



Consolidated Financial Statements as of and
for the Years Ended June 30, 2018 and 2017,
Consolidating Schedules as of and
for the Year Ended June 30, 2018, and
Independent Auditors' Report

MIDMICHIGAN HEALTH

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INDEPENDENT AUDITORS' REPORT

To the Audit Committee and the Board of Directors of
MidMichigan Health
Midland, Michigan

We have audited the accompanying consolidated financial statements of MidMichigan Health and its subsidiaries, which comprise the consolidated balance sheets as of June 30, 2018 and 2017, and the related consolidated statements of operations and changes in net assets and of cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to MidMichigan Health's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of MidMichigan Health's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of MidMichigan Health as of June 30, 2018 and 2017, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Supplementary Consolidating Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary consolidating information listed in the table of contents on pages 42-44 is presented for the purpose of additional analysis of the consolidated financial statements rather than to present the financial position and results of operations of the individual subsidiaries, and is not a required part of the consolidated financial statements. This supplementary information is the responsibility of MidMichigan Health's management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. Such information has been subjected to the auditing procedures applied in our audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, such information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Deloitte + Touche LLP

October 12, 2018

MIDMICHIGAN HEALTH
CONSOLIDATED BALANCE SHEETS

(Dollars in thousands)

	As of June 30,	
	2018	2017
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 20,782	\$ 20,488
Accounts receivable for patient services — net of allowance for doubtful accounts of \$39,585 and \$25,406 as of June 30, 2018 and 2017, respectively	89,585	87,247
Estimated receivables from third-party payors	14,857	8,985
Inventories	12,124	8,387
Prepaid expenses and other current assets	10,837	8,458
Assets limited or restricted as to use — current portion	17,447	18,259
Total current assets	<u>165,632</u>	<u>151,824</u>
ASSETS LIMITED AS TO USE AND INVESTMENTS:		
Investments — less current portion	132,180	150,989
Limited as to use by Board for capital acquisitions	488,536	455,033
Self-insurance, deferred compensation, and other	47,398	48,193
Limited as to use by donor or time restriction	47,640	40,262
Total assets limited as to use and investments	<u>715,754</u>	<u>694,477</u>
PROPERTY AND EQUIPMENT — net of accumulated depreciation of \$416,843 and \$388,433 as of June 30, 2018 and 2017, respectively	<u>430,209</u>	<u>388,750</u>
INVESTMENTS IN JOINT VENTURES	<u>7,945</u>	<u>8,265</u>
OTHER ASSETS	<u>21,225</u>	<u>21,186</u>
TOTAL ASSETS	<u>\$ 1,340,765</u>	<u>\$ 1,264,502</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable and accrued expenses	\$ 40,345	\$ 31,076
Salaries, wages, and payroll-related liabilities	46,388	43,717
Estimated third-party settlements payable	17,513	20,792
Current portion of long-term debt	6,496	5,663
Current portion of self-insurance, deferred compensation, and other liabilities	3,154	5,081
Total current liabilities	<u>113,896</u>	<u>106,329</u>
LONG-TERM LIABILITIES:		
Self-insurance, deferred compensation, and other liabilities — less current portion	83,022	74,730
Accrued pension and postretirement benefits	129,314	152,871
Long-term debt — less current portion	217,738	206,742
Total long-term liabilities	<u>430,074</u>	<u>434,343</u>
Total liabilities	<u>543,970</u>	<u>540,672</u>
NET ASSETS:		
Unrestricted	749,155	683,568
Temporarily restricted	30,737	25,609
Permanently restricted	16,903	14,653
Total net assets	<u>796,795</u>	<u>723,830</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 1,340,765</u>	<u>\$ 1,264,502</u>

See notes to consolidated financial statements.

MIDMICHIGAN HEALTH
CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS

(Dollars in thousands)

	For the Years Ended June 30,	
	2018	2017
REVENUE:		
Net patient service revenue	\$ 848,502	\$ 801,530
Provision for uncollectible accounts	<u>(41,922)</u>	<u>(39,165)</u>
Net patient service revenue, less provision for uncollectible accounts	806,580	762,365
Other revenue	<u>24,787</u>	<u>34,470</u>
Total revenue	<u>831,367</u>	<u>796,835</u>
EXPENSES:		
Salaries and wages	365,831	339,762
Employee benefits	82,231	88,222
Supplies	155,131	140,912
Purchased services and other	78,821	80,782
Fees	71,348	62,970
Depreciation and amortization	49,367	45,677
Utilities	10,707	10,196
Insurance	9,214	5,221
Interest	<u>7,871</u>	<u>7,499</u>
Total expenses	<u>830,521</u>	<u>781,241</u>
OPERATING INCOME — BEFORE OTHER ITEMS	<u>846</u>	<u>15,594</u>
OTHER ITEMS:		
Impairment of goodwill	-	(56,215)
Asset charges for electronic health record legacy costs	-	(14,017)
Asset impairment charges for receivables	<u>(10,735)</u>	<u>-</u>
Total other items	<u>(10,735)</u>	<u>(70,232)</u>
OPERATING LOSS AFTER OTHER ITEMS	<u>(9,889)</u>	<u>(54,638)</u>
NONOPERATING INCOME:		
Investment income	60,058	15,675
Inherent contribution from acquisition	<u>14,737</u>	<u>-</u>
Total nonoperating income	<u>74,795</u>	<u>15,675</u>
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENSES	<u>\$ 64,906</u>	<u>\$ (38,963)</u>

(Continued)

MIDMICHIGAN HEALTH
CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS

(Dollars in thousands)

