

Financial Results

	2017 (in millions)	2016 (in millions)
Revenue (Amount We Charge for Our Services)		
For Patient Care and Other	\$1,884	\$1,557
Contractual Adjustments	(1,048)	(853)
Provision for Bad Debts	<u>(39)</u>	<u>(26)</u>
Total Operating Revenue (Amount We Receive from the Fees We Charge)	<u>797</u>	<u>678</u>
Expenses (What It Costs to Provide Services to Our Patients)		
Provide Compensation and Benefits to Our Employees	428	365
Pay Supplies, Insurance, Utilities and Other Services	300	250
Invest in Facilities and Equipment (Depreciation and Interest)	<u>53</u>	<u>50</u>
Ongoing Cost of Providing Services to Our Patients	<u>781</u>	<u>665</u>
Operating Income From Our Core Operations (Amount Left After Paying Expenses)	<u>16</u>	<u>13</u>
Other Items		
Impairment of Goodwill	(56)	-
Asset Charge for Electronic Health Record Legacy Costs	(14)	-
Gain on Sale of Long-term Care	-	3
Pension Settlement Loss	-	<u>(6)</u>
Total Operating Income (Loss)	<u>(54)</u>	<u>10</u>
In Addition, We Received Interest Income and Realized Gains on Investments	<u>12</u>	<u>14</u>
Funds Available for Reinvesting in Programs, Equipment and Facilities	<u>(42)</u>	<u>24</u>
Unrealized Market Adjustments for Investments	<u>3</u>	<u>2</u>
TOTAL INCOME (LOSS)	<u>\$(39)</u>	<u>\$26</u>

Fiscal 2017 was another year of change for MidMichigan Health with the implementation of a new electronic health record as well as the continued integration of Alpena. The One Person, One Record (Epic) project went live on April 1, 2017 for all of the medical centers (except Alpena which went live on September 30, 2017) and the physician enterprise, including all revenue cycle functions. Operating performance for fiscal 2017 showed an overall improvement and includes Alpena for a full year. 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 \$600 million in investments at June 30, 2017, or the equivalent of approximately 311 Days Cash On Hand so we can withstand the many uncertainties that we face in the healthcare environment.
- Investment in Facilities and Technology:** In fiscal 2016 we began the One Person, One Record (Epic) project implementation which replaced our legacy electronic health record and revenue cycle systems investing \$41 million at the end of fiscal 2017 and by the end of the project in fiscal 2018, a total of \$71 million. In Mt. Pleasant, the Medical Center was expanded to include an ambulatory surgery center, 24 hour emergency room and an overnight short stay unit. In February 2017, we started providing these services to the residents of Isabella County. We made an investment of more than \$29 million at the end of fiscal 2017, with the final renovations scheduled for completion in fiscal 2018, bringing the total investment in this community to \$31 million.
- 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.

	2017 (in millions)
Charity Care: Contributions to Our Communities' Health	
Total Cost of Charity Care	\$32
Total Cost of Community Benefits	<u>8</u>
Total Cost of Charity Care and Community Benefits	40
Total Cost of Uncompensated Care	15
Total Cost of Unreimbursed Medicare	<u>35</u>
Total Contributions to Our Communities' Health	<u>\$90</u>

- Conservative Funding of Our Pension Plan:** We have continued to fund our pension plans in excess of our requirements, contributing over \$40 million to the plans in fiscal 2017. The contributions, increased discount rate, and return on plan assets positively impacted our Plans and our balance sheet. We will continue to contribute to the plans to maintain appropriate funded levels.
- Strong Capital Structure:** Our debt-to-capitalization ratio of 24% as of June 30, 2017 continues to be lower than most organizations our size.

Financial Results

Continued

In Fiscal 2017, total operating revenue increased as a result of higher activity levels with the inclusion of Alpena for 12 months in fiscal 2017 compared to only three months in fiscal 2016. Fiscal 2017 operating results included the following significant expense-related items:

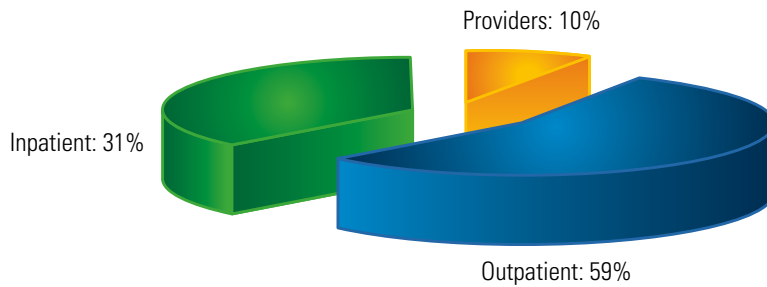
- **Impact of the addition of Alpena to the health system for the entire fiscal year as compared to only one quarter in fiscal 2016:** \$104 million
- **Impact of new providers, merit increases, employee incentive plans and One Person One Record implementation wages:** \$7 million (compensation and related benefits), and
- **Expenses related to the University of Michigan Health System affiliation:** \$4.4 million annual distribution.

Fiscal 2017 total operating loss included two significant, non-recurring, non-cash other items:

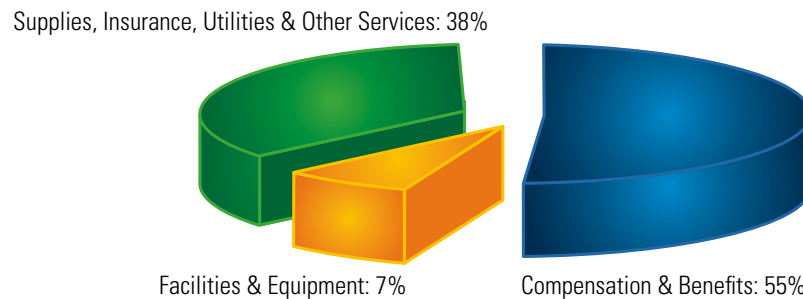
- **\$56.2 million impairment of goodwill, and**
- **\$14.0 million of asset charges for costs related to the legacy electronic health record.**

Overall, MidMichigan Health reported a Total Loss of approximately \$39 million, however, Total Income, excluding the one-time other items, was \$31 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)

