

**The Guthrie Clinic**  
**Financial Highlights for the Three Months Ended**  
**December 31, 2016**

**I. Introduction**

In accordance with the provisions of the Master Indenture relating to the 2011 and 2007 Guthrie Health Bonds, enclosed are the required quarterly operating and financial data for The Guthrie Clinic. The enclosed information has been prepared by management and has not been audited by an independent accounting firm. In addition, this information does not include all of the financial statements and footnote disclosures necessary for the information to be in accordance with generally accepted accounting principles.

This report may contain forward-looking statements based upon management's expectations. The actual results may materially differ from management's expectations due to business risks and other uncertainties. Readers should not rely on these statements as an indication of future results.

This report is issued as of February 24, 2017. Management assumes no responsibility to update any information contained in this document and has made no commitment in providing these financial highlights in subsequent quarters.

**II. Management's Discussion of Recent Financial Performance**

***Unaudited Consolidated Balance Sheet***

At December 31, 2016 total assets were in excess of \$1.2 billion. Cash and unrestricted investments available for operations and capital expenditures were approximately \$656 million. Days cash on hand were 374, which represents a decrease of 4 days compared to the prior year. Days in accounts receivable were 39 at December 31, 2016.

***Unaudited Consolidated Statement of Revenues and Expenses***

For the three months ended December 31, 2016, The Guthrie Clinic had net income of approximately \$9.9 million. This results from a net loss from operations of approximately \$3.6 million and a non-operating gain of \$13.5 million. Non-operating income included interest and dividends of \$3.8 million, realized investment gains of \$1.7 million and unrealized gain of approximately \$1.0 million, and a loss due to the difference in interest rates and unrealized gain on the interest rate swap agreements of approximately \$1 million and \$8 million, respectively.

For the six months ended December 2016, The Guthrie Clinic had net income of \$23.2 million. This results from a net loss from operations of approximately \$9.4 million and a non-operating gain of \$32.6 million. Non-operating income included interest and

dividends of approximately \$6.3 million, realized investment gains of approximately \$6.9 million, unrealized gain of \$11.7 million, and a loss due to the difference in interest rates and unrealized gain on the interest rate swap agreements of approximately \$1.6 million and \$9.4 million, respectively.

Operating revenues decreased \$14.5 million (7.9%) for the current quarter and decreased \$18.8 million (5.3%) for the six month period. The sale of Robert Packer Hospital dialysis services to Fresenius Medical Care accounted for an \$8.8 million gain on sale in both the prior quarter and six month period. Hospital admissions were down 5.8% and 6.1% for the current three and six month period while observations were up 15.0% and 17.6% for the three and six month period. Hospital outpatient services and gross charges increased 4.7% and 5.7% for the three and six month period.

Operating expenses increased \$1.9 million (1.1%) and \$5.9 million (1.7%) for the three and six month period. Salary and benefit expense increased \$3.4 million and \$6.4 million for the three and six month periods, primarily related to an increase in the number of providers and support staff, an investment in information technology leadership and staffing, as well as, annual compensation increases. Purchased service expense increased \$1.1 million and approximately \$3.3 million for the three and six month periods, primarily related to an increase in temporary staffing, investments in strategic planning, lean management and training related to the implementation of the Epic revenue cycle system. Supply expense decreased approximately \$690 thousand and approximately \$1.3 million for the three and six month period, primarily related to lower inpatient surgical volume, as well as, supply cost reduction and standardization initiatives. Other expenses decreased \$1.3 million and approximately \$1.9 million for the three and six month period, primarily due to lower professional liability expense.

