed acute beds, while FY2016 and FY2015 reflect available acute beds.

Population. The total population in 2016 for the Joplin service area was 371,711. By 2021, the population is expected to increase by 1% to 374,623. In 2016, 17% of the population was over age 65 and the median age of the population was 40. *Source: Sg2 Market Demographics; Nielsen zip code data, 2016*

The total population in 2016 for the Fort Scott service area was 64,413. By 2021, the population is expected to remain fairly consistent, increasing to 64,530. In 2016, 17% of the population was over age 65 and the median age of the population was 42. *Source: Sg2 Market Demographics; Nielsen zip code data, 2016*

The total population in 2016 for the Carthage service area was 176,240. By 2021, the population is expected to increase by 1% to 178,455. In 2016, 16% of the population was over age 65 and the median age of the population was 38. *Source: Sg2 Market Demographics; Nielsen zip code data, 2016*

Employment. Largest employers provided by the Joplin Chamber of Commerce:

Company	Industry	Staff
Freeman Health System	Health Care	3,382
Mercy Hospital Joplin	**Health Care**	**1,400**
Joplin School District	Education	1,200
Leggett & Platt Incorporated	Manufacturing	1,196
Sunbeam Products, Inc.	Manufacturing	1,050
Downstream Casino Resort	Gambling	1,019
TAMKO Building Products, Inc.	Manufacturing	1,000

Source: Joplin Area Chamber of Commerce, May 2014

Largest employers in the Fort Scott area as listed by the Fort Scott Area Chamber of Commerce:

Company	Industry	Staff
Mercy Hospital Fort Scott	**Health Care**	**570**
Cigna	Insurance	410
Ward/Kraft, Inc.	Manufacturing	330
USD-234 School District	Education	320
Peerless Products, Inc.	Manufacturing	260
Valu Merchandisers	Wholesale Grocers	250
Firstsource Solutions	Business Management	245

Source: Fort Scott Area Chamber of Commerce, 2016

Mercy Health Fort Smith Communities

Overview. Mercy's presence in the Fort Smith area covers eight counties in west central Arkansas and five counties in east central Oklahoma. The population for the service area is approximately 445,000. Mercy serves the region through Mercy Hospital Fort Smith, Mercy Orthopedic Hospital Fort Smith, Mercy Hospital Booneville, Mercy Hospital Ozark, Mercy Hospital Paris and Mercy Hospital Waldron, as well as 50 Mercy Clinic practices. Mercy Health Fort Smith holds a CMS 4-star rating, and a Leapfrog Safety Grade A.

Mercy serves as a leader in the region for women's and children's services, operating the only Level III NICU in the region. Other top service lines for the hospital include a newly added 42-bed orthopedic hospital campus, oncology and cardiology.

Mercy Clinic Fort Smith Communities include 135 integrated physicians, with 33 providing primary care and an additional 45 advanced practitioners. Together they provide over 376,000 clinic visits annually.

Patient Utilization. The following table provides patient utilization information for the fiscal years ended June 30, 2017, 2016, and 2015:

	2017	2016	2015
Staffed beds – acute(A)	230	379	422
Discharges – total	16,749	16,604	16,369
Discharges – acute	15,622	15,536	15,191
Patient days – acute	65,066	65,957	65,690
Length of stay (days) – acute	4.2	4.2	4.3
Provider visits	399,469	376,811	359,490
Outpatient visits	192,462	178,952	164,700
Emergency room visits	72,995	71,209	70,764
Surgeries	23,847	23,742	22,797

(A) In FY2017, Mercy transitioned the bed statistic from available to staffed. FY2017 reflects staffed acute beds, while FY2016 and FY2015 reflect available acute beds.

Population. The total population for 2016 for the Fort Smith service area was 445,498. By 2021, the population is expected to grow slightly to 446,583. In 2016, 17% of the population was over 65 and the median age of the population was 42. S*ource: Sg2 Market Demographics, Nielsen zip code data, 2016*

Employment. Largest employers in the Fort Smith area as provided by the Fort Smith Comprehensive Annual Financial Report:

Company	Industry	Staff
O.K. Industries, Inc.	Poultry Processing Plant	3,235
Mercy Hospital Fort Smith	**Health Care**	**2,300**
Baldor Electric Company	Motors and Generators	1,942
Fort Smith Public Schools	Education	1,773
Sparks Health System	Health Care	1,578
ArcBest Corporation	Freight and Logistics	1,243
City of Fort Smith	Government	936

Source: Fort Smith Comprehensive Annual Financial Report, December 2015, posted June, 2016 (www.fortsmithar.gov/Finance)F

Mercy Health Northwest Arkansas Communities

Overview. Mercy Health Northwest Arkansas Communities, located in Rogers, Arkansas, is the hub of our services in Northwest Arkansas. The service area encompasses four counties in northwest Arkansas as well as two counties in southwest Missouri. A population of approximately 590,000 is served through Mercy Hospital Northwest Arkansas and 45 Mercy Clinic practices.

Mercy Hospital Northwest Arkansas provides a full range of inpatient services in the rapidly growing northwest corner of Arkansas. Hospital services offered include cardiovascular surgery, interventional cardiology, general surgery, obstetrics, neonatal intensive care (level IIIA), pediatrics, diagnostic imaging, and rehabilitation services.

Mercy Health Northwest Arkansas Communities has focused intently on quality, safety and service in recent years. Those efforts are reflected in a multitude of awards and recognitions received including a CMS 4-star rating and a Leapfrog Safety Grade A. Some notable recent achievements include Chest Pain Accreditation with percutaneous coronary intervention (PCI), Total Joint Program Certification (through Joint Commission), and Bariatric Center of Excellence.

Mercy Hospital Northwest Arkansas began a $247 million expansion plan in 2016. The plan includes a new patient tower that will take the hospital from 200 beds to over 300 beds in 2019; will create multiple primary care and specialty clinic locations; is expected to create 1,000 new health care jobs, including the recruitment of 100 new providers; will bring enhancements to the hospital's specialty care services, including the heart and vascular center and women's and children's services; and will result in the establishment of an internal medicine residency program at the University of Arkansas for Medical Sciences in partnership with the Veterans Health Care System of the Ozarks in Fayetteville. The program is expected to provide training to eight residents the first year, then grow to have 24 residents in three years.

Mercy's Northwest Arkansas Communities continues to increase its market share in both inpatient and outpatient services and recently was recognized by National Research Corporation.

Offering over 20 specialties, Mercy Clinic is an integrated medical group that includes 114 physicians (including 32 primary care providers), 58 advanced practitioners, nine physician assistants, eight behavioral health providers, and four audiologists, for a total of 193 providers serving the community. Clinic visits in fiscal year 2017 approximated 500,000, with projected growth to 520,000 visits in fiscal 2018.

Patient Utilization. The following table provides patient utilization information for the fiscal years ended June 30, 2017, 2016, and 2015:

	2017	2016	2015
Staffed beds – acute(A)	135	178	147
Discharges – total	11,235	10,937	10,376
Discharges – acute	11,235	10,800	10,065
Patient days – acute	40,526	39,875	35,099
Length of stay (days) – acute	3.6	3.7	3.5
Provider visits	535,503	511,115	472,901
Outpatient visits	216,945	208,579	172,172
Emergency room visits	61,433	57,147	53,492
Surgeries	11,102	10,314	9,940

(A) In FY2017, Mercy transitioned the bed statistic from available to staffed. FY2017 reflects staffed acute beds, while FY2016 and FY2015 reflect available acute beds.

Population. The total population in 2016 for the Northwest Arkansas service area was 589,563. By 2021, the population is expected to grow by 6% to 624,354. In 2016, 14% of the population was over age 65 and the median age of the population was 41. S*ource: Sg2 Market Demographics, Nielsen zip code data, 2016*

Employment. Largest employers in Northwest Arkansas as listed with the Rogers-Lowell Area Chamber of Commerce:

Company	Industry	Staff
Walmart	Retail (Headquarters)	18,000+
J.B. Hunt	Freight Carrier (Headquarters)	3,000
Rogers Public School District	Education	2,100
Tyson Foods, Inc.	Meat & Poultry Processing	1,900
Mercy Hospital NW Arkansas	**Health Care**	**1,800**
Bentonville School District	Education	1,800
Simmons Foods, Inc.	Poultry Processing	1,500

Source: Arkansas Economic Development Commission and various community and company web pages (www.arkansasedc.com)

Mercy Health Sponsored Community Ministries

Mercy Ministries of Laredo. Mercy Ministries of Laredo ("MML"), in the tradition of the Sisters of Mercy, strives to address the needs of all persons – especially those who are economically poor and marginalized – by providing primary health care, health education and social services in Laredo, Texas and surrounding communities. The Ministry demonstrates special concern for the needs of women and children while promoting family values and collaborates with other providers and partners who share in Mercy's mission and values. MML includes two vital ministries: Mercy Clinic in Laredo and Casa de Misericordia. Mercy Clinic in Laredo is the only faith-based provider of primary health care services to the uninsured and underinsured residents of the area and focuses on education, prevention, early detection, health practices and disease self-management. Casa de Misericordia is a domestic violence shelter providing comprehensive services to abused women and their children. The shelter serves over 200 women and almost 600 children annually.

Mercy Family Center. Mercy Family Center, founded in 1992, is a multidisciplinary outpatient behavioral health clinic for children, adolescents and their families providing quality assessment and intervention services that are accessible to people of all income levels. One of their ministries, Mercy Learning Center, provides academic support to students identified with learning style differences. Mercy Family Center has locations in Metairie, Mandeville and the greater New Orleans area in Louisiana. Mercy Family Center is a primary referral site for the identification and treatment of Attention Deficit/Hyperactivity Disorder (AD/HD), Autism Spectrum Disorders, and other childhood disorders. Treatment emphasizes behavior change, problem-solving and promotion of self-esteem for the individual and the family.

Project Fleur-de-lis, a program created by Mercy Family Center, is an intermediate and long-term school-based mental health service model for children who have been exposed to traumatic events as a result of natural and man-made disasters. Project Fleur-de-lis is nationally and internationally recognized as a resource for development of programs that assist communities to recover from traumatic events. Mercy Family Center has been involved with the communities affected by hurricanes Katrina and Rita, the BP Oil Disaster, the Joplin, Missouri tornado, the Fukushima, Japan tsunami and nuclear disaster, Super Storm Sandy, the Sandy Hook Elementary School shootings, the Nairobi, Kenya mall attack, and the Orlando nightclub attack.

Mississippi Health Advocacy Program. Established in 1992 by a grant from Mercy Health, the Mississippi Health Advocacy Program ("MHAP") is a non-profit, non-partisan public interest health advocacy organization. MHAP combines research, analysis and grass-roots organizing to improve health policies, practices and funding in Mississippi, especially in support of the state's poor and underserved population. MHAP promotes health system change by developing and monitoring implementation of innovative health and human services policies. MHAP works to make health policy and funding patterns more responsive to health needs by providing data and policy information to lawmakers through testimony, position papers and informal discussions throughout the legislative process.

The program also provides information and support to front-line workers and communities as they work to address problems at the local level. Health Help Mississippi is MHAP'S response to Mississippi families who are struggling to navigate the health care marketplace. While the program continues to provide consumers with information and direct one-on-one assistance in obtaining and retaining health insurance, Health Help Mississippi is working to build a community collaborative with the goal of getting and keeping consumers enrolled in health coverage. By providing new enrollees with information about how to best use their coverage and assisting them if they encounter problems using their health insurance, Health Help is working to protect both the physical and economic health of Mississippi families.

Cooper-Anthony Mercy Child Advocacy Center. The Cooper-Anthony Mercy Child Advocacy Center ("CAMCAC"), founded in 2003, is one of 15 Child Advocacy Centers in Arkansas. In 2012, the CAMCAC was awarded the highest level of membership with the National Children's Alliance, the accrediting agency for Child Advocacy Centers. The CAMCAC serves approximately 600 children annually in Hot Springs and the surrounding counties. CAMCAC expanded its service area in 2015 by opening a satellite center in Mena, Arkansas, and has already served 70 children.

The CAMCAC is a place where a comprehensive and coordinated approach is taken in response to allegations of child abuse. Children who may have been abused or who are witness to violent crime are referred by the Arkansas State Police, Division of Children and Family Services or law enforcement, for a recorded forensic interview, and evidentiary exam. At the CAMCAC, specially trained child interviewers, investigators, law enforcement and medical personnel form a team to make decisions about investigation, treatment and prosecution of child abuse cases. This approach proposes that children receive child-focused services in a child-friendly environment – one in which the child's needs come first. Services provided include forensic interviewing, medical examinations, and child advocacy.

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APPENDIX B
AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF MERCY HEALTH SYSTEM
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

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Consolidated Financial Statements

Mercy Health
Years Ended June 30, 2017 and 2016
With Report of Independent Auditors

Ernst & Young LLP

Building a better
working world

Mercy Health

Consolidated Financial Statements

Years Ended June 30, 2017 and 2016

Contents

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Report of Independent Auditors

The Board of Directors
Mercy Health

We have audited the accompanying consolidated financial statements of Mercy Health, which comprise the consolidated balance sheets as of June 30, 2017 and 2016, and the related consolidated statements of operations, changes in net assets and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the 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 entity'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 financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

A member firm of Ernst & Young Global Limited

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Mercy Health at June 30, 2017 and 2016, and the consolidated results of its operations, changes in net assets, and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Ernst & Young LLP

September 22, 2017

A member firm of Ernst & Young Global Limited

Mercy Health

Consolidated Balance Sheets

(In Thousands)

	June 30 2017	June 30 2016
Assets		
Current assets:		
Cash and cash equivalents	**$ 523,451**	$ 543,962
Accounts receivable, net of allowance for uncollectible receivables of $146,144 and $142,518 in 2017 and 2016, respectively	**659,818**	594,873
Inventories	**104,510**	106,544
Short-term investments	**32,610**	34,160
Other current assets	**148,484**	122,316
Total current assets	**1,468,873**	1,401,855
Investments	**2,093,175**	1,753,214
Property and equipment, net	**2,941,387**	2,630,379
Other assets	**579,686**	563,163
Total assets	**$ 7,083,121**	$ 6,348,611
Liabilities and net assets		
Current liabilities:		
Current maturities of long-term obligations	**$ 13,449**	$ 7,167
Accounts payable	**228,872**	170,487
Accrued payroll and related liabilities	**428,141**	418,323
Accrued liabilities and other	**250,878**	247,609
Total current liabilities	**921,340**	843,586
Insurance reserves and other liabilities	**455,828**	449,485
Pension liabilities	**363,384**	436,661
Long-term obligations, less current maturities	**1,524,860**	1,359,288
Total liabilities	**3,265,412**	3,089,020
Net assets:		
Unrestricted	**3,713,187**	3,168,997
Restricted	**104,522**	90,594
Total net assets	**3,817,709**	3,259,591
Total liabilities and net assets	**$ 7,083,121**	$ 6,348,611

See accompanying notes.

Mercy Health

Consolidated Statements of Operations

(In Thousands)

	Year Ended June 30	
	2017	**2016**
Operating revenues:		
Patient service revenues (net of contractuals and discounts)	**$5,305,455**	$4,983,335
Provision for uncollectible receivables	**(330,078)**	(215,926)
Net patient service revenues	**4,975,377**	4,767,409
Capitation revenues	**258,899**	234,240
Other operating revenues	**293,554**	299,586
Total operating revenues	**5,527,830**	5,301,235
Operating expenses:		
Salaries and benefits	**3,083,012**	3,000,028
Supplies and other	**1,863,582**	1,784,546
Medical claims expense	**84,169**	97,027
Interest	**33,432**	35,394
Depreciation and amortization	**295,763**	311,445
Impairment and restructuring losses, net	**–**	6,351
Total operating expenses	**5,359,958**	5,234,791
Operating income	**167,872**	66,444
Nonoperating gains (losses):		
Investment returns, net	**158,254**	(38,932)
Realized and unrealized gains (losses) on interest rate swaps, net	**20,797**	(36,001)
Inherent contribution of acquired entities	**120,206**	–
Other, net	**(2,244)**	2,978
Total nonoperating gains (losses), net	**297,013**	(71,955)
Excess (deficit) of revenues over expenses	**464,885**	(5,511)
Other changes in unrestricted net assets:		
Pension liability adjustments	**66,706**	(82,662)
Net assets released from restrictions for property acquisitions	**10,104**	8,703
Other	**2,495**	(4,786)
Increase (decrease) in unrestricted net assets	**$ 544,190**	$ (84,256)

See accompanying notes.

Mercy Health

Consolidated Statements of Changes in Net Assets
(In Thousands)

	Year Ended June 30	
	2017	**2016**
Increase (decrease) in unrestricted net assets	**$ 544,190**	$ (84,256)
Restricted net assets:		
Pledges, bequests, and gifts for specific purposes	**24,823**	16,745
Investment returns, net	**2,548**	(619)
Net assets released from restrictions	**(20,691)**	(20,784)
Contribution of restricted net assets of acquired entities	**6,725**	–
Other	**523**	(516)
Increase (decrease) in restricted net assets	**13,928**	(5,174)
Increase (decrease) in net assets	**558,118**	(89,430)
Net assets at beginning of year	**3,259,591**	3,349,021
Net assets at end of year	**$ 3,817,709**	$ 3,259,591

See accompanying notes.

Mercy Health

Consolidated Statements of Cash Flows
(In Thousands)

	Year Ended June 30	
	2017	**2016**
Operating activities		
Change in net assets	**$ 558,118**	$ (89,430)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Pension liability adjustments	**(66,706)**	82,662
Pledges, bequests, and gifts for specific purposes	**(24,823)**	(16,745)
Inherent contribution of acquired entities	**(126,931)**	–
Unrealized (gain) loss on interest rate swap	**(30,154)**	25,525
Depreciation and amortization	**295,763**	311,445
Provision for uncollectible receivables	**330,078**	215,926
Net (gain) loss on disposal of property	**(1,047)**	1,975
Changes in assets and liabilities:		
Accounts receivable	**(342,045)**	(229,132)
Investments classified as trading	**(154,961)**	(20,874)
Inventories and other current assets	**9,217**	(22,824)
Accounts payable	**36,056**	43,098
Accrued liabilities and other	**(68,526)**	37,266
Insurance reserves and other liabilities	**13,284**	4,930
Net cash provided by operating activities	**427,323**	343,822
Investing activities		
Additions to property and equipment, net	**(321,613)**	(230,378)
Net change in notes receivable and other assets	**(2,865)**	(11,524)
Net change in alternative investments	**(146,525)**	124,102
Cash received from contribution of St. Anthony's Medical Center	**10,132**	–
Net cash used in investing activities	**(460,871)**	(117,800)

Mercy Health

Consolidated Statements of Cash Flows (continued)
(In Thousands)

	Year Ended June 30	
	2017	**2016**
Financing activities		
Proceeds from issuance of long-term debt, net of original issue discount and financing costs	**$ 81,790**	$ –
Principal payments on long-term obligations	**(93,576)**	(60,252)
Pledges, bequests, and gifts for specific purposes	**24,823**	16,745
Net cash provided by (used in) financing activities	**13,037**	(43,507)
Net (decrease) increase in cash and cash equivalents	**(20,511)**	182,515
Cash and cash equivalents at beginning of year	**543,962**	361,447
Cash and cash equivalents at end of year	**$ 523,451**	$ 543,962
Supplemental disclosures		
Cash paid for interest	**$ 36,182**	$ 37,504

See accompanying notes.

1. Organization

Mercy Health (Mercy) was incorporated in September 1986 and is the sole corporate member of various health care corporations. Mercy is sponsored by Mercy Health Ministry, a Public Juridic Person whose board members include Sisters of Mercy and lay leaders. Prior to sponsorship by Mercy Health Ministry, Mercy was sponsored by the Institute of the Sisters of Mercy of the Americas, Regional Community of St. Louis, a religious order of the Roman Catholic Church.

Mercy and each of its subsidiaries listed below are incorporated as not-for-profit corporations under the laws of the state of Missouri and are tax-exempt organizations as described in Section 501(c)(3) of the Internal Revenue Code (the Code).

Mercy's ministry office (headquarters) is located in St. Louis, Missouri. The Health System (Health System) comprises the following corporations and their subsidiaries:

- Mercy Health; St. Louis, Missouri
- Mercy Health Fort Smith Communities; Fort Smith, Arkansas
- Mercy Health Northwest Arkansas Communities; Rogers, Arkansas
- Mercy Health East Communities; St. Louis, Missouri
- Mercy Health Springfield Communities; Springfield, Missouri
- Mercy Health Oklahoma Communities, Inc.; Oklahoma City and Ardmore, Oklahoma
- Mercy Health Southwest Missouri/Kansas Communities; Joplin, Missouri, and Fort Scott, Kansas

All significant intercompany transactions and balances have been eliminated in consolidation.

(Tables in Thousands)

1. Organization (continued)

Significant Acquisitions and Divestitures

On June 1, 2017, the Health System entered into a change in sponsorship agreement with St. Anthony's Medical Center (St. Anthony's), a not-for-profit hospital located in Arnold, Missouri. The acquisition provided Mercy's patients with access to a greater number of specialists and enhanced the coordination of health services. This transaction was accounted for as an acquisition in accordance with Accounting Standards Codification (ASC) Topic 958-805, *Business Combinations – Not-for-Profit Entities*, and acquired assets and liabilities were recorded at fair value, a Level 3 measurement.

The following table summarizes the acquisition date fair values of the assets acquired and liabilities assumed:

Assets acquired:	
Cash and investments	**$ 59,247**
Accounts receivable	**52,978**
Inventory, prepaid expenses, and other current assets	**19,511**
Property, plant, and equipment	**284,111**
Other long-term assets	**13,658**
Total assets acquired	**429,505**
Liabilities assumed:	
Accounts payable	**22,329**
Accrued and other liabilities	**96,605**
Long-term obligations	**183,640**
Total liabilities assumed	**302,574**
	$ 126,931

The fair value of net assets of $126.9 million in the preceding table was recognized in the consolidated statement of operations and changes in net assets for the year ended June 30, 2017, as a nonoperating inherent contribution of acquired entities of $120.2 million and contribution of restricted net assets of acquired entities of $6.7 million.

1. Organization (continued)

The operating results of St. Anthony's are included in the Health System's consolidated financial statements from the date of acquisition. Operating revenues of the entities acquired in fiscal 2017 included in the consolidated statement of operations were $38.6 million for the year ended June 30, 2017.

On an unaudited pro forma basis, had the Health System completed the fiscal 2017 St. Anthony's acquisition as of the beginning of each fiscal year presented, the acquisitions would have reported $473.7 million and $482.3 million in additional operating revenues in fiscal years 2017 and 2016, respectively, and $(58.6 million) and $(11.5 million) in reduction of excess of revenues over expenses for the years ended June 30, 2017 and 2016, respectively. However, the unaudited pro forma information is not necessarily indicative of the historical results that would have been obtained had the transactions actually occurred on those dates, nor of future results.

2. Summary of Significant Accounting Policies

Cash and Cash Equivalents

Investments in highly liquid debt instruments with a maturity of three months or less when purchased, excluding amounts classified as investments, are considered cash equivalents. The Health System routinely invests in money market mutual funds. These funds generally invest in highly liquid U.S. government and agency obligations. Financial instruments that potentially subject the Health System to concentrations of credit risk include the Health System's cash and cash equivalents. The Health System places its cash and cash equivalents with institutions with high credit quality. However, at certain times, such cash and cash equivalents are in excess of government-provided insurance limits.

Inventories

Inventories, which consist principally of medical supplies and pharmaceuticals, are stated at the lower of cost or market. Cost is determined principally using the average cost method.

Property and Equipment

Property and equipment are stated at cost or, if donated, at fair value at the date of receipt.

2. Summary of Significant Accounting Policies (continued)

Depreciation is provided using the straight-line method over the estimated useful lives of land and leasehold improvements, buildings, and equipment. The estimated useful lives are as follows: land and leasehold improvements, 2 to 40 years; buildings, 3 to 80 years; and equipment, 2 to 20 years.

Property and equipment under capital lease obligations are amortized using the straight-line method over the lease term or the estimated useful life of the leased asset, whichever period is shorter. Such amortization is included with depreciation on the accompanying consolidated statements of operations.

Asset Impairment

The Health System periodically evaluates the carrying value of its long-lived assets for impairment when indicators of impairment are identified. These evaluations are primarily based on the estimated recoverability of the assets' carrying value based on undiscounted cash flows. Impairment write-downs are recognized in operating income at the time the impairment is identified.

Other Assets

Other assets consist primarily of investment securities held under deferred compensation arrangements, land held for future development, notes receivable, and investments in unconsolidated affiliates. The equity method of accounting is used for investments in unconsolidated affiliates where the Health System does not have significant control or where ownership is 50% or less. The equity income or loss on these investments is recorded in other operating revenues on the consolidated statements of operations.

Goodwill

The Health System records goodwill arising from a business combination as the excess of purchase price and related costs over the fair value of identifiable tangible and intangible assets acquired and liabilities assumed. The Health System has six reporting units. The Health System annually reviews the carrying value of goodwill for impairment. In addition, a goodwill impairment assessment is performed whenever circumstances indicate a potential impairment may exist. If such circumstances suggest that the recorded amounts of any of these assets cannot be recovered, the carrying values of such assets are reduced to fair value. If the carrying value of any of these assets is impaired, a material charge may be incurred to results of operations.

2. Summary of Significant Accounting Policies (continued)

Net Assets

The Health System's net assets and activities are classified into two classes, restricted and unrestricted, based on the existence or absence of donor-imposed restrictions. Restricted net assets include temporarily restricted net assets (76% and 75% of restricted net assets at June 30, 2017 and 2016, respectively), whose use by the Health System has been limited by donors to a specific time period or for a particular purpose, and permanently restricted net assets (24% and 25% of restricted net assets at June 30, 2017 and 2016, respectively), which must be maintained by the Health System in perpetuity with the related investment income available to support the donor-designated purpose. The general nature of the donor restrictions is to support the Health System's indigent care mission and health education programs and to assist with capital projects.

Net Patient Service Revenues and Patient Accounts Receivable

Patient service revenues (net of contractuals and discounts) are recorded during the period the health care services are provided and are reported at estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive revenue adjustments due to future audits, reviews, and investigations. Estimates of contractual allowances under managed care health plans are based upon the services provided, historical payment rates, and the payment terms specified in the related contractual agreements. Revenues related to uninsured patients have discounts applied in accordance with the Health System's policy. Net patient service revenue is reported net of the provision for uncollectible receivables.

