

Mountain States Health Alliance Summary for the Fiscal Years
Ended June 30, 2011 through June 30, 2015

Volumes:

Fiscal Year ended June 30, 2011:

As compared to fiscal 2010, inpatient admissions of 61,035 increased by 1.6%. Observation patients increased 13.8%, from 18,358 to 20,894. Total “patients in a bed” increased 4.4%, from 78,460 to 81,929. Deliveries increased 1.1%, from 4,461 to 4,511. Outpatient visits (inclusive of physician and urgent care clinics) declined slightly by 0.8% to 1,546,325. Emergency room visits decreased 3.3%, from 250,942 to 242,677; urgent care visits increased slightly by 0.7%.

Fiscal Year ended June 30, 2012:

As compared to fiscal 2011, inpatient admissions remained relatively flat with a slight increase of 119 or 0.2% to 61,154. Observation patients increased 6.2%, from 20,894 to 22,179. Total “patients in a bed” increased 1.7%, from 81,929 to 83,333. Deliveries declined 4.9%, from 4,511 to 4,288. Consistent with industry trends more volumes shifted from an inpatient to outpatient settings, outpatient visits (inclusive of physician and urgent care clinics) increased by 2.8% to 1,590,307. Emergency room visits increased by 1.7%, from 242,677 to 246,821; urgent care visits increased 11.5%.

Fiscal Year ended June 30, 2013:

As compared to fiscal 2012, inpatient admissions decreased by 3,051 or 5.0% to 58,103. Observation patients increased 6.2%, from 22,179 to 23,554. Total “patients in a bed” decreased 2.0%, from 83,333 to 81,657 primarily due to the implementation of accountable care organizations and high deductible health plans in our area. Deliveries increased by 0.4%, from 4,288 to 4,306. Outpatient visits (inclusive of physician and urgent care clinics) increased by 4.7% to 1,664,755. Emergency room visits increased by 1.1%, from 246,821 to 249,415; urgent care visits increased 23.2% due to a combined effect of an increase in utilization and the opening of a new location.

Fiscal Year ended June 30, 2014:

As compared to fiscal 2013, inpatient admissions continued to decline by 1,063 or 1.8% to 57,040. Observation patients increased 2.8%, from 23,554 to 24,218. Total “patients in a bed” decreased 0.5%, from 81,657 to 81,258. Surgeries increased by 2.6%. Deliveries decreased by 2.2%, from 4,306 to 4,213. Outpatient visits (inclusive of physician and urgent care clinics) increased by 1.7% to 1,693,521. Emergency room visits decreased by 3.9%, from 249,415 to 239,606; urgent care visits increased slightly by 0.1%

Fiscal Year ended June 30, 2015:

As compared to fiscal 2014, inpatient admissions increased by 5,009 or 8.8% to 62,049. Observation patients decreased 3.3%, from 24,218 to 23,407. Total “patients in a bed” increased 5.2%, from 81,258 to 85,456. Recent volume growth is attributed to a realization in pent-up demand as a result of several years of high deductible health plans as well as a strong flu season. Surgeries increased by 3.9%. Deliveries increased by 2.3%, from 4,213 to 4,312. Outpatient visits (inclusive of physician and urgent care clinics) increased by 2.9% to 1,742,769. Emergency room visits increased by 6.8%, from 239,606 to 255,857; urgent care visits increased by 10.8%.

Statement of Operations:

Fiscal Year ended June 30, 2011:

Due to increased volumes over fiscal 2010, net patient revenue increased \$37.0 million or 4.0%. Total Revenue increased by \$36.8 million or 3.9%.

Total Expenses increased \$26.6 million or 2.8%. Salaries, contract labor, and benefits increased by \$16.4 million or 3.5% driven by an increase in FTEs in patient care areas to support higher volume as well as an increase in employed providers. Supply costs decreased by \$6.0 million or 3.4% driven by focused initiatives in supply chain. Fees increased by \$3.4 million or 4.1% mainly as a result of higher physician fees. Depreciation increased by \$19.1 million or 27.9% due to completion of a new hospital and several construction projects. Amortization expense decreased by \$10.6 million due to the ASC 958-805 requirement for not-for-profit entities to cease amortization of goodwill and perform impairment testing in the future.