	For the Years Ended June 30,	
	2018	2017
UNRESTRICTED NET ASSETS:		
Excess (deficiency) of revenue over expenses	\$ 64,906	\$ (38,963)
Net assets released from restrictions - capital acquisitions	1,850	2,942
Change in unrealized investment return	(20,429)	44,995
Postretirement-related liability adjustments	<u>19,260</u>	<u>73,703</u>
(DECREASE) INCREASE IN UNRESTRICTED NET ASSETS BEFORE DISCONTINUED OPERATIONS	<u>65,587</u>	<u>82,677</u>
RESTRICTED NET ASSETS		
TEMPORARILY RESTRICTED NET ASSETS:		
Pledges, contributions, grants, and interest income	9,572	12,899
Acquisition of West Branch	121	-
Net assets released from restrictions	<u>(4,565)</u>	<u>(13,001)</u>
INCREASE (DECREASE) IN TEMPORARILY RESTRICTED NET ASSETS	<u>5,128</u>	<u>(102)</u>
PERMANENTLY RESTRICTED NET ASSETS:		
Acquisition of West Branch	1,141	-
Pledges, contributions, grants, and investment income	1,083	277
Investment gains on trustee-held investments	<u>26</u>	<u>120</u>
INCREASE IN PERMANENTLY RESTRICTED NET ASSETS	<u>2,250</u>	<u>397</u>
INCREASE IN NET ASSETS	72,965	82,972
NET ASSETS — Beginning of year	<u>723,830</u>	<u>640,858</u>
NET ASSETS — End of year	<u>\$ 796,795</u>	<u>\$ 723,830</u>

See notes to consolidated financial statements.

(Concluded)

MIDMICHIGAN HEALTH
CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in thousands)

	For the Years Ended June 30,	
	2018	2017
OPERATING ACTIVITIES:		
Increase in net assets	\$ 72,965	\$ 82,972
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation and amortization	49,367	45,677
Postretirement-related liability adjustments	(19,260)	(73,703)
Impairment charge	-	56,215
Provision for uncollectible accounts	41,922	39,165
Gain on sale of joint venture	(770)	-
Change in unrealized investment return	20,429	(44,995)
Realized gains on investments	(48,143)	(7,633)
Net unrealized gains on investments accounted for using the fair value option and the equity method	(5,477)	(3,475)
Restricted contributions and restricted investment income received	(11,917)	(13,176)
Loss on disposal of property, plant, and equipment	2,522	9,632
Inherent contributions on acquisition	(14,737)	-
Equity earnings in joint ventures	(167)	(528)
Distributions received from investments in joint ventures	1,895	2,482
Changes in operating assets and liabilities:		
Trading securities	-	11,537
Accounts receivable for patient services	(39,172)	(52,548)
Accounts payable and accrued expenses	4,724	296
Estimated third-party settlements payable	(10,378)	(1,991)
Prepaid expenses, other current assets, and inventories	(3,196)	1,471
Self-insurance, deferred compensation, and other liabilities	(20,680)	(15,753)
Other changes in operating assets and liabilities	(184)	(3,382)
Net cash provided by operating activities	<u>19,743</u>	<u>32,263</u>
INVESTING ACTIVITIES:		
Additions to property and equipment	(55,953)	(96,158)
Net cash acquired from acquisition	425	-
Purchase of investments	(107,167)	(22,993)
Sale of investments	132,117	50,748
Proceeds from sale of joint venture	1,766	-
Contributions to joint ventures	(2,168)	-
Net cash used in investing activities	<u>(30,980)</u>	<u>(68,403)</u>
FINANCING ACTIVITIES:		
Proceeds from issuance of long-term debt	6,291	25,467
Debt issuance costs	-	(66)
Restricted contributions and restricted investment income received	11,917	13,176
Payment of long-term debt	(6,677)	(5,696)
Net cash provided by financing activities	<u>11,531</u>	<u>32,881</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	294	(3,259)
CASH AND CASH EQUIVALENTS — Beginning of year	<u>20,488</u>	<u>23,747</u>
CASH AND CASH EQUIVALENTS — End of year	<u>\$ 20,782</u>	<u>\$ 20,488</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid for interest	\$ 8,547	\$ 8,227
Noncash additions to property and equipment	\$ 5,037	\$ 1,633
New capital lease obligation for equipment	\$ 1,816	\$ -

See notes to consolidated financial statements.

MIDMICHIGAN HEALTH
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED JUNE 30, 2018 AND 2017
(Dollars in thousands)

1. ORGANIZATION AND MISSION

Organization

MidMichigan Health, a Michigan not-for-profit corporation, and its subsidiaries are collectively referred to as “MidMichigan Health.” MidMichigan Health operates a network of health services, including inpatient and outpatient services, physician services, home health care, and rehabilitation services primarily in Midland, Alpena, Gratiot, Isabella, Clare, Gladwin, and Ogemaw counties.

The following entities are collectively referred to as “Subsidiaries”:

Sole corporate member organizations:

- MidMichigan Medical Center — Midland (Midland)
- MidMichigan Medical Center — Alpena (Alpena)
- MidMichigan Medical Center — Gratiot (Gratiot)
- MidMichigan Medical Center — Clare (Clare)
- MidMichigan Medical Center — Gladwin (Gladwin)
- MidMichigan Medical Center – West Branch (West Branch)
- MidMichigan Physicians Group (MPG)
- MidMichigan Visiting Nurse Association dba MidMichigan Home Care (MHC)
- MidMichigan Collaborative Care Organization (MCCO)
- MidMichigan Health Foundation (Foundation)
- Tolfree Foundation
- Hospice of Helping Hands, Inc.

