

CHILDREN'S HOSPITAL & MEDICAL CENTER AND AFFILIATES

Consolidated Balance Sheets

December 31, 2016 and 2015

Unaudited - for internal use only

(Dollars in thousands)

	<u>2016</u>	<u>2015</u>
Assets		
Current assets:		
Cash and cash equivalents	\$ 39,763	51,518
Receivables:		
Patients, net of allowance for doubtful accounts of approximately \$3,434 and \$3,128 in 2016 and 2015, respectively	56,192	49,574
Contributions	6,092	2,824
Other	11,771	11,907
Prepaid expenses and other assets	11,782	9,123
Estimated third-party payor settlements	<u>10,129</u>	<u>6,044</u>
Total current assets	135,729	130,990
Contributions receivable	11,212	3,533
Investments	366,469	338,455
Property and equipment, net	232,198	197,875
Other assets	<u>6,834</u>	<u>6,440</u>
Total assets	<u>\$ 752,442</u>	<u>677,293</u>
Liabilities and Net Assets		
Current liabilities:		
Current portion of long-term debt	\$ 4,399	4,352
Accounts payable:		
Trade	17,462	16,131
Construction	517	5,350
Affiliates	1,247	737
Accrued salaries and vacation payable	22,746	20,095
Other accrued expenses	<u>11,936</u>	<u>9,499</u>
Total current liabilities	58,307	56,164
Long-term debt, net of current portion	90,714	95,149
Other liabilities	<u>8,408</u>	<u>8,929</u>
Total liabilities	<u>157,429</u>	<u>160,242</u>
Net assets:		
Unrestricted	555,208	495,598
Noncontrolling interest	<u>4,073</u>	<u>4,031</u>
Total unrestricted net assets	559,281	499,629
Temporarily restricted	30,078	12,043
Permanently restricted	<u>5,654</u>	<u>5,379</u>
Total net assets	<u>595,013</u>	<u>517,051</u>
Total liabilities and net assets	<u>\$ 752,442</u>	<u>677,293</u>

CHILDREN'S HOSPITAL & MEDICAL CENTER AND AFFILIATES

Consolidated Statements of Operations Years ended December 31, 2016 and 2015 *Unaudited - for internal use only* (Dollars in thousands)

	2016	2015
Unrestricted revenue, gains and other support:		
Net patient service revenue	\$ 383,646	368,788
Provision for bad debts	3,195	2,368
	<u>380,451</u>	<u>366,420</u>
Net patient service revenue less provision for bad debts		
	380,451	366,420
Contributions for use in operations	4,495	4,952
Other	11,731	8,602
	<u>11,731</u>	<u>8,602</u>
Total revenue, gains and other support	<u>396,677</u>	<u>379,974</u>
Expenses:		
Salaries, wages and agency staffing	162,863	143,292
Employee benefits	35,680	31,376
Outside services and professional fees	32,192	28,442
Supplies	50,355	44,473
Occupancy	10,462	9,870
Other	32,882	27,197
Depreciation and amortization	24,252	24,249
Interest	4,645	4,817
Grants	246	341
Affiliation support	12,271	13,676
	<u>12,271</u>	<u>13,676</u>
Total expenses	<u>365,848</u>	<u>327,733</u>
Operating income	<u>30,829</u>	<u>52,241</u>
Other income (expense):		
Investment income (loss)	25,736	(11,170)
Change in fair value of swap transaction	883	248
Other, net	166	154
	<u>166</u>	<u>154</u>
Total other income, net	<u>26,785</u>	<u>(10,768)</u>
Excess of revenues over expenses	<u>\$ 57,614</u>	<u>41,473</u>

CHILDREN'S HOSPITAL & MEDICAL CENTER AND AFFILIATES

Consolidated Statements of Changes in Net Assets

Years ended December 31, 2016 and 2015

Unaudited - for internal use only

(Dollars in thousands)

		<u>2016</u>	<u>2015</u>
Unrestricted net assets:			
Excess of revenues over expenses	\$	57,614	41,473
Net assets released from restrictions		<u>2,038</u>	<u>1,682</u>
Increase in unrestricted net assets		<u>59,652</u>	<u>43,155</u>
Temporarily restricted net assets:			
Contributions		20,479	2,133
Investment income		113	155
Change in value of split-interest agreements		(83)	(192)
Net assets released from restrictions		<u>(2,475)</u>	<u>(2,115)</u>
Increase (decrease) in temporarily restricted net assets		<u>18,034</u>	<u>(19)</u>
Permanently restricted net assets:			
Contributions		215	10
Change in value of split-interest agreements		<u>61</u>	<u>(14)</u>
Increase (decrease) in permanently restricted net assets		<u>276</u>	<u>(4)</u>
Total increase in net assets		77,962	43,132
Net assets, beginning of year		<u>517,051</u>	<u>473,919</u>
Net assets, end of year	\$	<u><u>595,013</u></u>	<u><u>517,051</u></u>

