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**Quarterly Report
For the Six Months Ended December 31, 2016
Unaudited
Concerning
WellSpan Health**

History and Background of WellSpan Health

WellSpan Health ("WSH"), a tax-exempt, not-for-profit corporation described in Section 501(c)(3) of the Code, is parent and sole corporate member of York Hospital, Gettysburg Hospital and Ephrata Community Hospital, the "Obligated Group", and other related affiliates. Operating as a community-based, not-for-profit organization, WSH is committed to developing and coordinating a system for delivery of health care services which improve the health and well-being of the residents of communities in York, Lancaster, Lebanon, Dauphin and Adams Counties in Pennsylvania, and in Northern Maryland. WSH operates six hospitals. In addition to the three hospitals comprising the Obligated Group, WSH operates the WellSpan Surgical and Rehabilitation Hospital, a 73 bed surgical and inpatient rehabilitation hospital. In July 2015, WSH became the parent and sole corporate member of The Good Samaritan Hospital (GSH). Good Samaritan Hospital is a 169 bed acute care hospital located in Lebanon County, Pennsylvania. In January 2016, WSH became the parent and sole corporate member of Philhaven, a behavioral health provider. Philhaven has 13 locations, including a 103 bed hospital and provides counseling and other behavioral health care services in Dauphin, Lancaster, Lebanon, York, Adams and Cumberland counties.

The six hospitals operate 1,127 licensed beds and had 54,264 admissions in fiscal year 2016. WSH also includes 65 ambulatory care and outpatient locations, six retail pharmacy sites, 103 primary care and specialty physician offices, 1,570 medical and dental staff members, a preferred provider organization and third party administrator, two home health service areas, two outpatient surgery centers and one endoscopy center. The facilities operated by WSH affiliates are located in South Central Pennsylvania approximately 54 miles northwest of Baltimore, Maryland and 97 miles west of Philadelphia, Pennsylvania.

For additional information about WellSpan Health, please contact Rick Harley, VP of Treasury Management Services, at 717.337.4123, or visit our website www.wellspan.org.

WellSpan Health
Consolidated Balance Sheets

As of December 31, 2016 and June 30, 2016 and December 31, 2015

<i>(in thousands of dollars)</i>	12/31/16	06/30/16	12/31/15
Assets			
Current assets			
Cash and cash equivalents	\$ 63,027	\$ 110,419	\$ 113,282
Assets limited as to use	4,994	5,795	6,645
Accounts receivable, net of allowance for doubtful accounts	284,136	272,643	253,473
Other receivables	21,661	20,824	23,441
Inventories	22,605	21,928	20,444
Prepaid expenses	31,701	27,787	26,715
Total current assets	428,124	459,396	444,000
Assets whose use is limited, net of current portion			
Board-designated	986,277	945,493	897,957
Self-insurance trust	16,860	13,032	11,823
Temporarily restricted investments	9,462	8,942	8,841
Permanently restricted investments	6,086	5,936	6,533
Beneficial interest in perpetual trust	17,955	17,837	18,272
Pledges receivable	5,257	5,853	7,135
Property and equipment, at cost, net of accumulated depreciation	798,372	752,102	678,189
Investments in joint ventures	10,663	10,157	8,819
Note receivable	1,507	2,522	-
Deferred financing costs	2,952	3,011	3,079
Other assets	50,075	50,965	43,309
Total assets	<u>\$ 2,333,590</u>	<u>\$ 2,275,246</u>	<u>\$ 2,127,957</u>
Liabilities and Net Assets			
Current liabilities			
Current portion of long-term debt	\$ 8,561	\$ 10,302	\$ 9,950
Accounts payable and accrued expenses	75,853	67,706	59,127
Accrued interest payable	1,847	1,936	2,110
Accrued salaries and wages	86,024	127,341	76,753
Advances from third-party payors	4,551	4,877	5,248
Estimated self-insurance costs & postretirement benefits	36,401	28,965	28,363
Estimated third-party payor settlements	14,213	16,177	21,531
Total current liabilities	227,450	257,304	203,082
Estimated self-insurance costs	78,788	74,313	66,628
Long-term debt, less current portion	552,794	549,124	562,024
Accrued Retirement Benefits	246,976	266,354	250,332
Swap contracts	51,436	70,126	57,334
Other noncurrent liabilities	1,511	1,511	1,511
Total liabilities	1,158,955	1,218,732	1,140,911
Minority interest	4,911	5,000	4,954
Net assets			
Unrestricted	1,121,525	1,005,226	935,560
Temporarily restricted	24,850	23,195	23,873
Permanently restricted	23,349	23,093	22,659
Total net assets	1,169,724	1,051,514	982,092
Total liabilities and net assets	<u>\$ 2,333,590</u>	<u>\$ 2,275,246</u>	<u>\$ 2,127,957</u>