Patient accounts receivable that are deemed uncollectible, including those placed with collection agencies, are initially charged against the allowance for uncollectible accounts in accordance with collection policies of the Health System and, in certain cases, are reclassified to charity care if deemed to otherwise meet the Health System's charity care policy. The provision for uncollectible receivables is based upon management's assessment of historical and expected net collections considering business and economic conditions, trends in health care coverage, and other collection indicators. Periodically throughout the year, management assesses the adequacy of the allowance for uncollectible receivables based upon the payor composition and aging of receivables with consideration of the historical payment and write-off experience by payor category. The results of these reviews are then used to make any modifications to the provision for uncollectible receivables to establish an appropriate allowance for uncollectible receivables. After satisfaction of amounts due from insurance, the Health System follows established guidelines for placing past-due patient balances with collection agencies.

2. Summary of Significant Accounting Policies (continued)

Retroactive third-party adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered, and such amounts are adjusted in future periods as adjustments become known. Adjustments to revenue based on prior periods increased net patient service revenues by approximately $20.8 million and $9.7 million in 2017 and 2016, respectively, due to revised estimates consisting primarily of retroactive third-party adjustments for years that are subject to audits, reviews, and investigations.

Capitation Revenues and Medical Claims Expense

Mercy has entered into various risk-based contracts with certain health maintenance organizations (HMOs). Under these arrangements, Mercy receives capitated payments based on the demographic characteristics of covered members in exchange for agreeing to provide certain medical services to those members. These payments are reflected as capitation revenues on the consolidated statements of operations. Mercy recognizes medical claims expense for services provided to members from out-of-network providers. The medical claims expense represents claims paid, claims reported but not yet paid, and an estimate of claims incurred but not reported (IBNR). The claims IBNR amount is estimated based upon prior experience modified for current trends. The claims IBNR amount was $9.6 million and $10.7 million at June 30, 2017 and 2016, respectively, and was included in accrued liabilities and other on the consolidated balance sheets.

Services to the Community

In support of its mission, the Health System provides care to patients who personally bear a significant financial burden relative to their health care services and are deemed to be medically indigent. Traditional charity care includes the cost of services provided to persons who cannot afford health care because of the financial burden of the health care services and/or who are uninsured or underinsured. Traditional charity care also includes services for which the patient may not participate in the charity care process but is otherwise deemed to meet the Health System's charity care policy.

Because the Health System does not pursue collection of amounts determined to qualify as charity care, such amounts are not reported as net patient service revenue. The cost of traditional charity care was $160.7 million and $207.9 million in 2017 and 2016, respectively. The Health System estimates cost of charity care using a calculated ratio of costs to charges by hospital and clinic and applies that ratio to the relevant gross charges, less any payments received.

2. Summary of Significant Accounting Policies (continued)

Health care services to patients under government programs, such as Medicare and Medicaid, are also considered part of the Health System's benefit provided to the community since a portion of such services are reimbursed at amounts less than cost. In addition, the Health System maintains community benefit programs designed to positively impact the health status of the communities served. These services include various clinics and outreach programs (designed to deliver health care services to underserved communities), medical education and research activities, and direct cash and in-kind charitable contributions.

These community benefit programs also include the activities of Mercy Ministries of Laredo (MML), Mercy Caritas, Catherine's Fund, and Mercy Family Center which are administered by the Health System. These programs finance charitable activities to help meet the needs of the poor, sick, and uneducated.

Investments

Investments include assets set aside through resolution by the Board of Directors for future long-term purposes. In addition, investments include amounts contributed by donors with stipulated restrictions. Investments also include amounts held by trustees under bond indenture agreements, as well as amounts held under the terms of other trust agreements. These assets include investments in equity securities and debt securities, which are measured at fair value. The cost of securities sold is based on the specific-identification method. The Health System accounts for its ownership interest in alternative investments under the equity method. Management has utilized the best available information for reported alternative investment values, which in some instances are valuations as of an interim date.

For purposes of recognizing investment returns as a component of excess of revenues over expenses, substantially all investments, other than alternative investments, are considered to be trading securities. Unrestricted investment returns, including alternative investments, are included in nonoperating gains and losses on the consolidated statements of operations. Investment returns arising from donor-restricted resources are reported as a direct increase or decrease in restricted net assets on the consolidated statements of changes in net assets, consistent with the donors' restrictions. In addition, cash flows from the purchases and sales of marketable securities designated as trading are reported as a component of operating activities on the accompanying consolidated statements of cash flows.

2. Summary of Significant Accounting Policies (continued)

Derivative Financial Instruments

Derivative financial instruments are contracts between the Health System and a third party (counterparty) that provide for economic payments between the parties based on changes in a defined market security or index or combination thereof. The Health System's derivative financial instruments are primarily interest rate swap agreements utilized as part of its debt management process. The Health System recognizes all derivative financial instruments as either assets or liabilities on the consolidated balance sheets at fair value. The Health System does not offset fair value amounts recognized for derivative financial instruments and fair value amounts posted as cash collateral. The Health System does not account for any of its interest rate swap agreements as hedges, and accordingly, realized and unrealized gains (losses) and net settlement payments are reflected as a component of nonoperating gains and losses on the accompanying consolidated statements of operations.

Pledges, Bequests, and Gifts for Specific Purposes

Unconditional promises to give cash and other assets are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the gift is received. Gifts are recorded as an increase in restricted net assets if they are received with donor stipulations that limit the use of the assets. Upon expenditure in accordance with a donor's restrictions and when the asset is placed in service, net assets restricted for capital acquisitions are reported as direct additions to unrestricted net assets, and assets restricted for operating purposes are reported as an increase in other operating revenues. Donor-restricted contributions for operating purposes whose restrictions are met within the same year as received, and contributions received by donors without restrictions, are reflected as other operating revenues on the accompanying consolidated statements of operations.

Functional Classification of Expenses

The Health System provides general health care services to residents within communities served, including acute inpatient, subacute inpatient, physician, outpatient, ambulatory, long-term, and home care, as well as related general and administrative services.

2. Summary of Significant Accounting Policies (continued)

The Health System does not present expense information by functional classification because its resources and activities are primarily related to providing health care services. Furthermore, since the Health System receives substantially all of its resources from providing health care services in a manner similar to a business enterprise, other indicators contained in these consolidated financial statements are considered important in evaluating how well management has discharged its stewardship responsibilities.

Operating Indicator

The Health System's operating indicator (operating income) includes all unrestricted revenue, gains and other support, and expenses directly related to the recurring and ongoing health care operations during the reporting period. The operating indicator excludes nonoperating gains and losses, pension liability adjustments, inherent contribution of acquired entities, and net assets released from restrictions for property acquisitions.

Performance Indicator

The Health System's performance indicator, excess (deficit) of revenues over expenses, includes all changes in unrestricted net assets other than pension liability adjustments, and net assets released from restrictions for property acquisitions.

Operating and Nonoperating Gains (Losses)

The Health System's primary mission is to meet the health care needs in its market areas by providing general health care services to residents within communities served, including acute inpatient, subacute inpatient, physician, outpatient, ambulatory, long-term, and home care, as well as related general and administrative services. 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 Health System's primary mission are considered to be nonoperating. Nonoperating activities include net investment returns, net realized and unrealized gains (losses) on interest rate swaps, and inherent contribution of acquired entities.

2. Summary of Significant Accounting Policies (continued)

Restructuring, Impairment, and Other Losses

The Health System periodically evaluates property, equipment, goodwill, and certain other intangible assets to determine whether assets may have been impaired. In September 2015, Mercy announced it would shut down Mercy Hospital Independence and Mercy Clinic Independence (Independence), which operated an acute care hospital and physician clinics in Independence, Kansas. The hospital closed in October 2015, and clinic services closed by December 2015. Management determined there were certain property and equipment impairments in 2015, to the extent that the fair values of those assets were less than the underlying carrying values. During the year ended June 30, 2016, Mercy recorded total charges of $6.4 million, relating to asset and goodwill impairments, and changes in business operations, including reorganization and severance costs.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Reclassifications

Certain prior year amounts on the accompanying consolidated financial statements have been reclassified to conform to the 2017 presentation. These reclassifications had no effect on excess (deficit) of revenues over expenses and losses or net assets previously reported.

Federal Income Tax

Primarily all of the Health System entities are recognized by the Internal Revenue Service (IRS) as exempt from federal income tax under Section 501(a) of the Internal Revenue Code as charitable organizations qualifying under Internal Revenue Code Section 501(c)(3), by virtue of IRS determination letters or inclusion in the Official Catholic Directory. The Health System completed an analysis of its tax positions in accordance with applicable accounting guidance and determined that no amounts were required to be recognized on the consolidated financial statements at June 30, 2017 or 2016.

2. Summary of Significant Accounting Policies (continued)

Accounting Pronouncements Adopted

In April 2015, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. (ASU) 2015-03, *Interest – Imputation of Interest, Simplifying the Presentation of Debt Issuance Costs*. This guidance simplifies the presentation of debt issuance costs by requiring that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The new guidance became effective for interim and annual periods beginning on or after July 1, 2016 for Mercy. The adoption of the guidance beginning July 1, 2016, had no material effect on Mercy's results of operations, financial condition, cash flows, or financial statement presentation for the June 30, 2017, financial statements.

Accounting Pronouncements Not Yet Adopted

In May 2014, the FASB and International Accounting Standards Board issued ASU 2014-09, *Revenue from Contracts with Customers*, which replaces all existing International Financial Reporting Standards and U.S. GAAP revenue requirements. Mercy is currently evaluating the effects of the standard on its financial statements. The standard is not effective for Mercy until the fiscal year starting July 1, 2018.

In February 2016, the FASB issued ASU 2016-02, *Leases*, which replaces all existing U.S. GAAP lease requirements. Mercy is currently evaluating the effects of the standard on its financial statements. The standard is not effective for Mercy until the fiscal year ending June 30, 2020.

In August 2016, the FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. Mercy is currently evaluating the effects of the standard on its financial statements. The standard is not effective for Mercy until the fiscal year ending June 30, 2019.

In March 2017, the FASB issued ASU 2017-07, *Compensation – Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*. Mercy is currently evaluating the effects of the standard on its financial statements. The standard is not effective for Mercy until the fiscal year ending June 30, 2019.

(Tables in Thousands)

3. Net Patient Service Revenue and Patient Receivables

The following is a summary of the Health System's patient service revenues, net of contractual allowances and discounts (before the provision for uncollectible receivables), by major payor. Medicare and Medicaid managed plans are grouped with Medicare and Medicaid, respectively.

	Year Ended June 30	
	2017	**2016**
Medicare	**$ 1,964,479**	$ 1,896,359
Medicaid	**466,557**	506,055
Managed care/other	**2,640,932**	2,424,701
Self-pay	**233,487**	156,220
	$ 5,305,455	$ 4,983,335

Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. Noncompliance with Medicare and Medicaid laws and regulations can make the Health System subject to significant regulatory action, including substantial fines and penalties, as well as exclusion from the Medicare and Medicaid programs.

The Health System provides health care services through inpatient and outpatient care facilities located in several states. The Health System grants credit to patients in return for health care services rendered to said patients, substantially all of whom are residents of the communities served. The Health System does not require collateral or other security in extending credit to patients; however, it routinely obtains assignment of (or is otherwise entitled to receive) patients' benefits payable under their health insurance programs, plans, or policies (e.g., Medicare, Medicaid, HMOs, and commercial insurance policies). At June 30, 2017 and 2016, approximately 38% and 37%, respectively, of net accounts receivable were collectible from governmental payors (including Medicare and Medicaid), with approximately 48% and 53%, respectively, of net accounts receivable collectible from commercial insurance and managed care payors.

The allowance for uncollectible receivables was approximately $146.1 million and $142.5 million as of June 30, 2017 and 2016, respectively. These balances as a percentage of accounts receivable net of contractual allowances were approximately 18% and 19% as of June 30, 2017 and 2016, respectively. The Health System's allowance for uncollectible receivables covered approximately

(Tables in Thousands)

3. Net Patient Service Revenue and Patient Receivables (continued)

68% and 58% of self-pay patient receivables, including patient responsibility, as of June 30, 2017 and 2016, respectively. The Health System has experienced an increase in write-off trends related to charity driven by loss of employer-sponsored insurance plans and rising patient responsibility balances. The Health System reviews and updates its uninsured discount rate on an annual basis. There have been no significant changes to the charity care policies for the years ended June 30, 2017 or 2016. The Health System does not maintain a material allowance for uncollectible receivables from third-party payors, nor did it have significant write-offs from third-party payors.

The following is a summary of the Health System's allowance for uncollectible receivables activity:

Balance at June 30, 2015	$ 171,523
Provision for uncollectible receivables	215,926
Accounts written off, net of recoveries and other	(244,931)
Balance at June 30, 2016	142,518
Provision for uncollectible receivables	**330,078**
Accounts written off, net of recoveries and other	**(326,452)**
Balance at June 30, 2017	**$ 146,144**

4. Investments

The following is a summary of investments:

	June 30	
	2017	**2016**
Board-designated	**$ 2,043,160**	$ 1,732,798
Bond proceeds held under indenture	–	4,116
Professional liability trust fund	**15,802**	–
Restricted by donor or grantor	**66,823**	50,460
Total investments	**2,125,785**	1,787,374
Less short-term investments	**(32,610)**	(34,160)
	$ 2,093,175	$ 1,753,214

The professional liability trust fund is related to the current year acquisition of St. Anthony's; refer to Note 1.

(Tables in Thousands)

4. Investments (continued)

During fiscal year 2016, the Mercy Investment Committee approved a new Investment Policy Statement which outlines subasset classification targets for both the Mercy Investment Fund, as well as the Pension Plan. Mercy reallocated the Mercy Investment Fund to be in compliance with the new targets, effective as of July 1, 2016. The following is a summary of investments by classification:

	June 30	
	2017	**2016**
Cash and cash equivalents	**$ 136,653**	$ 180,289
Equities:		
Domestic equities	**275,552**	218,369
International equities – developed	**246,014**	182,050
International equities – emerging markets	**78,091**	74,738
Fixed income:		
Corporate bonds	**371,400**	286,711
Government and agencies	**147,372**	171,701
Real assets – commodities	**108,677**	77,375
Mutual funds – multi-asset class	**56,998**	14,979
Alternative investments:		
Hedge funds	**464,497**	403,334
Private equity investment funds	**75,793**	48,266
Private debt investment funds	**106,583**	90,506
Real assets – limited partnerships private energy	**19,954**	7,900
Real assets – limited partnerships real estate	**17,865**	12,583
Other	**20,336**	18,573
	2,125,785	1,787,374
Less short-term investments	**(32,610)**	(34,160)
Total investments	**$ 2,093,175**	$ 1,753,214

(Tables in Thousands)

4. Investments (continued)

The following is a summary of investment returns:

	Year Ended June 30	
	2017	**2016**
Investments:		
Interest and dividends	**$ 23,844**	$ 19,070
Realized gains, net	**39,091**	55,451
Interest expense on Series 2001 bonds	**(2,392)**	(1,578)
Unrealized gains (losses), net	**97,711**	(111,875)
Investment returns included in nonoperating gains (losses), net	**158,254**	(38,932)
Investment returns included in restricted net assets	**2,548**	(619)
Total investment returns	**$ 160,802**	$ (39,551)

The Health System's investments are exposed to various kinds and levels of risk. Fixed income securities expose the Health System to interest rate risk, credit risk, and liquidity risk. As interest rates change, the value of many fixed income securities is affected, particularly those with fixed rates. Credit risk is the risk that the obligor of the security will not fulfill its obligations. Liquidity risk is affected by the willingness of market participants to buy and sell given securities. Equity securities expose the Health System to market risk, performance risk, and liquidity risk. Market risk is the risk associated with major movements of the equity markets, both foreign and domestic. Performance risk is the risk associated with a company's operating performance. Liquidity risk as previously defined tends to be higher for foreign equities and equities related to small capitalization companies.

Certain of the Health System's investments are made through alternative investments, primarily private limited partnership investments (equity, debt, real asset) and absolute return (hedge) funds. These investments provide the Health System with a proportionate share of the investment gains and losses. The fund manager has full discretionary authority (within their given mandate) over the investment decisions and provides the net asset valuation, typically through third-party administrators. The hedge funds and private limited partnership funds present risks similar to those of traditional investments, as well as some additional risks. Due to the fact that these funds are invested through limited partnerships or other limited access-type vehicles, pricing is infrequent and liquidity may also be limited, in some cases, up to 24 months for hedge funds.

4. Investments (continued)

Due to infrequent pricing and illiquidity of underlying investments, it is common practice for private limited partnership funds to require investors to commit to a ten-year investment period, although the distribution of capital is likely to occur prior to the ten-year termination date. Certain hybrid limited partnership funds may invest in liquid securities; however, the investments would be inaccessible for the term of the structure. Terms for these hybrid vehicles could be shorter in duration, lasting up to five years for the full investment and distribution periods. These investments may also employ leverage, which may lead to additional risk of loss. These investments are subject to market risk, default risk, interest rate risk, credit risk, and liquidity risk, as well as various other types of risks. At June 30, 2017, the Health System has commitments to fund $318.9 million in these investments.

At the balance sheet dates, receivables and payables for investment trades not settled are presented with other current assets and accrued liabilities and other. Unsettled sales resulted in receivables due from brokers of $28.7 million and $14.9 million at June 30, 2017 and 2016, respectively. Unsettled buys resulted in payables of $15.8 million and $14.1 million at June 30, 2017 and 2016, respectively.

5. Fair Value Measurements

Fair value is 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. The fair value measurements and disclosures topic of the FASB ASC establishes a fair value hierarchy that prioritizes the inputs used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurement) and the lowest priority to unobservable inputs (Level 3 measurement).

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

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities as of the reporting date.

Level 2 – Pricing inputs other than quoted prices included in Level 1, which are either directly observable or can be derived or supported from observable data as of the reporting date.

(Tables in Thousands)

5. Fair Value Measurements (continued)

Level 3 – Pricing inputs include those that are significant to the fair value of the financial asset or financial liability and are not observable from objective sources. In evaluating the significance of input, the Health System generally classifies assets or liabilities as Level 3 when their fair value is determined using unobservable inputs that individually, or when aggregated with other unobservable inputs, represent more than 10% of the fair value of the assets or liabilities. These inputs may be used with internally developed methodologies that result in management's best estimate of fair value.

Financial assets and financial liabilities measured at fair value on a recurring basis were determined using the following inputs at June 30, 2017:

	Level 1	Level 2	Level 3	Total
Assets				
Investments:				
Cash and cash equivalents	$ 136,653	$ –	$ –	$ 136,653
Equities:				
Domestic equities	275,552	–	–	275,552
International equities – developed	87,220	–	–	87,220
International equities – emerging markets	37,562	–	–	37,562
Fixed income:				
Corporate bonds	9,267	224,584	–	233,851
Government and agencies	7,722	139,650	–	147,372
Real assets – commodities	83,584	–	–	83,584
Mutual funds – multi-asset class	56,998	–	–	56,998
Other	–	4,008	–	4,008
Assets not at fair value:				
Hedge funds				464,497
Private equities				182,376
Real assets				37,819
Commingled funds				361,965
Other				16,328
Total investments				$ 2,125,785
Deferred compensation plan assets:				
Cash and cash equivalents	$ 1,090	$ –	$ –	$ 1,090
Equities – mutual funds	216,792	–	–	216,792
	$ 217,882	$ –	$ –	$ 217,882
Collateral posted on interest rate swap agreements	$ 52,110	$ –	$ –	$ 52,110
Liabilities				
Interest rate swap agreements	$ –	$ 62,906	$ –	$ 62,906

(Tables in Thousands)

5. Fair Value Measurements (continued)

Financial assets and financial liabilities measured at fair value on a recurring basis were determined using the following inputs at June 30, 2016:

	Level 1	Level 2	Level 3	Total
Assets				
Investments:				
Cash and cash equivalents	$ 180,289	$ –	$ –	$ 180,289
Equities:				
Domestic equities	218,369	–	–	218,369
International equities – developed	42,407	–	–	42,407
International equities – emerging markets	43,239	–	–	43,239
Fixed income:				
Corporate bonds	65,539	133,728	–	199,267
Government and agencies	–	171,701	–	171,701
Real assets – commodities	59,091	–	–	59,091
Mutual funds – multi-asset class	14,979	–	–	14,979
Other	–	2,312	–	2,312
Assets not at fair value:				
Hedge funds				403,334
Private equities				138,772
Real assets				20,483
Commingled funds				276,870
Other				16,261
Total investments				$ 1,787,374
Deferred compensation plan assets:				
Cash and cash equivalents	$ 505	$ –	$ –	$ 505
Equities – mutual funds	193,023	–	–	193,023
	$ 193,528	$ –	$ –	$ 193,528
Collateral posted on interest rate swap agreements	$ 81,570	$ –	$ –	$ 81,570
Liabilities				
Interest rate swap agreements	$ –	$ 88,967	$ –	$ 88,967

5. Fair Value Measurements (continued)

Deferred compensation plan assets and interest rate swaps (assets) are reported in other assets, and interest rate swaps (liabilities) are reported in insurance reserves and other liabilities on the consolidated balance sheets.

The following is a description of the Health System's valuation methodologies for assets and liabilities measured at fair value. Fair value for Level 1 is based upon quoted market prices. The fair value of certain Level 2 securities was determined using multiple price types of bid/offer, last traded, settlement, evaluated, and the official primary exchange close-time pricing, provided by third-party pricing services if quoted market prices were not available. The quality of the prices received is evaluated through price comparisons and tolerance level checks. These Level 2 investments include corporate bonds, treasuries and agencies. The fair values of the interest rate swap contracts, also Level 2 measurements, are determined based on the present value of expected future cash flows using discount rates appropriate with the risks involved. The valuations reflect a credit spread adjustment to the London Interbank Offered Rate (LIBOR) discount curve in order to reflect non-performance risk.

The credit spread adjustment is derived from the Health System's and other comparable rated entities' bonds priced in the market and adjusted with a gross up of the tax-exempt spread to a taxable equivalent spread for the Health System and counterparty bond trading levels (or credit default swap spreads).

The carrying values of cash and cash equivalents, accounts receivable, pledges receivable, and current liabilities are reasonable estimates of their fair values due to the short-term nature of these financial instruments. The fair value of the Health System's fixed rate bonds is based on quoted market prices for the same or similar issues and approximates $710.8 million and $670.7 million as of June 30, 2017 and 2016, respectively, which is a Level 2 measurement. The carrying amount approximates fair value for all other long-term debt, which is variable rate, and excludes the impact of third-party credit enhancements; this is a Level 2 measurement.

Due to the volatility of the financial market, there is a reasonable possibility of changes in fair value and additional gains and losses in the near term subsequent to June 30, 2017.

(Tables in Thousands)

6. Property and Equipment

The following is a summary of property and equipment:

	June 30	
	2017	**2016**
Land, land improvements, and leasehold improvements	**$ 319,008**	$ 285,179
Buildings	**3,622,827**	3,371,057
Equipment	**2,416,515**	2,308,300
Construction-in-progress	**187,597**	127,092
	6,545,947	6,091,628
Less accumulated depreciation	**(3,604,560)**	(3,461,249)
Property and equipment, net	**$ 2,941,387**	$ 2,630,379

At June 30, 2017, construction and software-related contracts and commitments exist for capital improvements at certain of the Health System's facilities. The remaining commitment on these contracts at June 30, 2017, was approximately $242.7 million, respectively. During the years ended June 30, 2017 and 2016, interest of $1.5 million and $0.6 million, respectively, was capitalized.

7. Other Assets

The following is a summary of other assets:

	June 30	
	2017	**2016**
Deferred compensation plan assets	**$ 217,882**	$ 193,528
Goodwill	**140,751**	140,751
Investment in unconsolidated affiliates	**63,622**	60,551
Swap collateral	**52,110**	81,570
Land held for future development	**43,814**	39,636
Notes receivable	**8,414**	11,141
Other	**53,093**	35,986
	$ 579,686	$ 563,163

8. Liability Programs

The Health System administers a liability program to provide for general and professional liability risks within certain limits. Health care professional liabilities in excess of self-insured limits are insured on a claims-made basis subject to an annual maximum of $25.0 million over the self-insured retention of $10.0 million, after which the Health System would again be responsible. The recorded liabilities are based upon actuarial estimates of reported claims and IBNR claims using historical claim experience and other relevant industry and hospital-specific factors and trends, discounted at an interest rate of 4.75% for 2017 and 2016. The discounted general and professional liability was $125.0 million and $134.1 million at June 30, 2017 and 2016, respectively, which is included in accrued liabilities and insurance reserves and other liabilities on the accompanying consolidated balance sheets. In addition, at June 30, 2017 and 2016, Mercy recorded net insurance receivables of $2.3 million and $2.2 million, respectively, which are included in other assets on the accompanying consolidated balance sheets.

St. Anthony's maintains a separate liability program for general and professional liability risks. St. Anthony's is self-insured for the first $4.0 million per occurrence of professional liability claims and purchases insurance coverage above the self-insurance limits. Losses from asserted and unasserted claims are accrued based on estimates that incorporate past experience, the nature of each claim or incident and relevant trend factors. The discounted general and professional liability was $9.7 million at June 30, 2017, which is included in accrued liabilities and insurance reserves and other liabilities.

9. Employee Retirement Plans

The Health System retirement benefits are provided through the frozen Personal Pension Account Plan (the Plan), the 401(k) Plan and the 403(b) Plan.

The Plan is a defined benefit retirement plan that was closed to new entrants and pay credits on June 30, 2011. The Plan was designed to provide retirement benefits to substantially all co-workers under a single plan, including groups acquired in business combinations. The Plan was amended over time to provide service credit for those co-workers who entered the Plan as a result of acquisitions or business combinations. Retirement benefits were originally provided based on a final average pay formula but were later transitioned to a cash balance-type formula. The cash balance formula provided an annual pay credit, based on employee compensation and years of service, and an annual interest credit based on the 30-year U.S. Treasury bill rate, subject to a minimum rate of 5.25%. Co-workers with benefits earned under the cash balance formula continue

9. Employee Retirement Plans (continued)

to earn interest credits each year. The interest credit continues to be based on the 30-year U.S. Treasury bill rate, but the minimum rate was reduced effective January 1, 2016, to comply with government regulations. The Plan is funded consistent with actuarial funding recommendations and the funding policy.

