



**Ochsner Health System  
Quarterly Financial Information Disclosure**

**For the Six Months Ended  
June 30, 2015**

## **Forward Looking Information:**

*This Financial Information Disclosure contains disclosures, which contain “forward looking statements” within the meaning of the Federal securities laws. Forward looking statements include all statements that do not relate solely to historical or current fact and can be identified by the use of words “expect”, “anticipate”, “intend”, “project”, “likely”, “may”, “might”, “estimate”, “budget” and similar words or expressions. These forward looking statements are based on the current plans and expectations of Ochsner Health System (“OHS”) as of the date of this report and are subject to a number of known and unknown risks and uncertainties inherent in the operation of health care facilities, many of which are beyond OHS's control, that could significantly affect current plans and expectations and OHS's future financial position and results of operations.*

*Important factors that could cause results to differ materially from those expected by management include, but are not limited to, general, economic and business, competition from other healthcare facilities in the service areas, an unfavorable pricing environment, inability to achieve expected efficiencies in operations or effectively control health care costs, the efforts of insurers and others to contain health care costs, changes in Medicare or Medicaid reimbursement formulas, the risk that managed care provider arrangements will not be negotiated or renewed on acceptable terms, future divestitures or acquisitions which may have a financial impact, availability and terms of capital to fund future expansion and ongoing capital needs, new laws or regulations, the possible enactment of federal or state health care reform, fines or penalties related to regulatory matters, changes in accounting standards and practices, the outcome of pending and future litigation and government investigations, labor issues and the ability to attract and retain qualified management and other personnel, including physicians, nurses and medical support personnel.*

*Given these uncertainties, bondholders and prospective bondholders are cautioned not to unduly rely on such forward-looking statements when evaluating the information presented in this report. OHS disclaims any obligation, and makes no promise, to update any such factors or forward looking statements or to disclose any facts, events or circumstances after the date hereof that may affect the accuracy of any forward looking statements, whether as a result of changes in underlying factors, to reflect new information, as a result of the occurrence of events or developments or otherwise.*

# MANAGEMENT'S DISCUSSION OF FINANCIAL RESULTS

## INTRODUCTORY STATEMENT

**System Overview:** Ochsner Health System (“OHS”) is a Louisiana-based nonprofit corporation and an organization exempt from taxation under Section 501(c)(3) of the Internal Revenue Code (the “Code”) founded on providing the best patient care, research and education. OHS is the “parent company” of the largest non-profit, academic, multi-specialty, integrated healthcare delivery system in the Gulf Coast region (“Ochsner” or the “System”) with seven acute care hospitals and 60 health centers. It trains over 275 medical residents and fellows annually, has approximately 340 Doctor of Medicine students enrolled in the University of Queensland, Ochsner Clinical School, and conducts over 740 clinical research trials per year.

**Description of Credit Group:** OHS was formed in July 2006 and is the sole corporate member of Ochsner Clinic Foundation (“OCF”) and Ochsner Community Hospitals (“OCH”). OCF is more fully described below. OCH, a Louisiana nonprofit corporation and an organization exempt from taxation under Section 501(c)(3) of the Code, was formed on July 17, 2006 for the purpose of acquiring certain medical facilities acquired from Tenet Healthcare Corporation that now operate as Ochsner Medical Center - Kenner, Ochsner Medical Center – Westbank Campus and Ochsner Baptist Medical Center. It owns and operates Ochsner Medical Center - Kenner, a 110 bed acute care hospital. OCH also owns Ochsner Medical Center – Westbank Campus and Ochsner Baptist Medical Center, which are leased to OCF and operate as remote campuses of Ochsner Medical Center (“OMC”).

OCF is the only Obligated Group Member under the Master Indenture. Certain affiliates of OCF, including OCH, have been designated as Designated Affiliates and Credit Group Members under the Master Indenture. Credit Group or Credit Group Members means all Obligated Group Members and Designated Affiliates. Under the Master Indenture, Obligated Group Members are jointly and severally liable to make payments with respect to Obligations issued under the Master Indenture. Designated Affiliates are not obligated to make payments with respect to Obligations but may be required to transfer to Obligated Group Members amounts necessary to enable the Obligated Group Members to make payments under the Master Indenture. Obligated Group Members may designate entities as Designated Affiliates under the Master Indenture, and may rescind such designation at any time. OCF and the other Credit Group Members constituted 94.75% of the consolidated total assets of OHS as of June 30, 2015 and 99.9% of the consolidated total revenue of OHS for the six months ended June 30, 2015.