100% of capital stock owned:

- MidMichigan Health Development Associates (MHDA)

Effective April 1, 2018, MidMichigan Health and John Tolfree Hospital (dba West Branch Regional Medical Center) and its subsidiaries (collectively WBRMC) entered into an agreement whereby MidMichigan Health became the sole corporate member of WBRMC and the hospital changed its name to MidMichigan Medical Center – West Branch (see Note 3).

Effective April 1, 2017, MidMichigan Assurance Group (MAG) was dissolved and liquidated and as a result, MidMichigan Health no longer holds trading securities.

Mission

MidMichigan Health’s vision, “We celebrate the power of health throughout life – with you,” promotes health throughout each person’s lifetime by providing seamless care, including inpatient, outpatient, physician, home health care, psychiatric, and rehabilitation services. The mission statement for MidMichigan Health provides the purpose for its existence. The mission statement is as follows:

Our mission is to provide excellent health services to improve the quality of life for people in our communities. Our patients remain the focus of everything we do.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The consolidated financial statements have been presented in conformity with accounting principles generally accepted in the United States of America (GAAP).

Basis of Consolidation

Included in MidMichigan Health's consolidated financial statements are all of its wholly owned or controlled subsidiaries. All intercompany transactions have been eliminated in consolidation.

Use of Estimates

The preparation of consolidated financial statements in conformity with GAAP requires management to make assumptions and estimates that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenue and expenses during the reporting period. MidMichigan Health considers critical accounting policies to be those that require more significant judgments and estimates in the preparation of its consolidated financial statements, including recognition of net patient service revenue, which includes contractual allowances and discounts, recorded values of investments, provisions for uncompensated services, reserves for losses and expenses related to health care professional and general liabilities, and risks and assumptions for measurement of pension and postretirement health care liabilities. Management relies on historical experience and other assumptions believed to be reasonable under the circumstances in making its judgments and estimates. Actual results could differ materially from those estimates.

Cash and Cash Equivalents

Cash and investments having an original maturity of 90 days or less when purchased are considered to be cash and cash equivalents. These securities are so near maturity that they present insignificant risk of changes in value.

Net Patient Service Revenue, Accounts Receivable for Patient Services, and Allowance for Doubtful Accounts

Net patient service revenue is reported at the estimated net realizable amounts from third-party payors, patients, and others for services rendered. MidMichigan Health has agreements with third-party payors that provide for payments at amounts different from established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, per diem payments, and discounted charges, including estimated retroactive settlements under payment agreements with third-party payors.

MidMichigan Health recognizes patient service revenue associated with services provided to patients who have third-party payor coverage on the basis of contractual rates for the services rendered. Provisions for adjustments to net patient service revenue are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. For uninsured patients that do not qualify for charity care, MidMichigan Health recognizes revenue based on its discounted rates. On the basis of historical experience, a significant portion of MidMichigan Health's uninsured patients will be unable or unwilling to pay for the services provided. Thus, MidMichigan Health records a significant provision for uncollectible accounts related to uninsured patients in the period the services are provided.

Patient accounts receivable are based on gross charges and stated at net realizable value. Accounts receivable are reduced by an allowance for contractual adjustments, based on expected payment rates from payors under current reimbursement methodologies, and also by an allowance for doubtful accounts. In evaluating the collectability of accounts receivable, MidMichigan Health analyzes historical trends for each of its major payor

sources of revenue to estimate the appropriate allowance for doubtful accounts and provision for uncollectible accounts based upon management's assessment of historical and expected net collections considering business and economic conditions, trends in health care coverage, and other collection indicators. Management regularly reviews data about these major payor sources of revenue in evaluating the sufficiency of the allowance for contractual adjustments and allowance for doubtful accounts.

For receivables associated with services provided to patients who have third-party coverage, MidMichigan Health analyzes contractually due amounts and provides an allowance for doubtful accounts and a provision for uncollectible accounts (for example, for expected uncollectible deductibles and copayments on accounts for which the third-party payor has not yet paid or for payors who are known to be having financial difficulties that make the realization of amounts due unlikely). For receivables associated with self-pay patients (which includes both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill), MidMichigan Health records a significant provision for uncollectible accounts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible.

MidMichigan Health administers a patient financial assistance policy designed to provide financial assistance for uninsured patients, as well as for insured patients with limited resources. For uninsured patients who meet the qualifications stipulated in MidMichigan Health's patient financial assistance policy, emergency and other medically necessary inpatient and outpatient services are provided at no cost. For uninsured patients that do not qualify for full financial assistance, MidMichigan Health offers a discount off standard rates for services provided that result in net charges that do not exceed Medicare payment rates. MidMichigan Health offers a 40% discount for all uninsured patients that do not qualify for financial assistance. The discount is offered regardless of the patient's ability to pay. The accounts receivable from patient balances represented 46.7% and 38.1% of total accounts receivable at June 30, 2018 and 2017, respectively. Insured patients with limited financial resources may qualify for a discount on self-pay balances. MidMichigan Health's allowance for doubtful accounts, which is primarily related to self-pay patient balances, was \$39,585 and \$25,406. The significant increase in the allowances is due to several factors, including shifts by patients to high deductible insurance plans and a decision to manage self-pay accounts on long term payment plans in-house, which increased patient pay balances by \$5,600 in active accounts receivable. The difference between the discounted rates and the amounts actually collected after all reasonable collection efforts have been exhausted is written off against the allowance for doubtful accounts in the period they are determined uncollectible.

Charity Care

It is an inherent part of MidMichigan Health's mission to provide necessary medical care free of charge, or at a discount, to individuals without insurance or other means of paying for such care. As the amounts determined to qualify for charity care are not pursued for collection, they are not reported as net patient service revenue.