The Health System maintains various non-qualified defined benefit retirement plans that provide retirement income in excess of the limitations on benefits imposed by IRS limitations to certain key executives. These plans are closed to new entrants.

St. Anthony's has a defined benefit pension plan covering all employees. The plan was frozen effective June 30, 2009. The cash balance interest credit is the rate the participant's cash balance account is expected to grow with interest based upon a four-quarter average of the 3-Yr Treasury rates. The interest crediting rate is the rate the plan participant's cash balance account is expected to grow and the change in estimate is anticipated to be based on current market conditions. St. Anthony's also sponsors elective defined contribution plans available to substantially all employees, consisting of both a 401(k) plan and a 403(b) plan.

(Tables in Thousands)

9. Employee Retirement Plans (continued)

The following table sets forth the Plan's and certain other of the Health System's pension plans' benefit obligations, fair value of plan assets, and funded status at the measurement date:

	June 30 2017	June 30 2016
Accumulated benefit obligation	**$ 962,331**	$ 992,780
Changes in projected benefit obligation:		
Projected benefit obligation at beginning of period	**$ 992,780**	$ 976,006
St. Anthony's beginning projected benefit obligation	**41,614**	–
Interest cost	**26,318**	39,195
Plan amendments	**(14,106)**	–
Actuarial (gain) loss	**(19,522)**	53,910
Benefits paid	**(64,753)**	(76,331)
Projected benefit obligation at end of period	**962,331**	992,780
Changes in plan assets:		
Fair value of plan assets at beginning of period	**552,251**	623,996
St. Anthony's beginning fair value of plan assets	**38,886**	–
Actual return on plan assets	**46,638**	(16,697)
Employer contributions	**16,420**	21,283
Benefits paid	**(64,753)**	(76,331)
Fair value of plan assets at end of period	**589,442**	552,251
Funded status of the Plan	**$ (372,889)**	$ (440,529)

Amounts recognized on the accompanying consolidated balance sheets at June 30 consist of:

	2017	2016
Accrued liabilities and other	**$ 9,505**	$ 3,868
Pension liabilities	**363,384**	436,661
	$ 372,889	$ 440,529

(Tables in Thousands)

9. Employee Retirement Plans (continued)

No plan assets are expected to be returned to the Health System during the fiscal year ended June 30, 2017.

Included in unrestricted net assets are the following amounts that have not yet been recognized in net periodic pension cost:

	Year Ended June 30	
	2017	**2016**
Unrecognized actuarial gain	**$ (435,515)**	$ (483,597)
Prior service cost (credit)	**13,566**	–
	$ (421,949)	$ (483,597)

Changes in plan assets and benefit obligations recognized in unrestricted net assets include:

	Year Ended June 30	
	2017	**2016**
Current year actuarial gain (loss)	**$ 21,397**	$ (118,609)
Amortization of actuarial loss	**9,078**	7,743
Settlement reduction of net actuarial loss	**22,665**	28,204
Current year prior service cost	**14,105**	–
Amortization of prior service cost (credit)	**(539)**	–
	$ 66,706	$ (82,662)

The estimated net actuarial loss included in unrestricted net assets and expected to be recognized in net periodic benefit cost during the year ending June 30, 2018, is $8.4 million. The impact of the change in discount rate on the projected benefit obligation of the Plan was a decrease of approximately $22.3 million and increase of $60.9 million for the years ended June 30, 2017 and 2016, respectively.

As of June 30, 2016, the Health System refined how it estimates the interest cost component of net periodic benefit costs to a spot discount rate approach for its defined benefit pension plan. Historically, the Health System estimated the interest cost component using a single weighted

(Tables in Thousands)

9. Employee Retirement Plans (continued)

average discount rate derived from a yield curve used to measure the benefit obligation at the beginning of the period. Under the spot discount rate approach, interest cost is estimated by applying the specific spot rates along the yield curve used in the determination of the benefit obligation to the relevant projected cash flows. The Health System made this change to improve the correlation between projected benefit cash flows and the corresponding yield curve spot rates and to provide a more precise measurement of the interest cost component of net periodic benefit costs. This change did not impact the projected benefit obligation or the net periodic benefit costs as of and for the year ended June 30, 2016. The Health System accounted for this change as a change in accounting estimate and, accordingly, accounted for it prospectively starting with the year ended June 30, 2017. This change does not affect measurements of the projected benefit obligation.

The following is a summary of the components of net periodic pension cost:

	Year Ended June 30	
	2017	**2016**
Interest cost on projected benefit obligation	**$ 26,318**	$ 39,195
Expected return on plan assets	**(44,762)**	(48,001)
Amortization of prior service costs	**(539)**	–
Amortization of unrecognized actuarial loss	**9,061**	7,743
Settlement/curtailment	**22,682**	28,204
Net periodic pension cost	**$ 12,760**	$ 27,141

Weighted average assumptions used to determine the Plan's projected benefit obligation and net periodic benefit costs are as follows:

	Projected Benefit Obligation		Net Periodic Benefit Costs	
	2017	**2016**	**2017**	**2016**
Discount rates	**3.42%–3.67%**	3.41%–3.45%	**2.50%–3.20%**	4.10%–4.20%
Expected long-term return on plan assets	**5.00%–7.50%**	7.70%	**5.00%–7.70%**	7.80%

(Tables in Thousands)

9. Employee Retirement Plans (continued)

The Plan's weighted average asset allocations and policy allocation range by asset category are as follows:

Asset Category	Policy Allocation Range	Plan Assets at June 30 2017	2016
Equity securities	**30%–50%**	**33%**	30%
Debt securities	**25–35**	**25**	19
Alternative investments	**17–56**	**34**	40
Other	**0–5**	**8**	11
Total	**100%**	**100%**	100%

The Plan's assets measured at fair value were determined using the following inputs at June 30, 2017:

	Level 1	Level 2	Level 3	Total
Assets				
Cash and cash equivalents	**$ 47,249**	**$ –**	**$ –**	**$ 47,249**
Equity securities:				
Domestic equities	**76,944**	–	–	**76,944**
International equities – developed	**24,484**	–	–	**24,484**
International equities – emerging markets	**10,800**	–	–	**10,800**
Fixed income:				
Corporate bonds	**1,801**	**59,797**	–	**61,598**
Government and agencies	**2,243**	**21,652**	–	**23,895**
Real assets – commodities	**24,215**	–	–	**24,215**
Mutual funds – multi-asset class	**14,210**	–	–	**14,210**
Other	–	–	**2,721**	**2,721**
Assets (fair value determined using NAV practical expedient):				
Hedge funds				**157,130**
Private equities				**52,949**
Real assets				**10,979**
Commingled funds				**82,268**
				$ 589,442

(Tables in Thousands)

9. Employee Retirement Plans (continued)

The following table is a rollforward of the pension plan assets classified within Level 3 of the valuation hierarchy:

	Other
Fair value at July 1, 2016	**$ 2,738**
Purchases, sales, and settlements, net	**–**
Actual return on plan assets	**(17)**
Transfers in and/or out of Level 3	**–**
Fair value at June 30, 2017	**$ 2,721**

The Plan's assets measured at fair value were determined using the following inputs at June 30, 2016:

	Level 1	Level 2	Level 3	Total
Assets				
Cash and cash equivalents	$ 63,332	$ –	$ –	$ 63,332
Equity securities:				
Domestic equities	74,582	–	–	74,582
International equities – developed	14,423	–	–	14,423
International equities – emerging markets	15,324	–	–	15,324
Fixed income:				
Corporate bonds	8,349	62,859	–	71,208
Government and agencies	–	8,056	–	8,056
Real assets – commodities	20,942	–	–	20,942
Mutual funds – multi-asset class	5,309	–	–	5,309
Other	–	–	2,738	2,738
Assets (fair value determined using NAV practical expedient):				
Hedge funds				142,786
Private equities				49,180
Real assets				7,259
Commingled funds				77,112
				$ 552,251

(Tables in Thousands)

9. Employee Retirement Plans (continued)

The following table is a rollforward of the pension plan assets classified within Level 3 of the valuation hierarchy:

	Other
Fair value at July 1, 2015	$ 2,763
Purchases, sales, and settlements, net	–
Actual return on plan assets	(25)
Transfers in and/or out of Level 3	–
Fair value at June 30, 2016	$ 2,738

Fair value methodologies for Level 1 and Level 2 assets are consistent with the inputs described in Note 5.

Management opted to use the Net Asset Value (NAV) per share, or its equivalent, as a practical expedient for fair value of the Plan's interest in hedge funds, private limited partnership funds, and commingled funds. Valuations provided by the respective fund's management include variables such as the financial performance of underlying investments, recent sales prices of underlying investments, and other pertinent information. In addition, actual market exchanges at period-end provide additional observable market inputs of the exit price. The majority of these funds have restrictions on the timing of withdrawals, which may reduce liquidity, in some cases for up to 24 months in the case of hedge funds and up to 10 years for private limited partnership funds. At June 30, 2017, the Plan has commitments to fund $92.6 million in these investments.

The Plan employs investment managers to invest fund balances in a structured portfolio of equity, fixed income, and alternative investments (which includes hedge funds, private equity, private debt, and real assets). The Plan retains outside consultants to support the overall asset allocation and manager selection process. The performance of all managers is reviewed to test that market performance has been calculated accurately, to monitor performance versus peers and benchmarks, and to evaluate portfolio structure considering current and future needs based on economic forecasts and actuarial projections. The Health System believes that a diversified portfolio will limit the degree of risk to the Plan and stabilize the long-term results. The Plan's diversified blend of marketable securities also takes into consideration the cash flow requirements of the Plan to

(Tables in Thousands)

9. Employee Retirement Plans (continued)

help ensure the ability to meet the monthly payout of benefits required. Projected rates of return for each asset category were selected after analyzing historical experience and future expectations of the returns and volatility for assets of that category.

The Health System expects to contribute at least $13.0 million to the Plans during fiscal 2018.

The following benefit payments, which reflect expected future service, are expected to be paid by the Plan:

	Amount
Year ending June 30:	
2018	$ 81,200
2019	82,500
2020	87,700
2021	80,000
2022	74,400
2023 through 2027	326,300
	$ 732,100

The 401(k) plan and 403(b) plan are offered for the benefit of substantially all employees. The 401(k) plan originally provided for employee contributions and an employer-provided matching contribution. Employee contributions to the 403(b) plan were, and continue to be, eligible for matching contributions to the 401(k) plan. The 401(k) plan was amended effective July 1, 2011, to enhance the matching contribution and add a non-matching service-based contribution designed to replace the pay credit previously earned under the frozen defined benefit plan.

Employees who work at a rate of 1,000 hours during the year or more and are employed on December 15th of the calendar year are eligible for the employer-provided contribution in the 401(k) plan. The matching contribution is equal to 50% of the first 4% of the participant's compensation contributed and 25% of the next 2% of the participant's compensation contributed. The service-based contribution is equal to a percentage of pay based on years of service (1%–9% for employees hired prior to July 1, 2011, and 1%–4% for those hired on July 1, 2011 or later). All contributions to the plan are subject to IRS limitations on contributions and includable compensation. Employees become vested in both matching and service contributions upon the completion of three years of vesting service.

(Tables in Thousands)

9. Employee Retirement Plans (continued)

For the years ended June 30, 2017 and 2016, the total expenses incurred related to the 401(k) and 403(b) plans were $103.6 million and $98.5 million, respectively.

St. Anthony's sponsors elective defined contribution plans available to substantially all employees, consisting of both a 401(k) plan and a 403(b) plan. Contributions under the 401(k) and 403(b) plans include employee contributions, subject to IRS limitations, and a matching contribution equal to 50% up to the first 1% of the participant's compensation and 25% of the next 3%. Employees are eligible to participate upon employment and become fully vested in the matching contribution upon completion of three years of service. St. Anthony's expense related to the match was $0.4 million for the one-month period ended June 30, 2017.

Effective September 23, 2015, non-elective employer contributions were revised to only allow between 3% and 5% of employee compensation to the 401(k) plan. These contributions are made according to a vesting schedule based on years of service.

10. Long-Term Obligations

The following is a summary of long-term obligations:

	June 30	
	2017	**2016**
Revenue bonds, fixed interest rates of 2.20%–5.00% due 2018 through 2048	**$ 725,006**	$ 628,200
Revenue bonds, variable interest rates with weighted average interest rates of 1.51% and 0.90% in fiscal 2017 and 2016, respectively, due through February 2053	**760,265**	683,125
Capital lease obligations	**43,153**	42,349
Other mortgage notes and notes	**18,597**	21,974
	1,547,021	1,375,648
Less current maturities of long-term obligations	**(13,449)**	(7,167)
Less unamortized debt issuance costs	**(8,712)**	(9,193)
Long-term obligations, less current maturities	**$ 1,524,860**	$ 1,359,288

10. Long-Term Obligations (continued)

Certain of Mercy's subsidiaries have executed a commitment agreement governing certain borrowing arrangements under the Mercy Master Trust Indenture and related agreements (Financing Agreements). While only the revenues of Mercy collateralize the outstanding borrowings of the Health System, each of these subsidiaries has committed to transfer such funds to Mercy to pay the amounts due on borrowings when they come due. The Financing Agreements contain certain restrictive covenants, including debt service coverage and liquidity ratios. At June 30, 2017, Mercy was in compliance with all covenants.

Tax-exempt revenue bonds have been issued by various issuing authorities, the proceeds of which were used by Mercy primarily to finance capital projects and to refinance existing indebtedness of certain subsidiaries.

In June 2016, as part of a purchase agreement of an entity that had been accounted for as a capital lease, Mercy paid off the long-term obligations for $45.8 million, including principal, interest, and penalties.

In June 2017, $81.8 million of variable rate, tax-exempt health facility revenue bonds were issued by the Health and Educational Facilities Authority of the State of Missouri on behalf of Mercy under the Master Trust Indenture. The proceeds of these bonds were used to redeem St. Anthony's Series 2013 bonds in conjunction with the affiliation of Mercy and St. Anthony's. The bonds were directly purchased by one bank and have a final maturity of 2053. Interest is paid monthly at a borrow rate based on a percentage of one-month LIBOR plus an applicable spread. The bonds include mandatory puts by the purchasing bank in 2021 and 2022. Mercy may elect to renegotiate with the initial purchasers, remarket or redeem the bonds at any time.

In June 2017, Mercy issued replacement master notes under its Master Trust Indenture in replacement of and substitution for master notes previously issued by St. Anthony's (Series 2015 bonds). The Series 2015 bonds were originally issued by the Health and Educational Facilities Authority of the State of Missouri and consisted of $101.0 million of fixed rate (ranging from 2.20% to 5.00%), tax-exempt health facility revenue bonds with a final maturity of 2045.

Other notes payable, mortgage notes payable, and capital lease obligations are secured by certain property and equipment of the specific borrowers.

(Tables in Thousands)

10. Long-Term Obligations (continued)

Aggregate maturities of long-term obligations as scheduled at June 30, 2017, are as follows:

	Amount
Year ending June 30:	
2018	$ 13,449
2019	13,166
2020	17,567
2021	18,688
2022	15,035
Thereafter	1,469,116
	$ 1,547,021

The Health System has $120.0 million of unused 364-day lines of credit with four banks. The agreements terminate on December 8, 2017; however, the Health System anticipates renewal of the agreements. During 2017, the Health System had no borrowings against the line of credit. There were no borrowings outstanding under these lines of credit as of June 30, 2017.

11. Derivatives

The Health System has interest rate-related derivative instruments to manage its interest rate exposure on its variable rate debt instruments and does not enter into derivative instruments for any purpose other than risk management. Interest rate swap contracts between the Health System and a third party (counterparty) provide for the periodic exchange of payments between the parties based on changes in a defined index and a fixed rate. These agreements expose the Health System to market risk and credit risk. Credit risk is the risk that contractual obligations of the counterparties will not be fulfilled. Concentrations of credit risk relate to groups of counterparties that have similar economic or industry characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions. Counterparty credit risk is managed by requiring high credit standards for the Health System's counterparties. The Health System will enter into transactions where the counterparty rating is high enough to maintain the rating on Health System bonds. The interest rate swap contracts contain collateral provisions applicable to both parties to mitigate credit risk. As of June 30, 2017 and 2016, Mercy had collateral posted of $52.1 million and $81.6 million, respectively. The Health System does not anticipate non-performance by its counterparties. Market risk is the adverse effect

(Tables in Thousands)

11. Derivatives (continued)

on the value of a financial instrument that results from a change in interest rates. The market risk associated with interest rate changes is managed by establishing and monitoring parameters that limit the types and degree of market risk that may be undertaken. Management also mitigates risk through periodic reviews of the Health System's derivative positions in the context of its blended cost of capital.

The following is a summary of the outstanding positions under these interest rate swap agreements:

Interest Rate Swap Type	Expiration Date	Health System Pays	Health System Receives	Notional Value June 30 2017	2016
Fixed payor	June 2, 2031	3.36%–3.75%	70% of one-month LIBOR	**$ 252,200**	$ 252,200
Fixed payor	June 2, 2031	3.85%	70% of one-month LIBOR	**50,000**	50,000
Fixed payor	February 1, 2043	1.847%	67% of one-month LIBOR	**81,790**	–

The fair value of derivative instruments is as follows:

Derivatives Not Designated as Hedging Instruments	Balance Sheet Location	June 30 2017	2016
Collateral posted on interest rate swap agreements	Other assets	**$ 52,110**	$ 81,570
Interest rate swap agreements	Other liabilities	**62,906**	88,967

The effects of derivative instruments on the consolidated statements of operations for the years ended June 30, 2017 and 2016, are reflected in realized and unrealized losses on interest rate swaps on the consolidated statements of operations.

(Tables in Thousands)

12. Operating Leases

Rent expense for the years ended June 30, 2017 and 2016, totaled $105.7 million and $102.1 million, respectively.

Future minimum rental payments under non-cancelable operating leases as of June 30, 2017, that have initial or remaining terms in excess of one year are as follows:

	Amount
Year ending June 30:	
2018	$ 80,013
2019	69,132
2020	60,201
2021	54,583
2022	52,572
Thereafter	188,460
	$ 504,961

13. Commitments and Contingencies

Regulatory Compliance

The U.S. Department of Justice and other federal agencies are increasing resources dedicated to regulatory investigations and compliance audits of health care providers. The Health System is not exempt from these regulatory efforts and has received correspondence from federal agencies with regard to such initiatives. In consultation with legal counsel, management estimates these matters will be resolved without a material adverse effect on the Health System's consolidated financial position or results of operations.

Litigation

The Health System is involved in litigation arising in the normal course of business. After consultation with legal counsel, it is management's opinion that these matters will be resolved without a material adverse effect on the Health System's consolidated financial position or results of operations.

14. Subsequent Events

The Health System evaluated events and transactions occurring subsequent to June 30, 2017 through September 22, 2017, the date the accompanying consolidated financial statements were issued. During this period, there were no subsequent events that required recognition in the consolidated financial statements.

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APPENDIX C
DEFINITIONS OF WORDS AND TERMS AND SUMMARIES OF CERTAIN PROVISIONS OF THE PRINCIPAL DOCUMENTS

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DEFINITIONS OF WORDS AND TERMS

In addition to terms defined elsewhere in this Official Statement, the following are definitions of certain terms used in the Master Indenture, the Bond Indenture, the Loan Agreement and this Official Statement. Reference is hereby made to the Master Indenture, the Bond Indenture and the Loan Agreement for complete definitions of all terms.

"Act" means the **Missouri Health and Educational Facilities Authority Act**, **Chapter 360 of the Revised Statutes of Missouri**, as from time to time amended.

"Authority" means the **Health and Educational Facilities Authority of the State of Missouri**, and its successors and assigns or any body, agency or instrumentality of the State of Missouri succeeding to or charged with the powers, duties and functions of the Authority.

"Bond" or **"Bonds"** means any bond or bonds of the series of **Health Facilities Revenue Bonds (Mercy Health), Series 2017C** issued, authenticated and delivered under and pursuant to the Bond Indenture.

"Bond Indenture" means the Bond Trust Indenture as originally executed by the Authority and the Bond Trustee, as from time to time amended and supplemented by Supplemental Bond Indentures in accordance with the provisions of the Bond Indenture.

"Bond Register" means the books for the registration, transfer and exchange of Bonds kept by the Bond Trustee.

"Bond Trustee" means **The Bank of New York Mellon Trust Company, N.A.**, and its successor or successors and any other corporation or association which at any time may be substituted in its place pursuant to and at the time serving as trustee under the Bond Indenture.

"Bondowner," "Owner" or **"Registered Owner"** means the Person or Persons in whose name a Bond is registered as shown on the Bond Register.

"Continuing Disclosure Agreement" means the Master Continuing Disclosure Agreement, as amended by the First Amendment to Master Continuing Disclosure Agreement, between the Corporation and **UMB Bank & Trust, N.A.**, as Dissemination Agent, as from time to time amended in accordance with the provisions thereof.

"Corporation" means Mercy Health, a Missouri nonprofit corporation, and its successors and assigns.

"Corporation Representative" means the chairman or vice chairman of the governing board of the Corporation, the president or any vice president of the Corporation and such other person or persons at the time designated to act on behalf of the Corporation in matters relating to the Bond Indenture and the Loan Agreement as evidenced by a written certificate furnished to the Authority and the Bond Trustee containing the specimen signature of such person or persons and signed on behalf of the Corporation by its chairman, vice chairman, president or any vice president. Such certificate may designate an alternate or alternates each of whom shall be entitled to perform all duties of the Corporation Representative.

"Costs of Issuance" means issuance costs and expenses with respect to the Bonds described in Section 147(f) of the Internal Revenue Code and any regulations thereunder, including but not limited to the following:

(a) underwriters' spread (whether realized directly or derived through purchase of Bonds at a discount below the price at which they are expected to be sold to the public);

(b) counsel fees (including bond counsel, underwriter counsel, Authority counsel, Corporation counsel, as well as any other specialized counsel fees incurred in connection with the borrowing);

(c) financial advisor fees of any financial advisor to the Authority or the Corporation incurred in connection with the issuance of the Bonds;

(d) rating agency fees;

(e) trustee, escrow agent and paying agent fees;

(f) accountant fees and other expenses related to issuance of the Bonds;

(g) printing costs (for the Bonds and of any official statement relating to the Bonds); and

(h) fees and expenses of the Authority incurred in connection with the issuance of the Bonds.

"Costs of the Project" means all reasonable or necessary costs and expenses of the Project that are permitted under the Act to be paid from proceeds of Bonds, including the total of all reasonable or necessary expenses incidental to the acquisition, construction, reconstruction, repair, alteration, improvement and extension of the Project, including without limitation the following:

(a) the expenses of studies and surveys, land title and mortgage title policies, architectural and engineering services and the cost of legal, organization, marketing or other special services;

(b) financial and underwriting fees and expenses;

(c) the cost of acquiring or demolishing existing structures, developing the site of and constructing and equipping a new building constituting a part of the Project;

(d) rehabilitating, reconstructing, repairing or remodeling existing buildings constituting a part of the Project; and

(e) all other necessary and incidental expenses, including interest during construction on Bonds issued to finance the Project to a date subsequent to the estimated date of completion thereof, and any other costs permitted by the Act.

"Debt Service Fund" means the fund by that name created by the Bond Indenture.

"Defeasance Obligations" means the following:

(a) Government Obligations which are not subject to redemption prior to maturity; or

(b) obligations of any state or political subdivision of any state, the interest on which is excluded from gross income for federal income tax purposes and which meet the following conditions:

(1) the obligations (A) are not subject to redemption prior to maturity, or (B) the trustee for such obligations has been given irrevocable instructions concerning their calling and redemption and the issuer of such obligations has covenanted not to redeem such obligations other than as set forth in such instructions;

(2) the obligations are fully secured by cash or noncallable Government Obligations that may be applied only to payment of principal of, premium, if any, and interest payments on such obligations;

(3) the sufficiency of such cash and noncallable Government Obligations to pay in full all principal of, interest, and premium, if any, on such obligations has been verified by the

report of an independent certified public accountant and no substitution of Government Obligations shall be permitted except with cash or other Government Obligations and upon delivery of a new verification;

(4) such cash and Government Obligations serving as security for the obligations are held in an irrevocable escrow by an escrow agent or a trustee in trust for the Owners of such obligations, at least one year has passed since the establishment of such escrow and the issuer of such obligations is not, and has not been since the establishment of such escrow, a debtor in a proceeding commenced under the United States Bankruptcy Code;

(5) the Bond Trustee has received an unqualified opinion of nationally recognized bankruptcy counsel (who, for purposes of such opinion, may assume that no Bondowner is an "insider", as defined in the United States Bankruptcy Code) to the effect that the cash and Government Obligations in such escrow are not available to satisfy any other claims, including those against the trustee or escrow agent, and that the payment of principal of and interest on such obligations made from such escrow would not be avoidable as preferential payments and recoverable under the United States Bankruptcy Code should the obligor or any other person liable on such obligations become a debtor in a proceeding commenced under the United States Bankruptcy Code;

(6) the Bond Trustee has received an Opinion of Bond Counsel delivered in connection with the original issuance of such obligations to the effect that the interest on such obligations was exempt for purposes of federal income taxation, and the Bond Trustee has received an Opinion of Bond Counsel delivered in connection with the establishment of the irrevocable escrow to the effect that the establishment of the escrow will not result in the loss of any exemption for purposes of federal income taxation to which interest on such obligations would otherwise be entitled; and

(7) the obligations are rated in one of the two highest rating categories by a Rating Agency.

"Escrow Obligations" means:

(a) with respect to any Master Obligations which secure a series of Related Bonds, the obligations permitted to be used to defease such series of Related Bonds under the Related Bond Indenture;

(b) with respect to any Master Obligations for which there are no Related Bonds, the obligations, if any, permitted to be used to defease such Master Obligations by the Supplemental Master Indenture under which such Master Obligations were issued; and

(c) with respect to any other Master Obligations: (1) direct obligations of, or obligations the principal of and interest on which are fully and unconditionally guaranteed by, the United States of America; and (2) evidences of direct ownership of a proportionate or individual interest in future principal or interest payments on specified direct obligations of, or obligations the payment of the principal of and interest on which are unconditionally guaranteed by the United States of America, which obligations are held by a bank or trust company organized and existing under the laws of the United States of America or any state thereof in the capacity of custodian pursuant to the terms of a custody agreement in form and substance satisfactory to the Master Trustee and which obligations are not available to satisfy creditors of the custodian.

