

Subject: Continuing Disclosure Filing for MidMichigan Health  
Period Ended: Three-month Period Ended September 30, 2017  
Filed by: Francine M. Padgett, SVP and CFO  
Dated: October 25, 2017

Enclosed please find the consolidated financial and statistical report for MidMichigan Health, which includes the MidMichigan Obligated Group for the first quarter, ended September 30, 2017.

**Year-To-Date: Three-Month Period Ended September 30, 2017 compared to September 30, 2016**

*ACTIVITY:* Total admissions for the system were up 4.2% or 246 admissions. Total case mix increased for the year, reflecting more acute patients, while Medicare case mix was flat with prior year. Total hospital outpatient visits increased by approximately 3.4%, driven by emergency room and other outpatient visits. Physician visits decreased 4.6%, and total urgent care visits decreased 18.3%.

*TOTAL OPERATING REVENUE:* Net patient service revenue increased 1.6%, or \$2.9 million, driven primarily by inpatient revenue.

*EXPENSE MANAGEMENT:* Expenses increased by 5.9%; the increases result from the following:

- Salaries: EPIC training wages that were capitalized in fiscal 2017 and not in 2018, opening of the Medical Center Mt. Pleasant in February 2017, and a general increase with inpatient admissions;
- Supplies: higher pharmaceutical and patient related expenses;
- Purchased Services: loss on disposal of assets related to remodeling and higher contract labor;
- Fees: higher physician and Medicaid assessment fees;
- Depreciation: new projects put in service at the end of fiscal 2017, primarily One Person One Record and the Mt. Pleasant Medical Center.

*FINANCIAL RESULTS:* The operating performance decreased from the prior year performance for the quarter. Higher expense levels drove the loss from operations for the quarter at \$1.6 million compared to the prior year income of \$6.4 million

*NONOPERATING ITEMS:* MidMichigan Health's investment income of \$41.3 million increased compared to \$1.2 million a year ago. This increase is from realized gains due to the rebalancing of the portfolio and funding of capital projects. When considering our investment performance, we must also factor in unrealized return. Fiscal 2018's performance at \$19.2 million remains slightly better than fiscal 2017's performance of \$17.3 million.

**Year-To-Date: September 30, 2017 compared to the Annual Financial Plan (Budget)**

*ACTIVITY:* Total admissions for the system were up 3.5% or 203 admissions driven by increases across two of the five medical centers. Total outpatient visits increased 1.5%, driven by increased visits in other outpatient and emergency room, partially offset by decreases in outpatient surgery and observation. Physician visits were 7.6% below budget as a result of fewer providers. Decreases were seen in all areas except family practice (primary care, specialty care, and rural health clinics). Urgent Care visits decreased 14.9% compared to budget or approximately 4,000 visits.

Continuing Disclosure MidMichigan Health  
Three Month Period Ended September 30, 2017

**TOTAL OPERATING REVENUE:** Net patient service revenue decreased from Plan due to lower physician office visit volumes, unfavorable payor mix, and lower Medicaid pooled revenues. Other operating revenue decreased due to the timing of expenditures that will be offset by restricted funds. As a result, total operating revenue for first quarter was down \$3.9 million below budget.

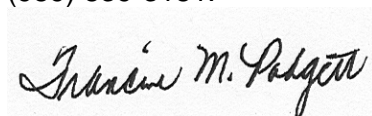
**EXPENSE MANAGEMENT:** Expenses adjusted by 1.0% or \$2.0 million. The decrease resulted primarily from benefits and fees. The decrease in benefits is primarily driven by the lower pension expense due to the higher discount rate. The decrease in fees is seen in consultation and other fees.

**FINANCIAL RESULTS:** These factors resulted in loss from operations of \$1.6 million compared to the budgeted operating income of \$0.3 million. The operating margin of (0.8)% was below the budgeted margin of 0.1%. Although we expected higher expense levels, revenue fell short of our expectations and we remain below budgeted performance by approximately \$1.9 million.

**Forward-Looking:**

MidMichigan Health is in the process of adjusting expenses to net patient service revenue levels. Actions will begin to be taken during the second quarter. The EPIC implementations have gone very well and we are stable at four of the five medical centers. Alpena's go-live on September 30, 2017 has also gone well and they should stabilize in the next 90 days.

If you have any questions on any of this information, please do not hesitate to contact me at (989) 839-3181.