Inventories

Inventories consist primarily of medical supplies and pharmaceuticals and are stated at the lower of cost or net realizable value. The cost of inventories is determined principally by the weighted-average cost method.

Fair Value of Financial Instruments

Financial instruments consist of cash and cash equivalents, investments, accounts receivable, accounts payable, accrued expenses, estimated third-party settlements, and debt. The fair value of cash and cash equivalents, accounts receivable, accounts payable, accrued expenses, and estimated third-party settlements approximated their financial statement carrying amount as of June 30, 2018 and 2017, because of their short-term maturity. The fair value of the other instruments is disclosed in Notes 7, 10, and 12.

Assets Limited as to Use, Investments, and Investment Income

Assets limited as to use consist primarily of investments limited as to use by donors, unconditional promises to contribute, assets held by trustees under debt or other agreements (including deferred compensation arrangements) and for self-insurance, and board-designated assets set aside for a specified future use. The current portion of cash and investments limited as to use primarily represents the assets that are required for current liabilities, debt service, and professional liability as of June 30, 2018 and 2017.

Investments, inclusive of assets limited as to use, include marketable debt and equity securities. Investments in debt and equity securities with readily determinable fair values are measured at fair value using quoted market prices or model-driven valuations. Investments also include investments in commingled funds structured as limited liability corporations or partnerships. These investments are measured at net asset value (NAV) (see Note 7).

Investments also include alternatives. Alternative investments consist of limited partnerships that invest primarily in real estate and hedge funds. These investments are generally not marketable and may be divested only at specified times.

Investments in real estate funds and hedge funds are measured at fair value based on MidMichigan Health's interest in the NAV of the respective fund. The estimated valuations of hedge fund and real estate investments are subject to uncertainty and could differ had a ready market existed for these investments. Such differences could be material.

Investment earnings are included as investment income, a part of nonoperating income, in calculating excess of revenue over expenses. Unrealized gains or losses on securities for which the fair value option has not been elected are included in the changes in net assets.

Investment income from unrestricted investments and board-designated funds are included in nonoperating income. Nonoperating income consists principally of investment income, realized gains and losses, unrealized gains and losses on commingled funds for which the fair value option has been elected, and other-than-temporary impairment of investments.

MidMichigan Health continually reviews investments for impairment conditions that indicate that an other-than-temporary decline in market value has occurred. Factors considered in determining whether a reduction of the carrying value is required for debt securities include the intent to sell the security and whether MidMichigan Health will more likely than not be required to sell the security before its anticipated recovery. For equity securities, these factors include the length of time and extent to which the market value is below the cost basis of the investment, the financial condition and near-term prospects of the individual security, and the ability and intent of MidMichigan Health to retain the investment for a period of time sufficient to allow for any anticipated recovery in the market value. If an other-than-temporary impairment of equity and/or debt securities is deemed to have occurred, it is recognized as a realized loss, a component of nonoperating income. There was no other-than-temporary impairment recorded in fiscal 2018 and 2017.

Investment Risks

Investment securities are exposed to various risks, such as interest rate risk, market risk, and credit risk. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the value of investment securities, it is at least reasonably possible that changes in values in the near term could materially affect the amounts reported in the accompanying consolidated financial statements (see Note 7).

Unconditional Promises to Contribute

Unconditional promises to contribute (pledges receivable) are recorded at the net present value of their estimated future cash flows. Estimated future cash flows due after one year are discounted using interest rates commensurate with the time value of money concept. The discount rate utilized approximates the risk-free investment rate of MidMichigan Health. MidMichigan Health maintains an estimated allowance for uncollectible pledges based upon management's assessment of historical and expected net collections considering business and economic conditions and other collection indicators. Net unconditional promises to contribute are reported in assets limited as to use by donor or time restriction in the accompanying consolidated balance sheets and amounted to \$9,121 and \$8,837 as of June 30, 2018 and 2017, respectively.

Property and Equipment

Property and equipment, including internal-use software, are recorded at cost or at fair value at the date of receipt, if donated. Expenditures that substantially increase the useful life of existing property and equipment are capitalized. Routine maintenance and repairs are expensed as incurred. Depreciation expense is recognized over the estimated useful lives of the assets using either the straight-line or accelerated method and includes capital lease and internal-use software amortization. The useful lives of these assets range from three to 40 years.

Costs of computer software developed or obtained for internal use, including external direct costs of materials and services, payroll, and payroll-related costs of employees directly associated with internal-use software development projects, and interest costs incurred during the development period are expensed or capitalized depending on whether the costs are incurred in the preliminary project stage, development stage, or operational stage. Capitalized internal-use software is included in equipment with useful lives ranging from 3 to 15 years.

Capitalized Interest

Interest expense from bond proceeds, net of interest income, incurred during the construction of major projects is capitalized during the construction period. Such capitalized interest is amortized over the depreciable life of the related assets on a straight-line basis. Interest costs are not capitalized on assets established with donor-restricted assets. There was no interest expense capitalized during the years ended June 30, 2018 and 2017.

Goodwill

Goodwill represents the future economic benefits arising from assets acquired in business combinations that are not individually identified and separately recognized.

Asset Impairments

Long-lived Assets and Impairment

MidMichigan Health continually evaluates the recoverability of the carrying value of long-lived assets by reviewing long-lived assets for impairment. Impairment testing is performed following a triggering event or whenever events or changes in circumstances indicate an asset's carrying value may not be recoverable. When circumstances indicate the remaining estimated useful life of long-lived assets may not be recoverable, MidMichigan Health adjusts the carrying value of a long-lived asset to fair value if an estimate of the undiscounted cash flows over the remaining life is less than the carrying value of the asset. During the years ended June 30, 2018 and 2017, no such impairment was considered necessary.