WellSpan Health
Consolidated Statements of Operations
Year to Date Ended December 31, 2016 and 2015

<i>(in thousands of dollars)</i>	Actual FY 2017	Budget FY 2017	Actual FY 2016
Unrestricted revenues, gains and other support			
Net patient service revenue	\$ 1,047,311	\$ 1,044,450	\$ 950,935
Provision for uncollectible accounts	(42,992)	(41,871)	(42,876)
Other revenue	39,416	36,760	33,263
Total revenues, gains and other support	1,043,735	1,039,339	941,322
Expenses			
Salaries and wages	487,142	491,461	421,965
Employee benefits	136,774	136,026	137,428
Professional fees	15,483	14,094	13,952
Supplies and other	297,352	296,653	280,142
Depreciation and amortization	41,841	45,112	39,727
Interest	10,813	8,629	10,397
Total operating expenses	989,405	991,975	903,611
Operating income	54,330	47,364	37,711
Loss on Debt Refinancing	-	-	(975)
Adjusted Operating income	54,330	47,364	36,736
Other income (expense)			
Contributions	1,175	1,342	559
Investment income, net	43,654	25,542	(37,283)
Equity in income of joint ventures	284	522	802
Gain (loss) on sale of assets/other	76	6	14,895
Merged Assets - GSH & PH	-	-	24,708
Change in fair value of interest rate swap	18,691	-	(7,777)
Other income, net	(783)	(1,142)	107
Total other income (expense)	63,097	26,270	(3,989)
Excess of revenues over expenses before minority interest	117,427	73,634	32,747
Minority interest	(489)	(452)	(328)
Excess of revenues over expenses	\$ 116,938	\$ 73,182	\$ 32,419

Management's Discussion of Financial Condition and Performance

For the six months ended December 31, 2016, WellSpan Health continues to show positive operating performance with an operating margin of 5.2% and operating EBITDA of 10.3%. Operating income for the six months ended December 31, 2016 was \$54.3 million, compared to a budget of \$47.4 million and \$37.7 million for the same period last year. Operating cash flow (operating income plus depreciation) was \$96.2 million, compared to a budget of \$92.5 million and \$77.4 million for the same period last year.

All financial and statistical information presented in this report includes Good Samaritan Hospital for periods subsequent to a merger on July 1, 2015 and for Philhaven for periods subsequent to a merger on January 1, 2016.

Balance Sheet

Total assets of WSH were approximately \$2.3 billion at December 31, 2016. Unrestricted cash and investments increased by \$.8 million to \$1,041.3 million during the six months ended December 31, 2016. As of December 31, 2016, \$930.8 million of unrestricted cash is considered liquid within one month.

Days cash on hand was 202.2 on December 31, 2016, down from 210.5 on June 30, 2016. The following lists the primary changes to days cash on hand.

