

**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, 2021, 2020, 2019.

Table A-8
Historical Utilization – SCHS – Combined

	Years ended December 31,		
	2021	2020	2019
Inpatient Statistics			
Discharges ⁽¹⁾	19,532	19,179	20,611
Average Length of Stay ⁽¹⁾	5.1	4.3	4.0
Patient Days ⁽¹⁾	100,039	81,597	81,856
Average Daily Census ⁽¹⁾	274.1	222.9	224.3
Occupancy Percentage ⁽³⁾	71.9%	58.5%	58.9%
Inpatient Surgeries	6,403	7,074	8,173
Births	2,410	2,286	2,349
Outpatient Statistics			
Emergency Room Visits	86,948	79,205	94,496
Outpatient Surgeries	13,594	12,026	15,195
Other Outpatient Visits ⁽²⁾	245,015	179,880	167,612

⁽¹⁾ Excludes newborns.

⁽²⁾ Reflects hospital outpatient visits; does not include primary care or specialist physician visits.

⁽³⁾ Based on 381 licensed beds in 2021, 2020 and 2019.

Source: SCHS management.

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Consolidated Financial Information

General. The following financial information of SCHS for the three years ended December 31, 2021, 2020, and 2019 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, 2021, 2020, and 2019:

Table A-9
SCHS Condensed Consolidated
Statements of Operations
(Dollars in Thousands)

	Years ended December 31,		
	2021	2020	2019
Revenue:			
Net patient revenue	\$772,202	\$702,472	\$734,943
Other revenue	201,221	161,166	91,534
Total revenue	973,423	863,638	826,477
Expenses:			
Non-capital	931,258	803,080	739,383
Depreciation	45,672	47,973	45,137
Interest	12,904	11,331	8,133
Total expenses	989,834	862,384	792,653
Operating (loss) income	(16,411)	1,254	33,824
Other income	67,912	53,267	105,110
Excess of revenue over expenses	51,501	54,521	138,934
Other changes in net assets:			
Net assets released from restrictions donor restriction	773	5,722	2,340
Other transfers	(420)	(661)	(530)
Distributions	(10,192)	(9,180)	(9,450)
Increase in unrestricted net assets	\$41,662	\$50,402	\$131,294

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Condensed Consolidated Balance Sheets. The following Table contains the condensed consolidated balance sheets of SCHS as of December 31, 2021, 2020, and 2019:

Table A-10
SCHS Condensed Consolidated
Balance Sheets
(Dollars in Thousands)

	As of December 31,		
Assets	2021	2020	2019
Current assets:			
Cash and cash equivalents	\$126,106	\$174,110	\$56,172
Patient accounts receivable, net	112,512	89,613	88,308
Other	59,023	55,270	54,592
Total	297,641	318,993	199,072
Investments:			
Internally-designated	696,950	654,062	556,225
Trustee-held, net of current	82,551	79,507	28,096
Total	779,501	733,569	584,321
Net property and equipment	404,045	424,539	433,776
Other assets	8,299	7,637	6,506
Total assets	\$1,489,486	\$1,484,738	\$1,223,675
Liabilities and Net Assets			
Current liabilities	\$203,971	\$165,742	\$111,278
Long-term obligations, net of current portion	386,362	395,260	302,991
Other liabilities	22,639	88,995	20,469
Total liabilities	612,972	649,997	434,738
Total net assets	876,514	834,741	788,937
Total liabilities and net assets	\$1,489,486	\$1,484,738	\$1,223,675

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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, for the years ended December 31, 2021, 2020, and 2019:

Table A-11
SCHS Debt Service Coverage
(Obligated Group Only)
(Dollars in Thousands)

	Years ended December 31,		
	2021	2020	2019
Net Revenue Available for Debt Service:			
Excess of Revenues Over Expenses	\$38,665	\$43,119	\$128,247
Plus (Less): Unrealized Investment Losses (Earnings)	(51,041)	(46,299)	28,696
Plus: Depreciation	42,527	44,996	43,650
Plus: Interest Expense	12,644	10,966	8,451
Total Revenue Available for Debt Service	42,795	\$52,782	\$209,044
Debt Service Requirement ⁽¹⁾	22,127	19,534	19,002
Historical Debt Service Coverage Ratio	1.9	2.7	11.0
Maximum Annual Debt Service ⁽²⁾	24,837	24,839	19,396
Long-Term (Maximum Annual) Debt Service Coverage Ratio	1.7	2.1	10.8

⁽¹⁾ Beginning in 2019, finance lease payments are included consistent with adoption of ASC 842, which provides new accounting guidance for the treatment of leases.