### **III. Other Business**

#### **Bond Financing**

On December 20, 2016 the Central Bradford Progress Authority (the “Issuer”) issued Revenue Bonds (The Guthrie Clinic Issue) Series 2016 (the “Series 2016 Bonds”) in the principal amount of \$47.235 million pursuant to the provisions of a Bond Indenture dated as December 20, 2016 by and between the Issuer and The Bank of New York Mellon Trust Company, N.A., as trustee (the “Bond Trustee”). The proceeds of the Series 2016 Bonds were used to refinance an interim loan from PNC Bank, National Association and to pay issuance costs relating to the Series 2016 Bonds. The proceeds of the interim loan from PNC Bank to TGC were used to redeem the Central Bradford Progress Authority Revenue Bonds (Robert Packer Hospital) Series 2011 and to pay certain costs related to such redemption. The Series 2016 Bonds were sold to PNC Bank, N.A. (“PNC”) pursuant to the provisions of a negotiated Direct Placement Agreement dated December 20, 2016 (the “Direct Placement Agreement”) between The Guthrie Clinic (“TGC”) and PNC.

### **IV. Use of Estimates**

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported periods. Actual results could materially differ from those estimates.

**V. Additional Information**

Contact Phil Ryan, CPA, Chief Financial Officer, at (570) 887-6061 or Julie A. Godfrey, Vice President of Finance, at (570) 887-4945 with any questions.

**The Guthrie Clinic**  
**Consolidated Balance Sheet**  
**Unaudited**  
**(In Thousands)**

|  | Dec 31, 2016            | Dec 31, 2015            |
|--|-------------------------|-------------------------|
| <b>Current Assets</b>                        |                         |                         |
| Cash and Cash Equivalents                    | 24,723                  | 23,336                  |
| Accounts Receivable, Net                     | 72,933                  | 74,482                  |
| Inventories                                  | 11,658                  | 12,205                  |
| Prepaid Expenses and Other Assets            | 17,856                  | 18,773                  |
| Total Current Assets                         | <u>127,170</u>          | <u>128,796</u>          |
| <b>Assets limited as to use</b>              |                         |                         |
| Investment - Trustee Held                    | 1,390                   | 1,307                   |
| Board Designated Funds                       | 142,474                 | 134,281                 |
| Temporarily and Permanently Restricted Funds | 139,424                 | 136,320                 |
| Noncurrent assets limited as to use          | <u>283,288</u>          | <u>271,908</u>          |
| <b>Other Assets</b>                          |                         |                         |
| Investment                                   | 488,703                 | 490,980                 |
| Property, Plant & Equipment                  | 352,965                 | 358,356                 |
| Prepaid Pension, Cost                        | 6,255                   | 8,499                   |
| Other assets, net                            | 7,256                   | 10,702                  |
| Total other assets                           | <u>855,179</u>          | <u>868,537</u>          |
| <b>Total Assets</b>                          | <u><u>1,265,637</u></u> | <u><u>1,269,241</u></u> |
| <b>Current Liabilities</b>                   |                         |                         |
| Current maturities of long-term obligations  | 9,148                   | 8,767                   |
| Accrued Expenses and Accounts Payable        | 53,888                  | 51,967                  |
| Accrued Payroll, Taxes and Vacation          | 40,769                  | 37,183                  |
| Other  | 10,248                  | 17,660                  |
| Total current liabilities                    | <u>114,053</u>          | <u>115,577</u>          |
| <b>Other Liabilities</b>                     |                         |                         |
| Long Term Debt                               | 256,988                 | 267,756                 |
| Accrued Pension Cost                         | 9,118                   | 1,848                   |
| Asset Retirement Obligations                 | 9,349                   | 15,987                  |
| Other  | 104,899                 | 118,339                 |
| Total other liabilities                      | <u>380,354</u>          | <u>403,930</u>          |
| <b>Total Liabilities</b>                     | 494,407                 | 519,507                 |
| <b>Net Assets</b>                            |                         |                         |
| Unrestricted                                 | 712,595                 | 692,039                 |
| Temporarily restricted                       | 54,751                  | 53,924                  |
| Permanently restricted                       | 3,884                   | 3,771                   |
| Total net assets                             | <u>771,230</u>          | <u>749,734</u>          |
| <b>Total Liabilities and Net Assets</b>      | <u><u>1,265,637</u></u> | <u><u>1,269,241</u></u> |

