Management Discussion and Analysis

For the Six Month Period Ended March 31, 2017 and March 31, 2016

Utilization

During the six months ended March 31, 2017 (the current year), the Corporation experienced a decrease in admissions of 6.1% or 503 to 7,684 and a decrease in inpatient days of 5.8% or 1,731 to 28,198 over the six months ended March 31, 2016 (the prior year). Bedded observation patients, however, were up 17.0% over the prior year. Overall acuity of patients receiving care, as measured by the inpatient case mix index, was at 1.57 which was elevated over the prior year of 1.43. Conversely, outpatient visits of 203,687 had increased 2.5% over the prior year at the Hospitals. Clinic and Urgent Care visits at the clinics of 223,485 were down 2.9% over the prior year.

Total Operating Revenue

The Corporation generated net patient service revenue of $347.3 million, which represents a 1.1% or $3.6 million increase over the prior year. Gross charges were 5.7% higher than the prior year. The increase is primarily driven by a 4% price increase, favorable hospital outpatient utilization and a favorable service mix. As a percent of total gross patient revenues, allowances and deductions (inclusive of bad debts and charity care) of 65.2% were 1.6% higher than the prior year driven by higher volume of Medicare patients. The Medicare payor mix of 30.7% was 2.9% higher than the prior year.

Other operating revenue was lower by $0.6 million or 1.7% primarily attributed to timing of shared savings recognition at ProHealth Solutions, the Corporation's ACO. This was partially offset by continued favorable results from the Corporations joint venture entities, which are accounted for on the equity method.

Total Operating Expenses

Total operating expenses of $361.6 million for the current year decreased 0.6% or $2.3 million from the prior year. Salaries and wages increased 0.3% or $0.4 million from annual wage increases but were primarily offset by continued focus on FTE/productivity initiatives. As a percent of gross patient service revenue for the current year, Salaries and wages was 15.2% compared to 16.1% in the prior year. Management continues to focus on ensuring the most efficient use of staffing resources, flexing with volumes and limiting overhead costs. Benefit costs decreased 11.8% or $5.3 million from the prior year primarily driven by the pension plan freeze effective July 2016, which has reduced benefit costs by $4.2 million over the prior year. The Corporation has also had favorable health and dental claims experience under the Corporation's self-insured plan. As a percent of total Salaries and wages, Benefit costs were favorable at 26.0% compared to the prior year of 29.6%. Medical supply and drug costs increased $3.5 million or 6.0% from the prior year driven by inflation and mix of services. Chemo drug costs were the primary driver as utilization was higher than the prior year. As a percent of total gross patient revenue, medical supply and drug cost of 6.3% approximated the prior year. As a result of the State's Medicaid Hospital Tax program, the Corporation was assessed a $7.5 million Medicaid Hospital tax during the current year, which is offset by $7.2 million in additional Medicaid payments from the program, resulting in a net loss of $0.3 million for the current year. In comparison, during the prior year, the Corporation had a net loss of $0.1

million due to Medicaid Hospital taxes paid in excess of Medicaid program payments received. Contracted services and other expenses increased from the prior year by $0.3 million or 0.5%, primarily driven by a slightly higher use of external services. Depreciation was $1.0 million or 3.1% lower than the prior year due to higher than finalized Mukwonago Emergency Department and Pewaukee Cancer Center estimated capital costs being depreciated in the prior year. Towards the end of the prior year, the Corporation realized a favorable adjustment to these capital projects and resulting depreciation. Interest expense was slightly favorable as variable rates have remained low along with annual debt service payments reducing outstanding principal.

Non-operating Gains/Losses

Non-operating gains, net increased $26.5 million as compared to the prior year. This was primarily driven by $11.2 million of favorable marks to market on the various interest rate swaps, given the recent increase in interest rates. Realized gains on the investment portfolio were $15.0 million better than the prior given realized losses incurred when the organization realigned its investment allocation.

Revenues and Gains in Excess of Expenses

The Corporation recorded expenses in excess of revenues and gains of $52.9 million for the current year which represents a $31.8 million or 150.7% increase compared to the prior year primarily driven by a decrease in non-operating gains from better investment activity. Total operating income of $18.6 million was $5.3 million or 39.7% better than the prior year. Operating income margin remains strong at 4.9% over 3.5% in the prior year as the Corporation continues to focus on clinical efficiencies and reducing overhead costs.

Cash and Investments

The Corporation has $725.4 million of cash and investments or 399.7 days as of March 31, 2017, which is a 2.7% or $19.1 million increase compared to the $706.3 million of cash and investments as of September 30, 2016. This increase in cash and investments is predominately the result of cash flow from operations, continued favorable turnover in patient AR and favorable investment portfolio performance.

Other

Effective January 1, 2017, ProHealth Solutions began participating in the Medicare Next Generation ACO Model, which offers a new opportunity in accountable care that sets predictable financial targets, enables providers and beneficiaries greater opportunities to coordinate care and aims to attain the highest quality standards of care. Previously, participation was in the Medicare Shared Savings Plan. This Next Generation ACO Model offers higher financial incentives for achieving specified targets compared to the prior Medicare Shared Savings Plan. However, there is potential for down-side risk in the event that these are not met. To participate in this new program, CMS requires a financial guarantee of all participants in the event the down-side risk materializes and a participant owes money back to CMS. This financial guarantee must equate to 2% of the attributed lives' Part A & B beneficiary spend from the base year. ProHealth Solutions executed a $2.2 million Letter of Credit, expiring March 31, 2019. Given the stand-alone size of ProHealth Solutions, the Corporation's obligated group guaranteed this Letter of Credit under terms of the Master Trust Indenture.

