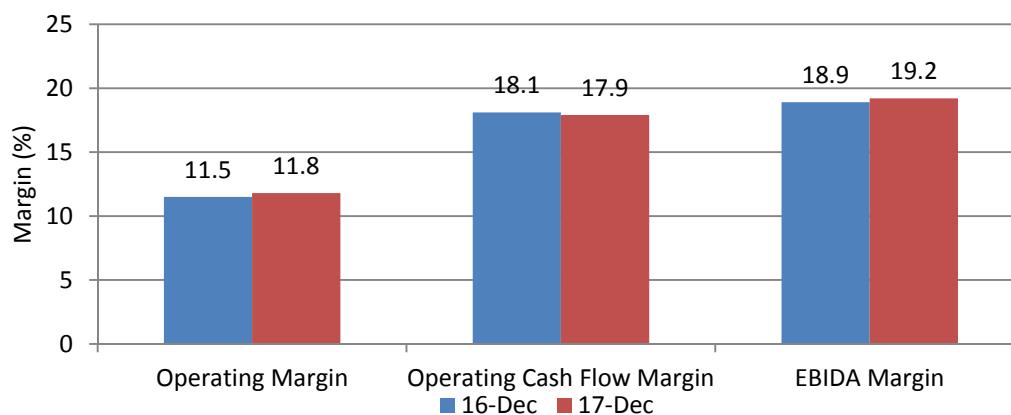


Management's Discussion and Analysis of Historical Operations and Results

The following discussion and analysis provides information that management believes is relevant to an assessment and understanding of the Renown Health Obligated Group's consolidated financial results of operations. This discussion should be read in conjunction with the financial statements.

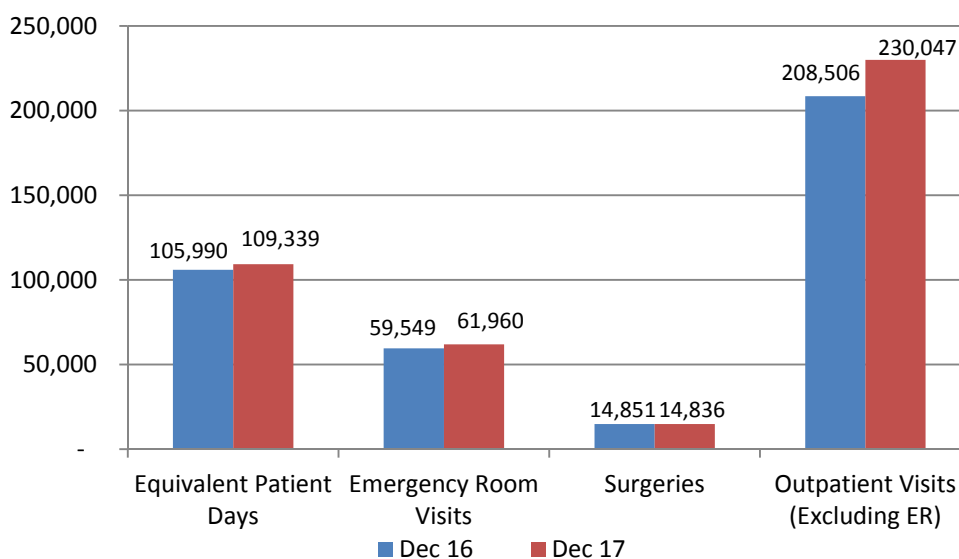
Fiscal Year to Date December 31, 2017 compared to Fiscal Year to Date December 31, 2016

