

**St. Charles Health System, Inc.**  
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**FY 2011**

**3.b.i. Credit Group Members & # of Facilities Owned/Leased**

Credit Group Members:

St. Charles Health System, Inc.  
dba St. Charles Medical Center – Bend  
dba St. Charles Medical Center – Redmond

Acute Care Facilities Owned by SCHS:

St. Charles Medical Center – Bend  
St. Charles Medical Center – Redmond

Acute Care Facilities Leased by SCHS:

Pioneer Memorial Hospital – Prineville

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3.b.ii. Distribution of Licensed Beds

<b>Type of Licensed Beds</b>	<b>St. Charles Medical Center- Bend</b>	<b>St. Charles Medical Center- Redmond</b>	<b>Pioneer Memorial Hospital</b>	<b>Combined</b>
Medical/Surgical	127	30	23	180
Intensive/Coronary/NICU Care	30	6	2	38
Obstetrics	28	12	0	40
Pediatric	10	0	0	10
Rehabilitation/Psychiatric	38	0	0	38
IMCU	28	0	0	28
<b>Total</b>	<b>261</b>	<b>48</b>	<b>25</b>	<b>334</b>

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3.b.iii. Historical Utilization

	2005	2006	2007	2008	2009	2010	2011
<b><u>St. Charles Medical Center - Bend</u></b>							
Inpatient Statistics							
Discharges <sup>(1)</sup>	12,448	13,199	13,879	14,562	14,725	14,708	14,711
Average Length of Stay <sup>(1)</sup>	4.0	3.9	4.1	4.2	4.2	4.0	4.0
Patient Days <sup>(1)</sup>	50,217	51,509	56,246	61,538	61,367	59,077	59,118
Average Daily Census <sup>(1)</sup>	137.6	141.1	154.1	168.1	168.1	161.9	162.0
Occupancy Percentage <sup>(4)</sup>	63.7%	65.3%	66.7%	64.4%	64.4%	62.0%	62.1%
Births	1,672	1,965	2,042	1,777	1,804	1,659	1,663
Outpatient Statistics							
Emergency Room Visits	34,002	35,448	37,802	37,202	36,606	35,501	36,239
Outpatient Surgeries <sup>(3)</sup>	6,842	5,520	5,590	7,965	7,292	7,367	6,986
Other Outpatient Visits <sup>(2)</sup>	104,575	110,386	113,689	115,405	123,753	123,697	120,336
<b><u>St. Charles Medical Center - Redmond</u></b>							
Inpatient Statistics							
Discharges <sup>(1)</sup>	1,886	1,791	1,817	2,111	2,130	2,102	2,256
Average Length of Stay <sup>(1)</sup>	3.0	3.5	3.1	3.3	3.0	2.8	2.7
Patient Days <sup>(1)</sup>	5,567	6,246	5,588	7,039	6,396	5,809	6,150
Average Daily Census <sup>(1)</sup>	15.3	17.1	15.3	19.2	17.5	15.9	16.8
Occupancy Percentage <sup>(5)</sup>	31.9%	35.6%	31.9%	40.0%	36.5%	33.1%	35.0%
Births	319	265	261	316	255	296	327
Outpatient Statistics							
Emergency Room Visits	12,541	13,876	15,434	16,504	17,492	17,178	17,972
Outpatient Surgeries <sup>(3)</sup>	2,317	2,148	2,158	2,416	2,325	2,302	2,213
Other Outpatient Visits <sup>(2)</sup>	33,217	32,571	30,344	34,859	38,328	42,532	42,621
<b><u>Pioneer Memorial Hospital</u></b>							
Inpatient Statistics							
Discharges <sup>(1)</sup>				923	752	748	786
Average Length of Stay <sup>(1)</sup>				3.5	3.6	3.9	3.7
Patient Days <sup>(1)</sup>				3,208	2,723	2,877	2,869
Average Daily Census <sup>(1)</sup>				8.8	7.5	7.9	7.9
Occupancy Percentage <sup>(6)</sup>				35.2%	30.0%	31.6%	31.6%
Births				138	118	113	-
Outpatient Statistics							
Emergency Room Visits				9,246	9,203	8,636	8,815
Outpatient Surgeries <sup>(3)</sup>				782	658	637	730
Other Outpatient Visits <sup>(2)</sup>				15,658	25,059	25,774	25,402

<sup>(1)</sup> Excludes newborns.