**The Guthrie Clinic**  
**Consolidated Statement of Revenue & Expense**  
**For the Quarter Ended December 31, 2016**  
**Unaudited**  
**(In Thousands)**

|   | <b>QTD<br/>Dec 16</b> | <b>QTD<br/>Dec 15</b> | <b>YTD<br/>Dec 16</b> | <b>YTD<br/>Dec 15</b> |
|---|-----------------------|-----------------------|-----------------------|-----------------------|
| Patient Service Revenue Net of Allowances | 174,549               | 180,154               | 347,735               | 358,328               |
| Provision for Bad Debts                   | <u>11,058</u>         | <u>10,482</u>         | <u>22,337</u>         | <u>21,577</u>         |
| Net Patient Service Revenue               | 163,491               | 169,672               | 325,398               | 336,751               |
| Other Operating Revenue                   | <u>4,206</u>          | <u>12,485</u>         | <u>9,031</u>          | <u>16,430</u>         |
| Total Operating Revenues                  | 167,697               | 182,157               | 334,429               | 353,181               |
| Salaries and Wages                        | 83,951                | 80,307                | 168,601               | 161,288               |
| Employee Benefits                         | 14,819                | 15,108                | 30,669                | 31,612                |
| Purchased Services                        | 10,341                | 9,272                 | 20,984                | 17,655                |
| Supplies                                  | 33,149                | 33,834                | 64,983                | 66,248                |
| Other Expenses                            | 16,377                | 17,705                | 32,822                | 34,715                |
| Depreciation and Amortization             | 10,497                | 10,638                | 21,063                | 21,312                |
| Interest Expense                          | 1,994                 | 2,572                 | 4,477                 | 5,141                 |
| Early Extinguishment of Debt              | <u>201</u>            | <u>0</u>              | <u>269</u>            | <u>0</u>              |
| Operating Expenses                        | <u>171,329</u>        | <u>169,436</u>        | <u>343,868</u>        | <u>337,971</u>        |
| Income From Operations                    | (3,632)               | 12,721                | (9,439)               | 15,210                |
| Other Income, net                         | <u>13,521</u>         | <u>14,166</u>         | <u>32,674</u>         | <u>(18,199)</u>       |
| Excess Margin                             | <u><u>9,888</u></u>   | <u><u>26,887</u></u>  | <u><u>23,235</u></u>  | <u><u>(2,989)</u></u> |

**The Guthrie Clinic**  
**Hospital Utilization Statistics**  
**Unaudited**

|                                | <b>Quarter Ended<br/>Dec 16</b> | <b>Quarter Ended<br/>Dec 15</b> | <b>YTD Ended<br/>Dec 16</b> | <b>YTD Ended<br/>Dec 15</b> |
|--------------------------------|---------------------------------|---------------------------------|-----------------------------|-----------------------------|
| <b>Acute Care</b>              |                                 |                                 |                             |                             |
| Licensed Acute Beds            | 379                             | 385                             | 379                         | 385                         |
| Available Acute Beds           | 376                             | 376                             | 376                         | 376                         |
| Percent Occupancy              | 60.7%                           | 63.1%                           | 60.3%                       | 65.1%                       |
| Acute Admissions *             | 4,929                           | 5,230                           | 9,992                       | 10,599                      |
| Observations                   | 1,018                           | 885                             | 1,914                       | 1,577                       |
| Acute Patient Days *           | 20,066                          | 20,944                          | 39,961                      | 43,046                      |
| Acute Average Length of Stay * | 4.1                             | 4.0                             | 4.0                         | 4.1                         |
| Outpatient Charges (000's)     | 233,763                         | 223,317                         | 473,961                     | 446,901                     |
| ER Visits                      | 19,654                          | 19,864                          | 40,517                      | 40,320                      |