"Event of Default" means any of the events described in the Bond Indenture.

“Government Obligations” means the following:

(a) bonds, notes, certificates of indebtedness, treasury bills or other securities constituting direct obligations of, or obligations the principal of and interest on which are fully and unconditionally guaranteed by, the United States of America; and

(b) evidences of direct ownership of a proportionate or individual interest in future interest or principal payments on specified direct obligations of, or obligations for which the full and timely payment of the principal and interest is unconditionally guaranteed by, the United States of America, issued by or through the Federal Reserve Bank, which obligations are held by a bank or trust company organized and existing under the laws of the United States of America or any state thereof in the capacity of custodian in form and substance satisfactory to the Bond Trustee.

“Indebtedness” means any indebtedness of a Person for the repayment of borrowed money (including capital leases, installment purchase contracts and guarantees of indebtedness) which is shown as a liability on the balance sheet of such Person or which is properly capitalized on the balance sheet of such Person in accordance with generally accepted accounting principles (including indebtedness evidenced by Master Obligations issued thereunder and indebtedness not evidenced by Master Obligations thereunder).

“Internal Revenue Code” means the Internal Revenue Code of 1986, as amended, and, when appropriate, any statutory predecessor or successor thereto, and all applicable regulations (whether proposed, temporary or final) thereunder and any applicable official rulings, announcements, notices, procedures and judicial determinations relating to the foregoing.

“Loan” means the loan of the proceeds of the Bonds made by the Authority to the Corporation under the Loan Agreement.

“Loan Agreement” means the Loan Agreement, between the Authority and the Corporation, as from time to time amended by Supplemental Loan Agreements in accordance with the provisions of the Loan Agreement.

“Loan Payments” means the payments of principal and interest on the Loan referred to in the Loan Agreement.

“Master Indenture” means the Master Trust Indenture (Amended and Restated) dated as of November 15, 1995, as originally executed by the Corporation and the Master Trustee, as from time to time amended or supplemented in accordance with the terms thereof.

“Master Obligations” means any Master Obligations issued, authenticated and delivered under the Master Indenture.

“Master Trustee” means **UMB Bank & Trust, N.A.**, and its successor or successors and any other corporation or association which at any time may be substituted in its place pursuant to and at the time serving as trustee under the Master Indenture.

“Mortgage” means any mortgage, lien, security interest, charge or encumbrance on any Principal Property of the Corporation or of a Restricted Affiliate.

“Officer’s Certificate” means a written certificate of the Corporation signed by the Corporation Representative, which certificate shall be deemed to constitute a representation of, and shall be binding upon, the Corporation with respect to matters set forth therein, and which certificate in each instance, including the scope, form, substance and other aspects thereof, is acceptable to the Bond Trustee.

“Opinion of Bond Counsel” means: with respect to the Master Indenture, a written opinion of any legal counsel acceptable to the Master Trustee who is nationally recognized as expert in matters pertaining to the validity of obligations of governmental issuers and the exemption from federal income taxation of interest on such obligations; and, with respect to the Bond Indenture, a written opinion addressed to the Authority and the Bond Trustee of Gilmore & Bell, P.C., or other legal counsel acceptable to the Authority and the Bond Trustee who is nationally recognized as expert in matters pertaining to the validity of obligations of governmental issuers and the exemption from federal income taxation of interest on such obligations.

"Opinion of Counsel" means: with respect to the Master Indenture, a written opinion of any legal counsel acceptable to the Master Trustee and, without limitation, may include independent legal counsel for the Master Trustee, the Corporation, any Related Bond Issuer or any Related Bond Trustee; and, with respect to the Bond Indenture, a written opinion of any legal counsel having expertise in the matters covered in such opinion and acceptable to the Corporation and the Bond Trustee and, to the extent the Authority is asked to take action in reliance thereon, the Authority, who may be an employee of or counsel to the Corporation or the Bond Trustee.

"Outstanding" means the following:

(a) with respect to Bonds, as of the date of determination, all Bonds theretofore authenticated and delivered under the Bond Indenture, except the following:

(1) Bonds theretofore cancelled by the Bond Trustee or delivered to the Bond Trustee for cancellation as provided in the Bond Indenture;

(2) Bonds for whose payment or redemption money or Defeasance Obligations in the necessary amount has been deposited with the Bond Trustee in trust for the Owners of such Bonds as provided in the Bond Indenture, provided that, if such Bonds are to be redeemed, notice of such redemption has been duly given pursuant to the Bond Indenture or provision therefor satisfactory to the Bond Trustee has been made;

(3) Bonds in exchange for or in lieu of which other Bonds have been authenticated and delivered under the Bond Indenture; and

(4) Bonds alleged to have been mutilated, destroyed, lost or stolen which have been paid as provided in the Bond Indenture.

(b) when used with respect to Master Obligations, as of the date of determination, all Master Obligations theretofore authenticated and delivered under the Master Indenture, except:

(1) Master Obligations theretofore cancelled by the Master Trustee or delivered to the Master Trustee for cancellation;

(2) Master Obligations for whose payment or redemption money or Escrow Obligations in the necessary amount are deposited with the Master Trustee or any Paying Agent in trust for the holders of such Master Obligations, provided that, if such Master Obligations are to be redeemed, notice of such redemption is duly given pursuant to the Master Indenture or provision therefor satisfactory to the Master Trustee is made;

(3) Master Obligations issued in connection with the issuance of a series of Related Bonds, to the extent that such Related Bonds are discharged and no longer deemed outstanding under the Related Bond Indenture;

(4) Master Obligations in exchange for or in lieu of which other Master Obligations are authenticated and delivered under the Master Indenture; and

(5) Master Obligations alleged to be destroyed, lost or stolen which are paid as provided in the Master Indenture.

(c) when used in connection with Indebtedness other than Master Obligations or Bonds, all such Indebtedness except Indebtedness with respect to which the obligation to make payments is discharged and no longer deemed outstanding in accordance with the terms of the instrument or instruments creating or evidencing such Indebtedness.

"Permitted Investments" means, if and to the extent the same are at the time legal for investment of funds held under the Bond Indenture:

(a) Government Obligations;

(b) bonds, notes or other obligations of any state of the United States or any political subdivision of any state, which at the time of their purchase are rated in either of the **2** highest rating categories by each Rating Agency then rating any of the Bonds;

(c) certificates of deposit or time or demand deposits constituting direct obligations of any bank, bank holding company, savings and loan association, trust company or other financial institution organized under the laws of the United States or any state thereof (including the Bond Trustee or any of its affiliates), except that investments may be made only in certificates of deposit or time or demand deposits which are:

(1) insured by the Bank Insurance Fund or the Savings Association Insurance Fund of the Federal Deposit Insurance Corporation, or any other similar United States Government deposit insurance program then in existence; or

(2) continuously and fully secured by Government Obligations, which have a market value, exclusive of accrued interest, at all times at least equal to the principal amount of such certificates of deposit or time or demand deposits; or

(3) issued by a bank, bank holding company, savings and loan association or trust company organized under the laws of the United States or any state thereof (including the Bond Trustee or any of its affiliates) whose outstanding unsecured long-term debt is rated at the time of issuance in one of the **3** highest rating categories by one Rating Agency then rating any of the Bonds;

(d) repurchase agreements with any bank, bank holding company, savings and loan association, trust company or other financial institution organized under the laws of the United States or any state thereof (including the Bond Trustee or any of its affiliates), that are continuously and fully secured by Government Obligations and which have a market value, exclusive of accrued interest, at all times at least equal to the principal amount of such repurchase agreements, provided that each such repurchase agreement conforms to current industry standards as to form and time, is in commercially reasonable form, is for a commercially reasonable period, results in transfer of legal title to identified Government Obligations which are segregated in a custodial or trust account for the benefit of the Bond Trustee, and further provided that Government Obligations acquired pursuant to such repurchase agreements shall be valued at the lower of the then current market value thereof or the repurchase price thereof set forth in the applicable repurchase agreement;

(e) investment agreements constituting an obligation of a bank, bank holding company, savings and loan association, trust company, insurance company or other financial institution whose outstanding unsecured short-term debt is rated at the time of such agreement in the highest rating category by a nationally recognized Rating Agency or whose outstanding unsecured long-term debt is rated at the time of such agreement in either of the **2** highest rating categories by each Rating Agency then rating any of the Bonds;

(f) short term discount obligations of Fannie Mae, Government National Mortgage Association, Federal Home Loan Bank System and Federal Home Loan Mortgage Corporation;

(g) money market mutual funds (1) that invest in Government Obligations or agreements to repurchase Government Obligations or that are registered with the federal Securities and Exchange Commission (SEC), meeting the requirements of Rule 2a-7 under the Investment Company Act of 1940, and (2) that are rated in either of the **2** highest categories by a Rating Agency, including without limitation any money market mutual fund for which the Bond Trustee or an affiliate of the Bond Trustee serves as investment manager, administrator, shareholder servicing agent, and/or custodian or subcustodian, notwithstanding that (A) the Bond Trustee or an affiliate of the Bond Trustee receives fees from funds for services rendered, (B) the Bond Trustee collects fees for services rendered pursuant to the Bond Indenture which fees are separate from the fees received from such funds, and (C) services performed for such funds and pursuant to the Bond Indenture may at times duplicate those provided to such funds by the Bond Trustee or an affiliate of the Bond Trustee; and

(h) bonds, notes, short term discount notes and other obligations of any corporation issuing securities in US dollars, which at the time of their purchase are rated in either of the **2** highest rating categories by each Rating Agency then rating any of the Bonds.

References to rating categories in this definition do not include modifiers and delineators.

"Person" means any natural person, firm, association, corporation, partnership, joint stock company, a joint venture, trust, unincorporated organization or firm, or a government or any agency or political subdivision thereof or other public body.

"Principal Payment Date" means each date on which a principal installment is due and payable on the Bonds, whether at maturity, or upon redemption or acceleration or otherwise.

"Principal Property" means any hospital facility or other health care facility of the Corporation or a Restricted Affiliate (including all real property and fixtures comprising any such facility and all related revenues generated by and attributable to any such facility), wherever situated and whether now owned or thereafter acquired, and which the governing board of the Corporation by board resolution (1) determines is a material part of the primary operations of the Corporation or a Restricted Affiliate, and (2) designates as a Principal Property under the Master Indenture. After any facility is so designated as a Principal Property, the governing board of the Corporation by board resolution may at any time thereafter declare that such facility is no longer designated as a Principal Property.

"Project" means the facilities of the Corporation described in the Bond Indenture, the costs of which will be paid, or for which the Corporation will be reimbursed or which will be refinanced, in whole or in part, from the proceeds of the sale of the Bonds, and which constitute "health facilities", as defined in the Act; provided, however, that the Corporation may make changes and amendments to the Project as provided in the Loan Agreement.

"Project Fund" means the fund by that name created by the Bond Indenture, including within such fund the "*Refunding Account*," the "*Costs of Issuance Account*" and the "*Construction Account*."

"Rating Agency" means, (a) initially, **Moody's Investors Service** so long as such agency's ratings are in effect with respect to the Bonds, and **Standard & Poor's Ratings Services**, a Standard and Poor's Financial Services LLC business, so long as such agency's ratings are in effect with respect to the Bonds, and their respective successor and assigns, and (b) subsequently, any other nationally recognized securities rating service selected by the Corporation, and acceptable to the Authority and the Bond Trustee, so long as such agency's ratings are in effect with respect to the Bonds and their respective successors and assigns.

"Rebate Fund" means the fund by that name created by the Bond Indenture.

"Refunded Bonds" means, collectively, the Series 2014D Refunded Bonds and the Series 2014E Refunded Bonds as more fully described in the Bond Indenture.

"Related Bonds" means any revenue bonds or similar obligations issued by any state of the United States or any municipal corporation or other political subdivision formed under the laws thereof or any constituted authority, agency or instrumentality of any of the foregoing empowered to issue obligations on behalf thereof, the proceeds of which are loaned or otherwise made available to the Corporation or any Restricted Affiliate in consideration, whether in whole or in part, of the execution, authentication and delivery of a Master Obligation or Master Obligations to such governmental issuer.

"Related Bond Indenture" means any indenture, bond resolution or similar instrument pursuant to which any series of Related Bonds is issued.

"Related Bond Issuer" means any issuer of a series of Related Bonds.

"Related Bond Trustee" means any trustee under any Related Bond Indenture and any successor trustee thereunder or, if no trustee is appointed under a Related Bond Indenture, the Related Bond Issuer.

"Related Loan Document" means the document or documents (including without limitation any loan agreement, lease financing agreement, installment sales contract or other financing agreement) pursuant to which any proceeds of any Related Bonds are made available to or for the benefit of the Corporation or any Affiliate.

"Restricted Affiliate" means any Person which the governing board of the Corporation by board resolution designates as a Restricted Affiliate under the Master Indenture. After any Person is so designated as a Restricted Affiliate, the governing board of the Corporation by board resolution may at any time thereafter declare that such Person is no longer designated as a Restricted Affiliate.

"Series 2014D Refunded Bonds" means all of the Authority's outstanding Variable Rate Demand Health Facilities Revenue Bonds (Mercy Health), Subseries 2014D-1, as more fully described in the Bond Indenture.

"Series 2014E Refunded Bonds" means all of the Authority's outstanding Variable Rate Demand Health Facilities Revenue Bonds (Mercy Health), Subseries 2014E-1, as more fully described in the Bond Indenture.

"Series 2017C Master Obligation" means the **Master Obligation (Mercy Health), Series 2017C (Bond Note)**, issued, authenticated and delivered under the Master Indenture, which evidences and secures the obligations of the Corporation under the Loan Agreement.

"Supplemental Bond Indenture" means any indenture supplemental or amendatory to the Bond Indenture entered into by the Authority and the Bond Trustee pursuant to the Bond Indenture.

"Supplemental Loan Agreement" means any agreement supplemental or amendatory to the Loan Agreement entered into by the Authority and the Corporation pursuant to the Loan Agreement.

"Supplemental Master Indenture" means an indenture amending or supplementing the Master Indenture entered into pursuant to the Master Indenture.

"Supplemental Master Indenture No. 25" means Supplemental Master Trust Indenture No. 25 amending or supplementing the Master Indenture, entered into pursuant to the Master Indenture.

"Tax Compliance Agreement" means the Tax Compliance Agreement, among the Authority, the Corporation and the Bond Trustee, as from time to time amended in accordance with the provisions thereof.

"Tax-Exempt Organization" means a nonprofit organization, organized under the laws of the United States of America or any state thereof, that is an organization described in Section 501(c)(3) of the Internal Revenue Code, is exempt from federal income taxes under Section 501(a) of the Internal Revenue Code, and is not a "private foundation" within the meaning of Section 509(a) of the Internal Revenue Code, or corresponding provisions of federal income tax laws from time to time in effect.

"Trust Estate" means the property described as the Trust Estate in the Granting Clauses of the Bond Indenture.

"Unrestricted Gross Revenues" means all income, revenues, receipts and other moneys received by or on behalf of the Corporation and the Restricted Affiliates from revenues generated by or attributable to the Principal Properties of the Corporation and the Restricted Affiliate and all rights to receive the same whether in the form of accounts, contract rights, chattel paper, instruments, general intangibles or other rights now owned or thereafter acquired by the Corporation or any Restricted Affiliate, including all moneys paid to the Corporation or the Master Trustee by the Restricted Affiliates under the Mercy 1995 Master Indenture and all moneys paid to the Corporation or the Master Trustee by the Restricted Affiliates under the Commitment Agreements, and all rights, interests, powers, privileges and benefits accruing to or vested in the Corporation under the Commitment Agreements (including the right to protect and enforce the same in conformity with the Master Indenture from and after the occurrence of any Event of Default thereunder), and all proceeds from any of the foregoing whether cash or noncash, all as defined in Article 9 of the Uniform Commercial Code of the applicable State where a Principal Property is located; excluding, however, gifts, grants, bequests, donations and contributions to the Corporation or any Restricted Affiliate made, and the income and gains derived therefrom, which are specifically restricted by the donor, testator or grantor to a particular purpose which is inconsistent with their use for payments required under the Master Indenture or on the Master Obligations.

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SUMMARY OF THE MASTER INDENTURE

The following is a summary of certain provisions contained in the Master Indenture. The following is not a comprehensive description, however, and is qualified in its entirety by reference to the Master Indenture for a complete recital of its terms.

Authorization, Amount and Designation of Master Obligations

The Corporation may issue Master Obligations in one or more series, without any authorization or approval from the Restricted Affiliates, but subject to the provisions of the Master Indenture and the provisions of any Supplemental Master Indenture authorizing the issuance of Master Obligations. No Master Obligations may be issued under the Master Indenture except in accordance with the provisions of the Master Indenture. The total principal amount of Master Obligations, the number of Master Obligations and the series of Master Obligations that may be issued under the Master Indenture are not limited, except with respect to any series of Master Obligations as provided in the Supplemental Master Indenture providing for the issuance thereof, and except as limited by law.

Security for Master Obligations

All Master Obligations issued and outstanding under the Master Indenture are equally and ratably secured by the Master Indenture.

Master Obligations may be issued under the Master Indenture to evidence and secure any type of Indebtedness, including without limitation any Indebtedness issued or incurred as notes, bonds or other form of debt obligation. If any Indebtedness issued under the Master Indenture is not issued directly in the form of a Master Obligation, a Master Obligation must be issued thereunder as evidence and security for the payment of such Indebtedness in lieu of directly issuing such Indebtedness as a Master Obligation.

Any series of Master Obligations may be secured by additional security (including without limitation liens on property, security interests in debt service or depreciation reserves or similar funds, or a credit facility), so long as any liens created in connection therewith are permitted under the Master Indenture. Such security need not extend to any other Indebtedness (including any other Master Obligations or series of Master Obligations) unless required thereunder. The Supplemental Master Indenture pursuant to which any Master Obligation is issued may provide for such security and permit realization upon such security solely for the benefit of the Master Obligations entitled thereto, and as are not inconsistent with the intent thereof; provided that, except as otherwise expressly provided therein, all Master Obligations shall be equally and ratably secured by the Master Indenture.

Pledge and Assignment of Unrestricted Gross Revenues

To secure the payment of the Master Obligations and the performance and observance of all the covenants and conditions under the Master Indenture and the Master Obligations, the Corporation and each Restricted Affiliate grants a security interest in, pledges, assigns and transfers in trust to the Master Trustee all Unrestricted Gross Revenues for the equal and proportionate benefit and security of all holders of all Master Obligations issued and Outstanding under the Master Indenture without priority of any Master Obligation over any other Master Obligation.

Performance of Covenants

The Corporation shall (a) faithfully perform at all times any and all covenants, undertakings, stipulations and provisions contained in the Master Indenture and in each and every Master Obligation executed, authenticated and delivered thereunder; and (b) cause each Restricted Affiliate to comply with the terms and conditions of the Master Indenture which are applicable to such Restricted Affiliate, and of the Related Loan Documents, if any, to which such Restricted Affiliate is a party.

Payment of Master Obligations

(a) *Payment of Principal, Premium, Interest and Other Amounts.* The Corporation shall duly and punctually pay the principal of, premium, if any, and interest on all Master Obligations issued under the Master Indenture, and any other payments, including the purchase price of Related Bonds tendered for purchase pursuant to the terms of a Related Bond Indenture or Related Loan Document, required by the terms of such Master Obligations, on the dates, at the times and at the places and in the manner provided in such Master Obligations, the applicable Supplemental Master Indenture and the Master Indenture, when and as the same become payable, whether at maturity, upon call for redemption, by acceleration of maturity or otherwise.

(b) *Payments by Restricted Affiliates*. The Corporation shall cause each Restricted Affiliate to pay, loan or otherwise transfer to the Corporation (1) such amounts that are necessary to duly and punctually pay the principal of, premium, if any, and interest on all Outstanding Master Obligations or portions thereof the proceeds of which were loaned or otherwise made available to such Restricted Affiliate or that were otherwise issued for the benefit of such Restricted Affiliate and any other payments, including the purchase price of Related Bonds tendered for purchase pursuant to the terms of a Related Bond Indenture or Related Loan Document, required by the terms of such Master Obligations, on the dates, at the times and at the places and in the manner provided in such Master Obligations, the applicable Supplemental Master Indenture and the Master Indenture, when and as the same become payable, whether at maturity, upon call for redemption, by acceleration of maturity or otherwise, and (2) such amounts that are otherwise necessary to enable the Corporation to comply with the provisions of the Master Indenture with respect to the other Master Obligations issued by the Corporation.

(c) *Obligations Absolute and Unconditional*. The obligations of the Corporation under the Master Indenture are absolute and unconditional and will remain in full force and effect until the entire indebtedness of all Master Obligations is paid or provision is made for such payment, and the Corporation shall perform such obligations without notice or demand, and without abatement, deduction, set-off, counterclaim, recoupment, discrimination or defense or any right of termination or cancellation arising from any circumstances whatsoever, whether now existing or thereafter arising, and regardless of the invalidity of any portion of the Master Indenture, and, to the extent permitted by law, the Corporation waives the provisions of any statute or other law now or thereafter in effect contrary to any of its obligations, covenants or agreements under the Master Indenture or which releases or purports to release the Corporation therefrom.

Maintenance of Legal Existence

Except as otherwise expressly provided in the Master Indenture, the Corporation shall, and, with respect to each Restricted Affiliate, shall cause each Restricted Affiliate to, (1) preserve its corporate or other separate legal existence, (2) preserve all its rights and licenses to the extent necessary or desirable in the operation of its business and affairs, and (3) be and remain qualified to do business and conduct its affairs in each jurisdiction where its ownership of property or the conduct of its business or affairs requires such qualification; provided, however, that the Corporation or any Restricted Affiliate shall not be required to preserve any right or license no longer, in the judgment of its governing board, desirable in the conduct of its business and the loss thereof is not disadvantageous in any material respect to the holders of the Master Obligations.

Liens on Property

The Corporation shall not, and shall not permit any Restricted Affiliate to, create or incur or permit to be created or incurred or to exist any Mortgage on any Principal Property securing any Indebtedness of the Corporation or a Restricted Affiliate, except the following:

(a) Mortgages on any Principal Property of the Corporation or a Restricted Affiliate that secure all Outstanding Master Obligations equally and ratably (together, if the Corporation shall so determine, with any other Indebtedness of the Corporation or such Restricted Affiliate ranking equally with the Master Obligations); or

(b) Mortgages on any Principal Property of the Corporation or of a Restricted Affiliate at the effective date of the Master Indenture or existing at the time any Person becomes a Restricted Affiliate; provided that no such Mortgage (or the amount of Indebtedness secured thereby) may be increased, extended, renewed or modified to apply to any Principal Property of the Corporation or any Restricted Affiliate not subject to such Mortgage on such date unless such Mortgage as so increased, extended, renewed or modified is otherwise permitted under the Master Indenture; or

(c) Mortgages on property of a Person existing at the time such Person is merged into or consolidated with the Corporation or a Restricted Affiliate, or at the time of a sale, lease or other disposition of the properties of a Person as an entirety or substantially as an entirety to the Corporation or a Restricted Affiliate which becomes part of a Principal Property that secures Indebtedness that is assumed by the Corporation or a Restricted Affiliate as a result of any such merger, consolidation or acquisition; provided, that no such Mortgage may be increased, extended, renewed, or modified after such date to apply to any Principal Property of the Corporation or a Restricted Affiliate not subject to such Mortgage on such date unless such Mortgage as so increased, extended, renewed or modified is otherwise permitted under the Master Indenture; or

(d) Mortgages on any Principal Property of the Corporation or a Restricted Affiliate to secure Indebtedness of the Corporation to a Restricted Affiliate or to secure Indebtedness of a Restricted Affiliate to the Corporation or another Restricted Affiliate; or

(e) Mortgages on any Principal Property of the Corporation or a Restricted Affiliate to secure any Indebtedness incurred for the purpose of financing all or any part of the purchase price or the cost of constructing or improving the property subject to such Mortgage; provided, that such Mortgage shall not apply to any property theretofore owned by the Corporation or a Restricted Affiliate, other than any theretofore unimproved real property on which the property so constructed or the improved is located; or

(f) Mortgages on any Principal Property of the Corporation or a Restricted Affiliate securing any Indebtedness if at the time of incurrence of such Indebtedness and after giving effect to all Mortgages permitted under this subsection, the aggregate amount of such Indebtedness secured by Mortgages pursuant to this subsection, including Indebtedness attributable to capital leases and sale-and-leaseback transactions (as described below) existing at such time, does not at the time exceed **10%** of the unrestricted fund balance of the Corporation, as shown on the audited balance sheet contained in the latest annual audited financial statements of the Corporation; or

(g) Mortgages on any Principal Property of the Corporation or any Restricted Affiliate owned immediately prior to and created, as a result of any consolidation or merger by the Corporation or any Restricted Affiliate, or upon any sale, conveyance or lease of all or substantially all the property of the Corporation or any Restricted Affiliate to any other Person, if, prior to such consolidation, merger, sale, conveyance or lease, the Corporation or Restricted Affiliate will by indenture supplemental thereto secure the due and punctual payment of the principal of and premium, if any, and interest, if any, on all Outstanding Master Obligations (together with, if the

Corporation shall so determine, any other Indebtedness of the Corporation or such Restricted Affiliate ranking equally with the Master Obligations) by a Mortgage, the lien of which, upon completion of said merger, consolidation, sale, conveyance or lease, will rank prior to the lien of such mortgage of such other Person on assets owned by the Corporation or such Restricted Affiliate immediately prior to such merger, consolidation, sale, conveyance or lease; or

(h) any other Mortgages on any Principal Property expressly permitted by the Master Indenture or approved in writing by the holders of all of the Master Obligations Outstanding.