**Obligated Group Member.** OCF is the only Obligated Group Member under the Master Indenture. OCF is headquartered in New Orleans, Louisiana, and, either directly or through its fully owned affiliates or subsidiaries, owns and operates four hospitals and other healthcare facilities, including:

- OMC, a 499-bed acute care hospital located in New Orleans, Louisiana, which serves as the flagship of Ochsner, and includes an 11-story clinic building, a 137-room hotel and related medical facilities located on a main campus in Jefferson Parish at the western end of New Orleans;
- Ochsner Elmwood Hospital, a 66 bed satellite hospital of OMC, located in Elmwood, Louisiana;
- Ochsner Medical Center – Baton Rouge, a 150-bed acute care hospital in Baton Rouge, Louisiana;
- Ochsner Medical Center – North Shore, a 157-bed acute care hospital in Slidell, Louisiana;
- 60 health centers throughout southeast Louisiana and Mississippi; and,
- Several fitness centers that operate as Elmwood Fitness Center.

OCF, either directly or through its fully owned affiliates or subsidiaries, operates three non-owned hospitals, including:

- Ochsner St. Anne General Hospital, a 35-bed acute care hospital in Raceland, Louisiana through a 15-year agreement with Lafourche Parish Hospital Service District No. 2 consummated in 2006;
- Ochsner Medical Center – Westbank, a 165-bed acute care hospital in New Orleans, Louisiana, and Ochsner Baptist Medical Center, a 102-bed acute care hospital in New Orleans, Louisiana, which both serve as remote campuses of OMC and are leased from OCH.

OCF, either directly or through its fully owned affiliates or subsidiaries, provides management assistance and support to three hospitals:

- Leonard J. Chabert Medical Center (“LJCMC”), a 156-bed public, safety net hospital in Houma, Louisiana;
- Hancock Medical Center (“HMC”), a 47-bed acute care hospital in Bay St. Louis, Mississippi;
- On September 1, 2014 OHS entered into a management agreement with Hospital Service District No. 1 of St. Charles Parish to provide management assistance and support to St. Charles Parish Hospital (“SCPH”), a 59-bed public, safety net hospital in Luling, Louisiana for the residents of St. Charles Parish. SCPH remains a public hospital owned by St. Charles Parish and governed by the St. Charles Hospital Service District No. 1 board.

On September 30, 2014 OHS entered into a Joint Operating Agreement with St. Tammany Parish Hospital Service District No. 1 (“STPH”) to coordinate resources to lower costs, improve quality and create a seamless clinical environment for patients in western St. Tammany Parish. STPH remains a parish hospital under local control, STPH employees remain employed by STPH, and STPH maintains an open medical staff. Decisions related to the Joint Operating Agreement are coordinated by a Joint Board Oversight Committee.

## FINANCIAL RESULTS

The selected financial data for the six month periods ended June 30, 2015 and 2014 included below, was derived from interim consolidated financial information of the System, which has not been audited but includes all adjustments, consisting of normal recurring adjustments, that System management considers necessary for a fair presentation on a basis consistent with the audited financial statements. The results for the six-month period ended June 30, 2015 are not necessarily indicative of the results that may be expected for the entire fiscal year ending December 31, 2015.

OHS had Operating Income of \$42.9 million for the first six months of 2015 compared to \$8.1 million for the first six months of 2014 and Excess of Revenues over Expenses of \$50.6 million for the first six months of 2015 compared to \$39.3 million for the first six months of 2014.