During the first quarter of the current year, the Corporation entered into a build to suit lease arrangement with a third-party. This 20 year lease agreement has an anticipated commencement date of March 2018. While the Corporation is still evaluating the impact this lease will have on the financial statements, it is anticipated that this will be a capital lease (obligation) recorded at approximately $21 million and having a $1.8 million increase in Maximum Annual Debt Service. From a Debt to Capitalization perspective, management does not anticipate much erosion from Fiscal 2016 as a result of continued favorable financial performance and continued debt service payments.

OPERATIONS - NUMBER OF AVAILABLE BEDS

As of March 31, 2017, the Hospitals had a total of 313 staffed acute care beds, which were classified as follows:

Service	Number of Available Beds
General Medical/Surgical	158
Intensive, Coronary and Intermediate Care	72
Obstetrics	45
Psychiatric	22
Oncology	16
Total Available Beds	313

Source: Records of Corporation

OPERATIONS - SELECTED OPERATING STATISTICS

The following table presents certain combined operating statistics of the Hospitals for the period ended March 31, 2017.

	March 31, 2017
Inpatient Admissions [(1)]	7,684
Average Length of Stay (days) [(1)]	3.67
Average Inpatient Daily Census	154.9
Case Mix Index	1.57
Outpatient Visits	203,687
Emergency Room Visits	30,652
Surgical Cases	
Open Heart	85
Inpatient	2,134
Outpatient	3,393
Total Surgical Cases	5,612
Catherization Lab Procedures	1,927
Medical Oncology Visits	20,930
Radiation Oncology Procedures	6,255
Cardiovascular Procedures	10,565
Radiology Procedures	21,702
CyberKnife Cases (WMH)	269
ProHealth Medical Group Clinic & Urgent Care Visits	223,485

(1) Figures exclude neonatal intensive care unit and new born activity.

Source: Records of Corporation

SOURCES OF NET PATIENT SERVICE REVENUE

The following table indicate the sources of the Hospitals' net patient service revenues for the six months ending March 31, 2017.

	March 31, 2017
Medicare	30.7%
Commercial Insurance	1.6%
HMO/PPO and other managed care entities	63.2%
Medicaid	4.2%
Self-Pay	0.3%
Total	100.0%

Source: Records of Corporation

LIQUIDITY AND FUTURE CAPITAL REQUIREMENTS

	March 31, 2017	
Cash and Cash Equivalents	$	23,191
Assets Limited by Board Designation		675,753
Restricted as to Use		26,473
Total cash and investments	$	725,417
Total Expense	$	361,615
Depreciation		(31,274)
Average Daily Operating Expense	$	1,815
Days Cash on Hand		399.7

Source: Records of Corporation

PROHEALTH CARE, INC. AND AFFILIATES
Consolidated Statements of Operations - UNAUDITED
Six Months Ended March 31, 2017 and March 31, 2016
(In thousands)

	Mar-17	Mar-16
Net patient service revenue (including bad debt)	$ 347,324	$ 343,711
Other operating revenue	32,891	33,472
Total revenue	380,215	377,183
Expenses:		
Salaries and wages	152,119	151,732
Employee benefits	39,599	44,889
Medical supplies and drugs	63,137	59,589
State tax assessment	7,545	7,617
Contracted services and other	59,237	58,953
Interest	8,704	8,813
Depreciation	31,274	32,278
Total expenses	361,615	363,871
Income From Operations	**$ 18,600**	**$ 13,312**
Non-operating Gains/(Losses), net		
Investment Income	5,945	11,435
Unrealized (Losses)/Gains, net on Investments	11,889	6,359
Realized Gains/(Losses), net on Investments	7,379	(7,290)
Interest Rate Swaps - Marks to Market	9,176	(2,071)
Other Non-Operating Activity	(84)	(641)
Total Non-operating Gains/(Losses), net	34,305	7,792
Revenue and Gains in Excess of Expenses	**$ 52,905**	**$ 21,104**

PROHEALTH CARE, INC. AND AFFILIATES

Consolidated Balance Sheet - UNAUDITED

March 31, 2017

(In thousands)

Assets		**Mar-17**
Current assets:		
Cash and cash equivalents	$	23,191
Assets whose use is limited or restricted		9,366
Patient accounts receivable, net of estimated uncollectibles		78,283
Other receivables		5,823
Inventory of supplies		8,981
Prepaid expenses and other current assets		13,586
Total current assets		139,230
Noncurrent assets whose use is limited or restricted		692,860
Investments in unconsolidated affiliates		20,583
Net property, plant, and equipment		555,146
Other assets:		
Goodwill and other intangibles		6,510
Other long term assets		25,030
Total other assets		31,540
Total Assets	**$**	**1,439,359**

Liabilities and Net Assets		
Current liabilities:		
Current installments of long-term debt	$	8,051
Accounts payable		26,430
Accrued expenses and other current liabilities		41,768
Deferred revenue		4,550
Total current liabilities		80,799
Long-term debt and capital lease obligations, less current installments, unamortized bond discount & unamortized issuance costs		456,447
Fair Value of Interest Rate Swaps		22,245
Postretirement liability		109
Pension liability		38,364
Other long-term liabilities		27,959
Total liabilities		625,923
Total net assets		813,436
Total Liabilities and Net Assets	**$**	**1,439,359**

PROHEALTH CARE

OFFICER'S CERTIFICATION

Based upon a review of the combined unaudited financial statements of ProHealth Care, Inc., Waukesha Memorial Hospital, Inc., Oconomowoc Memorial Hospital, Inc. and National Regency of New Berlin, Inc. (the Obligated Group) as of March 31, 2017, it is my belief that these financial statements are an accurate interim presentation of the financial results of the Obligated Group.

Ronald J. Farr
Chief Financial & Administrative Officer