Limitation on Sale and Leaseback Transactions

The Corporation shall not, and shall not permit any Restricted Affiliate to, enter into any arrangement with any Person for the leasing by the Corporation or a Restricted Affiliate (except for leases for a term of not more than three years and for leases of a Principal Property or any portion thereof, which has been sold, for use in connection with the winding up or termination of the business conducted on such Principal Property, and except, in the case of a Restricted Affiliate, a lease to the Corporation or another Restricted Affiliate) of any Principal Property, which Principal Property has been or is intended to be sold or transferred by the Corporation or such Restricted Affiliate to such Person (therein referred to as a **"sale-and-leaseback"** transaction), unless:

(a) the Corporation or such Restricted Affiliate would be entitled, pursuant to the provisions of the Master Indenture, to incur Indebtedness secured by a Mortgage on such Principal Property without equally and ratably securing the Master Obligations, or

(b) the Corporation shall (and in any such case the Corporation covenants that it will) apply an amount equal to the fair value of such Principal Property so leased (as determined by its governing board) to the retirement (other than by payment at maturity or to satisfy the mandatory requirements of any sinking, purchase or analogous fund or prepayment provision), within **120** days of the effective date of any such sale-and-leaseback transaction, of Master Obligations or other Indebtedness of the Corporation or any Restricted Affiliate ranking on a parity with the Master Obligations, or to the purchase, improvement or construction of properties which are Principal Properties; provided, that the amount to be applied to the retirement of such Master Obligations or other Indebtedness shall be reduced by (1) the principal amount of any Master Obligations delivered within **120** days after such sale or transfer to the Master Trustee for retirement and cancellation, and (2) the principal amount of other Indebtedness ranking on a parity with the Master Obligations voluntarily retired by the Corporation within **120** days after such sale or transfer; and promptly after the expiration of such **120**-day period the Corporation shall have delivered to the Master Trustee an Officers' Certificate setting forth in reasonable detail all material facts necessary to show compliance with this Section.

Consolidation, Merger, Conveyance or Transfer

The Corporation shall not consolidate with or merge into any other Person or sell, lease, convey or otherwise transfer its property substantially as an entirety to any Person, unless the following conditions are met:

(a) such merger, consolidation, conveyance or transfer shall be on such terms as shall fully preserve the lien and security of the Master Indenture and the rights and powers of the Master Trustee and the holders of the Master Obligations under the Master Indenture;

(b) the Person formed by such consolidation or into which the Corporation is merged or the Person which acquires by conveyance or transfer the Corporation's property substantially as an entirety shall be a corporation or other legal entity organized and existing under the laws of the United States of America or any state thereof and shall execute and deliver to the Master Trustee a written instrument or Supplemental Master Indenture in form satisfactory to the Master Trustee, and containing an assumption by such successor corporation of the due and punctual payment of the principal of (and premium, if any) and interest on all the Master Obligations and the performance and observance of every covenant and condition of the Master Indenture to be performed or observed by the Corporation;

(c) the Master Trustee receives a certificate of the Corporation to the effect that immediately after such transaction, and after giving effect thereto, the Corporation or such successor corporation, as the case may be, will not be in default in the performance or observance of any of the terms, covenants, agreements or conditions contained in the Master Indenture;

(d) the Master Trustee receives an Opinion of Counsel to the effect that (1) such consolidation, merger, conveyance or transfer and any such assumption and Supplemental Master Indenture comply with this Section, (2) all conditions precedent in the Master Indenture relating to such transaction have been complied with and that it is proper for the Master Trustee under the Master Indenture to join in the execution of any instrument required to be executed and delivered by this Section; (3) the Person which is the surviving entity meets the conditions contained in the Master Indenture and is liable on all Master Obligations Outstanding thereunder, as if such Master Obligations were originally issued by such Person; and (4) under then existing law such merger, consolidation, sale or conveyance will not subject any Master Obligations to the registration provisions of the Securities Act of 1933, as amended (or that such Master Obligations have been so registered if registration is required); and

(e) the Master Trustee receives an Opinion of Bond Counsel to the effect that, if all amounts due or to become due on any Related Bonds that bear interest that is not includable in gross income for federal income tax purposes have not been fully paid to the owners thereof, under then existing law the consummation of such merger, consolidation, sale or conveyance, would not cause the interest payable on such Related Bonds to become includable in gross income for federal income tax purposes.

Upon any consolidation or merger or any conveyance or transfer of the Corporation's property substantially as an entirety in accordance with this Section, and upon the assumption by the successor corporation or other entity, by supplemental indenture, executed and delivered to the Master Trustee and satisfactory in form to the Master Trustee, of the due and punctual payment of the principal of and premium, if any, and interest, if any, on all of the Master Obligations and the due and punctual performance of all of the covenants and conditions of the Master Indenture to be performed by the Corporation, the successor corporation or other entity formed by such consolidation or into which the Corporation is merged or to which such conveyance or transfer is made shall succeed to, and be substituted for, and may exercise every right and power of, the Corporation under the Master Indenture with the same effect as if such successor corporation or other entity had been named as the Corporation therein, and the Corporation, if it is not the successor, shall thereupon be relieved of any further obligation or liabilities thereunder or upon the Master Obligations, and the Corporation as the predecessor corporation may thereupon or at any time thereafter be dissolved, wound up or liquidated.

Rate Covenant

The Corporation shall, and shall cause each Restricted Affiliate to, establish, maintain and collect such rates, fees and charges for the use and services furnished by or through its facilities as will produce revenues sufficient, together with other available funds, to (a) pay the costs of the operation, maintenance and repair of its facilities; (b) make all required payments of principal of (and premium, if any) and interest on all Master Obligations at the time Outstanding as and when the same become due, and (c) make all other payments and perform all other obligations required under the Master Indenture. The Corporation shall, and shall cause each Restricted Affiliate to, require the prompt payment of accounts for service rendered by or through its facilities and will promptly take whatever action is legally permissible to enforce and collect delinquent charges. The Corporation shall, and shall cause each Restricted Affiliate to, from time to time as often as necessary, revise the rates, fees and charges aforesaid in such manner as may be necessary or proper to produce revenues sufficient to cover the obligations under this Section and otherwise under the provisions of the Master Indenture.

Debt Service Coverage Ratio

The Corporation shall maintain a Debt Service Coverage Ratio of not less than **1.10:1.00** at the end of each Fiscal Year, commencing with the first Fiscal Year ending after the Closing Date. The Corporation shall demonstrate its compliance with this Section not later than the **120th** day following the end of each Fiscal Year by filing the information necessary for such demonstration with the Master Trustee. Anything in this Section to the contrary notwithstanding, it shall not constitute a default under the Master Indenture if the ratio set forth above is below **1.10**, but above **1.00**.

For the purposes of the Debt Service Coverage Ratio, the following definitions shall apply:

"Annual Debt Service" means the amount of principal of, redemption premium, if any, and interest on Tested Indebtedness required to be paid in each Fiscal Year immediately succeeding the date of calculation; including principal of and interest on the following types of Indebtedness using the following assumptions:

(i) in the case of Balloon Indebtedness, the amount of principal that would be payable in such period if the entire principal of such Indebtedness were amortized from the date of incurrence thereof over a period of not to exceed **30** years on a level debt service basis at an interest rate equal to the rate borne by such Indebtedness or, if such Indebtedness is Variable Rate Indebtedness, as set forth below, as established in an Officer's Certificate filed with the Master Trustee provided, however, that (a) in the year preceding the maturity date of Balloon Indebtedness, the entire principal amount shall be included, unless there shall then exist a Commitment sufficient to retire such Balloon Indebtedness, in which case the principal amount due with respect to such Commitment in such year shall be included, and (b) to the extent that Balloon Indebtedness is held or owned by the provider of any liquidity or credit facility therefore, the required payments under the agreement relating to such liquidity or credit facility shall be included and not the scheduled payments on such Balloon Indebtedness; and

(ii) in the case of Tested Indebtedness that is Variable Rated Indebtedness, the interest rate at any time of calculation will be equal to the average of the actual rates if interest borne by such Indebtedness (weighted according to the length of time each rate was in effect) for the most recent twelve months preceding the date of calculation, except, with respect to Variable Rate Indebtedness that has not been outstanding for twelve months (and the incurrence thereof), the rate at which such Indebtedness was originally issued.

With respect to Indebtedness that is sold originally at a discount of **10%** or more from the face amount thereof, the principal amount of such Indebtedness shall be the accreted value thereof at any time of calculation.

"Audited Financial Statements" means the financial statements required to be prepared pursuant to the Master Indenture that have been reported upon by a firm of independent accountants.

"Balloon Indebtedness" means Long-Term Indebtedness **25%** or more of the principal of which is required to be paid, at maturity or by mandatory redemption, in any one Fiscal Year and Indebtedness the owners of which have the right to tender such Indebtedness for purchase.

"Closing Date" means November 14, 2017.

"Commitment" means a binding commitment or agreement of a bank, investment bank or other financial institution, rated, or the parent holding company of which is rated, at all times at least in the "A" category by Moody's Investors Service and Standard & Poor's Ratings Services, to provide funds, through the sale of the Corporation's securities or otherwise, sufficient to retire Balloon Indebtedness or other Indebtedness due within one year from the date of determination.

"Debt Service Coverage Ratio" means the ratio determined by dividing (i) Income Available for Debt Service by (ii) Annual Debt Service.

"Fiscal Year" means the period beginning on July 1 of each year and ending on the next succeeding June 30, or any other twelve-month period hereafter designated by the Corporation as its fiscal year.

"Income Available for Debt Service" means Net Income plus depreciation, amortization and interest expense on Long-Term Indebtedness, determined in accordance with generally accepted accounting principles exclusively for the purpose of Supplemental Master Indenture No. 25; provided, however, that nothing in Supplemental Master Indenture No. 25 shall require that: (i) accounting treatments or rules, whether or not in accordance with generally accepted accounting principles, that have no effect on cash flow, will affect Income Available for Debt Service or the covenants in Supplemental Master Indenture No. 25; or (ii) Audited Financial Statements be prepared in accordance with generally accepted accounting principles.

"Lien" means any mortgage, deed of trust or pledge of, security interest in or encumbrance on any property.

"Long-Term Indebtedness" means Indebtedness having a maturity of more than one year, including the current portion of Long-Term Indebtedness, incurred or assumed by the Corporation or any Restricted Affiliate.

"Net Income" means the consolidated net income of the Corporation, excluding unrealized gains and losses from investments, extraordinary gains and losses in connection with any property or the extinguishment of Indebtedness and any other non-cash item, as shown on the Audited Financial Statements for the most recent Fiscal Year for which such Statements are available.

"Non-Recourse Indebtedness" means any Indebtedness incurred to finance the purchase or improvement of property which Indebtedness is secured exclusively by a Lien on such property or the revenues or net revenues produced by such property or both, the liability for which is effectively limited to such property or revenues or both subject to such Lien with no recourse, directly or indirectly, to any other property or revenues of the Corporation or any Restricted Affiliate.

"Refunded Indebtedness" means the principal of, interest on or both, as appropriate, of Indebtedness for which there has been created an irrevocable escrow fund containing cash and investments that have been verified to be sufficient to pay the principal of, interest on or both of such Refunded Indebtedness.

"Tested Indebtedness" means all outstanding Indebtedness other than Non-Recourse Indebtedness and Refunded Indebtedness.

"Variable Rate Indebtedness" means Indebtedness the interest rate on which is not fixed at a single numerical rate at the time of its incurrence.

The Debt Service Coverage Ratio shall remain in effect so long as any of the Series 2017C Bonds are outstanding.

Financial Statements and Other Information

The Corporation shall keep proper books of record and account, in which full and correct entries shall be made of all dealings or transactions of or in relation to the properties, business and affairs of the Corporation in accordance with generally accepted accounting principles. The Corporation shall furnish to the Master Trustee, as soon as practicable after they are available but in no event more than **180** days after the last day of each fiscal year, the audit report and audited combined financial statements of the Corporation and its Restricted Affiliates for such fiscal year certified by the Corporation's independent certified public accountants.

The Corporation shall at any and all times, upon the written request of the Master Trustee and at the expense of the Corporation, permit the Master Trustee by its representatives to inspect the properties, books of account, records, reports and other papers of the Corporation, except donor records, patient records, personnel records, and any other confidential records, and to take copies and extracts therefrom, and will afford and procure a reasonable opportunity to make any such inspection, and the Corporation will furnish to the Master Trustee any and all information as the Master Trustee may reasonably request, with respect to the performance by the Corporation of its covenants in the Master Indenture.

Control of Restricted Affiliates

The Corporation at all times shall either (a) maintain, directly or indirectly, control of each Restricted Affiliate, including the power to direct the management, policies, disposition of assets and actions of such Restricted Affiliate to the extent required to cause such Restricted Affiliate to comply with the terms and conditions of the Master Indenture, whether through the ownership of voting securities, by contract, partnership interests, membership, reserved powers, or the power to appoint members, trustees or directors or otherwise, or (b) execute and have in effect such contracts or other agreements that the Corporation, in its sole judgment of its governing board, deems sufficient for it to cause such Restricted Affiliate to comply with the terms and conditions of the Master Indenture.

Events of Default

The term **"event of default,"** wherever used in the Master Indenture, means any one of the following events (whatever the reason for such event and whether it is voluntary or involuntary or effected by operation of law or pursuant to any judgment, decree or order of any court or any order, rule or regulation of any administrative or governmental body):

(a) default in the payment of any interest on any Master Obligation when such interest becomes due and payable; or

(b) default in the payment of the principal of (or premium, if any, on) any Master Obligation when the same becomes due and payable (whether at maturity, upon proceedings for redemption, by acceleration or otherwise); or

(c) default in the performance, or breach, of any covenant or agreement of the Corporation in the Master Indenture (other than a covenant or agreement a default in the performance or breach of which is specifically dealt with elsewhere in this Section), and continuance of such default or breach for a period of **60** days after there has been given to the Corporation by the Master Trustee or to the Corporation and the Master Trustee by the holders of at least **25%** in principal amount of the Master Obligations Outstanding, a written notice specifying such default or breach and requiring it to be remedied; provided, that if such default cannot be fully remedied within such **60**-day period, but can reasonably be expected to be fully remedied, such default shall not constitute an event of default if the Corporation shall immediately upon receipt of such notice commence the curing of such default and shall thereafter prosecute and complete the same with due diligence and dispatch; or

(d) the entry of a decree or order by a court having jurisdiction in the premises for relief in respect of the Corporation, or adjudging the Corporation a bankrupt or insolvent, or approving as properly filed a petition seeking reorganization, adjustment or composition of or in respect of the Corporation under the United States Bankruptcy Code or any other applicable federal or state law, or appointing a custodian, receiver, liquidator, assignee, trustee, sequestrator (or other similar official) of or for the Corporation or any substantial part of its property, or ordering the winding up or liquidation of its affairs, and the continuance of any such decree or order unstayed and in effect for a period of **60** consecutive days; or

(e) the commencement by the Corporation of a voluntary case, or the institution by it of proceedings to be adjudicated a bankrupt or insolvent, or the consent by it to the institution of bankruptcy or insolvency proceedings against it, or the filing by it of a petition or answer or consent seeking reorganization, arrangement or relief under the United States Bankruptcy Code or any other applicable federal or state law, or the consent or acquiescence by it to the filing of any such petition or the appointment of or taking possession by a custodian, receiver, liquidator, assignee, trustee, sequestrator (or other similar official) of the Corporation or any substantial part of its property, or the making by it of an assignment for the benefit of creditors, or the admission by it in writing of its inability or its failure to pay its debts generally as they become due, or the taking of corporate action by the Corporation in furtherance of any such action.

Acceleration of Maturity; Rescission and Annulment

If an event of default occurs and is continuing, then and in every such case the Master Trustee may, and if requested by the holders of not less than **25%** in principal amount of the Master Obligations Outstanding shall, by written notice to the Corporation, declare the principal of all the Master Obligations and the interest accrued thereon to be due and payable immediately, by notice in writing to the Corporation (and to the Master Trustee, if given by noteholders), and upon any such declaration such principal and interest shall become immediately due and payable.

At any time after such a declaration of acceleration has been made, but before any judgment or decree for payment of money due on any Master Obligations has been obtained by the Master Trustee, the holders of a majority in principal amount of the Master Obligations Outstanding may, by written notice to the Corporation and the Master Trustee, rescind and annul such declaration and its consequences if

(a) the Corporation has deposited with the Master Trustee a sum sufficient to pay (1) all overdue installments of interest on all Master Obligations; (2) the principal of (and premium, if any, on) any Master Obligations which have become due otherwise than by such declaration of acceleration and interest thereon at the rate or rates prescribed therefor in such Master Obligations; (3) interest upon overdue installments of interest at the rate or rates prescribed therefor in the Master Obligations; (4) all sums paid or advanced by the Master Trustee thereunder and the reasonable compensation, expenses, disbursements and advances of the Master Trustee, its agents and counsel; and

(b) all events of default, other than the non-payment of the principal of Master Obligations which have become due solely by such declaration of acceleration, have been cured or have been waived as provided in the Master Indenture.

Exercise of Remedies by the Master Trustee

Upon the occurrence and continuance of any event of default under the Master Indenture, unless the same is waived as provided in the Master Indenture, the Master Trustee shall have the following rights and remedies, in addition to any other rights and remedies provided under the Master Indenture or by law:

(a) *Right to Bring Suit, Etc.* The Master Trustee may pursue any available remedy at law or in equity by suit, action, mandamus or other proceeding to enforce the payment of the principal of, premium, if any, and interest on the Master Obligations Outstanding, including interest on overdue principal (and premium, if any) and on overdue installments of interest, and any other sums due under the Master Indenture, to realize on or to foreclose any of its interests or liens under the Master Indenture, to enforce and compel the performance of the duties and obligations of the Corporation as set forth in the Master Indenture and to enforce or preserve any other rights or interests of the Master Trustee under the Master Indenture or otherwise existing at law or in equity.

(b) *Exercise of Remedies at Direction of Holders.* If requested in writing to do so by the holders of not less than **25%** in principal amount of Master Obligations Outstanding and if indemnified as provided in the Master Indenture, the Master Trustee shall be obligated to exercise such one or more of the rights and remedies conferred by the Master Indenture as the Master Trustee shall deem most expedient in the interests of the holders of the Master Obligations.

Limitation on Suits by Holders

No holder of any Master Obligation shall have any right to institute any proceeding, judicial or otherwise, under or with respect to the Master Indenture, or for the appointment of a receiver or trustee or for any other remedy thereunder, unless:

(a) such holder has previously given written notice to the Master Trustee of a continuing event of default;

(b) the holders of not less than **25%** in principal amount of the Master Obligations Outstanding shall have made written request to the Master Trustee to institute proceedings in respect of such event of default in its own name as Master Trustee thereunder;

(c) such holder or holders have offered to the Master Trustee indemnity as provided in the Master Indenture against the costs, expenses and liabilities to be incurred in compliance with such request;

(d) the Master Trustee for **60** days after its receipt of such notice, request and offer of indemnity has failed to institute any such proceeding; and

(e) no direction inconsistent with such written request has been given to the Master Trustee during such **60**-day period by the holders of a majority in principal amount of the Outstanding Master Obligations.

Notwithstanding the foregoing or any other provision in the Master Indenture, however, the holder of any Master Obligation shall have the right which is absolute and unconditional to receive payment of the principal of (and premium, if any) and interest on such Master Obligation on the respective stated maturities expressed in such Master Obligation (or, in the case of redemption, on the redemption date) and nothing contained in the Master Indenture shall affect or impair the right of any holder to institute suit for the enforcement of any such payment.

Control of Proceedings by Holders

The holders of a majority in principal amount of the Master Obligations Outstanding shall have the right, during the continuance of an event of default,

(a) to require the Master Trustee to proceed to enforce the Master Indenture, either by judicial proceedings for the enforcement of the payment of the Master Obligations and the foreclosure of the Master Indenture, or otherwise; and

(b) to direct the time, method and place of conducting any proceeding for any remedy available to the Master Trustee, or exercising any trust or power conferred upon the Master Trustee thereunder, provided that (1) such direction shall not be in conflict with any rule of law or the Master Indenture, (2) the Master Trustee may take any other action deemed proper by the Master Trustee which is not inconsistent with such direction, and (3) the Master Trustee shall not determine that the action so directed would be unjustly prejudicial to the holders not taking part in such direction.

Application of Moneys Collected

Any moneys collected by the Master Trustee pursuant to the Master Indenture (after the deductions for payment of costs and expenses of proceedings resulting in the collection of such moneys), together with any other sums then held by the Master Trustee, shall be applied in the following order, at the date or dates fixed by the Master Trustee and, in case of the distribution of such money on account of principal (or premium, if any) or interest, upon presentation of the Master Obligations and the notation thereon of the payment if only partially paid and upon surrender thereof if fully paid:

(a) **First:** To the payment of all undeducted amounts due the Master Trustee under the Master Indenture;

(b) **Second:** To the payment of the whole amount then due and unpaid upon the Outstanding Master Obligations for principal (and premium, if any) and interest, in respect of which or for the benefit of which such money has been collected, with interest (to the extent that such interest has been collected by the Master Trustee or a sum sufficient therefor has been so collected and payment thereof is legally enforceable at the respective rate or rates prescribed therefor in the Master Obligations) of the several series on overdue principal (and premium, if any) and on overdue installments of interest; and in case such proceeds shall be insufficient to pay in full the whole amount so due and unpaid upon such Master Obligations, then to the payment of such principal and interest, without any preference or priority, ratably according to the aggregate amount so due; and

(c) **Third:** To the payment of the remainder, if any, to the Corporation or to whosoever may be lawfully entitled to receive the same or as a court of competent jurisdiction may direct.

Acceptance of Trusts; Certain Duties and Responsibilities

The Master Trustee accepts and agrees to execute the trusts imposed upon it by the Master Indenture, but only upon the terms and conditions set forth in the Master Indenture:

(a) Except during the continuance of an event of default under the Master Indenture,

(1) the Master Trustee undertakes to perform such duties and only such duties as are specifically set forth in the Master Indenture, and no implied covenants or obligations shall be read into the Master Indenture against the Master Trustee; and

(2) in the absence of bad faith on its part, the Master Trustee may conclusively rely, as to the truth of the statements and the correctness of the opinions expressed therein, upon certificates or opinions furnished to the Master Trustee and conforming to the requirements of the Master Indenture; but in the case of any such certificates or opinions which by any provision thereof are specifically required to be furnished to the Master Trustee, the Master Trustee shall be under a duty to examine the same to determine whether or not they conform to the requirements of the Master Indenture.

(b) If an event of default has occurred and is continuing, the Master Trustee shall exercise such of the rights and powers vested in it by the Master Indenture, and use the same degree of care and skill in their exercise, as a prudent corporate trustee would exercise or use under the circumstances.

Corporate Master Trustee Required; Eligibility

There shall at all times be a Master Trustee under the Master Indenture which shall be a bank or trust company organized and doing business under the laws of the United States of America or of any state thereof, authorized under such laws to exercise corporate trust powers, subject to supervision or examination by federal or state authority, and having a combined capital and surplus of at least **$100,000,000**. If such corporation publishes reports of condition at least annually, pursuant to law or to the requirements of such supervising or examining authority, then for the purposes of this Section, the combined capital and surplus of such corporation will be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published. If at any time the Master Trustee ceases to be eligible in accordance with the provisions of this Section, it shall resign immediately in the manner and with the effect specified in the Master Indenture.

Resignation and Removal of Master Trustee

The Master Trustee may resign or may be removed as follows:

(a) The Master Trustee may resign at any time by giving written notice thereof to the Corporation and to each holder of Master Obligations Outstanding as shown by the list of noteholders required by the Master Indenture to be kept at the office of the Master Trustee. If an instrument of acceptance by a successor Master Trustee is not delivered to the Master Trustee within **30** days after the giving of such notice of resignation, the resigning Master Trustee may petition any court of competent jurisdiction for the appointment of a successor Master Trustee.

(b) If the Master Trustee has or shall acquire any conflicting interest, it shall, within **90** days after ascertaining that it has a conflicting interest, or within **30** days after receiving written notice from the Corporation (so long as the Corporation is not in default under the Master Indenture) that it has a conflicting interest, either eliminate such conflicting interest or resign in the manner and with the effect specified in Subsection (a).

(c) The Master Trustee may be removed at any time by an instrument or concurrent instruments in writing signed by the holders of a majority in principal amount of the Outstanding Master Obligations, delivered to the Master Trustee and to the Corporation.

(d) The Master Trustee may be removed at any time (so long as no event of default has occurred and is continuing under the Master Indenture) by an instrument in writing signed by the Corporation and delivered to the Master Trustee. The foregoing notwithstanding, the Master Trustee may not be removed by the Corporation unless written notice of the delivery of such instrument is given by the Corporation to the holders of all Master Obligations Outstanding under the Master Indenture, which notice indicates the Master Trustee will be removed and replaced by the successor trustee named in such notice, such removal and replacement to become effective not less than **60** days from the date of such notice, unless the holders of not less than **25%** in aggregate principal amount of such Master Obligations Outstanding shall object in writing to such removal and replacement.

(e) If at any time:

(1) the Master Trustee shall fail to comply with Subsection (b) after written request therefor by the Corporation or by any noteholder, or

(2) the Master Trustee shall cease to be eligible under the Master Indenture and shall fail to resign after written request therefor by the Corporation or by any such noteholder, or

(3) the Master Trustee shall become incapable of acting or shall be adjudged a bankrupt or insolvent or a receiver of the Master Trustee or of its property shall be appointed or any public officer shall take charge or control of the Master Trustee or of its property or affairs for the purpose of rehabilitation, conservation or liquidation,

then, in any such case, (A) the Corporation may remove the Master Trustee, or (B) any noteholder may petition any court of competent jurisdiction for the removal of the Master Trustee and the appointment of a successor Master Trustee.

Appointment of Successor Master Trustee

If the Master Trustee resigns, is removed or becomes incapable of acting, or if a vacancy occurs in the office of Master Trustee for any cause, the Corporation (so long as the Corporation is not in default thereunder), or the holders of a majority in principal amount of Master Obligations Outstanding (if the Corporation is in default thereunder), by an instrument or concurrent instruments in writing delivered to the Corporation and the retiring Master Trustee, shall promptly appoint a successor Master Trustee. If, within **30** days after such resignation, removal or incapability or the occurrence of such vacancy, a successor Master Trustee is appointed in the manner therein provided, the successor Master Trustee so appointed will, forthwith upon its acceptance of such appointment, become the successor Master Trustee and supersede the successor Master Trustee appointed by the Corporation or by such receiver or trustee. If no successor Master Trustee is so appointed and accepted appointment in the manner therein provided, any noteholder may petition any court of competent jurisdiction for the appointment of a successor Master Trustee, until a successor shall have been appointed as above provided.