Enclosures: Consolidated Financial and Statistical Report



## CONSOLIDATED FINANCIAL AND STATISTICAL REPORT

September 30, 2017

QUARTERLY BOND STATEMENTS

**CONSOLIDATED STATISTICAL REPORT**  
For the Period Ended September 30, 2017

Current Quarter				
Actual	Budget	% Change	Prior Year	% Change

5,409	5,106	5.9%	5,236	3.3%
120	143	-16.1%	140	-14.3%
<u>541</u>	<u>618</u>	-12.5%	<u>448</u>	20.8%

<b>6,070</b>	<b>5,867</b>	<b>3.5%</b>	<b>5,824</b>	<b>4.2%</b>
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18,422	17,215	7.0%	17,929	2.7%
1,383	1,674	-17.4%	1,557	-11.2%
<u>4,164</u>	<u>4,756</u>	-12.4%	<u>3,126</u>	33.2%

<b>23,969</b>	<b>23,645</b>	<b>1.4%</b>	<b>22,612</b>	<b>6.0%</b>
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3.4	3.4	1.0%	3.4	-0.5%
11.5	11.7	-1.5%	11.1	3.6%
<u>7.7</u>	<u>7.7</u>	0.0%	<u>7.0</u>	10.3%

<b>3.9</b>	<b>4.0</b>	<b>-2.0%</b>	<b>3.9</b>	<b>1.7%</b>
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<b>1.89</b>	<b>1.94</b>	<b>-2.8%</b>	<b>1.90</b>	<b>-1.0%</b>
<b>1.36</b>	<b>1.37</b>	<b>-0.9%</b>	<b>1.36</b>	<b>-0.4%</b>

<b>1.70</b>	<b>1.74</b>	<b>-2.5%</b>	<b>1.72</b>	<b>-1.3%</b>
<b>1.28</b>	<b>1.23</b>	<b>4.3%</b>	<b>1.20</b>	<b>6.6%</b>

53.3%	53.9%	-1.1%	55.0%	-3.1%
16.9%	16.5%	2.4%	15.1%	11.8%
16.3%	16.3%	0.0%	14.6%	11.3%
13.5%	13.3%	1.5%	15.3%	-11.5%

**INPATIENT - HOSPITALS**

Admissions - Acute	
Admissions - Rehabilitation	
Admissions - Mental Health	

**Total Admissions**

Patient Days - Acute	
Patient Days - Rehabilitation	
Patient Days - Mental Health	

**Total Patient Days**

Length of Stay - Acute	
Length of Stay - Rehabilitation	
Length of Stay - Mental Health	

**Total Length of Stay**

Midland Casemix - Medicare	
Alpena, Gratiot, Clare, Gladwin Casemix - Medicare	
Midland Casemix - Total	
Alpena, Gratiot, Clare, Gladwin Casemix - Total	

**System Payor Mix (% Revenue)**

Medicare	
Blue Cross	
Medicaid	
Other	

**OUTPATIENT**

Emergency Room Visits	
Outpatient Surgery Visits	
Observations	
Other Outpatient Visits	

**Total Hospital Outpatient Visits**

**Total Physician Visits**

**Total Urgent Care Visits**

**Total Home Care Visits**

**FTEs**

**Total Worked FTE's**

**Total Paid FTE's**

Year-to-Date				
Actual	Budget	% Change	Prior Year	% Change

5,409	5,106	5.9%	5,236	3.3%
120	143	-16.1%	140	-14.3%
<u>541</u>	<u>618</u>	-12.5%	<u>448</u>	20.8%

<b>6,070</b>	<b>5,867</b>	<b>3.5%</b>	<b>5,824</b>	<b>4.2%</b>
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<b>1.89</b>	<b>1.94</b>	<b>-2.8%</b>	<b>1.90</b>	<b>-1.0%</b>
<b>1.36</b>	<b>1.37</b>	<b>-0.9%</b>	<b>1.36</b>	<b>-0.4%</b>

<b>1.70</b>	<b>1.74</b>	<b>-2.5%</b>	<b>1.72</b>	<b>-1.3%</b>
<b>1.28</b>	<b>1.23</b>	<b>4.3%</b>	<b>1.20</b>	<b>6.6%</b>

53.3%	53.9%	-1.1%	55.0%	-3.1%
16.9%	16.5%	2.4%	15.1%	11.8%
16.3%	16.3%	0.0%	14.6%	11.3%
13.5%	13.3%	1.5%	15.3%	-11.5%