The System achieved Total Unrestricted Revenues of \$1.3 billion in the first six months of 2015, an increase of \$167.4 million or 15.3% over the same period in 2014 primarily due to an increase in patient volume. Net Patient Service Revenue Less Provision for Bad Debts increased \$142.5 million or 16.6%. Premium Revenue increased \$9.4 million or 7.0%. When comparing the first six months of 2015 to the first six months of 2014 discharges increased 8.3%, patient days increased 5.1%, inpatient surgical procedures increased 11.1%, outpatient surgical procedures increased by 6.0%, emergency room visits increased 12.4%, clinic relative value units increased 8.1%, outpatient visits increased 18.1% and clinic visits increased 11.5%. OHS continues to see an increase in patients referred from affiliates and outlying facilities through its regional referral center. Inpatient transfers to Ochsner Medical Center in the first six months of 2015 increased 50% over the first six months of 2014. Revenue associated with the management agreement with SCPH and the Income from a joint operating agreement with STPH is part of Other Operating Revenue and is not recorded within Net Patient Service Revenue or included in the above statistics or utilization statistics on page 9.

Other Operating Revenue for the first six months of 2015 was \$115.8 million, a \$15.1 million increase over the same period in 2014. The increase includes \$2.4 million related to the September 1, 2014 agreement to provide management assistance and support to SCPH, and \$1.5 million related to the September 30, 2014 Joint Operating Agreement with STPH. Other Operating Revenue for the first six months of 2015 also includes a \$33.6 million increase related to inpatient pharmacy. This was offset by a \$26.5 million decrease in Other Operating Revenue related to funding in the first six months of 2014 from partners of partially owned subsidiaries formed exclusively for charitable, educational and scientific purposes.

The Provision for Bad Debt for Ochsner Health System, as a percentage of Patient Service Revenue – Net of Contractual Allowances and Discounts and Premium Revenue net of Medical Services to Outside Providers, was 4.4% for the first six months of 2015 compared to 4.9% for the first six months of 2014. Bad Debt and Charity Care combined accounted for 7.0% of Patient Service Revenue – Net of Contractual Allowances and Discounts and Premium Revenue net of Medical Services to Outside Providers for the first six months of 2015 compared to 8.7% for the same period in 2014. OHS has implemented procedures across the System to improve the collection process at the time of service.

Salaries and Wages for the first six months of 2015 were \$556.5 million, a \$57.3 million increase over the same period in 2014. After adjusting for SCPH, the year over year increase is \$53.0 million or 10.6%. The majority of the increase is related to additional staffing and additional providers needed to meet increased patient demand. Total providers increased by 9.6% or 107 FTEs. That includes a 7.3% increase in physicians, or 58 FTEs, and a 15.7% increase in the number of other providers, or 49 FTEs.

Medical Services to Outside Providers expense for the first six months of 2015 increased by \$8.9 million over the first six months of 2014 primarily due to an increase in covered lives and an increase in pharmacy costs related to those members. The System currently manages over 34,000 Medicare Advantage members under a capitated arrangement.

Medical Supplies and Services increased by \$30.4 million when comparing the first six months of 2015 to the first six months of 2014. Medical Supplies and Services as a percentage of Total Unrestricted Revenues was 15.9% for the first six months of 2015 and 15.5% for the same period in 2014. The increase is due to pharmacy costs associated with the inpatient pharmacy and a continuing shift toward higher acuity procedures, including a 25.2% increase in transplants and an 11.1% increase in inpatient surgical procedures. Supply chain initiatives targeting waste prevention and cost reduction such as physician preference item pricing, product standardization and utilization continue to offset inflation and reduce medical supply costs after adjusting for the higher acuity procedures.

Other Operating Expenses which includes building and equipment, insurance, professional services and general and administrative expenses for the first six months of 2015 increased by \$17.6 million over the first six months of 2014. After adjusting for SCPH, the year over year increase is \$16.1 million.

Non-Operating gains due to market appreciation of the pooled investment portfolio for the first six months of 2015 were \$7.7 million compared to \$31.2 million for the first six months of 2014.

## LIQUIDITY AND CASH POSITION

At June 30, 2015, Ochsner Health System had unrestricted cash and investments of \$827.5 million which equates to 129 days cash on hand. The \$223.1 million increase from December 2014 is primarily due to the June 2015 issuance of \$252.8 million taxable bonds. This was partially offset by seasonal timing differences, including a \$28.5 million increase in patient accounts receivable and a \$6.6 million decrease in accounts payable.

As of June 30, 2015 OHS has \$65.0 million of donor restricted investments.