⁽²⁾ Beginning in 2019, the current year of finance lease payments are included with the Maximum Annual Debt Service from all other sources of debt in the calculation of the Maximum Annual Debt Service Coverage Ratio and includes 20% of all outstanding guaranties in accordance with the Master Indenture. See "SECURITY AND SOURCE OF BONDS – The Master Indenture" in the forepart hereof, see also "MANAGEMENT'S DISCUSSION AND ANALYSIS OF RECENT FINANCIAL PERFORMANCE—SCHS Other Indebtedness" herein. In connection with the issuance of the Bonds, SCHS has proposed adopting the Amended and Restated Master Trust Indenture. See "SECURITY AND SOURCE OF BONDS – The Amended and Restated Master Indenture" in the forepart of this Official Statement.

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Consolidated Capitalization and Days Cash on Hand. The following Tables show consolidated capitalization for SCHS, obligated group only, and unrestricted cash on hand, obligated group only, as of December 31, 2021, 2020, and 2019.

Table A-12
SCHS Consolidated Capitalization
(Obligated Group Only)
(Dollars in Thousands)

	As of December 31,		
	2021	2020	2019
Long-term Debt:			
Existing Bonds	\$359,925	\$366,015	\$273,240
Plus: Other Debt	24	51	80
Plus: Finance leases	12,057	14,775	16,975
Plus: Operating leases	896	5,535	1,120
Less: Current Portion	(5,184)	(6,260)	(5,616)
Net Long-term Debt	367,718	380,116	285,799
Plus: Net Assets without donor restriction	871,798	830,570	779,931
Total Capitalization	\$1,239,516	\$1,210,686	\$1,065,730
Debt-to-total capitalization ratio	29.7%	31.4%	26.8%

Table A-13
SCHS Unrestricted Days Cash on Hand
(Obligated Group Only)
(Dollars in Thousands)

	As of December 31,		
	2021	2020	2019
Unrestricted Liquid Funds:			
Cash and Cash Equivalents	\$122,770	\$171,236	\$50,122
Internally Designated Investments	693,821	651,105	555,042
Total Unrestricted Liquid Funds	816,591	822,341	605,164
Operating Expense:			
Total Operating Expense	1,006,933	874,086	808,527
Less Depreciation	(42,527)	(44,996)	(43,650)
Total	964,406	\$829,090	\$764,877
Average Daily Operating Expense	\$2,642	\$2,271	\$2,096
Days cash on hand	309.1	362.0	288.7

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

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

Comparison of Fiscal Year Ended December 31, 2021 to December 31, 2020

SCHS produced a consolidated excess of revenue over expenses of \$51.5 million for the twelve months ended December 31, 2021 compared to \$54.5 million for the twelve months ended December 31, 2020. SCHS's core operations recorded an operating loss of \$16.4 million, or a (1.6%) negative margin, for the twelve months ended December 31, 2021 compared to operating income of \$1.3 million, or a 0.1% positive margin, for the twelve months ended December 31, 2020. Financial performance for the years ended December 31, 2021 and 2020 have been negatively impacted by the COVID-19 pandemic and persistent nurse staffing shortages.

Deschutes, Crook and Jefferson Counties, known as Central Oregon, is SCHS' primary service area, and with over 250,000 citizens it serves as a hub for education, healthcare and business east of the Cascade Mountains. Population growth consistently outpaces other parts of the country. According to the U.S. Census Bureau Deschutes County grew 25.7% since 2010 with significant instate and outstate migration.

Net patient revenue for the year ended December 31, 2021 of \$772.2 million was an increase of \$69.7 million or 9.9%, from \$702.5 million for the year ended December 31, 2020. Prior to the onset of the COVID-19 pandemic SCHS was continuing to experience rising volumes due to population growth in the region. Premium revenue increased \$10.5 million for the year ended December 31, 2021, a 13.8% increase from the year ended December 31, 2020. Increases are due to an increase in the enrollment in the State's managed Medicaid program.

The table below shows the significant concentrations of net patient revenue, excluding premium revenue, the years ended December 31, 2021 and 2020.