Supplemental Master Indentures without Consent of Holders

Without the consent of the holders of any Master Obligations, the Corporation and the Master Trustee may from time to time enter into one or more Supplemental Master Indentures for any of the following purposes:

(a) to correct or amplify the description of any property at any time subject to the lien of the Master Indenture, or better to assure, convey and confirm unto the Master Trustee any property subject or required to be subjected to the lien of the Master Indenture, or to subject to the lien of the Master Indenture additional property; or

(b) to add to the conditions, limitations and restrictions on the authorized amount, terms or purposes of issue, authentication and delivery of Master Obligations or of any series of Master Obligations, as therein set forth, additional conditions, limitations and restrictions thereafter to be observed; or

(c) to authorize the issuance of any series of Master Obligations and make such other provisions as provided in the Master Indenture; or

(d) to modify or eliminate any of the terms of the Master Indenture; provided, however, that

(1) such Supplemental Master Indenture shall expressly provide that any such modifications or eliminations shall become effective only when there is no Master Obligation Outstanding of any series created prior to the execution of such Supplemental Master Indenture; and

(2) the Master Trustee may, in its discretion, decline to enter into any such Supplemental Master Indenture which, in its opinion, may not afford adequate protection to the Master Trustee when the same becomes operative; or

(e) to evidence the succession of another corporation to the Corporation and the assumption by any such successor of the covenants of the Corporation therein and in the Master Obligations contained; or

(f) to add to the covenants of the Corporation or to the rights, powers and remedies of the Master Trustee for the benefit of the holders of all or any series of Master Obligations or to surrender any right or power therein conferred upon the Corporation; or

(g) to cure any ambiguity, to correct or supplement any provision therein which may be inconsistent with any other provision therein or to make any other provisions, with respect to matters or questions arising under the Master Indenture, which shall not be inconsistent with the provisions of the Master Indenture, provided such action shall not adversely affect the interests of the holders of the Master Obligations; or

(h) to modify, eliminate or add to the provisions of the Master Indenture to such extent as shall be necessary to effect the qualification of the Master Indenture under the Trust Indenture Act of 1939, as then amended, or under any similar federal statute thereafter enacted, or to permit the qualification of any Master Obligations for sale under the securities laws of the United States or any state of the United States; or

(i) to make any change which, in the judgment of the Master Trustee, does not materially adversely affect the holders of any of the Master Obligations and, in the opinion of each Related Bond Trustee, does not materially adversely affect the owners of the Related Bonds with respect to which it acts as trustee, including without limitation any modification, amendment or supplement to the Master Indenture or any indenture supplemental thereto in such a manner as to establish or maintain the exclusion of interest on any Related Bonds under a Related Bond Indenture from federal gross income under applicable provisions of the Internal Revenue Code.

Supplemental Master Indentures with Consent of Holders

With the consent of the holders of not less than a majority in principal amount of the Master Obligations of each series then Outstanding affected by such Supplemental Master Indenture, the Corporation and the Master Trustee may enter into an indenture or indentures supplemental thereto for the purpose of adding any provisions to or changing in any manner or eliminating any of the provisions of the Master Indenture or of modifying in any manner the rights of the holders of the Master Obligations under the Master Indenture; provided, however, that no such Supplemental Master Indenture shall, without the consent of the holder of each Outstanding Master Obligation affected thereby,

(a) change the stated maturity of the principal of, or any installment of interest on, any Master Obligation, or reduce the principal amount thereof or the interest thereon or any premium payable upon the redemption thereof, or change any place of payment where, or the coin or currency in which, any Master Obligation, or the interest thereon is payable, or impair the right to institute suit for the enforcement of any such payment on or after the stated maturity thereof (or, in the case of redemption, on or after the redemption date); or

(b) reduce the percentage in principal amount of the Outstanding Master Obligations, the consent of whose holders is required for any such Supplemental Master Indenture, or the consent of whose holders is required for any waiver provided for in the Master Indenture of compliance with certain provisions of the Master Indenture or certain defaults thereunder and their consequences; or

(c) modify the obligation of the Corporation to make payment on or provide funds for the payment of any Master Obligation; or

(d) modify any of the provisions of this Section, except to increase any percentage provided thereby or to provide that certain other provisions of the Master Indenture cannot be modified or waived without the consent of the holder of each Master Obligation affected thereby; or

(e) permit the creation of any lien ranking prior to or on a parity with the lien of the Master Indenture with respect to any property subject thereto or terminate the lien of the Master Indenture on any property at any time subject thereto or deprive the holder of any Master Obligation of the security afforded by the lien of the Master Indenture.

Payment, Discharge and Defeasance of Master Obligations

The Master Obligations of a particular series or a portion of such series will be deemed to be paid and discharged and no longer Outstanding under the Master Indenture and will cease to be entitled to any lien, benefit or security under the Master Indenture if the Corporation has paid or provided for the payment of the entire indebtedness on such Master Obligations in any one or more of the following ways:

(a) by paying or causing to be paid the principal of (including premium, if any) and interest on such Master Obligations, as and when the same become due and payable;

(b) by delivering such Master Obligations to the Master Trustee for cancellation; or

(c) by depositing with the Master Trustee or other paying agent, in trust, moneys and Escrow Obligations in an amount, together with the income or increment to accrue thereon, without consideration of any reinvestment thereof, sufficient to pay or redeem (when redeemable) and discharge the indebtedness on such Master Obligations at or before their respective maturity dates (including the payment of the principal of, premium, if any, and interest payable on such Master Obligations to the maturity or redemption date thereof), provided that, if any such Master Obligations are to be redeemed prior to the maturity thereof, notice of such redemption is given in accordance with the requirements of the Master Indenture or provisions satisfactory to the Master Trustee are made for the giving of such notice.

The foregoing notwithstanding, the liability of the Corporation in respect of such Master Obligations will continue, but the holders thereof will thereafter be entitled to payment only out of the moneys or Escrow Obligations deposited with the Master Trustee as aforesaid. Moneys so deposited with the Master Trustee pursuant to this Section will constitute a separate trust fund for the benefit of the Persons entitled thereto. Such moneys shall be applied by the Master Trustee to the payment (either directly or through any paying agent, as the Master Trustee may determine) to the Persons entitled thereto, of the principal (and premium, if any) and interest for whose payment such moneys have been deposited with the Master Trustee.

Satisfaction and Discharge of Master Indenture

The Master Indenture and the lien, rights and interests created thereby will cease, determine and become null and void if the following conditions are met:

(a) The principal of, premium, if any, and interest on all Master Obligations is paid or is deemed to be paid and discharged by meeting the conditions of the Master Indenture; and

(b) The Corporation has paid or caused to be paid all other sums payable under the Master Indenture by the Corporation with respect to such Master Obligations.

Satisfaction of Related Bonds

The provisions of the Master Indenture notwithstanding, any Master Obligation which secures a Related Bond will not be deemed paid and will continue to be entitled to the lien, benefit and security under the Master Indenture unless and until such Related Bond shall cease to be entitled to any lien, benefit or security under the Related Bond Indenture pursuant to the provisions thereof.

Governing Law

The Master Indenture shall be governed by and construed in accordance with the applicable laws of the State of Missouri.

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SUMMARY OF THE BOND INDENTURE

The Bond Indenture specifies the details and terms of the respective series of Bonds as set out in this Official Statement. The following is a summary of certain other substantially identical provisions contained in the Bond Indenture and is qualified in its entirety by reference to the Bond Indenture.

Pledge and Assignment of Trust Estate

To declare the terms and conditions upon which Bonds are to be authenticated, issued and delivered and to secure the payment of all of the Bonds issued and Outstanding under the Bond Indenture, to secure the performance and observance by the Authority of all the covenants, agreements and conditions contained in the Bond Indenture and in the Bonds, and in consideration of the premises, the acceptance by the Bond Trustee of the trusts created by the Bond Indenture, and the purchase and acceptance of the Bonds by the Owners thereof, the Authority transfers in trust, pledges and assigns to the Bond Trustee, and grants a security interest to the Bond Trustee in, the following described property (said property referred to in the Bond Indenture as the "*Trust Estate*"):

(a) all right, title and interest of the Authority (including, but not limited to, the right to enforce any of the terms thereof) in, to and under (1) the Loan Agreement, including, without limitation, all Loan Payments and other payments to be received by the Authority and paid by the Corporation under and pursuant to and subject to the provisions of the Loan Agreement (except the Authority's rights to payment of its fees and expenses and to indemnification as set forth in the Loan Agreement and as otherwise expressly set forth therein), (2) the Series 2017C Master Obligation, and (3) all financing statements or other instruments or documents evidencing, securing or otherwise relating to the loan of the proceeds of the Bonds;

(b) all moneys and securities (except moneys and securities held in the Rebate Fund) from time to time held by the Bond Trustee in the funds and accounts under the terms of the Bond Indenture; and

(c) any and all other property (real, personal or mixed) of every kind and nature from time to time, by delivery or by writing of any kind, pledged, assigned or transferred as and for additional security under the Bond Indenture by the Authority or by anyone in its behalf or with its written consent, to the Bond Trustee, which is thereby authorized to receive any and all such property at any and all times and to hold and apply the same subject to the terms thereof.

Creation of Funds and Accounts

There are thereby created and ordered to be established in the custody of the Bond Trustee the following special trust funds and accounts with respect to the Bonds, to be designated as follows:

(a) **"Health and Educational Facilities Authority of the State of Missouri--Mercy Health Project Fund"** (the *"Project Fund"*), and within such fund three separate and segregated trust accounts designated the "*Refunding Account*," the "*Costs of Issuance Account*" and the "*Construction Account*."

(b) **"Health and Educational Facilities Authority of the State of Missouri--Mercy Health Debt Service Fund"** (the *"Debt Service Fund"*).

(c) **"Health and Educational Facilities Authority of the State of Missouri--Mercy Health Rebate Fund"** (the *"Rebate Fund"*).

The Bond Trustee is authorized to establish separate accounts or subaccounts within such funds or otherwise segregate moneys within such funds, on a book-entry basis or in such other manner as the Bond Trustee may deem necessary or convenient, or as the Bond Trustee shall be instructed by the Authority.

All moneys deposited with or paid to the Bond Trustee for the funds and accounts held under the Bond Indenture shall be held by the Bond Trustee in trust and shall be applied only in accordance with the provisions of the Bond Indenture and the Loan Agreement, and, until used or applied as therein provided (except for moneys in the Rebate Fund), shall constitute part of the Trust Estate and be subject to the lien, terms and provisions thereof and shall not be commingled with any other funds of the Authority or the Corporation except as provided under the Bond Indenture for investment purposes.

Deposit of Bond Proceeds and Other Moneys

The net proceeds of the Bonds in an amount specified in the Bond Indenture, shall be paid to the Bond Trustee, and the Bond Trustee shall deposit such proceeds, together with any other moneys paid to the Bond Trustee, in the manner set forth in the Bond Indenture.

Project Fund

Moneys in the Project Fund shall be disbursed as follows:

(a) *Costs of Issuance Account*. Moneys in the Costs of Issuance Account in the Project Fund shall be used solely for the purpose of paying Costs of Issuance, as provided in this Section. The Bond Trustee shall disburse moneys in the Costs of Issuance Account upon written disbursement requests of the Corporation, in substantially the form attached to the Bond Indenture, signed by the Corporation Representative, for payment or reimbursement of Costs of Issuance certified in such written requests; provided, however, that Costs of Issuance paid from bond proceeds deposited in the Costs of Issuance Account shall not exceed the lesser of **2%** of the principal amount or sale proceeds of the Bonds. At such time as the Bond Trustee is furnished with an Officer's Certificate stating that all Costs of Issuance have been paid, and in any case not later than **6** months from the date of original issuance of the Bonds, the Bond Trustee shall transfer any moneys remaining in the Costs of Issuance Account to the Debt Service Fund.

(b) *Refunding Account*. The Bond Trustee, as the trustee and paying agent for the Series 2014D Refunded Bonds, shall apply a sum specified in the Bond Indenture from the proceeds of the Bonds deposited in the Refunding Account, without further authorization, in accordance with electronic transfer instructions delivered to the Bond Trustee, to the redemption prior to maturity and the payment of the principal of, and interest on the Series 2014D Refunded Bonds on November 14, 2017. The Bond Trustee, as the trustee and paying agent for the Series 2014E Refunded Bonds, shall apply a sum specified in the Bond Indenture from the proceeds of the Bonds deposited in the Refunding Account, without further authorization, in accordance with electronic transfer instructions delivered to the Bond Trustee, to the redemption prior to maturity and the payment of the principal of, and interest on the Series 2014E Refunded Bonds on November 14, 2017.

(c) *Construction Account*. Moneys in the Construction Account in the Project Fund shall be used solely for the purpose of paying Costs of the Project, as provided in this Section and in accordance with the plans and specifications therefor, including any alterations in or amendments to said plans and specifications deemed advisable by the Corporation and approved in accordance with the Loan Agreement. The Bond Trustee shall pay by electronic transfer, without further authorization, in accordance with the electronic instructions delivered to the Bond Trustee, a sum specified in the Bond Indenture, from the net proceeds of the Bonds in the Construction Account in the Project Fund, to the Corporation to reimburse the Corporation for Costs of the Project previously incurred and paid by the Corporation. The Bond Trustee shall disburse moneys on deposit in the

Construction Account in the Project Fund from time to time to pay or as reimbursement for payment made for other Costs of the Project, in each case within **3** Business Days after receipt by the Bond Trustee of written disbursement requests of the Corporation in substantially the form attached to the Bond Indenture, signed by the Corporation Representative.

The Corporation shall deliver to the Bond Trustee, within **90** days after completion of the Project, an Officer's Certificate stating:

(a) that the Project has been fully completed substantially in accordance with the plans and specifications for the Project, as then amended, and the date of completion of the Project;

(b) that the Costs of the Project have been fully paid for and no claim or claims exist against the Authority or the Corporation or against the Project out of which a lien based on furnishing labor or material exists or might ripen; provided, however, there may be excepted from the foregoing statement any claim or claims out of which a lien exists or might ripen in the event that the Corporation intends to contest such claim or claims in accordance with the Loan Agreement, in which event such claim or claims shall be described; and that moneys are on deposit in the Construction Account in the Project Fund or are available through enumerated bank loans (including letters of credit) or other sources sufficient to make payment of the full amount which might in any event be payable in order to satisfy such claim or claims; and

(c) if any material changes were made to the Project (including additions, deletions or substitutions), and providing any documentation, certificates or opinions required by the Loan Agreement.

Debt Service Fund

The Bond Trustee shall deposit and credit to the Debt Service Fund, as and when received, as follows:

(a) All Loan Payments made by the Corporation pursuant to the Loan Agreement.

(b) Any amount required to be transferred from the Project Costs of Issuance Account in the Project Fund pursuant to the Bond Indenture and from the Construction Account in the Project Fund upon completion of the Project pursuant to the Bond Indenture.

(c) Interest earnings and other income on Permitted Investments required to be deposited in the Debt Service Fund pursuant to the Bond Indenture.

(d) All other moneys received by the Bond Trustee under and pursuant to any of the provisions of the Bond Indenture or the Loan Agreement for deposit into the Debt Service Fund.

The moneys in the Debt Service Fund shall be held in trust and, except as otherwise provided therein, shall be expended solely (a) to pay interest on the Bonds as the same becomes due, (b) to pay principal of the Bonds as the same mature or become due and upon mandatory sinking fund redemption thereof, and (c) to pay principal of and redemption premium, if any, on the Bonds as the same become due upon redemption (other than mandatory sinking fund redemption) prior to maturity. The Bond Trustee is authorized and directed to withdraw sufficient funds from the Debt Service Fund to pay principal of, redemption premium, if any, and interest on the Bonds as the same become due and payable at maturity or upon redemption and to make said funds so withdrawn available to any paying agent for the purpose of paying said principal, redemption premium, if any, and interest.

Rebate Fund

There shall be deposited in the Rebate Fund such amounts as are required to be deposited therein pursuant to the Tax Compliance Agreement. All amounts on deposit at any time in the Rebate Fund shall be held by the Bond

Trustee in trust to the extent required to pay rebatable arbitrage to the United States of America, and neither the Corporation, the Authority nor the Owner of any Bonds shall have any rights in or claim to such money.

The Bond Trustee shall remit from moneys in the Rebate Fund all rebate installments and a final rebate payment to the United States required by the Tax Compliance Agreement. Neither the Bond Trustee nor the Authority shall have any obligation to pay any amounts required to be rebated pursuant to this Section and the Tax Compliance Agreement, other than from moneys held in the Rebate Fund created under the Bond Indenture as provided in the Bond Indenture or from other moneys provided to it by the Corporation. Any moneys remaining in the Rebate Fund after redemption and payment of all of the Bonds and payment and satisfaction of any rebatable arbitrage shall be withdrawn and paid to the Corporation.

The obligation to pay arbitrage rebate to the United States and to comply with all other requirements of this Section and the Tax Compliance Agreement shall survive the defeasance or payment in full of the Bonds until all rebatable arbitrage shall have been paid.

Investment of Moneys

Moneys held in each of the funds and accounts under the Bond Indenture shall be invested and reinvested by the Bond Trustee, pursuant to written directions of the Corporation Representative, in accordance with the provisions of the Bond Indenture and the Tax Compliance Agreement in Permitted Investments that mature or are subject to redemption by the Owner thereof prior to the date such funds are expected to be needed. The Bond Trustee may conclusively rely upon such instructions as to both the suitability and legality of the directed investments. The Bond Trustee is authorized, in making or disposing of any investment permitted by this Section, to deal with itself (in its individual capacity) or with any one or more of its affiliates, whether it or such affiliate is acting as an agent of the Bond Trustee or for any third person or dealing as principal for its own account. The Bond Trustee may pool moneys for investment purposes, except moneys held in any fund or account that are required to be yield restricted in accordance with the Tax Compliance Agreement, which shall be invested separately. Any such Permitted Investments shall be held by or under the control of the Bond Trustee and shall be deemed at all times a part of the fund or account in which such moneys are originally held. The interest accruing on each fund or account and any profit realized from such Permitted Investments (other than any amounts required to be deposited in the Rebate Fund pursuant to the Bond Indenture) shall be credited to such fund or account, and any loss resulting from such Permitted Investments shall be charged to such fund or account. The Bond Trustee shall sell or present for redemption and reduce to cash a sufficient amount of such Permitted Investments whenever it shall be necessary to provide moneys in any fund or account for the purposes of such fund or account and the Bond Trustee shall not be liable for any loss resulting from such investments. The Authority acknowledges that, to the extent regulations of the Comptroller of the Currency or any other applicable regulatory agency grant the Authority the right to receive brokerage confirmations of securities transactions as they occur, the Authority waives the right to receive such confirmations with respect to any transactions relating to the Bonds.

Tax Covenants

The Authority (to the extent within its power or direction) shall not use or permit the use of any proceeds of Bonds or any other funds of the Authority, directly or indirectly, in any manner, and shall not take or permit to be taken any other action or actions, which would adversely affect the exclusion of the interest on any Bond from gross income for federal income tax purposes. The Authority agrees that so long as any of the Bonds remain Outstanding, it will comply with the provisions of the Tax Compliance Agreement applicable to the Authority.

The Bond Trustee agrees to comply with the provisions of the Tax Compliance Agreement applicable to the Bond Trustee. The Bond Trustee from time to time may cause a firm of attorneys, consultants or independent accountants or an investment banking firm to supply the Bond Trustee, on behalf of the Authority, with such information as the Bond Trustee, on behalf of the Authority, may request in order to determine in a manner reasonably satisfactory to the Bond Trustee, on behalf of the Authority, all matters relating to (a) the actuarial yields on the Bonds as the same may relate to any data or conclusions necessary to verify that the Bonds are not "arbitrage bonds" within the meaning of Section 148 of the Internal Revenue Code, and (b) compliance with the rebate requirements of Section 148(f) of the Internal Revenue Code. Payment for costs and expenses incurred in connection with supplying the foregoing information shall be paid by the Corporation.

The foregoing covenants of this Section shall remain in full force and effect notwithstanding the defeasance of the Bonds pursuant to the Bond Indenture or any other provision of the Bond Indenture, until the final maturity date of all Bonds Outstanding and payment thereof.

Events of Default

The term *"Event of Default"*, wherever used in the Bond Indenture, means any one of the following events (whatever the reason for such event and whether it shall be voluntary or involuntary or be effected by operation of law or pursuant to any judgment, decree or order of any court or any order, rule or regulation of any administrative or governmental body):

(a) default in the payment of any interest on any Bond when such interest becomes due and payable;

(b) default in the payment of the principal of (or premium, if any, on) any Bond when the same becomes due and payable (whether at maturity, upon proceedings for redemption, by acceleration or otherwise);

(c) default in the performance, or breach, of any covenant or agreement of the Authority in the Bond Indenture (other than a covenant or agreement a default in the performance or breach of which is specifically dealt with elsewhere in this Section), and continuance of such default or breach for a period of **60** days after there has been given to the Authority and the Corporation by the Bond Trustee or to the Authority, the Corporation and the Bond Trustee by the Owners of at least **25%** in principal amount of the Bonds Outstanding, a written notice specifying such default or breach and requiring it to be remedied; provided, that if such default cannot be fully remedied within such **60**-day period, but can reasonably be expected to be fully remedied, such default shall not constitute an Event of Default if the Authority or the Corporation shall promptly upon receipt of such notice commence the curing of such default and shall thereafter prosecute and complete the same with due diligence and dispatch; or

(d) any Event of Default under the Loan Agreement or the Master Indenture shall occur and is continuing and has not been waived in accordance with the provisions of the Loan Agreement or the Master Indenture.

With regard to any alleged default concerning which notice is given to the Corporation under the provisions of this Section, the Authority thereby grants the Corporation full authority for the account of the Authority to perform any covenant or obligation, the nonperformance of which is alleged in said notice to constitute a default, in the name and stead of the Authority, with full power to do any and all things and acts to the same extent that the Authority could do and perform any such things and acts in order to remedy such default.

Acceleration of Maturity; Rescission and Annulment

If the Series 2017C Master Obligation has been declared by the Master Trustee to be immediately due and payable, then, without further action, all Bonds Outstanding shall become and be immediately due and payable, anything in the Bonds or therein to the contrary notwithstanding.

If an Event of Default occurs and is continuing, the Bond Trustee may or if requested by the Owners of not less than **25%** in principal amount of the Bonds Outstanding shall, by written notice to the Authority and the Corporation, declare the principal of all Bonds Outstanding and the interest accrued thereon to the date of acceleration to be due and payable, and upon any such declaration such principal and interest shall become immediately due and payable.

At any time after such a declaration of acceleration has been made, but before any judgment or decree for payment of money due on any Bonds has been obtained by the Bond Trustee as provided in the Bond Indenture, the Owners of a majority in principal amount of the Bonds Outstanding may, by written notice to the Authority, the Corporation and the Bond Trustee, rescind and annul such declaration and its consequences if:

(a) there is deposited with the Bond Trustee a sum sufficient to pay the following:

(1) all overdue installments of interest on all Bonds;

(2) the principal of (and premium, if any, on) any Bonds which have become due otherwise than by such declaration of acceleration and interest thereon at the rate or rates prescribed therefor in such Bonds; and

(3) all sums paid or advanced by the Bond Trustee thereunder and the reasonable compensation, expenses, disbursements and advances of the Bond Trustee, its agents and counsel; and

(b) all events of default, other than the non-payment of the principal of Bonds which have become due solely by such declaration of acceleration, have been cured or have been waived as provided in the Bond Indenture.

No such rescission and annulment shall affect any subsequent default or impair any right consequent thereon.

Exercise of Remedies by the Bond Trustee

Upon the occurrence and continuance of any Event of Default under the Bond Indenture, unless the same is waived as provided in the Bond Indenture, the Bond Trustee shall have the following rights and remedies, in addition to any other rights and remedies provided under the Bond Indenture or by law:

(a) *Right to Bring Suit, Etc.* The Bond Trustee may pursue any available remedy at law or in equity by suit, action, mandamus or other proceeding to enforce the payment of the principal of, premium, if any, and interest on the Bonds Outstanding, including interest on overdue principal (and premium, if any) and on overdue installments of interest, and any other sums due under the Bond Indenture, to realize on or to foreclose any of its interests or liens under the Bond Indenture or any other Financing Document, to enforce and compel the performance of the duties and obligations of the Authority as set forth in the Bond Indenture and to enforce or preserve any other rights or interests of the Bond Trustee under the Bond Indenture with respect to any of the Trust Estate or otherwise existing at law or in equity.

(b) *Exercise of Remedies at Direction of Bondowners.* If requested in writing to do so by the Owners of not less than **25%** in principal amount of Bonds Outstanding and if indemnified as provided in the Bond Indenture, the Bond Trustee shall be obligated to exercise such one or more of the rights and remedies conferred by the Bond Indenture as the Bond Trustee shall deem most expedient in the interests of the Bondowners.

(c) *Appointment of Receiver.* Upon the filing of a suit or other commencement of judicial proceedings to enforce the rights of the Bond Trustee and of the Bondowners under the Bond Indenture, the Bond Trustee shall be entitled, as a matter of right, to the appointment of a receiver or receivers of the Trust Estate, pending such proceedings, with such powers as the court making such appointment shall confer.

(d) *Suits to Protect the Trust Estate.* The Bond Trustee shall have power to institute and to maintain such proceedings as it may deem expedient to prevent any impairment of the Trust Estate by any acts which may be unlawful or in violation of the Bond Indenture and to protect its interests and the interests of the Bondowners in the Trust Estate, including power to institute and maintain proceedings to restrain the enforcement of or compliance with any governmental enactment, rule or order that may be unconstitutional or otherwise invalid, if the enforcement of or compliance with such enactment, rule or order would impair the security under the Bond Indenture or be prejudicial to the interests of the Bondowners or the Bond Trustee, or to intervene (subject to the approval of a court of competent jurisdiction) on behalf of the Bondowners in any judicial proceeding to which the Authority or the Corporation is a party and which in the judgment of the Bond Trustee has a substantial bearing on the interests of the Bondowners.