29,101	27,003	7.8%	24,985	16.5%
11,420	12,318	-7.3%	12,462	-8.4%
1,331	1,635	-18.6%	1,682	-20.9%
<u>144,316</u>	<u>142,403</u>	1.3%	<u>140,845</u>	2.5%

<b>186,168</b>	<b>183,359</b>	<b>1.5%</b>	<b>179,974</b>	<b>3.4%</b>
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<b>148,563</b>	<b>160,836</b>	<b>-7.6%</b>	<b>155,719</b>	<b>-4.6%</b>
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<b>22,406</b>	<b>26,329</b>	<b>-14.9%</b>	<b>27,426</b>	<b>-18.3%</b>
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<b>22,420</b>	<b>24,348</b>	<b>-7.9%</b>	<b>23,388</b>	<b>-4.1%</b>
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<b>4,345.6</b>	<b>4,396.4</b>	<b>-1.2%</b>	<b>4,247.8</b>	<b>2.3%</b>
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<b>4,977.2</b>	<b>4,961.5</b>	<b>0.3%</b>	<b>4,844.4</b>	<b>2.7%</b>
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**NET INCOME - ACTUAL VS BUDGET (000s)**  
For the Period Ended September 30, 2017

Current Quarter				
Actual	Budget	% Change	Prior Year	% Change

\$46,984	\$43,614	7.7%	\$41,669	12.8%
98,869	100,864	-2.0%	95,149	3.9%
283,476	283,959	-0.2%	279,713	1.3%
<u>43,421</u>	<u>45,296</u>	-4.1%	<u>44,847</u>	-3.2%

472,750	473,733	-0.2%	461,378	2.5%
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(270,890)	(270,283)	-0.2%	(264,715)	-2.3%
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<u>(11,263)</u>	<u>(10,159)</u>	-10.9%	<u>(8,993)</u>	-25.2%
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190,597	193,291	-1.4%	187,670	1.6%
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<u>6,578</u>	<u>7,741</u>	-15.0%	<u>6,439</u>	2.2%
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<b><u>197,175</u></b>	<b><u>201,032</u></b>	<b>-1.9%</b>	<b><u>194,109</u></b>	<b>1.6%</b>
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86,871	86,962	-0.1%	80,032	8.5%
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20,129	21,795	-7.6%	20,808	-3.3%
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36,531	36,471	0.2%	34,810	4.9%
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20,504	20,221	1.4%	19,580	4.7%
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16,960	17,535	-3.3%	15,007	13.0%
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11,785	11,563	1.9%	11,328	4.0%
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1,916	1,900	0.8%	1,838	4.2%
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2,707	3,147	-14.0%	2,657	1.9%
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<u>1,346</u>	<u>1,139</u>	18.2%	<u>1,698</u>	-20.7%
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<b><u>198,749</u></b>	<b><u>200,733</u></b>	<b>-1.0%</b>	<b><u>187,758</u></b>	<b>5.9%</b>
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<b><u>(1,574)</u></b>	<b>299</b>	<b>-626.4%</b>	<b>6,351</b>	<b>-124.8%</b>
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41,330	3,655	-	1,173	-
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41,330	3,655	-	1,173	-
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<b>39,756</b>	<b>3,954</b>	<b>905.5%</b>	<b>7,524</b>	<b>428.4%</b>
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<u>(22,155)</u>	<u>5,935</u>	-473.3%	<u>16,079</u>	-237.8%
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<b><u>\$17,601</u></b>	<b><u>\$9,889</u></b>	<b>78.0%</b>	<b><u>\$23,603</u></b>	<b>-25.4%</b>
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-0.8%	0.1%		3.3%	
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- >1000%

Note: The total investment return is shown in the financial statements in two segments: (1) investment income which consists of the real return; earned income and realized gain (loss), unrealized gain (loss) for fair value investments, and the unrealized gain (loss) for alternative investments held in the MidMichigan Health portfolio, and (2) unrealized investment return, which consists of the unrealized gain (loss) on investments not considered to be alternative investments.