Profitability



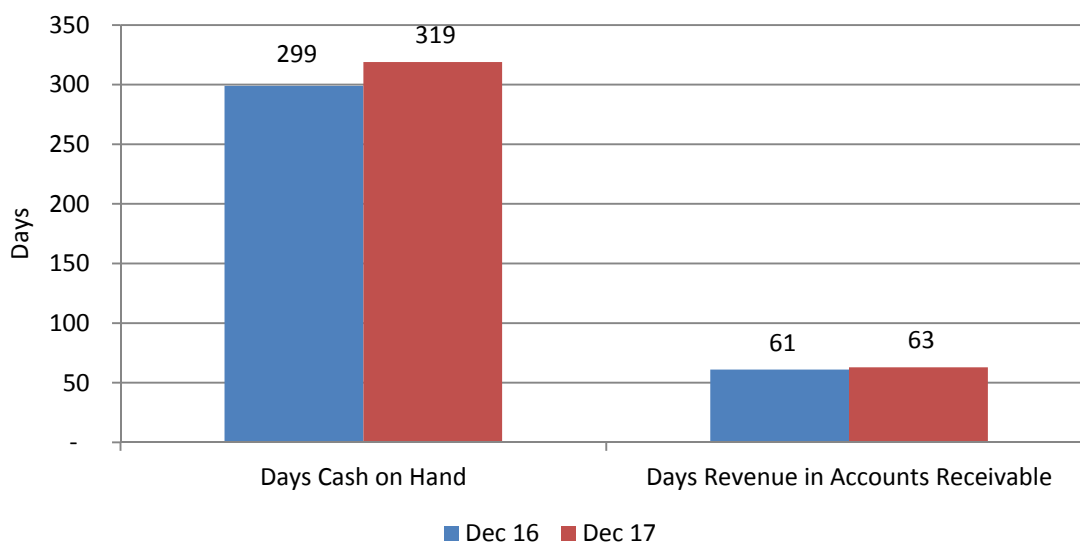
- Operating margin of 11.8%, a slight increase from prior year mainly driven by increased revenues, while fixed operating costs remained relatively steady.
- Operating revenue growth of 8.1% was slightly higher than operating expense growth of 7.7%.
- Operating revenue was \$446.9 million, an improvement of \$33.6 million. Acute volume increases accounted for the majority of the improvement.
- Operating expenses increased by \$28.2 million, mainly driven by increases in overall volume.

Growth



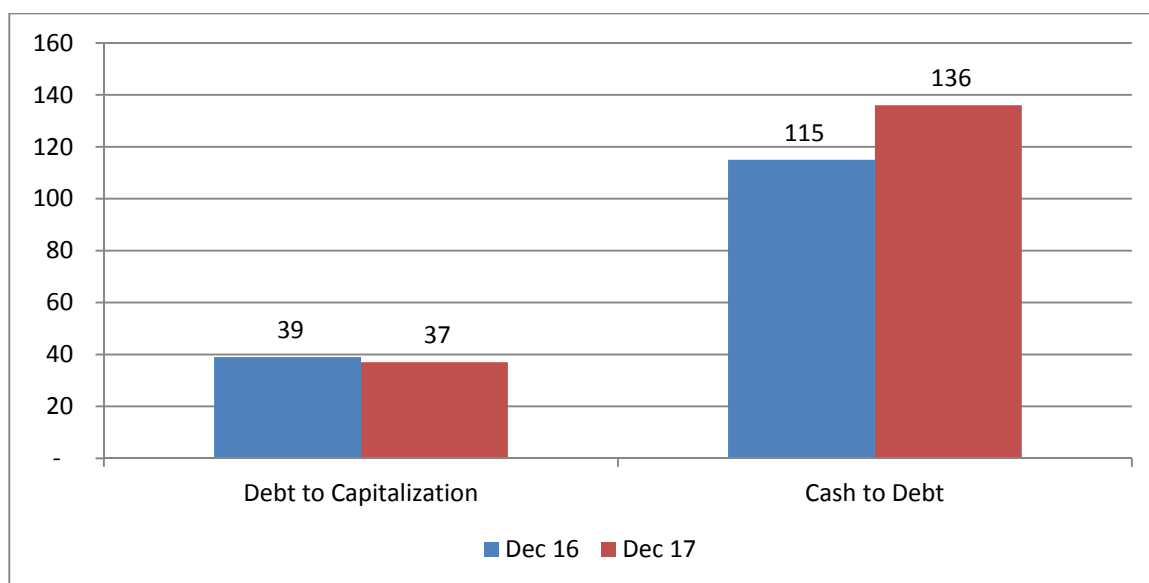
- Inpatient volumes continue to grow. Equivalent admissions and equivalent patient days increased by 4.6% and 3.2%, respectively. Length of stay decreased slightly from 4.3 to 4.2 days.
- Outpatient diagnostic visits increased by 10.3% and emergency room visits increased by 4.0%.

