

Financial Results

2018 (in millions) 2017 (in millions)

	2018 (in millions)	2017 (in millions)
Revenue (Amount We Charge for Our Services)		
For Patient Care and Other	\$2,018	\$1,884
Contractual Adjustments	(1,145)	(1,048)
Provision for Bad Debts	(42)	(39)
Total Operating Revenue (Amount We Receive from the Fees We Charge)	<u>831</u>	<u>797</u>
Expenses (What It Costs to Provide Services to Our Patients)		
Provide Compensation and Benefits to Our Employees	448	428
Pay Supplies, Insurance, Utilities and Other Services	325	300
Invest in Facilities and Equipment (Depreciation and Interest)	57	53
Ongoing Cost of Providing Services to Our Patients	<u>830</u>	<u>781</u>
Operating Income From Our Core Operations (Amount Left After Paying Expenses)	<u>1</u>	<u>16</u>
Other Items		
Impairment of Goodwill	-	(56)
Asset Charge for Electronic Health Record Legacy Costs	-	(14)
Asset Impairment Charges for Receivables	(11)	-
Total Operating (Loss)	(10)	(54)
In Addition, We Received Interest Income and Realized Gains on Investments	54	12
Funds Available for Reinvesting in Programs, Equipment and Facilities	44	(42)
Inherent Contribution from Our West Branch Acquisition	15	-
Unrealized Market Adjustments for Investments	6	3
TOTAL INCOME (LOSS)	<u>\$65</u>	<u>\$(39)</u>

Fiscal 2018 brought more growth and change to MidMichigan Health as we added MidMichigan Medical Center - West Branch to our health system on April 1, 2018 and continued the integration of Alpena who went live on Epic in September 2017. Activity levels in fiscal 2018 showed improvement driving increased revenues, however, expenses also increased resulting in a decline in overall operating performance from our core operations for fiscal 2018. 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 \$620 million in investments at June 30, 2018, or the equivalent of approximately 297 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 2018 we began construction of a new Cardiovascular Regional Referral Center in Midland, investing \$15 million in fiscal 2018. By the end of the project in fiscal 2021, a total of \$57 million is expected to be invested. In Bay City and Gladwin we invested almost \$9 million during fiscal 2018 for new medical office buildings, with the total cost expected to be over \$13 million. In Alpena, \$7 million was invested for the One Person, One Record (Epic) project implementation.
- 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:** We have continued to fund our pension plans in excess of our requirements, contributing over \$30 million to the plans in fiscal 2018. 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 23% as of June 30, 2018 continues to be lower than most organizations our size.

2018 (in millions)

Charity Care: Contributions to Our Communities' Health	
Total Cost of Charity Care	\$45
Total Cost of Community Benefits	<u>12</u>
Total Cost of Charity Care and Community Benefits	57
Total Cost of Uncompensated Care	20
Total Cost of Unreimbursed Medicare	<u>29</u>
Total Contributions to Our Communities' Health	\$106

Financial Results

Continued

In Fiscal 2018, total operating revenue increased as a result of continued growth in new providers (physicians, physician assistants and nurse practitioners) and increased activity levels. The addition of West Branch also increased revenues by \$12 million (April – June). Fiscal 2018 operating results included the following significant expense-related items:

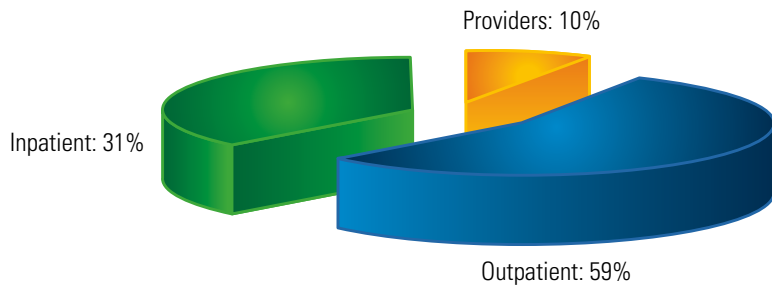
- **Impact of the addition of West Branch to the health system (April – June):** \$13 million
- **Impact of new providers, merit increases, employee incentive plans and One Person One Record implementation wages:** \$14 million (compensation and related benefits), and
- **Expenses related to the University of Michigan Health System affiliation:** \$4.4 million annual distribution.

Fiscal 2018 included the following two significant, non-recurring items, one positive and one negative:

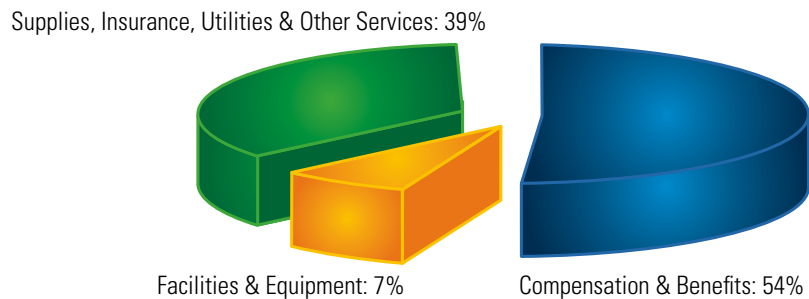
- **A \$10.8 million asset impairment charge for receivables unfavorably impacted our financial results, and**
- **A \$14.7 million inherent contribution from the acquisition of West Branch favorably impacted our financial results.** Neither of these adjustments resulted in changes to MidMichigan Health’s liquidity.

Overall, MidMichigan Health reported a Total Income of approximately \$65 million, which includes \$48 million of realized gains on the sale of investments as well as the one-time items listed above. 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)