Year-to-Date				
Actual	Budget	% Change	Prior Year	% Change

\$46,984	\$43,614	7.7%	\$41,669	12.8%
\$98,869	100,864	-2.0%	95,149	3.9%
283,476	283,959	-0.2%	279,713	1.3%
<u>43,421</u>	<u>45,296</u>	-4.1%	<u>44,847</u>	-3.2%

472,750	473,733	-0.2%	461,378	2.5%
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<b><u>197,175</u></b>	<b><u>201,032</u></b>	<b>-1.9%</b>	<b><u>194,109</u></b>	<b>1.6%</b>
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86,871	86,962	-0.1%	80,032	8.5%
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20,129	21,795	-7.6%	20,808	-3.3%
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<b><u>(1,574)</u></b>	<b>299</b>	<b>-626.4%</b>	<b>6,351</b>	<b>-124.8%</b>
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41,330	3,655	-	1,173	-
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41,330	3,655	-	1,173	-
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<b>39,756</b>	<b>3,954</b>	<b>905.5%</b>	<b>7,524</b>	<b>428.4%</b>
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<u>(22,155)</u>	<u>5,935</u>	-473.3%	<u>16,079</u>	-237.8%
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<b><u>\$17,601</u></b>	<b><u>\$9,889</u></b>	<b>78.0%</b>	<b><u>\$23,603</u></b>	<b>-25.4%</b>
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-0.8%	0.1%		3.3%	
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**BALANCE SHEET (000s)**

	September 30, <u>2017</u>	June 30, <u>2017</u>		September 30, <u>2017</u>	June 30, <u>2017</u>
<b>ASSETS</b>			<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT ASSETS:</b>			<b>CURRENT LIABILITIES:</b>		
Cash and short-term investments	\$11,730	\$20,488	Accounts payable & accrued expenses	\$31,961	\$31,076
Patient accounts receivable	257,457	267,098	Accrued salaries, wages, & benefits	37,374	43,717
Less: Allowance for contractual adjustments	(137,285)	(154,445)	Current portion of long-term debt	5,584	5,663
	120,172	112,653	Amount due to third-party payors	18,814	20,792
Less: Allowance for doubtful accounts	(25,903)	(25,406)	Current portion of self-insurance & other	2,159	5,081
Net accounts receivable	94,269	87,247			
Amount due from third-party payors	10,382	8,985	Total current liabilities	<u>95,892</u>	<u>106,329</u>
Inventories	9,165	8,387			
Prepaid expenses and other	11,132	8,458			
Current portion of assets whose use is limited	<u>15,008</u>	<u>18,259</u>			
Total current assets	<u>151,686</u>	<u>151,824</u>			
<b>INVESTMENTS</b>	146,564	150,989	<b>DEFERRED COMPENSATION, SELF-INSURANCE AND OTHER ACCRUED LIABILITIES</b>	75,496	74,730
<b>INVESTMENTS WHOSE USE IS LIMITED BY:</b>			<b>PENSION OBLIGATION</b>	149,219	152,871
Board-designated investments for:			<b>LONG-TERM DEBT OBLIGATIONS</b>	<u>208,280</u>	<u>206,742</u>
Replacement and improvement of property and equipment	464,795	455,033			
Deferred compensation, self-insurance and other	48,195	48,193	Total Liabilities	<u>528,887</u>	<u>540,672</u>
Donor Restricted for:					
Specific purposes	24,380	25,609			
Permanent endowment funds	<u>14,772</u>	<u>14,653</u>			
Total assets whose use is limited/restricted	<u>552,142</u>	<u>543,488</u>			
<b>INVESTMENT IN JOINT VENTURES</b>	8,830	8,265			
<b>PROPERTY AND EQUIPMENT, NET</b>	342,854	340,776	<b>NET ASSETS:</b>		
<b>RENTAL BUILDINGS, NET</b>	47,633	47,974	Unrestricted	702,756	683,568
<b>DEFERRED CHARGES, DEBT ISSUE COSTS &amp; OTHER</b>	<u>21,086</u>	<u>21,186</u>	Temporarily restricted by donors	24,380	25,609
			Permanently restricted endowment funds	<u>14,772</u>	<u>14,653</u>
<b>TOTAL</b>	<u>\$1,270,795</u>	<u>\$1,264,502</u>	Total net assets	<u>741,908</u>	<u>723,830</u>
			<b>TOTAL</b>	<u>\$1,270,795</u>	<u>\$1,264,502</u>



