

**CONTINUING DISCLOSURES
ANNUAL FINANCIAL INFORMATION**

**INFORMATION CONCERNING
ST. CHARLES HEALTH SYSTEM, INC.**

Historical Utilization

The table below provides selected summary utilization statistics for St. Charles Health System, Inc. (SCHS) for the years ended December 31, 2016, 2015, 2014.

Table A-4
SCHS Combined
Historical Utilization

	Years ended December 31,		
	2016	2015	2014
Inpatient Statistics			
Discharges ⁽¹⁾	20,301	19,626	18,963
Average Length of Stay ⁽¹⁾	3.8	3.9	3.8
Patient Days ⁽¹⁾	77,191	75,827	72,048
Average Daily Census ⁽¹⁾	210.9	207.7	197.4
Occupancy Percentage ⁽³⁾	61.1%	60.2%	55.8%
Births	2,336	2,268	2,306
Outpatient Statistics			
Emergency Room Visits	90,027	87,078	81,425
Outpatient Surgeries	11,990	11,259	11,087
Other Outpatient Visits ⁽²⁾	117,206	114,023	111,961

⁽¹⁾ Excludes newborns

⁽²⁾ Does not include primary care or specialist physician visits

⁽³⁾ Based on 354 licensed beds at year end 2014 and 345 at year end 2015 and during 2016

Source: SCHS management

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Consolidated Financial Information

General. The following financial information of SCHS for the three years ended December 31, 2016, 2015 and 2014 has been derived from the audited consolidated financial statements.

In addition to the following summarized financial information, the audited consolidated financial statements of SCHS, including the footnotes, should be read in order to evaluate the operating results and financial position of SCHS.

Condensed Consolidated Statements of Operations. The following Table contains the condensed consolidated statements of operations of SCHS for the three years ended December 31, 2016, 2015 and 2014 (dollars in thousands):

Table A-5
SCHS Condensed Consolidated
Statements of Operations
(Dollars in Thousands)

	Years ended December 31		
	2016	2015	2014
Revenue:			
Net patient revenue	624,836	586,026	546,907
Other revenue	99,245	104,823	73,500
Total revenue	724,081	690,849	620,407
Expenses:			
Non-capital	645,026	600,374	544,332
Depreciation	34,319	29,877	26,482
Interest	7,242	8,530	11,295
Total expenses	686,587	638,781	582,109
Operating Income	37,494	52,068	38,298
Net nonoperating income (loss)	20,539	(24,079)	28,267
Excess of revenue over expenses	58,033	27,989	66,565
Other changes in net assets:			
Net assets released from restrictions used for			
purchases of property and equipment	873	833	3,983
Contributions for property and equipment	-	268	1,014
Other Transfers	(14)	(1,639)	(702)
Distributions	(6,869)	(6,277)	(6,203)
Increase in unrestricted net assets	52,023	21,174	64,657

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Condensed Consolidated Balance Sheets. The following Table contains the condensed consolidated balance sheets of SCHS as of December 31, 2016, 2015 and 2014 (dollars in thousands):

Table A-6
SCHS Condensed Consolidated
Balance Sheets
(Dollars in Thousands)

Assets	As of December 31		
	2016	2015	2014
Current assets:			
Cash and cash equivalents	57,259	55,796	28,082
Patient accounts receivable, net	92,069	87,234	87,165
Other	42,534	42,226	47,464
Total	191,862	185,256	162,711
Assets whose uses are limited:			
Internally-designated	400,016	342,281	334,304
Trustee-held, net of current	90,338	27,527	61,526
Total	490,354	369,808	395,830
Net property and equipment	302,343	287,986	261,695
Other assets	3,661	6,297	9,380
Total assets	988,220	849,347	829,616
Liabilities and Net Assets			
Current liabilities	94,915	80,304	93,259
Long-term obligations	299,105	226,707	217,309
Other liabilities	11,851	11,903	10,628
Total liabilities	405,871	318,914	321,196
Total net assets	582,349	530,433	508,420
Total liabilities and net assets	988,220	849,347	829,616

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Debt Service Coverage. The following Table shows debt service coverage and maximum annual debt service coverage for SCHS, obligated group only, as of December 31, 2016, 2015 and 2014 (dollars in thousands):

Table A-7
SCHS Debt Service Coverage
(Obligated Group Only)
(Dollars in Thousands)

	Years ended December 31		
	2016	2015	2014
Net Revenue Available for Debt Service:			
Excess of Revenues Over Expenses	50,078	20,833	58,615
Plus (Less): Unrealized Investment Losses (Earnings)	(12,922)	10,404	(12,978)
Plus: Non-Operating Loss on Early Extinguishment of Debt	3,214	24,515	-
Plus: Depreciation	33,134	28,804	25,286
Plus: Interest Expense	7,169	8,207	10,918
Total Revenue Available for Debt Service	80,673	92,763	81,841
Annual debt service	12,816	5,252	15,394
Historical debt service coverage ratio	6.29	17.66	5.32
Maximum annual debt service coverage ratio	4.22	5.8	5.1

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Consolidated Capitalization and Days Cash on Hand. The following tables show consolidated capitalization for SCHS, obligated group only, as of December 31, 2016, 2015 and 2014 and unrestricted cash on hand, obligated group only, as of December 31, 2016, 2015 and 2014.