**OCHSNER HEALTH SYSTEM**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
For the Six Months Ended June 30, 2015 and June 30, 2014  
(\$Thousands)

	June 2015	June 2014	DIFF
PATIENT SERVICE REVENUE – NET OF CONTRACTUAL ALLOWANCES AND DISCOUNTS	1,049,069	905,400	143,669
PROVISION FOR BAD DEBTS	(49,033)	(47,853)	(1,180)
NET PATIENT SERVICE REVENUE, LESS PROVISION FOR BAD DEBTS	1,000,036	857,547	142,489
PREMIUM REVENUE	143,056	133,673	9,383
NET ASSETS RELEASED FROM RESTRICTIONS USED FOR OPERATIONS	1,749	1,275	474
OTHER OPERATING REVENUE	115,766	100,714	15,052
TOTAL UNRESTRICTED REVENUES	1,260,607	1,093,209	167,398
SALARIES AND WAGES	556,478	499,225	(57,253)
BENEFITS	81,595	71,914	(9,681)
MEDICAL SERVICES TO OUTSIDE PROVIDERS	75,430	66,484	(8,946)
MEDICAL SUPPLIES AND SERVICES	200,407	169,988	(30,419)
OTHER OPERATING EXPENSES	230,842	213,259	(17,583)
DEPRECIATION AND AMORTIZATION	51,406	45,531	(5,875)
INTEREST	21,515	18,692	(2,823)
TOTAL EXPENSES	1,217,673	1,085,093	(132,580)
OPERATING INCOME	42,934	8,116	34,818
INVESTMENT AND OTHER REALIZED GAINS AND LOSSES - NET	6,407	25,645	(19,238)
UNREALIZED GAINS ON ALTERNATIVE INVESTMENTS	1,280	5,527	(4,247)
TOTAL NON-OPERATING GAINS	7,687	31,172	(23,485)
EXCESS OF REVENUES OVER EXPENSES	50,621	39,288	11,333

**OCHSNER HEALTH SYSTEM**  
**CONSOLIDATED BALANCE SHEETS**  
**As of June 30, 2015 and December 31, 2014**  
(\$Thousands)

<b>ASSETS</b>	<b>June 30, 2015</b>	<b>Dec 31, 2014</b>
CASH AND CASH EQUIVALENTS	339,123	158,658
ASSETS LIMITED AS TO USE REQUIRED FOR CURRENT LIABILITIES	1,802	2,687
PATIENT ACCOUNTS RECEIVABLE - NET	242,354	213,827
ACCOUNTS RECEIVABLE OTHER	90,788	71,690
INVENTORIES	54,905	42,384
PREPAID EXPENSES AND OTHER CURRENT ASSETS	46,407	26,205
ESTIMATED THIRD-PARTY PAYOR SETTLEMENTS	21,888	25,164
<b>TOTAL CURRENT ASSETS</b>	<b>797,267</b>	<b>540,615</b>
ASSETS LIMITED AS TO USE: BY BOARD FOR CAPITAL IMPROVEMENTS, CHARITY, RESEARCH, AND OTHER	488,328	445,703
UNDER BOND INDENTURE AGREEMENTS	44,009	44,009
UNDER SELF-INSURANCE TRUST FUND	13,122	9,740
DONOR-RESTRICTED LONG-TERM INVESTMENTS	65,008	63,163
<b>TOTAL ASSETS LIMITED AS TO USE</b>	<b>610,467</b>	<b>562,615</b>
LESS ASSETS LIMITED AS TO USE REQUIRED FOR CURRENT LIABILITIES	(1,802)	(2,687)
NON-CURRENT ASSETS LIMITED AS TO USE	608,665	559,928
INVESTMENTS IN UNCONSOLIDATED AFFILIATES, REAL ESTATE AND OTHER	6,399	6,301
PROPERTY - NET	734,163	734,873
GOODWILL	43,077	43,077
INTANGIBLE ASSETS	11,486	11,482
OTHER ASSETS	19,958	18,006
<b>TOTAL ASSETS</b>	<b>2,221,015</b>	<b>1,914,282</b>

**OCHSNER HEALTH SYSTEM**  
**CONSOLIDATED BALANCE SHEETS**  
**As of June 30, 2015 and December 31, 2014**

(\$Thousands)