CHILDREN'S HOSPITAL & MEDICAL CENTER AND AFFILIATES

Consolidated Statements of Cash Flows

Years ended December 31, 2016 and 2015

Unaudited - for internal use only

(Dollars in thousands)

	<u>2016</u>	<u>2015</u>
Cash flows from operating activities:		
Change in net assets	\$ 77,962	43,132
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Change in fair value of swap transaction	(883)	(248)
Depreciation and amortization	24,252	24,249
Realized and unrealized gains on investments, net	(19,029)	17,120
Change in value of split interest agreements	22	206
Provision for bad debts	3,195	2,368
Restricted contributions and investment income, net	(20,807)	(2,298)
(Increase) decrease in current assets:		
Receivables:		
Patients	(9,813)	(4,846)
Other	136	(71)
Prepaid expenses and other assets	(2,659)	(2,074)
Estimated third-party payor settlements	(4,085)	3,933
Increase (decrease) in current liabilities:		
Accounts payable:		
Trade	1,331	1,576
Affiliates	510	116
Accrued salaries and vacation payable	2,651	(2,013)
Other accrued expenses	2,437	1,238
Decrease in other assets	(416)	(148)
Increase in other liabilities	362	122
Net cash provided by operating activities	<u>55,166</u>	<u>82,362</u>
Cash flows from investing activities:		
Purchase of property and equipment, net	(63,408)	(18,826)
Sales of investments	-	64,801
Purchase of investments, net	(8,985)	(99,761)
Sales of short-term investments	-	5,353
Purchases of short-term investments	-	(4,351)
Net cash used in investing activities	<u>(72,393)</u>	<u>(52,784)</u>
Cash flows from financing activities:		
Payments on long-term debt	(4,388)	(4,248)
Restricted contributions and investment income received	9,860	2,962
Net cash provided by (used in) financing activities	<u>5,472</u>	<u>(1,286)</u>
Net increase (decrease) in cash and cash equivalents	(11,755)	28,292
Cash and cash equivalents, beginning of period	<u>51,518</u>	<u>18,876</u>
Cash and cash equivalents, end of period	<u>\$ 39,763</u>	<u>47,168</u>

CHILDREN'S HOSPITAL & MEDICAL CENTER AND AFFILIATES
Supplemental Master Trust Indenture Number One, Section 5.14, 5.15 & 5.18 Covenants
Unaudited - for internal use only
(Dollars in thousands)

	12/31/2016	12/31/2015	(Audited) 12/31/2014	(Audited) 12/31/2013	(Audited) 12/31/2012
Debt Service Coverage Ratio					
Operating income	\$ 30,829	52,241	54,164	40,061	24,593
Other income (loss):					
Investment income (loss)	25,736	(11,170)	12,708	32,704	15,921
Change in value of swap transaction	883	248	(1,580)	3,309	178
Loss on refinancing of debt	--	--	(2,567)	--	--
Other, net	166	154	138	151	143
Total other income (loss), net	26,785	(10,768)	8,699	36,164	16,242
Excess revenue over expenses	57,614	41,473	62,863	76,225	40,835
Less:					
Net unrealized (gains) losses on investments	(7,862)	16,604	(1,637)	(25,034)	(11,715)
Change in value of swap transaction	(883)	(248)	1,580	(3,309)	(178)
Loss in refinancing of debt	--	--	2,567	--	--
Add:					
Depreciation and amortization	24,252	24,249	21,517	18,980	20,192
Interest expense	4,645	4,817	5,328	5,695	5,830
Net income available for debt service	\$ 77,766	86,895	92,218	72,557	54,964
Maximum annual debt service	\$ 8,926	8,927	8,661	8,795	8,795
Max Debt Service Coverage Ratio **	8.7	9.7	10.6	8.2	6.2
Debt to Capitalization					
Total debt	\$ 95,113	99,501	103,749	103,725	107,028
Divided by:					
Total debt	95,113	99,501	103,749	103,725	107,028
Unrestricted net assets	559,281	499,629	456,474	389,691	311,150
Subtotal	\$ 654,394	599,130	560,223	493,416	418,178
Debt to Capitalization **	14.5%	16.6%	18.5%	21.0%	25.6%
Days Cash on Hand					
Cash and cash equivalents:					
Cash and cash equivalents	\$ 29,839	49,388	22,829	16,696	35,678
Investments and assets whose use is limited, excluding external and donor restricted funds	354,701	326,141	308,428	265,756	191,717
Total cash and cash equivalents	\$ 384,540	375,529	331,257	282,452	227,395
Total expenses less depreciation and amortization	\$ 341,596	303,484	272,020	248,432	239,686
Days Cash on Hand **	410.9	451.6	444.5	415.0	346.3

** Per the Master Trust Indenture and Letter of Credit the Obligated Group shall maintain a Debt to Capitalization Ratio <= 65% and Days Cash on Hand => 75 days.
Per the Letter of Credit the Obligated Group will maintain a Debt Service Coverage Ratio of 1.10:1.00;