



Mercy Health

Quarterly Financial Report

**As of and for the three months ended
September 30, 2017 and 2016**

Contents:

- Consolidated Financial Statements (Unaudited)**
- Management Discussion & Analysis**

Mercy Health
Consolidated Balance Sheets
(Unaudited)

	September 30	June 30
	2017	2017
	<i>(In Thousands)</i>	
Assets		
Current assets:		
Cash and cash equivalents	\$ 512,759	\$ 523,451
Accounts receivable, net	678,499	659,818
Inventories	108,390	104,510
Short term investments	32,610	32,610
Other current assets	151,889	148,484
Total current assets	1,484,147	1,468,873
Investments	2,164,262	2,093,175
Property and equipment, net	2,930,747	2,941,387
Other assets	594,291	579,686
Total assets	<u>\$ 7,173,447</u>	<u>\$ 7,083,121</u>
Liabilities and net assets		
Current liabilities:		
Current maturities of long-term obligations	\$ 12,403	\$ 13,449
Accounts payable	230,739	228,872
Accrued payroll and related liabilities	442,610	428,141
Accrued liabilities and other	260,137	250,878
Total current liabilities	945,889	921,340
Insurance reserves and other liabilities	458,684	455,828
Pension liabilities	361,506	363,384
Long-term obligations, less current maturities	1,525,449	1,524,860
Total liabilities	3,291,528	3,265,412
Net assets:		
Unrestricted	3,771,124	3,713,187
Restricted	110,795	104,522
Total net assets	3,881,919	3,817,709
Total liabilities and net assets	<u>\$ 7,173,447</u>	<u>\$ 7,083,121</u>

Mercy Health
Consolidated Statements of Operations
(Unaudited)

	Three Months Ended	
	September 30	
	2017	2016
	<i>(In Thousands)</i>	
Operating revenues:		
Patient service revenues (net of contractuals and discounts)	\$ 1,475,814	\$ 1,282,534
Provision for uncollectible receivables	(114,893)	(75,297)
Net patient service revenues	<u>1,360,921</u>	<u>1,207,237</u>
Capitation revenues	64,465	62,264
Other operating revenues	<u>68,299</u>	<u>65,722</u>
Total operating revenues	<u>1,493,685</u>	<u>1,335,223</u>
Operating expenses:		
Salaries and benefits	872,306	751,813
Supplies and other	500,282	450,928
Medical claims expense	21,873	19,657
Interest	9,556	8,080
Depreciation and amortization	<u>77,223</u>	<u>74,766</u>
Total operating expenses	<u>1,481,240</u>	<u>1,305,244</u>
Operating income	<u>12,445</u>	<u>29,979</u>
Nonoperating gains (losses):		
Investment returns, net	44,989	51,463
Realized and unrealized (losses) gains on interest rate swaps, net	(1,441)	140
Other, net	<u>(91)</u>	<u>(1,273)</u>
Total nonoperating gains (losses), net	<u>43,457</u>	<u>50,330</u>
Excess of revenues over expenses	55,902	80,309
Other changes in unrestricted net assets:		
Net assets released from restrictions for property acquisitions	1,106	1,084
Other	<u>929</u>	<u>(2,355)</u>
Increase in unrestricted net assets	<u>\$ 57,937</u>	<u>\$ 79,038</u>

Mercy Health
Consolidated Statements of Changes in Net Assets
(Unaudited)

	Three Months Ended	
	September 30	
	2017	2016
	<i>(In Thousands)</i>	
Increase in unrestricted net assets	\$ 57,937	\$ 79,038
Restricted net assets:		
Pledges, bequests, and gifts for specific purposes	10,494	5,395
Investment returns, net	717	817
Net assets released from restrictions	(4,908)	(3,430)
Other	(30)	2,028
Increase in restricted net assets	6,273	4,810
Increase in net assets	64,210	83,848
Net assets at beginning of period	3,817,709	3,259,591
Net assets at end of period	\$ 3,881,919	\$ 3,343,439

Mercy Health
Consolidated Statements of Cash Flows
(Unaudited)

	Three Months Ended	
	September 30	
	2017	2016
	<i>(In Thousands)</i>	
Operating activities		
Change in net assets	\$ 64,210	\$ 83,848
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Pledges, bequests, and gifts for specific purposes	(10,494)	(5,395)
Unrealized gain on interest rate swap	(829)	(2,574)
Depreciation and amortization	77,223	74,766
Provision for uncollectible receivables	114,893	75,297
Changes in assets and liabilities:		
Accounts receivable	(133,574)	(68,873)
Investments classified as trading	(19,511)	(6,626)
Inventories and other current assets	(20,935)	(5,379)
Accounts payable	1,867	1,475
Accrued liabilities and other	29,219	10,040
Insurance reserves and other liabilities	1,646	8,596
Net cash provided by operating activities	<u>103,715</u>	<u>165,175</u>
Investing activities		
Additions to property and equipment, net	(66,428)	(73,137)
Net change in notes receivable and other assets	1,230	(174)
Net change in alternative investments	(43,256)	(42,365)
Business acquisitions	(15,990)	—
Net cash used in investing activities	<u>(124,444)</u>	<u>(115,676)</u>
Financing activities		
Principal payments on long-term obligations	(457)	(666)
Pledges, bequests, and gifts for specific purposes	10,494	5,395
Net cash provided by financing activities	<u>10,037</u>	<u>4,729</u>
Net (decrease) increase in cash and cash equivalents	(10,692)	54,228
Cash and cash equivalents at beginning of period	523,451	543,962
Cash and cash equivalents at end of period	<u><u>\$ 512,759</u></u>	<u><u>\$ 598,190</u></u>

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL RESULTS

(\$ in thousands)

INTRODUCTION

For the three months ended September 30, 2017, Mercy's net operating income was \$12.4 million, compared to prior year income of \$30.0 million. The operating margin percentage for this period was 0.8%, compared to prior year of 2.2%.