(e) *Enforcement Without Possession of Bonds.* All rights of action under the Bond Indenture or any of the Bonds may be enforced and prosecuted by the Bond Trustee without the possession of any of the Bonds or the production thereof in any suit or other proceeding relating thereto, and any such suit or proceeding instituted by the Bond Trustee shall be brought in its own name as trustee of an express trust. Any recovery of judgment shall, after provision for the payment of the reasonable compensation, expenses, disbursements and advances of the Bond Trustee, its agents and counsel, and subject to the provisions of the Bond Indenture, be for the equal and ratable benefit of the Owners of the Bonds in respect of which such judgment has been recovered.

(f) *Restoration of Positions.* If the Bond Trustee or any Bondowner has instituted any proceeding to enforce any right or remedy under the Bond Indenture by suit, foreclosure, the appointment of a receiver, or otherwise, and such proceeding has been discontinued or abandoned for any reason, or has been determined adversely to the Bond Trustee or to such Bondowner, then and in every case the Authority, the Corporation, the Bond Trustee and the Bondowners shall, subject to any determination in such proceeding, be restored to their former positions and rights under the Bond Indenture, and thereafter all rights and remedies of the Bond Trustee and the Bondowners shall continue as though no such proceeding had been instituted.

Limitation on Suits by Bondowners

No Owner of any Bond shall have any right to institute any proceeding, judicial or otherwise, under the Bond Indenture, or for the appointment of a receiver or trustee or for any other remedy under the Bond Indenture, unless:

(a) such Owner has previously given written notice to the Bond Trustee of a continuing Event of Default;

(b) the Owners of not less than **25%** in principal amount of the Bonds Outstanding shall have made written request to the Bond Trustee to institute proceedings in respect of such Event of Default in its own name as Bond Trustee under the Bond Indenture;

(c) such Owner or Owners have offered to the Bond Trustee indemnity as provided in the Bond Indenture against the costs, expenses and liabilities to be incurred in compliance with such request;

(d) the Bond Trustee for **60** days after its receipt of such notice, request and offer of indemnity has failed to institute any such proceeding; and

(e) no direction inconsistent with such written request has been given to the Bond Trustee during such **60**-day period by the Owners of a majority in principal amount of the Outstanding Bonds;

it being understood and intended that no one or more Owners of Bonds shall have any right in any manner whatever by virtue of, or by availing of, any provision of the Bond Indenture to affect, disturb or prejudice the lien of the Bond Indenture or the rights of any other Owners of Bonds, or to obtain or to seek to obtain priority or preference over any other Owners or to enforce any right under the Bond Indenture, except in the manner therein provided and for the equal and ratable benefit of all Outstanding Bonds.

Notwithstanding the foregoing or any other provision in the Bond Indenture, however, the Owner of any Bond shall have the right which is absolute and unconditional to receive payment of the principal of (and premium, if any) and interest on such Bond on the respective stated maturity expressed in such Bond (or, in the case of redemption, on the redemption date) and nothing contained in the Bond Indenture shall affect or impair the right of any Owner to institute suit for the enforcement of any such payment.

Control of Proceedings by Bondowners

The Owners of a majority in principal amount of the Bonds Outstanding shall have the right, during the continuance of an Event of Default,

(a) to require the Bond Trustee to proceed to enforce the Bond Indenture, either by judicial proceedings for the enforcement of the payment of the Bonds and the foreclosure of the Bond Indenture, or otherwise; and

(b) to direct the time, method and place of conducting any proceeding for any remedy available to the Bond Trustee, or exercising any trust or power conferred upon the Bond Trustee under the Bond Indenture, provided that:

(1) such direction shall not be in conflict with any rule of law or the Bond Indenture;

(2) the Bond Trustee may take any other action deemed proper by the Bond Trustee which is not inconsistent with such direction; and

(3) the Bond Trustee shall not determine that the action so directed would be unjustly prejudicial to the Owners not taking part in such direction.

Application of Moneys Collected

Any moneys collected by the Bond Trustee pursuant to the Bond Indenture (after the deductions for payment of costs and expenses of proceedings resulting in the collection of such moneys), together with any other sums then held by the Bond Trustee as part of the Trust Estate, shall be applied in the following order, at the date or dates fixed by the Bond Trustee and, in case of the distribution of such money on account of principal (or premium, if any) or interest, upon presentation of the Bonds and the notation thereon of the payment if only partially paid and upon surrender thereof if fully paid:

(a) **First:** To the payment of all amounts due the Bond Trustee under the Bond Indenture.

(b) **Second:** To the payment of the whole amount then due and unpaid upon the Outstanding Bonds for principal (and premium, if any) and interest, in respect of which or for the benefit of which such money has been collected, with interest (to the extent that such interest has been collected by the Bond Trustee or a sum sufficient therefor has been so collected and payment thereof is legally enforceable at the respective rate or rates prescribed therefor in the Bonds) on overdue principal (and premium, if any) and on overdue installments of interest; and in case such proceeds shall be insufficient to pay in full the whole amount so due and unpaid upon such Bonds, then to the payment of such principal and interest, without any preference or priority, ratably according to the aggregate amount so due.

(c) **Third:** To the payment of the remainder, if any, to the Corporation or to whosoever may be lawfully entitled to receive the same or as a court of competent jurisdiction may direct.

Corporate Trustee Required; Eligibility

There shall at all times be a Bond Trustee thereunder which shall be a commercial bank or trust company organized and doing business under the laws of the United States of America or of any state thereof, authorized under such laws to exercise corporate trust powers, subject to supervision or examination by federal or state authority, having a corporate trust office located in the State of Missouri. The Bond Trustee must have a combined capital and surplus or consolidated net worth of at least **$100,000,000**, or must provide a guaranty of the full and prompt performance by the Bond Trustee of its obligations under the Bond Indenture and any other agreements made in connection with the Bonds, on terms satisfactory to the Authority, by a guarantor with such combined capital and surplus or consolidated net worth. If such corporation publishes reports of condition at least annually, pursuant to law or to the requirements of such supervising or examining authority, then for the purposes of this Section, the combined capital and surplus of such corporation shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published. If at any time the Bond Trustee shall cease to be eligible in accordance with the provisions of this Section, it shall resign immediately in the manner and with the effect specified in the Bond Indenture.

Resignation and Removal of Bond Trustee

(a) The Bond Trustee may resign at any time by giving written notice thereof to the Authority, the Corporation and each Owner of Bonds Outstanding as shown by the Bond Register required by the Bond Indenture to be kept by the Bond Trustee. If an instrument of acceptance by a successor Bond Trustee shall not have been delivered to the Bond Trustee within **30** days after the giving of such notice of resignation, the resigning Bond Trustee may petition any court of competent jurisdiction for the appointment of a successor Bond Trustee.

(b) If the Bond Trustee has or shall acquire any conflicting interest (within the meaning of the Trust Indenture Act of 1939, as amended), it shall, within **90** days after ascertaining that it has a conflicting interest, or within **30** days after receiving written notice from the Authority or the Corporation (so long as the Corporation is not in default under the Bond Indenture) that it has a conflicting interest, either eliminate such conflicting interest or resign in the manner and with the effect specified in subsection (a).

(c) The Bond Trustee may be removed at any time by an instrument or concurrent instruments in writing delivered to the Authority and the Bond Trustee signed by the Owners of a majority in principal amount of the Outstanding Bonds, or, so long as the Corporation is not in default under the Loan Agreement, by the Corporation. The Authority, the Corporation or any Bondowner may at any time petition any court of competent jurisdiction for the removal for cause of the Bond Trustee.

(d) If at any time:

(1) the Bond Trustee shall fail to comply with subsection (b) after written request therefor by the Authority or any Bondowner, or

(2) the Bond Trustee shall cease to be eligible under the Bond Indenture and shall fail to resign after written request therefor by the Authority or by any such Bondowner, or

(3) the Bond Trustee shall become incapable of acting or shall be adjudged a bankrupt or insolvent or a receiver of the Bond Trustee or of its property shall be appointed or any public officer shall take charge or control of the Bond Trustee or of its property or affairs for the purpose of rehabilitation, conservation or liquidation,

then, in any such case, the Authority may remove the Bond Trustee, or the Corporation or any Bondowner may petition any court of competent jurisdiction for the removal of the Bond Trustee and the appointment of a successor Bond Trustee.

The Bond Trustee shall give notice of each resignation and each removal of the Bond Trustee and each appointment of a successor Bond Trustee to the Registered Owners of Bonds as their names and addresses appear in the Bond Register maintained by the Bond Trustee. Each notice shall include the name of the successor Bond Trustee and the address of its corporate trust office.

No resignation or removal of the Bond Trustee and no appointment of a successor Bond Trustee pursuant to the Bond Indenture shall become effective until the acceptance of appointment by the successor Bond Trustee under the Bond Indenture.

Appointment of Successor Bond Trustee

If the Bond Trustee shall resign, be removed or become incapable of acting, or if a vacancy shall occur in the office of Bond Trustee for any cause, the Authority, with the written consent of the Corporation (which consent shall not be unreasonably withheld) (so long as no Event of Default thereunder has occurred and is continuing), or the Owners of a majority in principal amount of Bonds Outstanding (if an Event of Default thereunder or under the Loan Agreement has occurred and is continuing), by an instrument or concurrent instruments in writing delivered to the Authority and the retiring Bond Trustee, shall promptly appoint a successor Bond Trustee. In case all or substantially all of the Trust Estate shall be in the possession of a receiver or trustee lawfully appointed, such receiver or trustee, by written instrument, may similarly appoint a temporary successor to fill such vacancy until a new Bond Trustee shall be so appointed by the Authority or the Bondowners. If, within **30** days after such resignation, removal or incapability or the occurrence of such vacancy, a successor Bond Trustee shall be appointed in the manner therein provided, the successor Bond Trustee so appointed shall, forthwith upon its acceptance of such appointment, become the successor Bond Trustee and supersede the retiring Bond Trustee and any temporary successor Bond Trustee appointed by such receiver or trustee. If no successor Bond Trustee shall have been so appointed and accepted appointment in the manner therein provided, the Bond Trustee or any Bondowner may petition any court of competent jurisdiction for the appointment of a successor Bond Trustee, until a successor shall have been appointed as above provided. The successor so appointed by such court shall immediately and without further act be superseded by any successor appointed as above provided. Every such successor Bond Trustee appointed pursuant to the provisions of this Section shall be a bank with trust powers or trust company in good standing under the law of the jurisdiction in which it was created and by which it exists, meeting the eligibility requirements of the Bond Indenture.

Supplemental Bond Indentures without Consent of Bondowners

Without the consent of the Owners of any Bonds, the Authority and the Bond Trustee may from time to time enter into one or more Supplemental Bond Indentures for any of the following purposes:

(a) to more precisely identify the facilities financed or refinanced with proceeds of the Bonds, or to substitute or add additional property thereto as permitted by the Loan Agreement, or to correct or amplify the description of any property at any time subject to the lien of the Bond Indenture, or better to assure, convey and confirm unto the Bond Trustee any property subject or required to be subjected to the lien of the Bond Indenture, or to subject to the lien of the Bond Indenture additional property;

(b) to add to the conditions, limitations and restrictions on the authorized amount, terms or purposes of issue, authentication and delivery of the Bonds, as therein set forth, additional conditions, limitations and restrictions thereafter to be observed;

(c) to evidence the appointment of a separate Bond Trustee or the succession of a new Bond Trustee under the Bond Indenture;

(d) to add to the covenants of the Authority or to the rights, powers and remedies of the Bond Trustee for the benefit of the Owners of all of the Bonds or to surrender any right or power therein conferred upon the Authority;

(e) to cure any ambiguity, to correct or supplement any provision in the Bond Indenture which may be inconsistent with any other provision therein or to make any other change, with respect to matters or questions arising under the Bond Indenture, which shall not be inconsistent with the provisions of the Bond Indenture, provided such action shall not materially adversely affect the rights of the Owners of the Bonds under the Bond Indenture;

(f) to modify, eliminate or add to the provisions of the Bond Indenture to such extent as shall be necessary to effect the qualification of the Bond Indenture under the Trust Indenture Act of 1939, as amended, or under any similar federal statute thereafter enacted, or to permit the qualification of the Bonds for sale under the securities laws of the United States or any state of the United States.

Supplemental Bond Indentures with Consent of Bondowners

With the written consent of the Owners of not less than a majority in principal amount of the Bonds then Outstanding affected by such Supplemental Bond Indenture, the Authority and the Bond Trustee may enter into one or more Supplemental Bond Indentures for the purpose of adding any provisions to or changing in any manner or eliminating any of the provisions of the Bond Indenture or of modifying in any manner the rights of the Owners of the Bonds under the Bond Indenture; provided, however, that no such Supplemental Bond Indenture shall, without the consent of the Owner of each Outstanding Bond affected thereby, carry out any of the following:

(a) change the stated maturity of the principal of, or any mandatory sinking fund payment with respect to, or any installment of interest on, any Bond, or change any optional redemption date thereof, or reduce the principal amount thereof or the interest thereon or any premium payable upon the redemption thereof, or change the coin or currency in which any Bond or the interest thereon is payable, or impair the right to institute suit for the enforcement of any such payment on or after the stated maturity thereof (or, in the case of redemption, on or after the redemption date);

(b) reduce the percentage in principal amount of the Outstanding Bonds, the consent of whose Owners is required for any such Supplemental Bond Indenture, or the consent of whose Owners is required for any waiver provided for in the Bond Indenture of compliance with certain provisions of the Bond Indenture or certain defaults thereunder and their consequences;

(c) modify the obligation of the Authority to make payment on or provide funds for the payment of any Bond;

(d) modify any of the provisions of this Section, except to increase any percentage provided thereby or to provide that certain other provisions of the Bond Indenture cannot be modified or waived without the consent of the Owner of each Bond affected thereby; or

(e) permit the creation of any lien ranking prior to or on a parity with the lien of the Bond Indenture with respect to any of the Trust Estate or terminate the lien of the Bond Indenture on any property at any time subject thereto or deprive the Owner of any Bond of the security afforded by the lien of the Bond Indenture.

Payment, Discharge and Defeasance of Bonds

Bonds will be deemed to be paid and discharged and no longer Outstanding under the Bond Indenture and will cease to be entitled to any lien, benefit or security of the Bond Indenture if the Authority shall pay or provide for the payment of such Bonds in any one or more of the following ways:

(a) by paying or causing to be paid the principal of (including redemption premium, if any) and interest on such Bonds, as and when the same become due and payable;

(b) by delivering such Bonds to the Bond Trustee for cancellation; or

(c) by depositing in trust with the Bond Trustee, or other paying agent or escrow agent meeting the same eligibility requirements of the Bond Trustee under the Bond Indenture, moneys and Defeasance Obligations in an amount, together with the income or increment to accrue thereon, without consideration of any reinvestment thereof, sufficient to pay or redeem (when redeemable) and discharge the indebtedness on such Bonds at or before their respective maturity or redemption dates (including the payment of the principal of, premium, if any, and interest payable on such Bonds to the maturity or redemption date thereof); provided that, if any such Bonds are to be redeemed prior to the maturity thereof, notice of such redemption is given in accordance with the requirements of the Bond Indenture or provision satisfactory to the Bond Trustee is made for the giving of such notice.

Bonds may be defeased in advance of their maturity or redemption dates pursuant to subsection (c) above, subject to receipt by the Bond Trustee and the Authority of the following:

(1) if the deposit of moneys and Government Obligations with the Bond Trustee is more than **180** days prior to the scheduled full payment of the Bonds, a verification report prepared by independent certified public accountants, or other verification agent, addressed to and satisfactory to the Bond Trustee and the Authority, to the effect that such moneys and Government Obligations are sufficient for the payment in full of the principal of and redemption premium, if any, and interest on such Bonds on the scheduled maturity or redemption dates; and

(2) an Opinion of Bond Counsel addressed and delivered to the Bond Trustee and the Authority to the effect that so providing for the payment of such Bonds will not adversely affect the exclusion of the interest on the Bonds from gross income for federal income tax purposes.

The foregoing notwithstanding, the liability of the Authority in respect of such Bonds shall continue, but the Owners thereof shall thereafter be entitled to payment only out of the moneys and Defeasance Obligations deposited with the Bond Trustee as aforesaid.

Moneys and Defeasance Obligations so deposited with the Bond Trustee pursuant to this Section shall not be a part of the Trust Estate but shall constitute a separate trust fund for the benefit of the Persons entitled thereto. Such moneys and Defeasance Obligations shall be applied by the Bond Trustee to the payment to the Persons entitled thereto, of the principal (and premium, if any) and interest for whose payment such moneys and Defeasance Obligations have been deposited with the Bond Trustee.

Satisfaction and Discharge of Bond Indenture

The Bond Indenture and the lien, rights and interests created by the Bond Indenture shall cease, determine and become null and void (except as to any surviving rights under the Bond Indenture) if the following conditions are met:

(a) the principal of, premium, if any, and interest on all Bonds has been paid or is deemed to be paid and discharged by meeting the conditions of the Bond Indenture;

(b) all other sums payable under the Bond Indenture with respect to the Bonds are paid or provision satisfactory to the Bond Trustee is made for such payment;

(c) the Bond Trustee receives an Opinion of Bond Counsel (which may be based upon a ruling or rulings of the Internal Revenue Service) addressed to the Bond Trustee and the Authority to the effect that so providing for the payment of the Bonds will not adversely affect the exclusion of the interest on the Bonds from gross income for federal income tax purposes, notwithstanding the satisfaction and discharge of the Bond Indenture; and

(d) the Bond Trustee receives an Opinion of Bond Counsel addressed and delivered to the Bond Trustee and the Authority to the effect that all conditions precedent in this Section to the satisfaction and discharge of the Bonds and the Bond Indenture have been complied with.

Governing Law

The Bond Indenture shall be governed by and construed in accordance with the laws of the State of Missouri.

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SUMMARY OF THE LOAN AGREEMENT

The following is a summary of certain provisions contained in the Loan Agreement and is qualified in its entirety by reference to the Loan Agreement.

Loan of Funds to the Corporation

The Authority shall make the Loan to the Corporation, using the proceeds of the sale of the Bonds, and the Corporation shall receive such Loan from the Authority, for the purposes and upon the terms and conditions provided in the Loan Agreement and in the Bond Indenture.

As an inducement for the Authority to issue the Bonds and make the Loan to the Corporation, and as security for the Loan, and to further provide for the Loan Payments thereunder and the payment of the principal of, redemption premium, if any, and interest on the Bonds, the Corporation shall cause the Series 2017C Master Obligation to be issued under the Master Indenture, payable to the order of the Bond Trustee, with interest rates, payment dates and prepayment provisions corresponding to the analogous provisions of the Bonds and otherwise being in substantially the form specified by Supplemental Master Trust Indenture No. 25. The Bond Trustee as holder of such Master Obligation shall be entitled to the benefit, security and protection of the Master Indenture.

Use of Proceeds

The proceeds of the Bonds loaned to the Corporation shall be paid to the Bond Trustee for deposit in the Project Fund under the Bond Indenture and shall be administered, disbursed and applied for payment of Costs of the Project, currently refunding the Refunded Bonds and paying Costs of Issuance of the Bonds in the manner provided in the Bond Indenture.

The Corporation shall cause the Project as described in the Bond Indenture to be completed with reasonable dispatch, and shall provide (from its own funds if required) all moneys necessary to complete the Project substantially in accordance with any plans and specifications for the Project. The Corporation shall comply with all of the provisions and shall perform all obligations of the Corporation set forth in the Bond Indenture with respect to the completion of the Project.

Loan Payments

The Corporation shall make the following payments (*"Loan Payments"*) in repayment of the Loan and to provide for payment of the principal of, redemption premium, if any, and interest on the Bonds, directly to the Bond Trustee, in immediately available funds, for deposit in the Debt Service Fund, on the following dates, and otherwise as set out below:

(a) *Debt Service Fund-Interest:* On or before **11:00 a.m.**, central time, on each Interest Payment Date or any other date that any payment of interest is required to be made in respect of the Bonds pursuant to the Bond Indenture, an amount which, together with any other moneys available for such purpose in the Debt Service Fund, is not less than the interest to become due on the Bonds on such Interest Payment Date or other date that interest is due.

(b) *Debt Service Fund-Principal:* On or before **11:00 a.m.**, central time, on each Principal Payment Date on the Bonds (whether at maturity or upon mandatory sinking fund redemption or acceleration or otherwise), an amount which, together with any other moneys available for such purpose in the Debt Service Fund, is not less than the principal due on the Bonds on such Principal Payment Date by maturity, mandatory sinking fund redemption, acceleration or otherwise.

(c) *Debt Service Fund-Redemption:* On or before the date required by the Loan Agreement or the Bond Indenture, the amount required to redeem Bonds then Outstanding if the Corporation exercises its right to redeem Bonds under any provision of the Bond Indenture or if any Bonds are required to be redeemed (other than pursuant to mandatory sinking fund redemption provisions) under any provision of the Bond Indenture.

Obligations Absolute and Unconditional

The obligations of the Corporation under the Loan Agreement are general obligations of the Corporation, and the full faith and credit of the Corporation are pledged to the payment of all amounts due and payable by the Corporation under the Loan Agreement. The Corporation shall pay all such amounts due and payable under the Loan Agreement using any and all available resources of the Corporation, as necessary. The Corporation shall pay all Loan Payments and other payments due under the Loan Agreement and perform its obligations, covenants and agreements under the Loan Agreement, without notice or demand, and without abatement, deduction, set-off, counterclaim, recoupment, discrimination or defense or any right of termination or cancellation arising from any circumstances whatsoever, and regardless of the invalidity of any portion of the Loan Agreement, and, to the extent permitted by law, the Corporation waives the provisions of any statute or other law now or thereafter in effect contrary to any of its obligations, covenants or agreements under the Loan Agreement or which releases or purports to release the Corporation therefrom. Nothing in the Loan Agreement shall be construed as a waiver by the Corporation of any rights or claims the Corporation may have against the Authority or the Bond Trustee under the Loan Agreement or otherwise, but any recovery upon such rights or claims shall be had from the Authority or the Bond Trustee separately, it being the intent of the Loan Agreement that the Corporation shall be unconditionally and absolutely obligated to perform fully all of its obligations, agreements and covenants under the Loan Agreement for the benefit of the Owners of the Bonds.

Corporate Existence and Tax-Exempt Status

Except as otherwise expressly provided in the Loan Agreement or the Master Indenture, the Corporation shall (a) preserve and keep in full force and effect its corporate or other separate legal existence, (b) remain qualified to do business and conduct its affairs in each jurisdiction where ownership of its property or the conduct of its business or affairs requires such qualification, and (c) maintain its status as a Tax-Exempt Organization and as a "health institution" under the Act.

Use of Property

Subject to the provisions of the Bond Indenture, the Corporation shall have the right to use the Project for any purpose allowed by law and permitted by the Act. Except as provided in the Loan Agreement, the Authority reserves no power or authority with respect to the operation of the Project by the Corporation and activities incident thereto, it being the intention of the parties to the Loan Agreement that so long as the Corporation shall duly and faithfully observe and perform all of the terms, covenants, provisions and agreements of the Loan Agreement, the Corporation shall manage, administer and govern the Project of the Corporation in its activities and affairs on a continuing day-to-day basis.

The Corporation agrees that it will not use or permit the use of any of the properties financed or refinanced, or for which it is reimbursed, in whole or in part, out of the proceeds of the Bonds (a) for sectarian instruction or study or as a place of religious worship or primarily in connection with any part of a program of a school or department of divinity of or for any religious denomination or for the training of ministers, priests, rabbis or other similar persons in the field of religion, or (b) in a manner which is prohibited by the Establishment of Religion Clause of the First Amendment to the Constitution of the United States of America and the decisions of the United States Supreme Court interpreting the same or by any comparable provisions of the Constitution of the State of Missouri and the decisions of the Missouri Supreme Court interpreting the same.

Tax Covenants

The Corporation thereby represents, warrants and agrees that the Tax Compliance Agreement executed and delivered by the Corporation concurrently with the issuance and delivery of the Bonds is true, accurate and complete in all material respects as of the date on which executed and delivered. The Corporation shall comply with the Tax Compliance Agreement and covenants and agrees that it will not take any action or permit any action to be taken that would adversely affect the exclusion from gross income for federal income tax purposes of the interest on the Bonds and will take whatever action, or refrain from whatever action, necessary to comply with the requirements of the Internal Revenue Code to maintain the exclusion from gross income for federal income tax purposes of the interest on the Bonds.

Continuing Disclosure

The Corporation covenants and agrees that it will comply with and carry out all of the provisions of the Continuing Disclosure Agreement. The Corporation acknowledges that the Corporation is the only "obligated person" with responsibility for continuing disclosure under the Continuing Disclosure Agreement, and the Authority has undertaken no responsibility with respect to any reports, notices or disclosures provided or required under this Section, and has no liability to any person, including any Beneficial Owner of the Bonds, with respect to SEC Rule 15c2-12. Notwithstanding any other provision of the Loan Agreement, failure of the Corporation to comply with the Continuing Disclosure Agreement shall not be considered an event of default under the Loan Agreement; however, the Dissemination Agent may (and, at the request of any Participating Underwriter or the Owners of at least **25%** aggregate principal amount in Outstanding Bonds, shall) or any Bondowner or Beneficial Owner may take such actions as may be necessary and appropriate, including seeking specific performance by court order, to cause the Corporation to comply with its obligations under this Section. For purposes of this Section, *"Beneficial Owner"* means any person which (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries), or (b) is treated as the Owner of any Bonds for federal income tax purposes and *"Dissemination Agent"* and *"Participating Underwriter"* shall have the meaning ascribed thereto in the Continuing Disclosure Agreement.

Permitted Indebtedness

The Corporation may issue or incur additional Indebtedness (as defined in the Master Indenture) for any proper corporate purpose if the conditions set forth in the Master Indenture are met.

Assignment of Authority's Rights

Under the Bond Indenture, the Authority has pledged, assigned, transferred in trust and granted a security interest to the Bond Trustee in all of the Authority's rights, title and interest under the Loan Agreement (except for the Authority's rights to payment of its fees and expenses and the Authority's right to indemnification in certain circumstances and as otherwise expressly set forth in the Loan Agreement) as security for the Bonds, and such rights, title and interest may be exercised, protected and enforced for or on behalf of the Owners of the Bonds in conformity with the Loan Agreement and the Bond Indenture. The Bond Trustee is thereby given the right to enforce, as assignee of the Authority, the performance of the obligations of the Corporation under the Loan Agreement, and the Corporation thereby consents to the same and agrees that the Bond Trustee may enforce such rights as provided in the Loan Agreement and in the Bond Indenture. The Authority and the Corporation recognize that the Bond Trustee is a third party creditor-beneficiary of the Loan Agreement.