Goodwill

Goodwill is evaluated for possible impairment at the reporting unit level at least annually or when an event or change in circumstance indicates that the carrying value of such assets may not be recoverable. If the carrying amount of a reporting unit exceeds its fair value an impairment loss is recognized in the amount equal to that excess, limited to the total goodwill allocated to the reporting unit. Estimates of fair value are based on appraisals, established market prices for comparable assets, or internal estimates of future net cash flows. MidMichigan Health recorded \$56,215 of impairment of goodwill during fiscal year 2017, which is due primarily to the valuation of the Alpena pension obligation.

Information on changes in the carrying amounts of goodwill as of June 30, 2018 and 2017, is as follows:

	2018	2017
Balance-beginning of year	\$ -	\$ 56,215
Goodwill acquired during the year	-	-
Impairment of Alpena goodwill	-	(56,215)
	<u> </u>	<u> </u>
Balance-end of year	<u>\$ -</u>	<u>\$ -</u>

Asset Retirement Obligations

MidMichigan Health recognizes the fair value of a liability for legal obligations associated with asset retirements in the period in which it is incurred if a reasonable estimate of the fair value of the obligation can be made. When the liability is initially recorded, MidMichigan Health capitalizes the cost of the asset retirement obligation by increasing the carrying amount of the related long-lived asset. The liability is accreted to its present value each period, and the capitalized cost associated with the retirement obligation is depreciated over the useful life of the related asset. Upon settlement of the obligation, any difference between the cost to settle an asset retirement obligation and the liability recorded is recognized as a gain or loss in the consolidated statements of operations and changes in net assets.

Ownership Interests in Other Health-Related Entities

MidMichigan Health has affiliations with and interests in other organizations that are not consolidated. These organizations primarily provide outpatient health care and managed care contracting services. An ownership interest in another health-related entity in which MidMichigan Health has the ability to exercise significant influence over the operating and financial decisions of the investee, but does not have operational control, is accounted for on the equity basis (see Note 14), and the income (loss) is reflected in other revenue. An ownership interest in a health-related entity of less than 20%, in which MidMichigan Health does not have the ability to exercise significant influence over the operating and financial decisions of the investee, is carried at cost or estimated net realizable value, which is not material to the consolidated financial statements.

Other Assets

Other assets include prepaid postretirement assets, long-term notes receivable, and definite-lived intangible assets. The net balances of definite-lived intangible assets include noncompete agreements, payor contracts, and other definite-lived intangible assets with finite lives amortized using the straight-line method over their estimated useful life which is estimated to be 10 years.

Net Assets

Resources of MidMichigan Health are designated as permanent, temporary, or unrestricted. Permanently restricted net assets include the original value of contributions that are required by donors to be permanently

retained, including any accumulations to the permanent endowment made in accordance with the donor's restrictions. Temporarily restricted net assets include contributions and accumulated investment returns whose use is limited by donors for a specified purpose or time period or by interpretations of law. Temporarily restricted net assets are available for capital and operational purchases, health education, and community needs. Unrestricted net assets include the remaining resources of MidMichigan Health that are not restricted and arise from the general operations of the organization.

During fiscal 2018 and 2017, net assets were released from donor restrictions for purchasing property and equipment of \$1,850 and \$2,942, respectively, and incurring expenses of \$2,715 and \$10,059, respectively, both of which satisfied the restricted purposes of the donors. Net assets released from restriction used in operations are included in other revenue in the accompanying consolidated statements of operations and changes in net assets.

Contributions

Unconditional promises to contribute cash and other assets are reported at fair value at the date the promise is received. Conditional gifts are reported at fair value when the conditions have been substantially met. Contributions are reported as either temporarily or permanently restricted if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statements of operations and changes in net assets as other revenue (if time restricted or restricted for operating purposes) or reported in the consolidated statements of operations and changes in net assets as net assets released from restrictions used for purchase of property and equipment (if restricted for capital acquisition). Donor-restricted contributions for operating purposes whose restrictions are met within the same year as received are reported as operating revenue in the accompanying consolidated statements of operations and changes in net assets.

Other Revenue

Other revenue is primarily composed of assets released from restrictions, revenues from cafeteria sales, reimbursement of outside services, county emergency medical services subsidies, electronic health record (EHR) incentive payments, performance incentives, and other miscellaneous sources.

Self-Insured Employee Benefits

Most of the employees of MidMichigan Health are covered by the self-funded employee health insurance program. The provisions of this program permit employees and their dependents to elect to receive medical care at either subsidiaries of MidMichigan Health or other health care providers. MidMichigan Health pays the claims as incurred. Net patient service revenue includes \$18,629 and \$16,377 for fiscal 2018 and 2017, respectively, for medical services provided by MidMichigan Health to its employees and dependents in such years. Employee health claims under the self-insurance plan that are provided by MidMichigan Health are recognized as employee benefits expense and net patient service revenue in the consolidated statements of operations and changes in net assets. Included in accrued expenses is \$6,695 and \$6,223 for estimated unprocessed claims and claims incurred, but not reported as of June 30, 2018 and 2017, respectively.

Estimated Professional Liability Costs

The provision for insurance includes estimated medical malpractice claims. These estimates include the ultimate costs for both reported claims and claims incurred, but not reported.