Liquidity



- Days Cash on Hand, increased by 20 days from prior year and continues to exceed rating agency and covenant requirements.
- Total collateral posted on interest rate swaps was \$7.8 million compared to \$8.7 million and represents 4 days not included in the Days Cash on Hand calculation.

Capital Structure



- Improvement in marketable securities (market conditions) and cash generated by operations contributed to a 18.3% improvement in Cash to Debt, while Debt to Capitalization decreased by 6.6%.
- Maximum Annual Debt Service Coverage decreased from 5.7x to 5.3x.
- The obligated group completed \$39.2 million in interaffiliate transfers that reduced the amount owed from affiliates on the balance sheet and had zero impact on profitability or cash balances.

Renown Health Obligated Group
Consolidated Balance Sheet

	As of December 31, 2017	As of December 31, 2016
Assets		
Current Assets		
Cash and Cash Equivalents	\$ 68,518,544	\$ 59,160,233
Marketable Securities	576,468,519	497,421,780
Patient Accounts Receivable, net	149,106,967	136,235,356
Other Receivables	1,630,151	2,303,085
Inventories	28,060,021	24,620,753
Funds Held In Trust	1,445	8,730,673
Prepaid Expenses and Other	2,134,326	2,289,466
Total Current Assets	825,919,973	730,761,346
Long Term Assets		
Property, Plant, & Equipment, net	412,518,257	435,283,945
Construction in Progress	2,650,232	487,083
Bond Reserve Fund	10,941,250	3,109,015
Due from Affiliates	178,940,951	187,330,650
Other	14,850	8,079
Intangible Assets	6,662,121	6,662,121
Total Long Term Assets	611,727,661	632,880,893
Total Assets	1,437,647,634	1,363,642,239
Liabilities		
Current Liabilities		
Accounts Payable and Accrued Liabilities	22,864,218	20,199,018
Payroll Withholding and Accruals	21,330,466	19,891,552
Current Portion of Long-Term Debt	10,896,895	10,436,750
Other Current Liabilities	1,336,114	1,678,664
Third Party Settlements	11,068,377	10,467,486
Total Current Liabilities	67,496,070	62,673,470
Notes Payable	463,951,536	474,496,275
Total Long Term Debt, Less Current Maturities	463,951,536	474,496,275
Long Term Liabilities		
Due to Affiliates	39,290,705	27,265,097
Other Liabilities	41,974,931	43,977,764
Total Long Term Liabilities	81,265,636	71,242,861
Total Liabilities	612,713,242	608,412,606
Net Assets		
Unrestricted	824,934,392	755,229,633
Total Liabilities and Fund Balance	\$ 1,437,647,634	\$ 1,363,642,239

Renown Health Obligated Group
Consolidated Statements of Operations
Fiscal Years to Date

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Operating Revenue		
Net Patient Revenue	\$ 475,547,716	\$ 430,774,515
Provision for Bad Debts	(35,582,296)	(24,690,866)
Net Patient Revenue less Provision for Bad Debts	439,965,420	406,083,649
Other Revenue	6,966,852	7,240,817
Net Revenue	446,932,272	413,324,466
 Operating Expense		
Salaries	117,031,004	108,189,457
Purchased Staff Services	23,522,254	17,713,238
Employee Benefits	25,746,821	23,801,681
Supplies	89,668,751	79,837,036
Professional Fees	25,920,289	24,287,917
Purchased Services	73,646,219	74,716,155
Repairs and Maintenance	2,910,153	2,269,873
Utilities and Telephone	2,590,662	2,472,213
Insurance	370,739	451,994
Other	2,714,533	2,579,835
Depreciation/Amortization	17,030,034	17,089,562
Interest	10,243,288	9,973,830
Rental/Lease Expense	2,629,148	2,226,152
(Gain) Loss on Disposal of Fixed Assets	67,061	261,680
Total Operating Expenses	<u>394,090,956</u>	<u>365,870,623</u>
 Operating Income	52,841,316	47,453,843
Gain (Loss) on Interest Rate Swaps	970,836	14,960,090
Investment Income	7,135,482	3,890,968
Extinguishment of Debt	-	(22,413,112)
Unrealized Gain on Investments	451,033	(7,618,331)
Net Income	<u>\$ 61,398,667</u>	<u>\$ 36,273,458</u>