\* Excludes Troy Community Hospital Swing & Ventilator Beds and Towanda Memorial Hospital Swing, SNF, PCH & Hospice Beds

**The Guthrie Clinic**  
**Statement of Cash Flows**  
**For the Quarter Ended December 31, 2016**  
**Increase (Decrease) in Cash & Investments**  
**Unaudited Internal Format (non-GAAP)**  
**(In Thousands)**

|   | QTD<br>Dec 16           | QTD<br>Dec 15           | YTD<br>Dec 16           | YTD<br>Dec 15           |
|---|-------------------------|-------------------------|-------------------------|-------------------------|
| Cash flows from operating activities:               |                         |                         |                         |                         |
| Net Income (Loss)                                   | (3,633)                 | 12,721                  | (9,439)                 | 15,210                  |
| Loss on Refinancing                                 | 201                     | 0                       | 269                     | 0                       |
| Add: Items not requiring cash in the current period |                         |                         |                         |                         |
| Depreciation and Amortization                       | 10,497                  | 10,638                  | 21,063                  | 21,312                  |
| Other   | (653)                   | (334)                   | (706)                   | (493)                   |
| Changes in operating assets and liabilities         | (1,699)                 | (12,838)                | (12,445)                | (4,653)                 |
|   | <u>4,713</u>            | <u>10,187</u>           | <u>(1,258)</u>          | <u>31,376</u>           |
| Cash flows from investing activities:               |                         |                         |                         |                         |
| Investment Income                                   | 5,945                   | 13,702                  | 23,558                  | (17,414)                |
| Additions to Property, Plant & Equipment            | (10,795)                | (10,441)                | (17,055)                | (15,683)                |
| Other   | 28                      | (64)                    | 49                      | (126)                   |
|   | <u>(4,822)</u>          | <u>3,197</u>            | <u>6,552</u>            | <u>(33,223)</u>         |
| Cash flows from financing activities:               |                         |                         |                         |                         |
| Proceeds from long-term obligations                 | 220                     | 0                       | 47,235                  | 0                       |
| Payments of long-term obligations                   | (7,090)                 | (7,595)                 | (54,391)                | (7,871)                 |
| Restricted Grants and Contributions                 | 477                     | 442                     | 642                     | 1,042                   |
|   | <u>(6,393)</u>          | <u>(7,153)</u>          | <u>(6,514)</u>          | <u>(6,829)</u>          |
| Net (decrease) increase in cash and investments     | (6,502)                 | 6,231                   | (1,220)                 | (8,676)                 |
| Cash and investments at beginning of period         | 721,627                 | 699,914                 | 716,345                 | 714,821                 |
| <b>Cash and Investments at End of Period</b>        | <u><u>\$715,125</u></u> | <u><u>\$706,145</u></u> | <u><u>\$715,125</u></u> | <u><u>\$706,145</u></u> |

**The Guthrie Clinic**  
**Sources of Patient Revenue and Third Party Reimbursement**  
**Fiscal Years 2014 - 2017**

| <b>Payor</b> | <b>2014</b>   | <b>2015</b>   | <b>2016</b>   | <b>12/31/2016</b> |
|--------------|---------------|---------------|---------------|-------------------|
| Medicare     | 49.0%         | 50.2%         | 49.8%         | 50.2%             |
| Medicaid     | 11.2%         | 12.1%         | 13.4%         | 13.8%             |
| Blue Cross   | 22.5%         | 22.2%         | 21.6%         | 20.8%             |
| Self Pay     | 3.1%          | 2.2%          | 1.8%          | 13.4%             |
| Other        | 14.2%         | 13.3%         | 13.4%         | 1.8%              |
| <b>TOTAL</b> | <b>100.0%</b> | <b>100.0%</b> | <b>100.0%</b> | <b>100.0%</b>     |

Source: The Guthrie Clinic records