Table A-16
Net Patient Service Revenue

	2021		2020	
Medicare	\$372,549	48%	\$328,819	44%
Medicaid/OHP	69,675	9	74,242	11
Commercial	323,437	42	297,826	42
Self-Pay	6,541	1	1,585	-
Total	\$772,202	100	\$702,472	100

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Operating expenses for the year ended December 31, 2021 totaled \$989.8 million, compared to \$862.4 million for the year ended December 31, 2020, an increase of \$127.4 million. The increase in operating expenses is primarily driven by salary and benefit expense increases resulting from greater pressures from the COVID 19 pandemic, including multiple surges in our region, along with mounting staff shortage and wage pressures. Before the Delta surge in late summer 2021, SCHS began investment into a strategic recovery effort including a mindful migration to value based payment arrangements.

SCHS Liquidity and Investment Policy

SCHS had approximately \$816.6 million of total unrestricted cash and investments as of December 31, 2021, which represented 309 days cash on hand for the obligated group; included in these amounts is approximately \$61.0 million of cash received under CMS' Advanced Payment program and \$7.4 million of cash received as part of the Cares Act employee retention program. Net of these amounts SCHS had approximately \$748.2 million of total unrestricted cash and investments as of December 31, 2020, which represented 283 days of cash on hand.

SCHS' unrestricted liquidity position decreased to \$823.1 million as of December 31, 2021 from \$828.2 million as of December 31, 2020. Liquidity represented 213% of long-term debt as of December 31, 2021 compared to 210% as of December 31, 2020.

SCHS funds are managed according to an Investment Policy Statement ("IPS") adopted by the Board. Direct governance is provided by the Investment Sub-committee of the Finance Committee of the Board. Implementation of SCHS' investment policy is provided through a centralized investment program managed by SCHS' Chief Financial Officer in partnership with SCHS' Outsourced Chief Investment Officer ("OCIO"). Russell Investments has been retained as the OCIO in a co-fiduciary relationship to manage the board designed investment portfolio and other SCHS assets in accordance with the IPS. Pursuant to this policy, strategic asset allocation models guide the investment of the funds. The current IPS allows for the following asset allocation:

Table A-17
Current SCHS Investment Asset Allocation

Asset Role	Asset Class	Asset Class Target %	Allowable Range
Return Seeking		54.0%	+/-4%
	Global Equities	39.0%	
	Real Estate Investment Trust	2.6%	
	Listed Infrastructure	2.6%	
	Listed Commodities	2.6%	
	High Yield Debt	7.2%	
Risk Reducing		46.0%	+/-4%
	US Gov't/Corporate Debt	35.0%	+/-2%
	Absolute Return Strategies	11.0%	+/-2%

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SCHS's ability to continue to generate significant investment income is dependent in large measure on market conditions and the composition of its investment portfolio.

SCHS Other Indebtedness

The following table shows sets forth certain outstanding bonds previously issued for the benefit of the Obligated Group as of December 31, 2021:

Table A-18
SCHS Outstanding Bonds

Series	Outstanding Par Amount (000's) as of December 31, 2021
The Hospital Facility Authority of Deschutes County, Oregon Hospital Revenue Bonds, Series 2014A	\$37,500
The Hospital Facility Authority of Deschutes County, Oregon Hospital Revenue Bonds, Series 2014B	37,500
St. Charles Health System Inc. Senior Notes, Series 2015	88,790
The Hospital Facility Authority of Deschutes County, Oregon Hospital Revenue Bonds, Series 2016A	95,390
The Hospital Facility Authority of Deschutes County, Oregon Hospital Revenue Bonds, Series 2016B	2,140
The Hospital Facility Authority of Deschutes County, Oregon Hospital Revenue Bonds, Series 2020A	48,605
The Hospital Facility Authority of Deschutes County, Oregon Hospital Revenue Bonds, Series 2020B	50,000
Total	<u>\$359,925</u>

In December 2021 the Corporation entered into a new line of credit agreement with JPMorgan Chase Bank, N.A. (JPM) for \$100,000,000. No amounts were borrowed in 2021, and as of December 31, 2021, \$100,000,000 remained available on the Corporation's line of credit. SCHS has agreed to unconditionally guaranty certain debt obligations of Heart Center of the Cascades, LLC in the amount of \$3.4 million. Such debt obligation expires in April 2025, and as of December 31, 2021, the outstanding balance was \$6.8 million. SCHS has not been required to make any payments under this guaranty; therefore, this guaranty does not constitute Indebtedness under the Master Indenture. This guaranty obligation is not evidenced by an Obligation issued under the Master Indenture.

SCHS also has other outstanding indebtedness, which contains various covenants, including minimum debt service coverage, debt-to-capitalization levels, and cash balances and are secured by Obligations issued under the Master Indenture.