	Three months ended September 30	
	2017	2016
Operating cash flow	\$ 89,668	\$ 104,745
Operating cash flow margin	6.0%	7.8%
Operating income	\$ 12,445	\$ 29,979
Operating income margin	0.8%	2.2%
Net income	\$ 55,902	\$ 80,309
Net income margin	3.7%	6.0%

	September 30	June 30
	2017	2017
Days cash on hand	170.0	167.2
Days in AR	45.7	43.9

Days cash on hand at September 30, 2017 remained strong compared to June 30, 2017, increasing from 167.2 days to 170.0 days.

Days in accounts receivable of 45.7 at September 30, 2017 showed a slight increase from the June 30, 2017 days in accounts receivable of 43.9.

OPERATING REVENUES

Operating revenues increased 11.9% from the prior year, due primarily to an increase in net patient service revenue, driven by the acquisition of St. Anthony's Medical Center effective June 1, 2017. The acquisition of St. Anthony's Medical Center also had a positive impact on volumes, as inpatient volumes, outpatient volumes and clinic visits are up compared to prior year.

Total discharge volume was above prior year by 16.5%, and the acute discharge volume was also above prior year by 15.2%. Acute length of stay was 4.3 compared with 4.4 in the prior year. Clinic visits were above prior year by 1.3%. Surgery volumes were up from the prior year by 1.3%. ED visits were above prior year by 10.1%. Outpatient visits exceeded prior year by 8.2%.

KEY STATISTICS

	Three months ended September 30	
	2017	2016
Total discharges	47,359	40,654
Acute discharges	42,830	37,163
Total patient days	213,922	186,633
Acute patient days	184,140	161,830
Acute length of stay	4.3	4.4
Outpatient visits	894,189	826,080
Surgeries	43,138	42,568
Emergency room visits	186,767	169,670
Clinic Visits	1,523,152	1,502,890

OPERATING EXPENSES

Operating expenses increased 13.5% from the prior year, primarily in supplies and other expense and salaries and benefits expense, due to the acquisition of St. Anthony's Medical Center effective June 1, 2017. The increase in salaries and benefits expense from the prior year is due to an increase in the number of FTEs (related to both volume growth and acquisitions), wage increases, and additional use of contract labor and overtime. The increase in supplies and other expense is due to the impact of growth related to volume increases and acquisitions, as well as higher medical supply and drug costs as a result of higher acuity/change in case mix.

Key expense indicators include: salaries and benefits as a percentage of revenue, which at 61.2% was unfavorable to the prior year of 59.2%, and medical supplies and drug costs as a percentage of revenue of 18.6% was slightly favorable to the prior year indicator of 18.7%.

	Three months ended September 30	
	2017	2016
Salary & benefit expense/ADCM	\$ 4,184	\$ 4,188
Salary & benefits as % of patient revenue	61.2%	59.2%
Med supplies & drugs as % of patient revenue	18.6%	18.7%
Manageable operating exp as % of patient revenue	97.8%	96.3%

In support of its mission, Mercy provides care to patients who personally bear a significant financial burden relative to their health care services. The table below reflects the costs of such services that are not reimbursed or are reimbursed at less than cost.

	Three months ended September 30	
	2017	2016
Cost of charity care	\$ 34,995	\$ 45,310
Unpaid cost of Medicaid	42,445	49,984
Cost of bad debt	37,736	25,063
Total	\$ 115,176	\$ 120,357
Total as % of operating expenses	7.8%	9.2%

NON-OPERATING RESULTS

Non-operating results for the three months ended September 30, 2017 are primarily related to investment returns. Mercy realized a gain of 2.5% on our investments, fiscal year-to-date, which was slightly below the policy benchmark gain of 2.8% for the same period.

LIQUIDITY**(In thousands)*

	September 30, 2017
<i>Accessible Daily</i>	
Cash and Cash Equivalents	\$ 512,759
Money Market Funds	80,984
<i>Subtotal Daily Liquidity</i>	593,743
<i>Accessible Within One Week</i>	
Publically Traded Fixed Income Securities & Funds	250,130
Publically Traded Equity Securities & Funds	315,981
Other Publically Traded Funds	123,659
<i>Subtotal Liquidity Within One Week</i>	689,770
<i>TOTAL DAILY AND WEEKLY LIQUIDITY</i>	1,283,513
<i>Accessible Monthly</i>	
Fixed Income Securities & Funds	23,732
Equity Securities & Funds	42,324
Other Commingled Funds	86,538
<i>Subtotal Monthly Liquidity</i>	152,594
<i>Accessible Greater than One Month</i>	
Funds, vehicles, investments	973,623
<i>TOTAL LONGER TERM LIQUIDITY</i>	1,126,217
<i>Other Sources of Liquidity</i>	
364 Day Line of Credit	120,000
Drawn Portion of Line	-
<i>Net Available Line</i>	120,000
<i>TOTAL</i>	\$ 2,529,730

*Liquidity schedule based on total Mercy Investment Fund value at September 30, 2017 (excluding foundation assets), inclusive of accruals and pending trades.