<sup>(2)</sup> Does not include primary care physician visits

<sup>(3)</sup> Includes endoscopy (MDU) procedures

<sup>(4)</sup> Based on 216 licensed beds in 2005 & 2006, 231 licensed beds in 2007 & 261 licensed beds in 2008, 2009, 2010, 2011

<sup>(5)</sup> Based on 48 licensed beds

<sup>(6)</sup> Based on 25 licensed beds

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3.b.iv. Debt Service Coverage & Consolidated Capitalization  
*(Amounts are in thousands)*

	<u>2011</u>
<b><u>Debt Service Coverage</u></b>	
Net Revenue Available for Debt Service:	
Excess of Revenues Over Expenses	\$ 3,364
Plus: Depreciation	29,928
Plus: Interest Expense	<u>12,667</u>
Total Revenue Available for Debt Service:	45,959
 Annual Debt Service	 20,239
Historical Debt Service Coverage Ratio	2.27

	<u>2011</u>
<b><u>Consolidated Capitalization:</u></b>	
Long-term Debt:	
Existing Bonds	\$ 152,705
Plus: Other Debt	21,115
Less: Current Portion	<u>(7,997)</u>
Net Long-term Debt:	165,823
Plus: Net Assets	315,859
 Total Capitalization	 <u><u>481,682</u></u>
 Debt-to-total Capitalization Ratio	 34.4%

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3.b.v. Liquidity and Investment Policy

12/31/2011		
Percent of		
SCHS		
<u>Investment Manager</u>	<u>Investments</u>	<u>Asset Class</u>
Vanguard Group	53.6%	Stocks
Vanguard Group	36.0%	Bonds
Vanguard Group	10.2%	Real Estate - REIT
Citigroup Smith Barney	0.1%	Bonds
Citigroup Smith Barney	0.1%	Fixed Income
	<hr style="border-top: 1px solid black; border-bottom: 1px solid black; height: 3px;"/>	
	100.0%	
	<hr style="border-top: 1px solid black; border-bottom: 1px solid black; height: 3px;"/>	

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3.b.vi. Management Discussion and Analysis of Financial Condition and Recent Financial Performance

The Corporation, St. Charles Health System, Inc. (SCHS) (fka Cascade Healthcare Community, Inc.), showed a consolidated excess of revenue over expenses of \$10.7 million for the twelve months ended December 31, 2011 compared to \$33.6 million for the twelve months ending December 31, 2010. SCHS's core operating activities showed income of \$8.9 million for the twelve months ended December 31, 2011 compared to \$14.3 million for the twelve months ended December 31, 2010.

Net patient revenues, after adjustments for bad debt, of \$456.9 million for the twelve months ended December 31, 2011 exceeded the \$441.5 million for the twelve months ended December 31, 2010 by \$15.4 million or 3%. St. Charles Medical Center – Bend experienced no increase in net patient revenue; St. Charles Medical Center – Redmond experienced a 19% increase in net patient revenue; and Pioneer Memorial Hospital saw a 16% increase in net patient service revenue. The increase in revenues are a result of a 1% increase in utilization combined with a 7% overall rate increase implemented effective January 1, 2011. Total operating revenues of \$475.8 million for the twelve months ended December 31, 2011 exceeded the \$460.2 million for the twelve months ended December 31, 2010 by 3%. Total operating expenses increased by 5% from \$445.9 million for the twelve months ended December 31, 2010 to \$467.0 million for the twelve months ended December 31, 2011.

SCHS hospitals' net patient service revenue per adjusted patient day, a measure of per unit revenue, increased by 2% for the twelve months ended December 31, 2011 versus the twelve months ended December 31, 2010. SCHS hospitals' total expenses per adjusted patient day increased by 3% for the twelve months ended December 31, 2011 versus the twelve months ended December 31, 2010. SCHS management expects continued reimbursement pressures, particularly in government programs, as a result SCHS's ability to limit per unit expense levels in the future will be critical to improving operational performance.

Investment income is an important contributor to SCHS's income; SCHS's investment portfolio realized gains of \$6.2 million, earned interest and dividends of \$5.3 million and recognized unrealized losses of \$9.4 million in 2011.

SCHS's liquidity position increased to \$207.1 million as of December 31, 2011 from \$199.7 million as of December 31, 2010. Liquidity represented 119% of long-term debt as of December 31, 2011.

SCHS's debt to capitalization decreased from 36.1% as of December 31, 2010 to 34.4% as of December 31, 2011, primarily due to the reduction in outstanding debt in fiscal 2011.