Assignment by the Corporation

The Corporation shall not assign the Loan Agreement, as a whole or in part, unless such assignment is pursuant to a merger, consolidation or transfer of the Corporation's property substantially as an entirety permitted under the Master Indenture, or unless the following conditions are met:

(a) No assignment shall relieve the Corporation from primary liability for any of its obligations under the Loan Agreement, and in the event of any such assignment, the Corporation shall continue to remain primarily liable for payment of the amounts specified in the Loan Agreement and the performance and observance of the other agreements to be performed and observed by the

Corporation under the Loan Agreement to the same extent as though no assignment had been made;

(b) The assignee shall assume the obligations of the Corporation under the Loan Agreement to the extent of the interest assigned;

(c) The Bond Trustee and the Authority shall have received an Opinion of Bond Counsel, in form and substance satisfactory to the Bond Trustee and the Authority, to the effect that under then existing law the consummation of such assignment would not adversely affect the exclusion of the interest payable on the Bonds from gross income under the Internal Revenue Code; and

(d) The Corporation shall give prior written notice of such assignment to the Authority and the Bond Trustee, and, within **30** days after the delivery thereof, shall furnish or cause to be furnished to the Authority and the Bond Trustee a true and complete copy of each assignment and assumption of obligations and an Opinion of Counsel that such assignment is permitted by and in compliance with the provisions of the Loan Agreement.

Events of Default

The term *"event of default"*, wherever used in the Loan Agreement, means any one of the following events (whatever the reason for such event and whether it shall be voluntary or involuntary or be effected by operation of law or pursuant to any judgment, decree or order of any court or any order, rule or regulation of any administrative or governmental body):

(a) default in the payment of any interest on the Loan when such interest becomes due and payable;

(b) default in the payment of the principal of (or premium, if any, on) the Loan when the same becomes due and payable (whether at maturity, upon proceedings for redemption, by acceleration or otherwise);

(c) default in the performance, or breach, of any covenant or agreement of the Corporation in the Loan Agreement (other than a covenant or agreement a default in the performance or breach of which is specifically dealt with elsewhere in this Section), and continuance of such default or breach for a period of **60** days after there has been given to the Corporation by the Bond Trustee or to the Corporation and the Bond Trustee by the Owners of at least **25%** in principal amount of the Bonds Outstanding, a written notice specifying such default or breach and requiring it to be remedied; provided, if such default cannot be fully remedied within such **60**-day period, but can reasonably be expected to be fully remedied, such default shall not constitute an event of default if the Corporation shall promptly upon receipt of such notice commence the curing of such default and shall thereafter prosecute and complete the same with due diligence and dispatch;

(d) any representation or warranty made by the Corporation in the Loan Agreement or in any written statement or certificate furnished to the Authority or the Bond Trustee or the purchaser of any Bond in connection with the sale of any Bond or furnished by the Corporation pursuant to the Loan Agreement proves untrue in any material respect as of the date of the issuance or making thereof and shall not be corrected or brought into compliance within **60** days after there has been given to the Corporation by the Bond Trustee or to the Corporation and the Bond Trustee by the Owners of at least **25%** in principal amount of the Bonds Outstanding, a written notice specifying such default or breach and requiring it to be remedied; provided, that if such default cannot be fully remedied within such **60**-day period, but can reasonably be expected to be fully remedied, such default shall not constitute an event of default if the Corporation shall promptly upon receipt of such notice commence the curing of such default and shall thereafter prosecute and complete the same with due diligence and dispatch;

(e) the entry of a decree or order by a court having jurisdiction in the premises for relief in respect of the Corporation, or adjudging the Corporation a bankrupt or insolvent, or approving as properly filed a petition seeking reorganization, adjustment or composition of or in respect of the Corporation under the United States Bankruptcy Code or any other applicable federal or state law, or appointing a custodian, receiver, liquidator, assignee, trustee, sequestrator (or other similar official) of or for the Corporation or any substantial part of its property, or ordering the winding up or liquidation of its affairs, and the continuance of any such decree or order remains unstayed and in effect for a period of **90** consecutive days;

(f) the commencement by the Corporation of a voluntary case, or the institution by the Corporation of proceedings to be adjudicated a bankrupt or insolvent, or the consent by it to the institution of bankruptcy or insolvency proceedings against it, or the filing by it of a petition or answer or consent seeking reorganization, arrangement or relief under the United States Bankruptcy Code or any other applicable federal or state law, or the consent or acquiescence by it to the filing of any such petition or the appointment of or taking possession by a custodian, receiver, liquidator, assignee, trustee, sequestrator (or other similar official) of the Corporation or any substantial part of its property, or the making by it of an assignment for the benefit of creditors, or the admission by it in writing of its inability or its failure to pay its debts generally as they become due, or the taking of corporate action by the Corporation in furtherance of any such action; or

(g) the occurrence and continuance of any "Event of Default" specified in the Bond Indenture or in the Master Indenture that has not been waived or cured.

Acceleration of Maturity; Rescission and Annulment

If an event of default under the Loan Agreement occurs and is continuing, the Bond Trustee, as assignee of the Authority, may, and if requested by the Owners of not less than **25%** in principal amount of the Bonds Outstanding shall (a) by written notice to the Corporation and the Authority, declare the principal of the Loan and the interest accrued thereon to be due and payable, and upon any such declaration such principal and interest shall become immediately due and payable, or (b) by written notice to the Master Trustee, request that the Master Trustee declare the principal of the Series 2017C Master Obligation (if not then due and payable) to be due and payable immediately subject to the provisions of the Master Indenture regarding waiver of events of default, anything in the Master Indenture or in the Loan Agreement contained to the contrary notwithstanding.

At any time after such a declaration of acceleration has been made, but before any judgment or decree for payment of money due on the Loan has been obtained by the Bond Trustee as provided in the Loan Agreement, the Bond Trustee may, by written notice to the Corporation, rescind and annul such declaration and its consequences if:

(a) the Corporation has deposited with the Bond Trustee a sum sufficient to pay (1) all overdue installments of interest on the Loan, (2) the principal of (and premium, if any, on) the Loan which have become due otherwise than by such declaration of acceleration and interest thereon at the rate or rates prescribed therefor, and (3) all sums paid or advanced by the Bond Trustee thereunder and the reasonable compensation, expenses, disbursements and advances of the Bond Trustee, its agents and counsel; and

(b) all events of default, other than the non-payment of the principal installments of the Loan which have become due solely by such declaration of acceleration, have been cured or have been waived as provided in the Loan Agreement.

Exercise of Remedies by the Bond Trustee

Upon the occurrence and continuance of any event of default under the Loan Agreement and the Bond Indenture, unless the same is waived as provided in the Loan Agreement, the Bond Trustee, as assignee of the

Authority, shall have the following rights and remedies, in addition to any other rights and remedies provided under the Loan Agreement or by law:

(a) *Right to Bring Suit, Etc.* The Bond Trustee may pursue any available remedy at law or in equity by suit, action, mandamus or other proceeding to enforce the payment of the principal of, premium, if any, and interest on the Loan, including interest on overdue principal (and premium, if any) and on overdue installments of interest, and any other sums due under the Loan Agreement, to realize on or to foreclose any of its interests or liens under the Loan Agreement, to enforce and compel the performance of the duties and obligations of the Corporation as set forth in the Loan Agreement and to enforce or preserve any other rights or interests of the Bond Trustee under the Loan Agreement existing at law or in equity.

(b) *Exercise of Remedies at Direction of Bondowners.* If requested in writing to do so by the Owners of not less than **25%** in principal amount of Bonds Outstanding and if indemnified as provided in the Bond Indenture, the Bond Trustee shall be obligated to exercise such one or more of the rights and remedies conferred by the Bond Indenture as the Bond Trustee shall deem most expedient in the interests of the Bondowners.

(c) *Restoration of Positions.* If the Bond Trustee has instituted any proceeding to enforce any right or remedy under the Loan Agreement by suit, foreclosure, the appointment of a receiver, or otherwise, and such proceeding has been discontinued or abandoned for any reason, or has been determined adversely to the Bond Trustee, then and in every case the Authority, the Corporation, the Bond Trustee and the Bondowners shall, subject to any determination in such proceeding, be restored to their former positions and rights thereunder, and thereafter all rights and remedies of the Bond Trustee shall continue as though no such proceeding had been instituted.

Application of Moneys Collected

Any moneys collected by the Bond Trustee pursuant to the Bond Indenture (after the deductions for payment of costs and expenses of proceedings resulting in the collection of such moneys) together with any other sums then held by the Bond Trustee as part of the Trust Estate, shall be applied as provided in the Bond Indenture and, in case of the distribution of such money on account of principal (or premium, if any) or interest on the Bonds, shall be credited against amounts due on the Loan.

Supplemental Loan Agreements without Consent of Bondowners

Without the consent of the Owners of any Bonds, the Authority and the Corporation may from time to time enter into one or more Supplemental Loan Agreements, for any of the following purposes:

(a) to correct or amplify the description of any property of the Corporation at any time subject to the Loan Agreement, or to subject to the Loan Agreement additional property or to more precisely identify any project financed or refinanced out of the proceeds of any Bonds, or to substitute or add additional property thereto;

(b) to add to the conditions, limitations and restrictions on the authorized amount, terms or purposes of the Loan, as therein set forth, additional conditions, limitations and restrictions thereafter to be observed;

(c) to modify or eliminate any of the terms of the Loan Agreement; provided, however, that (1) such Supplemental Loan Agreement shall expressly provide that any such modifications or eliminations shall become effective only when there is no Bond Outstanding of any series created prior to the execution of such Supplemental Loan Agreement, and (2) the Bond Trustee may, in its discretion, decline to approve any such Supplemental Loan Agreement which, in its opinion, may not afford adequate protection to the Bond Trustee when the same becomes operative;

(d) to evidence the succession of another corporation to the Corporation and the assumption by any such successor of the covenants of the Corporation therein contained;

(e) to add to the covenants of the Corporation or to the rights, powers and remedies of the Bond Trustee for the benefit of the Owners of all Bonds or to surrender any right or power therein conferred upon the Corporation; or

(f) to cure any ambiguity, to correct or supplement any provision therein which may be inconsistent with any other provision therein or to make any other changes, with respect to matters or questions arising under the Loan Agreement, provided such action shall not materially adversely affect the interests of the Owners of the Bonds.

Supplemental Loan Agreements with Consent of Bondowners

With the written consent of the Owners of not less than a majority in principal amount of the Bonds then Outstanding affected by such Supplemental Loan Agreement, the Authority and the Corporation may enter into Supplemental Loan Agreements, for the purpose of adding any provisions to or changing in any manner or eliminating any of the provisions of the Loan Agreement or of modifying in any manner the rights of the Bond Trustee and the Owners of the Bonds under the Loan Agreement; provided, however, that no such Supplemental Loan Agreement shall, without the written consent of the Owner of each Outstanding Bond affected thereby, carry out any of the following:

(a) change the stated maturity of the principal of, or any installment of interest on, the Loan, or reduce the principal amount thereof or the interest thereon or any premium payable upon the redemption thereof, or change any redemption date thereof, or the coin or currency in which, the Loan, or the interest thereon is payable, or impair the right to institute suit for the enforcement of any such payment on or after the stated maturity thereof (or, in the case of redemption, on or after the redemption date);

(b) reduce the percentage in principal amount of the Outstanding Bonds, the consent of whose Owners is required for any such Supplemental Loan Agreement, or the consent of whose Owners is required for any waiver provided for in the Loan Agreement of compliance with certain provisions of the Loan Agreement or certain defaults thereunder and their consequences; or

(c) modify any of the provisions of this Section, except to increase any percentage provided thereby or to provide that certain other provisions of the Loan Agreement cannot be modified or waived without the consent of the Owner of each Bond affected thereby.

It shall not be necessary for the required percentage of Owners of Bonds under this Section to approve the particular form of any proposed Supplemental Loan Agreement, but it shall be sufficient if such act shall approve the substance thereof.

Termination and Discharge of Loan Agreement

If the Corporation shall pay and discharge or provide for the payment or redemption and discharge of the whole amount of the principal of, redemption premium, if any and interest on the Bonds at the time Outstanding as provided in the Bond Indenture, and shall pay or cause to be paid all other sums payable under the Loan Agreement, then all right, title and interest of the Authority and the Bond Trustee under the Loan Agreement shall thereupon cease, terminate and become void (except as provided in the Loan Agreement), then the Loan Agreement, and the covenants of the Corporation contained in the Loan Agreement, shall be discharged and the Loan and the Bonds shall cease to be entitled to any benefit under the Loan Agreement, and all covenants, agreements and obligations of the Corporation to the Bond Trustee and the Owners of the Bonds shall thereupon cease, terminate and become void.

Electronic Transactions

The transaction described therein may be conducted and related documents may be stored by electronic means. Copies, telecopies, facsimiles, electronic files and other reproductions of original executed documents shall be deemed to be authentic and valid counterparts of such original documents for all purposes, including the filing of any claim, action or suit in the appropriate court of law.

Governing Law

The Loan Agreement shall be governed by and construed in accordance with the laws of the State of Missouri.

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APPENDIX D
FORM OF OPINION OF BOND COUNSEL

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[FORM OF OPINION OF BOND COUNSEL]

November __, 2017

Health and Educational Facilities Authority
of the State of Missouri
Chesterfield, Missouri

J.P. Morgan Securities, LLC
New York, New York,
as Lead Underwriter

Mercy Health
St. Louis, Missouri

Merrill Lynch, Pierce, Fenner & Smith Incorporated
New York, New York,
as Co-Manager and Underwriter

The Bank of New York Mellon Trust Company, N.A.
St. Louis, Missouri,
as Bond Trustee

UMB Bank & Trust, N.A.
St. Louis, Missouri,
as Master Trustee

Re: $[Principal Amount] Health and Educational Facilities Authority of the State of Missouri, Health Facilities Revenue Bonds (Mercy Health), Series 2017C

Ladies and Gentlemen:

We have acted as bond counsel to the Health and Educational Facilities Authority of the State of Missouri (the "*Authority*"), in connection with the issuance of the above-captioned bonds (the "*Bonds*"). In this capacity, we have examined the law and the certified proceedings, certifications and other documents that we deem necessary to render this opinion.

The Bonds are issued under the Missouri Health and Educational Facilities Authority Act, Chapter 360 of the Revised Statutes of Missouri, as amended (the "*Act*"), and a Bond Trust Indenture with respect to the Bonds dated as of November 1, 2017 (the "*Bond Indenture*"), between the Authority and The Bank of New York Mellon Trust Company, N.A., as corporate trustee (the "*Bond Trustee*"). Capitalized terms used and not otherwise defined in this opinion have the meanings assigned in the Bond Indenture.

Regarding questions of fact material to our opinion, we have relied on representations of the Authority and Mercy Health (the "*Corporation*") contained in the Loan Agreement, the Tax Compliance Agreement and the other Financing Documents and certified proceedings and other certifications of the Authority, the Corporation and others furnished to us, without undertaking to verify them by independent investigation.

We have also relied on the legal opinion of Husch Blackwell LLP, counsel to the Corporation, dated the date of this opinion, regarding certain matters, including (a) the corporate status and due organization of the Corporation, (b) the status of each of the Corporation and each Restricted Affiliate as an organization described in Section 501(c)(3) of the Internal Revenue Code of 1986, as amended (the "*Code*"), (c) the corporate power of the

Corporation to enter into and perform its obligations under the Loan Agreement, the Tax Compliance Agreement and the Series 2017C Master Obligation, and (d) the due authorization, execution and delivery of the Loan Agreement, the Tax Compliance Agreement and the Series 2017C Master Obligation by the Corporation and the binding effect and enforceability of those documents against the Corporation.

Based on and subject to the foregoing, we are of the opinion, under existing law, as follows:

1. The Bonds have been duly authorized, executed and delivered by the Authority and are valid and legally binding special, limited obligations of the Authority.

2. The Bonds are payable solely from the loan payments made by the Corporation under the Loan Agreement and the Series 2017C Master Obligation and other funds held by the Bond Trustee and pledged under the Bond Indenture as security for the Bonds. The Bonds do not constitute a debt or liability of the State of Missouri or of any political subdivision of the State of Missouri within the meaning of any constitutional or statutory provision or limitation and do not constitute a pledge of the full faith and credit of the State of Missouri or of any political subdivision of the State of Missouri. The issuance of the Bonds will not, directly, indirectly or contingently, obligate the State of Missouri or any political subdivision of the State of Missouri to levy any form of taxation therefor or to make any appropriation for the payment of the Bonds.

3. The Bond Indenture, the Loan Agreement and the Tax Compliance Agreement have been duly authorized, executed and delivered by the Authority and are valid and legally binding agreements of the Authority enforceable against the Authority. The Bond Indenture creates a valid lien on the Trust Estate pledged and assigned by the Authority to the Bond Trustee under such Bond Indenture for the benefit and security of the owners of the Bonds under the Bond Indenture.

4. The interest on the Bonds (including any original issue discount properly allocable to an owner thereof) is excludable from gross income for federal income tax purposes. Interest on the Bonds is not an item of tax preference for purposes of computing the federal alternative minimum tax imposed on individuals and corporations, but is taken into account in determining adjusted current earnings for the purpose of computing the alternative minimum tax imposed on certain corporations. The opinion set forth in this paragraph is subject to the condition that the Authority and the Corporation comply with all requirements of the Code that must be satisfied subsequent to the issuance of the Bonds in order that interest on the Bonds be, or continue to be, excludable from gross income for federal income tax purposes. The Authority and the Corporation have covenanted to comply with all of these requirements. Failure to comply with certain of these requirements may cause the interest on the Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the Bonds. The Bonds are not "qualified tax-exempt obligations" for purposes of Section 265(b)(3) of the Code.

5. The interest on the Bonds is exempt from income taxation by the State of Missouri.

We express no opinion regarding (a) the perfection or priority of the lien on the Trust Estate pledged under the Bond Indenture, or (b) federal or state tax consequences arising with respect to the Bonds, other than as expressly set forth in this opinion.

The rights of the owners of the Bonds and the enforceability of the Bonds, the Bond Indenture, the Loan Agreement, the Tax Compliance Agreement and the Series 2017C Master Obligation may be limited by bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights generally and by equitable principles, whether considered at law or in equity.

This opinion is given as of its date, and we assume no obligation to revise or supplement this opinion to reflect any facts or circumstances that may come to our attention or any changes in law that may occur after the date of this opinion.

Very truly yours,

GILMORE & BELL, P.C.

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APPENDIX E
SUMMARY OF CONTINUING DISCLOSURE AGREEMENT

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SUMMARY OF CONTINUING DISCLOSURE AGREEMENT

Terms defined in this ***Appendix E*** *shall be defined only for purposes of this* ***Appendix E*** *and for no other purpose relating to this Official Statement.*

Pursuant to the terms of a Master Continuing Disclosure Agreement dated as of December 18, 2012 between Mercy and UMB Bank & Trust, N.A, as Dissemination Agent (the "**Dissemination Agent**"), as amended by a First Amendment to Master Continuing Disclosure Agreement (collectively, the "**Master Continuing Disclosure Agreement**"), for the benefit of the owners and Beneficial Owners of the Bonds and in order to assist the Underwriters in complying with Rule 15c2-12 of the Securities and Exchange Commission (the "**Rule**"), Mercy has agreed to provide certain annual financial and operating information, certain quarterly financial information and notices of the occurrence of certain material events ("**Listed Events**") to the Municipal Securities Rulemaking Board (the "**MSRB**") through the MSRB's Electronic Municipal Market Access System ("**EMMA**") pursuant to the requirements of Section (b)(5) of the Rule. Mercy will execute a Continuing Disclosure Certificate (together with the Master Continuing Disclosure Agreement, the "**Continuing Disclosure Agreement**") concurrently with the issuance of the Bonds designating the Master Continuing Disclosure Agreement as Mercy's undertaking under the Rule. Mercy is the only "obligated person" with responsibility for continuing disclosure under the Continuing Disclosure Agreement. The Authority has determined that no financial or operating data concerning the Authority is material to an evaluation of the offering of the Bonds or to any decision to purchase, hold or sell the Bonds, and the Authority will not provide any such information. The Authority shall have no liability to the owners of the Bonds or any other person with respect to the Rule.

A failure by Mercy to comply with the Continuing Disclosure Agreement will not constitute an event of default under the Master Indenture, the Bond Indenture, the Loan Agreement or any other agreement executed in connection with the issuance of the Bonds, and beneficial owners of the Bonds are limited to the remedies described in the Continuing Disclosure Agreement under the caption "**Remedies**." A failure by Mercy to comply with the Continuing Disclosure Agreement must be reported in accordance with the Rule and must be considered by any broker, dealer or municipal securities dealer before recommending the purchase or sale of the Bonds in the secondary market. Consequently, such a failure may adversely affect the transferability and liquidity of the Bonds and their market price.

The following is a brief summary of certain provisions of the Continuing Disclosure Agreement and does not purport to be complete. The statements made under this caption are subject to the detailed provisions of the Continuing Disclosure Agreement, a copy of which is available upon request from Mercy.

Obligation to Provide Continuing Disclosure

<u>Annual Information</u>. Mercy has agreed to provide to the Dissemination Agent, no later than 15 Business Days prior to the date which is not later than 150 days after the end of each of its fiscal years, commencing with the fiscal year ended June 30, 2017, for delivery to the MSRB, the following information (the "**Annual Information**") relating to such fiscal year, together with audited consolidated financial statements of Mercy for such fiscal year; provided, however, that if audited consolidated financial statements are not then available, unaudited consolidated financial statements shall be provided and such audited financial statements shall be delivered to the MSRB, not later than the 5th day following the publication of such audited consolidated financial statements:

(1) principal and interest payment delinquencies;

(2) information similar to that contained in the following headings in Appendix A to the Official Statement: "Historical Utilization and Operational Statistics," "Sources of Gross Patient Service Revenue" and "Debt Service Coverage";

(3) if justified by the facts and circumstances, a discussion of recent developments; and

(4) a narrative explanation discussing Mercy's financial performance if necessary to avoid misunderstanding regarding the presentation of financial and operating condition of Mercy.

Quarterly Disclosure. In addition to the Annual Information and notices of Listed Events (discussed below), Mercy has agreed to undertake and covenanted to undertake, for the benefit of Bondholders, to provide to the Dissemination Agent quarterly, year-to-date, financial statements and other disclosure, including a balance sheet, income statement, and other material information, to be provided to the MSRB and the Bond Trustee no later than 90 days after the end of each of its first three fiscal quarters, commencing with the fiscal quarter ended September 30, 2017.

Events Disclosure

Mercy has agreed to give, or cause to be given, notice of the occurrence of any of the following events listed below with respect to any Related Bonds ("**Listed Events**") to the MSRB no later than 10 Business Days after the occurrence of such Listed Event:

(1) principal and interest payment delinquencies;

(2) non-payment related defaults, if material;

(3) unscheduled draws on debt service reserves reflecting financial difficulties;

(4) unscheduled draws on credit enhancement reflecting financial difficulties;

(5) a substitution of credit or liquidity providers, or their failure to perform;

(6) adverse tax opinions, the issuance by the IRS of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Bonds or other events affecting the tax-exempt status of the Bonds;

(7) modification to rights of Bondholders, if material;

(8) bond calls, if material;

(9) defeasances;

(10) release, substitution, or sale of property securing repayment of the Bonds, if material;

(11) rating changes;

(12) tender offers;

(13) bankruptcy, insolvency, receivership or similar event of any obligated person;

(14) consummation of a merger, consolidation, or acquisition involving an obligated person or the sale of all or substantially all of the assets of an obligated person, other than in the

ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and

(15) appointment of a successor or additional trustee or the change of name of the Bond Trustee, if material.

Termination of Reporting Obligation

Mercy's agreement to provide such information for the benefit of the holders of the Bonds shall remain in full force and effect until such time as all principal, redemption premiums, if any, and interest on all of the Bonds shall have been paid in full or the Bonds shall have otherwise been paid or defeased pursuant to the Bond Indenture.

Amendments

The Continuing Disclosure Agreement may be amended, and any provision thereof may be waived, by the parties thereto if, prior to the effective date of any such amendment or waiver, Mercy delivers to the Dissemination Agent an opinion of nationally recognized disclosure counsel to the effect that the Continuing Disclosure Agreement (taking into account such amendment or waiver) would have complied with the Rule, as in effect on the date of issuance of the Bonds to occur on or after the execution and delivery of the Continuing Disclosure Agreement, taking into account any amendment or interpretation of the Rule by the Commission or any adjudication of the Rule by a final decision of a court of competent jurisdiction which may have occurred subsequent to the execution and delivery of the Continuing Disclosure Agreement.

Additional Information

Nothing in the Continuing Disclosure Agreement shall be deemed to prevent Mercy from disseminating any other information, using the means of dissemination set forth in the Continuing Disclosure Agreement or any other means of communication, or including any other information in any annual report or notice of occurrence of a Listed Event, in addition to that which is required by the Continuing Disclosure Agreement. If Mercy chooses to include any information in the annual report or notice of occurrence of a Listed Event in addition to that which is specifically required by the Continuing Disclosure Agreement, Mercy shall have no obligation under the Continuing Disclosure Agreement to update such information or include it in any future annual report or notice of occurrence of a Listed Event.

Failure to File

If Mercy should fail to comply with any provision of the Continuing Disclosure Agreement, then any Holder of Bonds may enforce, for the equal benefit and protection of all Bondholders similarly situated, the Continuing Disclosure Agreement against Mercy and may compel Mercy to perform and carry out its duties under the Continuing Disclosure Agreement; provided that the sole and exclusive remedy for breach of the Continuing Disclosure Agreement shall be an action to compel specific performance of the obligations of such party hereunder and no person or entity shall be entitled to recover monetary damages thereunder under any circumstances; and provided, further, that any challenge to the adequacy of the information provided in accordance with the Continuing Disclosure Agreement shall be brought only by the Bond Trustee on behalf of the Bondholders of not less than 25% in aggregate principal amount of Bonds at the time outstanding. Failure by Mercy to perform its obligations under the Continuing Disclosure Agreement shall not constitute an Event of Default under the Master Indenture, the Bond Indenture, or any other agreement executed and delivered in connection with the issuance of the Bonds.

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Mercy

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