<b>LIABILITIES AND NET ASSETS</b>	<b>JUNE 30, 2015</b>	<b>DEC 31, 2014</b>
ACCOUNTS PAYABLE	111,236	117,814
ACCRUED SALARIES, WAGES, AND BENEFITS	154,812	136,296
DEFERRED REVENUE	16,967	15,520
ESTIMATED THIRD-PARTY PAYOR SETTLEMENTS	5,631	5,331
BONDS PAYABLE – CURRENT PORTION	-	6,230
NOTES PAYABLE – CURRENT	52,430	52,985
LONG TERM DEBT - CURRENT PORTION	16,341	15,364
OTHER CURRENT LIABILITIES	28,109	28,248
<b>TOTAL CURRENT LIABILITIES</b>	<b>385,526</b>	<b>377,788</b>
PENSION AND POST RETIREMENT OBLIGATIONS	152,398	156,907
BONDS PAYABLE	819,220	566,242
LONG-TERM DEBT	185,179	193,182
OTHER LONG-TERM LIABILITIES	32,278	28,453
<b>TOTAL LIABILITIES</b>	<b>1,574,601</b>	<b>1,322,572</b>
NET ASSETS:		
UNRESTRICTED	576,991	523,310
TEMPORARILY RESTRICTED	45,959	45,003
PERMANENTLY RESTRICTED	23,464	23,397
<b>TOTAL NET ASSETS</b>	<b>646,414</b>	<b>591,710</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>2,221,015</b>	<b>1,914,282</b>



# OCHSNER HEALTH SYSTEM UTILIZATION STATISTICS

	2009	2010	2011	2012	2013	2014	Jun 2014 YTD	Jun 2015 YTD
Average Licensed Beds (1)	1,079	1,235	1,246	1,252	1,235	1,267	1,257	1,284
Average Number of Beds in Use (2)	1,111	1,278	1,293	1,308	1,293	1,346	1,336	1,372
Discharges Including Newborn	52,995	58,943	62,463	61,706	60,306	62,517	30,323	32,829
Discharges Excluding Newborn	40,438	50,128	52,953	52,366	54,731	56,771	27,664	30,072
Patient Days Including Newborn	250,362	271,734	282,160	288,705	281,782	301,055	149,786	157,462
Patient Days Excluding Newborn (3)	240,649	258,803	268,437	275,017	269,367	287,706	143,419	151,355
Average Daily Census (3)	659	722	735	751	737	788	792	836
Percent Occupancy (3)	59.34%	56.49%	56.89%	57.44%	57.01%	58.54%	59.31%	60.95%
Average Length of Stay	4.7	4.6	4.5	4.7	4.7	4.8	4.9	4.8
Adjusted Patient Days (3)	440,485	468,384	494,533	527,382	539,590	576,981	283,963	304,075

Jun 2015 Utilization Stats by Facility	Ochsner Medical Center	OMC West Bank	Ochsner St Anne	OMC Baton Rouge	OMC North Shore	OMC Kenner	Ochsner Baptist Med Ctr	TOTAL
Average Licensed Beds (1)	565	165	35	150	157	110	102	1,284
Average Number of Beds in Use (2)	561	181	35	159	165	115	156	1,372
Discharges Including Newborn	13,370	3,906	1,031	4,291	2,474	3,395	4,362	32,829
Discharges Excluding Newborn	13,370	3,437	883	3,711	2,426	2,986	3,260	30,072
Patient Days Including Newborn	79,261	17,185	3,579	14,513	11,632	13,078	18,214	157,462
Patient Days Excluding Newborn (3)	79,261	16,042	3,286	13,307	11,531	12,108	15,820	151,355
Average Daily Census (3)	438	89	18	74	64	67	87	836
Percent Occupancy (3)	78.06%	48.97%	51.87%	46.24%	38.61%	58.17%	56.03%	60.95%
Average Length of Stay	5.9	4.4	3.5	3.4	4.7	3.9	4.2	4.8
Adjusted Patient Days (3)	139,733	30,052	13,885	37,880	23,289	26,423	32,813	304,075

- (1) Data excludes NICU and Nursery Beds.
- (2) Data excludes Nursery beds, but includes NICU beds.
- (3) Data excludes Normal Newborn Days.