Table A-8
SCHS Consolidated Cash and Investments and Capitalization
(Obligated Group Only)
(Dollars in Thousands)

	2016	2015	2014
Long-term Debt:			
Existing Bonds	289,740	228,125	220,245
Plus: Other Debt	158	184	211
Less: Current Portion	(2,332)	(1,077)	(2,662)
Net Long-term Debt	287,566	227,232	217,794
Plus: Unrestricted Net Assets	578,084	527,233	504,149
Total Capitalization	865,650	754,465	721,943
Debt-to-total capitalization ratio	33.2%	30.1%	30.2%

Table A-9
SCHS Unrestricted Days Cash on Hand
(Obligated Group Only)
(Dollars in Thousands)

	As of December 31,		
	2016	2015	2014
Unrestricted Liquid Funds:			
Cash and Cash Equivalents	51,369	52,021	25,729
Internally Designated Investments	392,652	336,203	327,221
Total Unrestricted Liquid Funds	444,021	388,224	352,950
Operating Expense:			
Total Operating Expense	698,887	650,084	590,626
Less Depreciation	(33,134)	(28,804)	(25,286)
Total	665,753	621,280	565,340
Average Daily Operating Expense	1,824	1,702	1,549
Days cash on hand	243.4	228.1	227.9

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RECENT FINANCIAL PERFORMANCE

Comparison of Fiscal Year Ended December 31, 2016 to December 31, 2015

SCHS produced a consolidated excess of revenue over expenses of \$58.0 million for the twelve months ended December 31, 2016 compared to \$28.0 million for the twelve months ending December 31, 2015. SCHS's core operating activities showed operating income of \$37.5 million for the twelve months ended December 31, 2016 compared to \$52.1 million for the twelve months ended December 31, 2015.

SCHS continued to show strong results with an operating margin of 5.2% in 2016 and 7.5% in 2015. SCHS continues to invest in primary care and improving programs targeted at managing emergency room utilization and transitions of care from the hospital setting to primary care in order to address quality and cost components of various value-based contract arrangements.

Net patient service revenues, after adjustments for bad debt, of \$624.8 million for the twelve months ended December 31, 2016 exceeded the \$586.0 million for the twelve months ended December 31, 2015 by \$38.8 million or 7%. Total operating revenues of \$724.1 million for the twelve months ended December 31, 2016 exceeded the \$690.8 million for the twelve months ended December 31, 2015 by \$33.2 million or 5%. During 2014, SCHS entered into a capitated per member per month payment arrangement for Managed Medicaid patients enrolled in the Oregon Health Plan (OHP). Revenue earned under this arrangement is classified as premium revenue, a component of other operating revenue. SCHS Bend experienced a 5% increase in revenue; SCHS Redmond experienced a 1% increase in revenue; SCHS Prineville saw a 5% increase in revenue; and SCHS Madras had a 2% increase in revenue for 2016 compared to 2015. The increase in revenues is the combined result of a 2% increase in inpatient utilization, a 4% increase in surgery volume, a 3% increase in emergency room utilization and a 4% decrease in Immediate Care Clinic visits. In addition SCHS achieved receipt of \$5.8 million in quality improvement incentive payments from the State's Hospital Transformation Performance Program, and approximately \$7.0 million in quality incentive and surplus payments related to OHP patients. In addition, SCHS implemented a 6% overall rate increase effective January 1, 2016. Total operating expenses increased by 7% from \$638.8 million for the twelve months ended December 31, 2015 to \$683.6 million for the twelve months ended December 31, 2016.

SCHS revenue per adjusted patient day, a measure of per unit revenue, increased by 1% for the twelve months ended December 31, 2016 when compared to the twelve months ended December 31, 2015. SCHS total operating expenses per adjusted patient day increased by 3% for the twelve months ended December 31, 2016 versus the twelve months ended December 31, 2015. Management continues to focus on further per unit expense containment in anticipation of future reimbursement reductions.

The table below shows the percentage breakdown of combined gross patient service revenue by payer for SCHS for the years ended December 31, 2016, 2015 and 2014.

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Table A-10
Consolidated Gross Patient Service Revenue Percentage by Payer

	Years Ended December 31,		
	2016	2015	2014
Medicare	51.8%	51.6%	50.1%
Medicaid/OHP	21.0	21.4	21.0
Commercial	25.5	25.4	26.3
Self-Pay	1.7	1.6	2.6
Total	100	100	100

SCHS's investment income for the twelve months ended December 31, 2016 totaled \$24.5 million, an increase of \$24.2 million from 2015 investment income, and included realized gains of \$0.03 million, earned interest and dividends of \$11.4 million and recognized unrealized gains of \$13.1 million in 2016.

SCHS's unrestricted liquidity position increased to \$457.3 million as of December 31, 2016 from \$398.1 million as of December 31, 2015. Liquidity represented 153% of long-term debt as of December 31, 2016 compared to 176% as of December 31, 2015. Unrestricted days cash on hand for the Obligated Group was 243 and 228 at December 31, 2016 and 2015, respectively.

SCHS's debt to capitalization, for the Obligated Group, increased from 30.1% as of December 31, 2015 to 33.2% as of December 31, 2016.