SCHS operating results in 2011 illustrate the increasing difficulty to contain and lower operating expenses in an environment of continued economic and employment challenges. Despite increased utilization, the payor mix, changes in reimbursement and payor contracting exerted downward pressure on performance. As a result of these factors, the 2011 results showed an operating margin of 1.9% compared to 3.1% in 2010.

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3.b.vi. Sources of Patient Revenue

	2005	2006	2007	2008	2009	2010	2011
<b><u>Sources of Patient Revenue</u></b>							
Medicare/Non-Capitated	41.9%	43.8%	43.5%	46.6%	49.3%	50.5%	51.0%
Medicaid/OHP	9.7%	8.1%	8.2%	9.4%	9.9%	11.5%	14.9%
HMO/PPO	32.7%	35.2%	35.9%	31.1%	30.6%	27.8%	26.2%
Other Commercial	10.0%	7.0%	6.6%	6.5%	3.5%	3.6%	2.5%
Self Pay	5.7%	5.9%	5.8%	6.4%	6.7%	6.6%	5.4%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Note: 2008, 2009, 2010 and 2011 amounts include Bend, Redmond and Prineville, whereas prior years are only Bend and Redmond

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**3.b.vii - Active Medical Staff – St. Charles Medical Center – Bend as of December 31, 2011**

<b>Medical Specialty</b>	<b>Active Staff</b>	<b>Board Certified</b>	<b>Average Age Active Staff</b>
Anesthesiology	31	29	47
Diagnostic Radiology	16	16	50
Emergency Medicine	19	19	49
Family Medicine	11	10	45
Gynecology	4	4	50
Internal Medicine	30	29	46
Internal Medicine Specialties:			
Cardiology	10	10	44
Dermatology	1	1	42
Gastroenterology	6	6	57
Hematology/Oncology	3	3	54
Infectious Diseases	2	2	50
Neonatology	3	3	45
Nephrology	4	4	49
Neurology	8	8	49
Palliative	2	2	43
Physical Medicine Rehab	9	9	48
Pulmonary Disease	8	8	49
Rheumatology	1	1	39
Sleep Medicine	3	3	51
Obstetrics & Gynecology	10	10	47
Oncology	4	4	49
Radiation Oncology	3	3	50
Otolaryngology	7	7	46
Pathology	6	6	53
Pediatrics	18	18	43
Psychiatry	7	6	49
Surgery:			
Cardiothoracic	2	2	51
Dental Surgery	7	3	47
General Surgery	12	11	45
Neurosurgery	5	5	48
Ophthalmology	10	10	46
Oral Surgery	3	3	46
Orthopedic Surgery	22	20	47
Plastic Surgery	4	4	49
Urology	6	6	48
Vascular	1	1	62
<b>Total</b>	<b>298</b>	<b>286</b>	

Source: SCHS management.



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**3.b.vii - Active Medical Staff – St. Charles Redmond Medical Center as of  
December 31, 2011**

<b>Medical Specialty</b>	<b>Active Staff</b>	<b>Board Certified</b>	<b>Average Age Active Staff</b>
Anesthesiology	2	1	43
Emergency Medicine	12	12	48
Family Practice	8	8	52
Internal Medicine	7	6	44
Obstetrics & Gynecology	4	3	51
Pediatrics	2	2	60
Pulmonary Medicine	1	1	50
Surgery:			
General Surgery	5	5	47
Orthopedic Surgery	3	3	49
Total	44	41	

Source: SCHS management.

**3.b.vii - Active Medical Staff – Pioneer Memorial Hospital as of  
December 31, 2011**

<b>Medical Specialty</b>	<b>Active Staff</b>	<b>Board Certified</b>	<b>Average Age Active Staff</b>
Emergency Medicine	4	4	55
Family Practice	8	8	41
Surgery:			
Dental Surgery	1	0	61
General Surgery	3	2	47
Total	16	14	

Source: SCHS management.

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3.b.viii. Employees

	<u>Date</u>	<u>Amount</u>
Total Number of SCHS Employees	12/31/2011	3,164
<u>Oregon Nurses Association Contracts:</u>		
St. Charles Medical Center - Bend	6/30/2012	
St. Charles Medical Center - Redmond	11/30/2013	
Pioneer Memorial Hospital	4/30/2014	
Collective Bargaining Units % of Total SCHS Employees	12/31/2011	29.1%