Days cash on hand at June 30, 2016	210.5
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Additions:

Operating income plus depreciation	18.7 days
Investment income	8.5
Reduction in debt proceeds held by trustee	1.5
Debt proceeds, net of repayments	<u>.4</u>
Total Additions	29.1

Reductions:

Capital expenditures	17.1
Increase in expense per day	8.5
Changes in non-cash working capital items	8.5
Changes in non-current liabilities	2.7
Other	<u>.6</u>
Total Reductions	37.4

Days cash on hand at December 31, 2016	202.2
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Alternative investments are reflected at cost. Days cash on hand does not include \$.8 million, or .2 days, related to market value of alternative investments in excess of costs.

For the six months ended December 31, 2016, noncash working capital changes included an increase in net patient accounts receivable of \$11.5 million. The increase is related to the overall growth in revenues. Days of net patient revenues in patient accounts receivable were 50.2 at December 31, 2016, compared to 49.0 days at June 30, 2016.

Investments are managed within a centralized investment management process. Reported income from investments for the six months ended December 31, 2016 were \$43.7 million, compared to losses of \$37.3 million for the same period last year.

Total long term debt for WellSpan Health at December 31, 2016 was \$561.4 million. As of December 31, 2016 long term debt to capitalization was 33.4%. The cash to debt ratio was 185.5%.

Income Statement

Total operating revenue was \$1.0 billion for the six months ended December 31, 2016, an increase of \$102.4 million or 10.9% over the same period last year. Total operating revenue includes \$32.3 related to Philhaven. Excluding Philhaven, operating revenues increased \$70.1 million or 7.5% compared to the prior year.

Including 1,193 admissions from Philhaven, total admissions increased by 4.4%, or 1,158 cases for the six months ended December 31, 2016 compared to the same period last year. Excluding the impact of the merger with Philhaven, admissions decreased .1% or 35 cases. Observation cases and days (one day stays considered outpatient) increased by 18.8%, or 2,023 days compared to the prior year. Other key services experiencing volume growth in the fiscal quarter were laboratory services at 1.5%, emergency department at 1.2% and surgery at 3.3%.

For the six months ended December 31, 2016, total expenses increased \$85.8 million or 9.5%. Total expenses include \$34.0 million related to Philhaven. Salaries increased by \$65.2 million, or 15.5% compared to same period last year. Included in the salaries and wages are \$22.8 million related to Philhaven. Increases in salaries and wages were attributable to FTE increases of 600, or 4.6%. Employee benefits expenses decreased by \$.7 million, or .5%, compared to the same period last year. Included in the totals are employee benefits of \$4.1 related to Philhaven. Pension related expenses within employee benefits decreased by \$19.7 million compared to fiscal 2016 as a result of a freeze in the defined benefit plans. For the six months ended December 31, 2016, supplies and other expenses increased by \$17.2 million, or 6.1% compared to the prior year. Included in the total are supplies and other expenses of \$4.8 million related to Philhaven. Bad debt decreased by \$.2 million over the same period last year. As a percent of net patient revenue, bad debt expense was 4.1% for the six months ended December 31, 2016 compared to 4.5% for the prior year.

Key Operating Statistics
For the six months ended December 2016

	Actual YTD Dec 17	Budget YTD Dec 17	Actual YTD Dec 16 *
<u>Admissions:</u>			
York Hospital **	16,549	16,213	16,718
Gettysburg Hospital **	2,087	2,437	2,220
Ephrata Community Hospital **	3,422	3,296	3,358
Good Samaritan Hospital	3,514	3,332	3,326
Philhaven	1,193	1,206	n/a
WellSpan Surgery & Rehab Hospital	<u>919</u>	<u>1,024</u>	<u>904</u>
Total Admissions	27,684	27,508	26,526
 Observations	 12,763	 10,144	 10,740
 Outpatient Services			
Imaging	316,029	293,464	318,789
Laboratory	4,250,537	3,983,864	4,189,239
Emergency Dept.	98,259	97,634	97,061
 Surgeries	 20,104	 20,982	 19,468

* Philhaven merged on January 1, 2016; historical periods do not include activity prior to the merger date

** Member of Obligated Group