

# Financial Results

2016 (in millions) 2015 (in millions)

	2016 (in millions)	2015 (in millions)
<b>Revenue</b> (Amount We Charge for Our Services)		
For Patient Care and Other	\$1,557	\$1,387
Contractual Adjustments	(853)	(750)
Provision for Bad Debts	(26)	(26)
<b>Total Operating Revenue</b> (Amount We Receive from the Fees We Charge)	<u>678</u>	<u>611</u>
<b>Expenses</b> (What It Costs to Provide Services to Our Patients)		
Provide Compensation and Benefits to Our Employees	365	334
Pay Supplies, Insurance, Utilities and Other Services	250	217
Invest in Facilities and Equipment (Depreciation and Interest)	50	47
<b>Ongoing Cost of Providing Services to Our Patients</b>	<u>665</u>	<u>598</u>
<b>Operating Income From Our Core Operations</b> (Amount Left After Paying Expenses)	<u>13</u>	<u>13</u>
<b>Other Items</b>		
Gain on Sale of Long-term Care	3	-
Pension Settlement Loss	(6)	-
<b>Total Operating Income</b>	<b>10</b>	<b>-</b>
In Addition, We Received Interest Income and Realized Gains on Investments	14	11
<b>Funds Available for Reinvesting in Programs, Equipment and Facilities</b>	<b>24</b>	<b>24</b>
Unrealized Market Adjustments for Investments	2	1
<b>TOTAL INCOME</b>	<b><u>\$26</u></b>	<b><u>\$25</u></b>

Fiscal 2016 brought change to MidMichigan Health as we added MidMichigan Medical Center-Alpena to the health system on April 1, 2016 and completed the divestiture of our two long-term care facilities on May 1, 2016. MidMichigan Health's operating performance has remained steady during fiscal 2016 with increased outpatient activity levels and higher physician and urgent care visits. MidMichigan Health's financial condition remains very strong. This strength results from the underlying conservative principles we use to manage our assets and liabilities. These principles include:

- **Strong Liquidity:** We have over \$590 million in investments at June 30, 2016, or the equivalent of approximately 360 Days Cash On Hand so we can withstand the many uncertainties that we face in healthcare.
- **Investment in Facilities and Technology:** Over the past couple of years, we invested \$18 million in a new health education facility, the Gerstacker Building. In fiscal 2016 we began the One Person, One Record (Epic) project implementation which replaces our current electronic health record and revenue cycle systems investing \$5 million in fiscal 2016 and by the end of the project scheduled for fiscal 2018, a total of \$71 million. In Mt. Pleasant, the health park is being expanded to include an ambulatory surgery center, 24 hour emergency room and an overnight short stay unit. By February 2017, we will be providing these services to Isabella County residents and will have made an investment of more than \$31 million in that community.
- **Net Revenue Reserves:** We continue to be appropriately conservative in how we record net patient care revenue and maintain appropriate reserves for changes in estimates with respect to billing and third-party payor audits.
- **Conservative Funding of Our Pension Plan:** For the last several years, we have continued to fund our pension plan in excess of our requirements. We established an additional plan in fiscal 2016 for the Alpena employees, which is a spinoff of their prior plan. In fiscal 2016, the decrease in the discount rate negatively impacted our Plans and our balance sheet; however, we will continue to fund the plans to maintain appropriate funded levels.
- **Strong Capital Structure:** Our debt-to-capitalization ratio of 24% as of June 30, 2016 continues to be lower than most organizations our size.

2016 (in millions)

<b>Charity Care: Contributions to Our Communities' Health</b>	
Total Cost of Charity Care	\$25
Total Cost of Community Benefits	9
Total Cost of Charity Care and Community Benefits	34
Total Cost of Uncompensated Care	10
Total Cost of Unreimbursed Medicare	40
<b>Total Contributions to Our Communities' Health</b>	<b><u>\$84</u></b>

# Financial Results

Continued

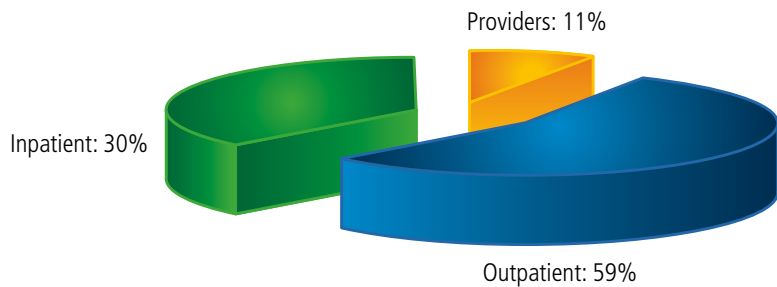
In Fiscal 2016, total operating revenue increased as a result of continued growth in new providers (physicians, physician assistants and nurse practitioners) and increased outpatient activity. The addition of Alpena also increased revenues by \$34 million (April through June). Fiscal 2016 operating results included the following significant expense-related items:

- **Impact of the addition of Alpena to the health system (April through June):** \$34 million
- **Impact of new providers, merit increases, employee incentive plans and One Person One Record training wages:** \$14 million (compensation and related benefits), and
- **Expenses related to the University of Michigan Health System affiliation:** \$3.8 million annual distribution.

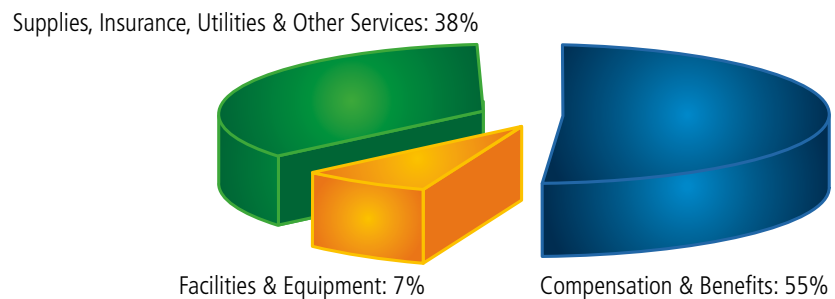
Fiscal 2016 total operating income also included a \$3.5 million gain on the sale of long term care and a pension settlement loss of \$6.6 million.

Overall, MidMichigan Health reported a Total Income of approximately \$26 million. As a not-for-profit, we reinvest our "Total Income" back into our communities to fund capital improvements, improve patient care, invest in our employees, and implement technology that will allow us to provide excellent health services to improve the quality of life for people in our communities.

## Where We Receive Our Funds



## How We Put Our Funds to Work



## Capital Investment

(Money We Reinvest in Our Facilities, Technology and Equipment)  
(in millions)