**STATEMENT OF CHANGES IN CASH AND CASH EQUIVALENTS\* (000s)**  
For the Period Ended September 30, 2017

	Current Quarter	Year-to-Date
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Change in net unrestricted assets	\$19,188	\$19,188
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	11,785	11,785
Restricted contributions and investments received	1,110	1,110
Equity earning in joint ventures, net of dividends	(565)	(565)
Changes in:		
Patient Accounts Receivable	(7,022)	(7,022)
Estimated third-party payor settlements	(3,375)	(3,375)
Prepaid expenses and other	(201)	(201)
Accounts payable and accrued expenses	(5,458)	(5,458)
Liability for self-insurance, deferred compensation and other accrued liabilities	<u>(5,811)</u>	<u>(5,811)</u>
Net cash provided by operating activities	9,651	9,651
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Property and Equipment Additions	<u>(13,572)</u>	<u>(13,572)</u>
Net cash used in investing activities	(13,572)	(13,572)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Debt issuance (draw down of proceeds)	2,185	2,185
Payment of long-term debt	(497)	(497)
Proceeds from restricted contributions	(1,110)	(1,110)
Debt retirement, premiums, debt issuance costs and other **	<u>(78)</u>	<u>(78)</u>
Net cash provided by financing activities	500	500
<b>DECREASE IN CASH AND CASH EQUIVALENTS</b>	(3,421)	(3,421)
<b>CASH AND CASH EQUIVALENTS</b>		
Beginning of period	<u>626,510</u>	<u>626,510</u>
End of period	<u>\$623,089</u>	<u>\$623,089</u>

*Cash and short-term investments	\$11,730
Investments	146,564
Board-designated investments for:	
Replacement and improvement of property and equipment at cost	<u>464,795</u>
End of Period Cash and Cash Equivalents	<u>\$623,089</u>

\*\* Other is primarily post retirement and long term receivables

**SUPPLEMENTAL INFORMATION FOR RATIO ANALYSIS (000s)**  
For the Period Ended September 30, 2017

	Current Year	Prior Year
	<u>YTD</u>	<u>YTD</u>
<b>Total Investment Return</b>		
Interest and Dividends - net	\$3,035	\$380
Realized Gains	37,045	102
Unrealized gains (losses) from investments accounted for using the fair value option and the equity method	1,250	829
Unrealized investment return	(22,155)	16,080
<b>Total Investment return</b>	<b><u>\$19,175</u></b>	<b><u>\$17,391</u></b>
Reported as:		
Other revenue	\$0	\$139
Nonoperating income	41,330	1,172
Change in unrealized	(22,155)	16,080
<b>Total Investment return</b>	<b><u>\$19,175</u></b>	<b><u>\$17,391</u></b>

	September 30,	June 30,
	<u>2017</u>	<u>2017</u>
<b>Unrestricted Net Assets</b>		
Beginning balance July 1	\$683,568	\$600,891
Net increase in unrestricted net assets	17,601	6,032
Net assets released from restriction for capital purchases	1,586	2,942
Minimum pension and other postretirement adjustments	0	73,703
Ending balance	<u>\$702,755</u>	<u>\$683,568</u>

	September 30,	June 30,
	<u>2017</u>	<u>2017</u>
<b>Ratios</b>		
Cash and short-term investments	\$11,730	\$20,488
Investments	146,564	150,989
Board designated investments for:		
Replacements and improvement of property and equipment	464,795	455,033
Less: Current portion of long-term debt obligations	(5,584)	(5,663)
<b>Total Cash on Hand</b>	<b><u>\$617,505</u></b>	<b><u>\$620,848</u></b>
Operating expenses year-to-date	\$198,749	\$781,241
Less: depreciation and amortization	(11,785)	(45,677)
<b>Total Operating Expenses</b>	<b><u>\$186,964</u></b>	<b><u>\$735,565</u></b>
Number of Days in Period	<u>92</u>	<u>365</u>
<b>DAYS CASH ON HAND</b> (including Market Valuation)	<b><u>304</u></b>	<b><u>308</u></b>
Maximum Annual Debt Service	<u>\$16,333</u>	<u>\$16,333</u>
<b>CUSHION RATIO</b>	<b><u>37.8</u></b>	<b><u>38.0</u></b>
Excess of revenue over expenses	\$39,756	(\$38,963)
Increases:		
Depreciation and amortization	11,785	45,677
Interest	1,916	7,499
Goodwill impairment	-	56,215
Legacy cost	-	8,896
Decreases:		
Change in unrealized values for investments accounted for using the equity method and fair value option, including impairment	(1,250)	(2,920)
Income available for debt service	<u>52,207</u>	<u>76,404</u>
Income available for debt service (Annualized for Current Year YTD)	<u>\$84,483</u>	<u>\$76,404</u>
<b>DEBT SERVICE COVERAGE RATIO</b>	<b><u>5.2</u></b>	<b><u>4.7</u></b>