Income from operations of \$25.8 million for fiscal 2011 increased \$10.2 million over income from operations in fiscal 2010 of \$15.6 million.

Fiscal Year ended June 30, 2012:

Net patient revenue increased \$6.3 million or 0.7% over fiscal 2011. Other revenue increased \$14.7 million mainly due to revenue earned for Electronic Health Record Meaningful Use and vendor contract concessions. Significant costs were incurred to purchase and implement the systems necessary to achieve Meaningful Use. Total Revenue increased by \$21.0 million or 2.1%.

Total Expenses increased \$36.7 million or 3.8%. Salaries, contract labor, and benefits increased by \$29.3 million or 6.0% driven by an increase in FTEs in patient care areas to support higher volume as well as an increase in employed providers. Fees increased by \$12.0 million mainly as a result of higher purchased services and physician fees. Other expense increased by \$6.6 million mainly due to an increase in maintenance contracts for the Electronic Health Record. The above increases were offset by a decrease in depreciation of \$14.4 million resulting from a facility being fully depreciated in 2011.

Income from operations of \$9.9 million for fiscal 2012 declined by \$15.6 million over income from operations in fiscal 2011 of \$25.8 million.

Fiscal Year ended June 30, 2013:

Due to volume declines from fiscal 2012, net patient revenue decreased \$20.6 million or 2.1%. Other revenue increased \$25.1 million mainly due to revenue earned for Electronic Health Record Meaningful Use as compared to approximately \$5 million in fiscal 2012. Total Revenue increased by \$4.5 million or 0.4%.

Total Expenses increased \$13.0 million or 1.3%. Salaries, contract labor, and benefits increased by \$3.9 million or 0.8% driven by an decrease in FTEs in patient care areas due to lower volume and a focus on labor management offset by an increase in employed providers. Supply costs decreased by \$7.2 million or 4.2% driven by a decrease in volume. Fees increased by \$8.0 million mainly as a result of higher purchased services and physician fees. Other expense increased by \$4.6 million mainly due to an increase in maintenance contracts for the Electronic Health Record. Depreciation expense increased by \$5.9 million due to completion of a new hospital. Interest expense decreased by \$2.7 million due to lower interest rates on variable rate debt.

Due to the decline in volume and continued pressure on reimbursement from both governmental and commercial sources, income from operations of \$1.6 million for fiscal 2013 declined by \$8.3 million over income from operations in fiscal 2012 of \$9.9 million.

Fiscal Year ended June 30, 2014:

Net patient revenue decreased \$3.8 million or 0.4% under fiscal 2013. Other revenue increased \$7.1 million mainly due to premium revenue in the provider sponsored Medicare Advantage health plan. Total Revenue increased by \$3.2 million or 0.3%.

Total Expenses decreased \$5.5 million or 0.5%. Salaries, contract labor, and benefits increased by \$16.4 million or 3.1% driven by an decrease in FTEs in patient care areas due to lower volume and a focus on labor management offset by an increase in employed providers. Fees increased by \$9.7 million mainly as a result of higher physician fees. Other expense increased by \$9.0 million mainly due to medical costs related to the provider sponsored Medicare Advantage plan. Depreciation expense decreased by \$9.5 million due to a change in the estimated useful lives of plant and equipment.

As a result of a focus on cost reduction and operating efficiencies, income from operations of \$10.4 million for fiscal 2014 increased by \$8.3 million over income from operations in fiscal 2013 of \$1.6 million.

Fiscal Year ended June 30, 2015:

Due to an increase in volume, net patient revenue increased \$71.5 million or 7.5% over fiscal 2014. Other revenue decreased \$0.7 million mainly due to an increase in premium revenue in

the provider sponsored Medicare Advantage health plan offset by a decrease in revenue earned for Electronic Health Record Meaningful Use. Total Revenue increased by \$70.8 million or 6.9%.

Total Expenses increased \$47.9 million or 4.7%. Salaries, contract labor, and benefits increased by \$10.7 million or 2.1% driven by an increase in FTEs in patient care areas due to higher volume. Fees increased by \$4.7 million mainly as a result of higher physician fees. Supply costs increased by \$12.3 million or 7.5% driven by the increase in volume and increase in cost of pharmaceuticals. Other expense increased by \$23.5 million mainly due to medical costs related to the provider sponsored Medicare Advantage plan. Depreciation expense decreased by \$2.2 million due a reduction in capital expenditures compared to previous years.