Tax Status

MidMichigan Health and all subsidiaries, except MHDA and MCO, have been recognized as exempt from federal income taxes under provisions of the Internal Revenue Code (IRC) Section 501(a) as organizations described in IRC Section 501(c)(3). All of these exempt organizations are classified as public charities. MHDA is exempt from federal income taxes under provisions of IRC Section 501(a) as an organization described in Section 501(c)(2). MCO is a single-member limited liability company, and the majority of its activity is considered exempt from tax since it is conducted by MidMichigan Health. MidMichigan Health does not have any material uncertain tax positions as of June 30, 2018 and 2017.

Other Items

During 2018 MidMichigan Health recognized a non-recurring asset impairment charge for receivables of \$10,735, related to recording patient receivables at their net realizable value. During 2017 MidMichigan Health recognized asset impairment charges of \$56,215 related to the write down of goodwill and \$14,017 related to the write down of legacy costs incurred for the prior EHR.

Excess of Revenue over Expenses

The consolidated statements of operations and changes in net assets include excess of revenue over expenses as the performance indicator. Excess of revenue over expenses includes all changes in unrestricted net assets, except for unrealized investment return for investments for which the fair value option has not been elected, permanent transfers of assets to and from subsidiaries for other than goods and services, contributions of (and assets released from donor restrictions related to) long-lived assets, and other items that are required by GAAP to be reported separately (such as postretirement-related changes other than net periodic postretirement costs, and the cumulative effect of changes in accounting principles). Certain income and expenses that are included in the performance indicator are separately presented as other items.

Nonoperating Income

Nonoperating income includes items not directly associated with patient care or other activities not relating to the core operations of MidMichigan Health. Nonoperating income consists primarily of investment income (including interest, dividends, and realized and unrealized gains and losses) on all other investments except those for which the fair value option has not been elected, and unrestricted contributions.

Accounting Pronouncements Adopted

In September 2015, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2015-16, *Simplifying the Accounting for Measurement-Period Adjustments*. This guidance requires an acquirer in a business combination to recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined. The effect on earnings of changes in depreciation or amortization, or other income effects (if any) as a result of change to the provisional amounts, calculated as if the accounting had been completed as of the acquisition date, must be recorded in the reporting period in which the adjustment amounts are determined rather than retrospectively. Also, the acquirer must present separately on the face of the income statement, or disclose in the notes, the portion of the amount recorded in current-period earnings by line item that would have been recorded in previous reporting periods if the adjustment to the provisional amounts had been recognized as of the acquisition date. This guidance was effective for MidMichigan Health beginning July 1, 2017. The adoption of this guidance did not have a material impact on MidMichigan Health's consolidated financial statements.

In July 2015, the FASB issued ASU No. 2015-11, *Simplifying the Measurement of Inventory*. This guidance requires entities to measure most inventories at the lower of cost or net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. This guidance was effective for MidMichigan Health beginning July 1, 2017. The adoption of this guidance did not have a material impact on MidMichigan Health's consolidated financial statement.

Accounting Pronouncements Pending Adoption

In August 2018, the FASB issued ASU No. 2018-15, *Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Cost*. This guidance aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software and hosting arrangements that include an internal use software license. This guidance is effective for MidMichigan Health beginning July 1, 2021. MidMichigan Health is currently evaluating the impact on its consolidated financial statements.

In August 2018, the FASB issued ASU No. 2018-14, *Disclosure Framework-Changes to the Disclosure Requirements for Defined Benefit Plans*. This guidance modifies the disclosure requirements on fair value measurements in Topic 820, Fair Value Measurement by removing, adding and clarifying certain disclosures. This guidance is effective for MidMichigan Health beginning July 1, 2022. MidMichigan Health is currently evaluating the impact on its consolidated financial statements.

In August 2018, the FASB issued ASU No. 2018-13, *Disclosure Framework-Changes to the Disclosure Requirements for Fair Value Measurement*. This guidance modifies the disclosure requirements for employers that sponsor defined benefit pension or other postretirement plans by removing, adding and clarifying certain disclosures. This guidance is effective for MidMichigan Health beginning July 1, 2020. MidMichigan Health is currently evaluating the impact on its consolidated financial statements.

In June 2018, the FASB issued ASU No. 2018-08, *Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*. This guidance clarifies whether a transfer of assets is a contribution or an exchange transaction and whether a contribution is conditional. This guidance is effective for MidMichigan Health beginning July 1, 2018. MidMichigan Health is currently evaluating the impact on its consolidated financial statements.

In March 2017, the FASB issued ASU No. 2017-07, *Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*. This guidance requires the service cost component of net periodic benefit cost related to defined benefit pension and postretirement benefit plans to be reported in the same financial statement line as other compensation costs arising from services rendered during the period. The other components of net periodic benefit cost are required to be presented separately from service costs and outside of operating income in the statements of operations. Only the service cost component of net periodic benefit cost will be eligible for capitalization in assets. This guidance is effective for MidMichigan Health beginning July 1, 2019. MidMichigan Health is currently evaluating the impact on its consolidated financial statements.

In November 2016, the FASB issued ASU No. 2016-18, *Restricted Cash*. This guidance adds and clarifies guidance in the presentation of changes in restricted cash on the statement of cash flows and requires restricted cash to be included with cash and cash equivalents in the consolidated statements of cash flows. This guidance does not provide a definition of restricted cash. This guidance is effective for MidMichigan Health beginning July 1, 2019. MidMichigan Health is currently evaluating the impact on its consolidated financial statements.

In August 2016, the FASB issued ASU No. 2016-15, *Classification of Certain Cash Receipts and Cash Payments*. This guidance adds or clarifies guidance on the classification of certain cash receipts and payments in the consolidated statements of cash flows. This guidance is effective for MidMichigan Health beginning July 1, 2019. MidMichigan Health is currently evaluating the impact on its consolidated financial statements.