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SCHS Other Matters

On March 11, 2020, the World Health Organization announced the novel coronavirus disease (COVID-19) outbreak as a global pandemic. COVID-19 has had numerous and varied medical, economic and social effects, any and all of which have and may again adversely affect the business and financial results of SCHS.

In Oregon, Governor Kate Brown issued an executive order on March 8, 2020, declaring a state of emergency due to the COVID-19 outbreak in the State, which extended through June 30, 2022. Additionally, the Governor has issued and may issue future executive orders to mitigate and address ongoing effects of the COVID-19 pandemic including, without limitation, providing for limitations on travel, business operations and economic reopening, including following a phased approach for reopening Oregon's economy on a county-by-county basis, with restrictions being re-imposed by order of the Governor if there is a resurgence of COVID-19.

SCHS' patient service volumes, access to labor, and supply chains have been adversely affected by the COVID-19 pandemic. Such events are outside of SCHS' control and are expected to continue to adversely affect its finances and operations throughout the duration of the COVID-19 pandemic, although the ultimate magnitude of such effects are not yet measurable.

In response to COVID-19, and guidance from state and local public health authorities, SCHS began modified operations in mid-March 2020 and continues to operate under some level of modified operations. The Coronavirus Aid, Relief and Economic Security (CARES) Act, which was enacted on March 27, 2020 authorized \$100 billion of funding to hospitals and other healthcare providers as Provider Relief Funds (PRF). Subsequent federal appropriations bills expanded and extended PRF and other relief programs. Payments from the PRF program were intended to compensate healthcare providers for lost revenues and incremental expenses incurred in responding to the COVID-19 pandemic. PRF will not be required to be repaid, provided recipients attest to and comply with certain terms and conditions, including limits on balance billing COVID-19 patients and not using this funding to reimburse expenses or losses that other sources are obligated to reimburse. SCHS received \$31,314,000 and \$32,459,000 of PRF during the years ended December 31, 2021 and 2020, respectively, included in other revenue in the consolidated statements of operations.

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**Table A-15
SCHS COVID Related Financial Support**

For the Year Ended December 31, 2021			
Funding Source	Type	Received	Recognized
CARES Act General	Federal	\$ 19,244	19,244
CARES Act Rural	Federal	11,214	11,214
COVID-19 – Coronavirus Relief Fund	Federal	-	856
Immunization Coop Agreement	Federal	100	60
Assistant Secretary for Preparedness & Response	State	84	84
SHIP COVID Testing and Mitigation	State	775	258
Total		<u>\$ 31,417</u>	<u>31,716</u>

For the Year Ended December 31, 2020			
Funding Source	Type	Received	Recognized
CARES Act General	Federal	\$ 20,264	20,264
CARES Act Rural	Federal	12,195	12,195
COVID-19 – Coronavirus Relief Fund	Federal	3,986	3,130
SAIF Workers Safety Fund	State	247	247
Oregon Rural Emergency Fund	State	173	173
Assistant Secretary for Preparedness & Response	State	33	33
Coronavirus State Hospital Improvement Program	State	253	253
Total		<u>\$ 37,151</u>	<u>36,295</u>

In response to COVID-19 and subsequent to the CARES Act, CMS expanded the existing Accelerated and Advance Payments Program in order to accelerate cash flow to impacted health care providers. The payments are made for services a healthcare entity will provide to its Medicare patients who are the healthcare entity's customers; therefore they are accounted for as revenue once the services are provided to the patients. In April 2020, SCHS received accelerated and advanced payments of \$95,373,000. Such accelerated payments are interest free for inpatient acute care hospitals and ambulatory providers for up to 29 months and bear interest at a 4% rate thereafter. CMS began recouping the payments in April 2021 by withholding Medicare fee-for-service payments for claims. During the year ended December 31, 2021, \$34,406,000 of the outstanding accelerated and advanced payments were recouped. The remaining outstanding accelerated and advanced payments of \$60,967,000 and \$95,373,000 for the years ended December 31, 2021 and 2020, respectively, were included in Medicare advance payments on the consolidated balance sheets.

The CARES Act also provided for deferred payment of the employer portion of social security taxes between March 27, 2020 and December 31, 2021. SCHS began deferring the employer portion of social security taxes in April 2020. As of December 31, 2021 and 2020, SCHS deferred \$7,395,000 and \$14,789,000, respectively, in social security taxes which are included in accrued liabilities in the consolidated balance sheets. The balance is due December 31, 2022.