Income from operations of \$33.3 million for fiscal 2015 (unaudited) increased by \$22.9 million over income from operations in fiscal 2014 of \$10.4 million.

Balance Sheet and Ratios:

Fiscal Year ended June 30, 2011:

Total assets increased by approximately \$68 million mainly due to an increase in property, plant, and equipment and patient accounts receivable offset by a decline in cash and investments. Total liabilities decreased by almost \$18 million mainly due to a decline in long-term debt.

Operating cash flow margins continue to be strong reaching 15.7%. Operating margin for fiscal 2011 was 2.6% with days cash on hand at 253.2. During the period from 2006 to 2009, the Alliance pursued an acquisition growth strategy in its core service area. The Alliance acquired an interest in five hospital facilities and these investments leveraged the balance sheet. Long term debt to capitalization was 64.5% and debt service coverage was 2.6. However, the above average operating cash flow of the Alliance adequately supports the debt load. FTEs per AOB were 4.94 with labor expense as a percentage of net patient revenue at 48.8%.

Fiscal Year ended June 30, 2012:

Total assets decreased by approximately \$57 million mainly due to a decline in the market value of investments and capital spending. Total liabilities decreased by approximately \$84 million mainly due to the elimination of the call option liability.

Operating margin for fiscal 2012 declined to 1.0%. As a result of the decline in market value of investments, increases in patient receivables, and capital spending, days cash on hand decreased to 214.9. The majority of the decrease in days cash on hand was planned and was a result of funding major construction projects from operating cash flow. Long term debt to capitalization declined to 63.6% and debt service coverage was 2.5. FTEs per AOB were 4.90 with labor expense as a percentage of net patient revenue at 52.3%.

Fiscal Year ended June 30, 2013:

Total assets increased by approximately \$98 million mainly due to an increase in market value of investments, an increase in patient receivables and an increase in land and assets held for expansion. Total liabilities increased by approximately \$36 million mainly due to an increase in long-term debt offset by a decrease in the fair value of interest rate swaps. The increase in long-term debt was due to borrowings to finance capital expenditures including a new surgery tower project at Johnson City Medical Center.

Operating cash flow margin remained steady however operating margin for fiscal 2013 declined to 0.2%. Days cash on hand increased to 235.4. Long term debt to capitalization declined to 62.3% and debt service coverage declined to 2.3. FTEs per AOB were 4.85 with labor expense as a percentage of net patient revenue at 53.9%.

Fiscal Year ended June 30, 2014:

Total assets increased by approximately \$44 million mainly due to an increase in investments and an increase in patient receivables. Capital spending moderated in fiscal 2014 after a period of intense capital spending during the prior six years in which major projects completed during this time included the construction of three replacement hospitals and a new surgery tower. Total liabilities decreased by approximately \$16 million mainly due to a decrease in long-term debt.

Operating cash flow margin of approximately 12% remained on par with fiscal 2013. Operating margin for fiscal 2014 increased to 1.0%. Days cash on hand increased to 257.7. Long term debt to capitalization improved to 59.9% and debt service coverage declined to 2.2. FTEs per AOB were 4.49 with labor expense as a percentage of net patient revenue at 52.3%.

Fiscal Year ended June 30, 2015:

Total assets increased by approximately \$22 million mainly due to an increase in investments. Total liabilities decreased by approximately \$32 million mainly due to a decrease in long-term debt.

Operating margin for fiscal 2014 increased to 3.1%. Days cash on hand increased to 265.3. Long term debt to capitalization improved to 57.1% and debt service coverage improved to 2.3. FTEs per AOB were 4.36 with labor expense as a percentage of net patient revenue at 50.9%.

Attachments:

- Attachment A - Bonds Official Statement for 2011 bonds
- Attachment B - Bonds Official Statement for 2012 bonds
- Attachment C - Bonds Official Statement for 2013 bonds
- Attachment D - Covenant Compliance Certificates for the Last Five Years

- Attachment E - Officer's Certificate accompanying the Independent Auditor's Report for FY10 to FY14
- Attachment F - Audited Financial Statements for 2009 to 2014
- Attachment G - EMMA – Annual Disclosures for 2010 to 2015 and Material Event Disclosures
- Attachment H - Rating Agency Reports