In August 2016, the FASB issued ASU No. 2016-14, *Presentation of Financial Statements of Not-For-Profit Entities*. This guidance simplifies and improves how not-for-profit entities classify net assets, as well as the information presented in financial statements and notes about liquidity, financial performance, and cash flows. This guidance is effective for MidMichigan Health beginning July 1, 2018. MidMichigan Health does not expect this guidance to have a material impact on its results of operations, however presentation within the consolidated financial statements will be updated for proper presentation and required disclosures will be added.

In May 2014, the FASB issued ASU No. 2014-09, *Revenue From Contracts With Customers (Topic 606)*. This guidance outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry specific guidance, and requires significantly expanded disclosures about revenue recognition. The core principle of the revenue guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. MidMichigan Health has evaluated the requirements of the new standard to ensure that it has processes, systems and internal controls in place to collect the necessary information to implement the standard, which is effective for MidMichigan Health July 1, 2018. The modified retrospective method will be used to adopt ASU No. 2014-09. MidMichigan Health will use a portfolio approach to apply the new model to classes of payors with similar characteristics and will analyze cash collection trends over an appropriate collection look-back period, depending on the payor. Adoption of ASU No. 2014-09 will result in changes to the presentation for and disclosure of revenue related to uninsured or self-pay patients. Under ASU no. 2014-09, the estimated uncollectible amounts due from these patients are generally considered a direct reduction to unrestricted revenue, and correspondingly, result in a change of the amounts presented separately as provision for bad debts. MidMichigan Health has completed the assessment of the impact of the new standard on various reimbursement programs that represent variable consideration and believes that accounting for these programs under the new standard is substantially consistent with historical accounting practices. These include supplemental state Medicaid programs, disproportionate share payments and settlements with third party payors. While the adoption of ASU No. 2014-09 will have a significant effect on the presentation of unrestricted revenue in the consolidated statements of operations and will impact certain disclosures, it will not significantly impact the financial position, results of operations or cash flows of MidMichigan Health.

In February 2016, the FASB issued ASU No. 2016-02, *Leases*. This guidance increases transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. This guidance is effective for MidMichigan Health beginning July 1, 2019. MidMichigan Health is currently evaluating the impact on its consolidated financial statements.

3. BUSINESS ACQUISITION

MidMichigan Health entered into the following significant acquisition activity during the year ended June 30, 2018.

John Tolfree Hospital (dba West Branch Regional Medical Center) and subsidiaries

As part of the agreement between MidMichigan Health and WBRMC, MidMichigan Health committed to invest \$28,000 over the next 10 years for capital improvements in West Branch, funding of West Branch's retirement plan obligations, and the assumption of all liabilities, including all current and long term debt.

West Branch assets include an 88-bed hospital located in West Branch, Michigan that provides comprehensive inpatient and outpatient services. West Branch subsidiaries include Tolfree Foundation and Hospice of Helping Hands, Inc. The primary purpose of the acquisition is to further the missions of MidMichigan Health and West Branch, provide new opportunities and efficiencies, and further the health system's response to health reform, ensuring that the health care needs of the communities served will continue to be met.

The acquisition resulted in the recognition of an inherent contribution of \$14,737 for the year ended June 30, 2018 in the consolidated statement of operations and changes in net assets.

Summarized consolidated balance sheet information for West Branch as of April 1, 2018, is shown below:

	2018
Cash and cash equivalents	\$ 1,687
Accounts receivable, net	5,088
Other current assets	3,473
Assets limited or restricted as to use	12,225
Property and equipment, net	32,819
Investments in joint ventures	<u>237</u>
Total assets acquired	<u>\$ 55,529</u>
Accounts payable and accrued expenses	\$ 2,176
Salaries, wages, and payroll-related liabilities	1,636
Estimated third-party settlements payable	1,780
Other current liabilities	1,026
Accrued pension and post retirement benefits	16,338
Long-term debt - less current portion	11,558
Other liabilities	<u>5,016</u>
Total liabilities assumed	<u>\$ 39,530</u>
Unrestricted net assets	\$ 14,737
Temporarily restricted net assets	121
Permanently restricted net assets	<u>1,141</u>
Total net assets	<u>\$ 15,999</u>

Operating results of West Branch, for the period from April 1, 2018, through June 30, 2018, included total revenues of \$11,614, operating losses of \$1,161, and expenses over revenue of \$(928).

4. NET PATIENT SERVICE REVENUE

The mix of patient service revenue, net of contractual allowances and discounts (but before the provision for uncollectible accounts), recognized during the years ended June 30, 2018 and 2017, by major payor source, was as follows:

	<u>2018</u>		<u>2017</u>	
Medicare	\$ 391,243	46.1 %	\$ 345,358	43.1 %
Blue Cross	168,303	19.8	158,602	19.8
Medicaid	102,238	12.1	95,483	11.9
Commercial, self-pay, and other	<u>186,718</u>	<u>22.0</u>	<u>202,087</u>	<u>25.2</u>
Net patient service revenue	<u>\$ 848,502</u>	<u>100.0 %</u>	<u>\$ 801,530</u>	<u>100.0 %</u>

A summary of the payment arrangements by major payor source is as follows:

Medicare — Acute inpatient and outpatient services rendered to Medicare program beneficiaries are paid primarily at prospectively determined rates. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Certain items are reimbursed at a tentative rate, with final

settlement determined after submission of annual cost reports and audits thereof by the Medicare Administrative Contractors.