Renown Health Obligated Group
Consolidated Statement of Changes in Net Assets

	<u>As of</u> <u>December 31, 2017</u>	<u>As of</u> <u>December 31, 2016</u>
Net Assets, Beginning of Year	\$ 789,072,507	\$ 752,198,633
Net Income	61,398,667	36,273,458
Changes in Unrealized Gain (Loss) on Marketable Securities	12,717,092	8,610,929
Change in Unrealized Gain (Loss) on Interest Rate Swaps	937,198	567,055
Donated Assets	69,114	1,217,343
Transfer of Equity for Affiliates and Other	(39,260,186)	(43,637,785)
Net Assets, End of Period	<u>\$ 824,934,392</u>	<u>\$ 755,229,633</u>

Renown Health Obligated Group
Consolidated Statement of Cash Flows

	As of December 31, 2017	As of December 31, 2016
Operating Activities		
Change in net assets	\$ 35,861,885	\$ 3,031,001
Adjustments to reconcile change in net assets to net cash from operating activities		
Provision for bad debts	35,582,296	24,690,866
Provision for depreciation/amortization	17,030,034	17,089,562
Contributed equipment	(69,114)	(1,217,343)
Net gain on marketable securities	(13,168,125)	(992,599)
Change in fair value on interest rate swaps	(1,908,034)	(15,527,146)
Amortization of debt issuance costs and bond discounts/premiums	(7,784)	(2,102)
Loss on advance refunding of long-term debt	-	22,413,712
Payments to affiliates	13,552,915	(15,190,994)
Changes in operating assets and liabilities		
Patient accounts receivable and other receivables	(51,408,559)	(36,044,550)
Inventory	(1,765,076)	(1,007,607)
Prepaid expenses and other	323,659	1,089,451
Accounts payable and other accrued expenses	3,308,140	2,184,108
Accrued compensation and employee benefits	1,814,283	955,363
Other liabilities	2,563,456	194,664
Net Cash from Operating Activities	<u>41,709,976</u>	<u>1,666,386</u>
Investing Activities		
Purchase of property, plant, and equipment	(7,488,999)	(7,483,260)
Sales of property, plant and equipment	78,450	268,855
Purchase of marketable securities	(241,668,760)	(125,419,515)
Sales of marketable securities	220,054,377	123,748,447
Decrease (increase) in funds held in trust	(12,510)	7,160,322
Net Cash used for Investing Activities	<u>(29,037,442)</u>	<u>(1,725,151)</u>
Financing Activities		
Additions to long-term debt	-	161,367,028
Advance refunding of long-term debt	-	(168,534,093)
Increase in swap collateral	2,720,000	10,170,000
Principal payments on long-term debt	(291,217)	(281,752)
Net Cash provided by Financing Activities	<u>2,428,783</u>	<u>2,721,183</u>
Decrease in Cash and Cash Equivalents	15,101,317	2,662,418
Cash And Equivalents, Beginning of Period	<u>53,417,227</u>	<u>56,497,815</u>
Cash and Cash Equivalents, End of Period	68,518,544	59,160,233
Marketable Securities, End of Period	576,468,519	497,421,780
Cash And Marketable Securities, End of Period	<u><u>\$ 644,987,063</u></u>	<u><u>\$ 556,582,013</u></u>