Medicaid — Reimbursement for services rendered to Medicaid program beneficiaries includes prospectively determined rates per discharge, per diem payments, and discounts from established charges, statewide distribution pools, fee schedules, and cost reimbursement methodologies, with certain limitations. Cost reimbursable items are reimbursed at a tentative rate, with final settlement determined after submission of annual cost reports and audits thereof by the Medicare Administrative Contractor and state Medicaid administrators.

In December 2003, the Centers for Medicare and Medicaid Services approved the Michigan Hospital Assessment Program (the “Program”) to improve Medicaid reimbursement for Michigan hospitals. The Program increased net patient service revenue in the form of additional Medicaid payments and increased fees through a tax assessment from the State of Michigan. The net benefit to MidMichigan Health from the Program was \$19,628 and \$18,784 during the years ended June 30, 2018 and 2017, respectively. For the years ended June 30, 2018 and 2017, the Medicaid payment of \$37,042 and \$34,369, respectively, was included in net patient service revenue, representing 4.4% and 4.3%, respectively, of the net patient service revenue, and the tax assessment of \$17,414 and \$15,585, respectively, was included in fees in the consolidated statements of operations and changes in net assets. The Program is subject to federal acceptance of the assessments for federal matching funding and may be limited or eliminated in the future.

Blue Cross Blue Shield of Michigan — Reimbursement for services to subscriber patients include prospectively set, clinically adjusted per discharge rates, per diem rates, fee schedule rates, and discounts from established charges.

Commercial, Self-Pay, and Other — Reimbursement for services to certain patients is received from commercial insurance carriers, health maintenance organizations, preferred provider organizations, and directly from patients. The basis for reimbursement includes prospectively determined rates per discharge, per diem payments, and discounts from established charges. Michigan law limits amounts collectable from uninsured patients.

Changes in estimates relating to prior periods increased net patient service revenue by \$1,767 and \$1,049 in fiscal 2018 and 2017, respectively. Laws and regulations governing government and other payment programs are complex and subject to interpretation. As a result, there is a reasonable possibility that recorded estimated third-party settlements could change by a material amount.

As of June 30, 2018, letters of final settlements have not been received from Medicare for fiscal 2016 through fiscal 2018, Blue Cross for fiscal 2018, and Medicaid for fiscal 2016 through 2018. The estimated receivables from or payables to third-party payors related to settlements are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as needed until final settlements are determined. In addition, MidMichigan Health filed formal appeals relating to the settlement of certain prior-year Medicare cost reports. In fiscal 2017, MidMichigan Health received and recognized \$2,954 of Recovery Audit Contracts settlement as an increase to net patient service revenue in the consolidated statements of operations and changes in net assets.

The health care industry is subject to numerous laws and regulations of federal, state, and local governments. Compliance with these laws and regulations, specifically those relating to the Medicare and Medicaid programs, can be subject to review and interpretation, as well as regulatory actions unknown and unasserted at this time. Federal government activity continues with respect to investigations and allegations concerning possible violations of regulations by health care providers, which could result in the imposition of significant fines and penalties, as well as significant repayment of previously, billed and collected revenues from patient services. Management believes that MidMichigan Health is in compliance with current laws and regulations.

5. CHARITY CARE AND COMMUNITY BENEFIT

As part of its mission, MidMichigan Health provides services to patients without regard to their ability to pay for these services. For some of its patient services, MidMichigan Health receives no payment or payment that is less than the full cost of providing the services.

MidMichigan Health has an established charity care policy and maintains records to identify and monitor the level of charity care it provides. MidMichigan Health voluntarily provides free care to all patients who are unable to pay for all or part of their health care expenses as determined by MidMichigan Health's criteria for charity care. MidMichigan Health reports charity care on the basis of cost, as computed using a cost-to-charge ratio methodology. In addition to charity care, MidMichigan Health provides services to Medicare, Medicaid, and other public programs for which the payments received are less than the cost of providing services. The unpaid costs attributed to providing services under these programs are considered a community benefit. MidMichigan Health also provides research and community health services, such as community education and outreach in the form of free or low cost clinics; health education; donations for the community; multiple health promotion and wellness programs, such as health screening; and various community projects and support groups.

Additionally, MidMichigan Health demonstrates its exempt purpose to benefit the communities it serves by operating emergency rooms and other clinical services open to the public 24 hours a day, seven days a week; providing facilities for the education and training of health care professionals; and conducting research for the study of new drugs that offer the promise of improving health care.

MidMichigan Health's quantifiable costs of charity care and unreimbursed Medicaid, community benefits, and other uncompensated care provided for the years ended June 30, 2018 and 2017, are as follows:

	2018	2017
Charity care and unreimbursed Medicaid — at cost:		
Charity care	\$ 9,433	\$ 1,728
Unreimbursed Medicaid	<u>35,256</u>	<u>30,176</u>
Total charity care and unreimbursed Medicaid — at cost	<u>44,689</u>	<u>31,904</u>
Community benefits — at cost:		
Medical education	9,987	6,547
Community services, including community building activities of \$599 and \$470 for the years ended June 30, 2018 and 2017, respectively	<u>2,120</u>	<u>2,013</u>
Total community benefits — at cost	<u>12,107</u>	<u>8,560</u>
Total charity care and unreimbursed Medicaid and community benefits — at cost	<u>56,796</u>	<u>40,464</u>
Other uncompensated care — at cost:		
Uncompensated services	20,124	15,277
Unreimbursed Medicare	<u>29,193</u>	<u>34,335</u>
Total other uncompensated care — at cost	<u>49,317</u>	<u>49,612</u>
Total community benefit — at cost	<u>\$ 106,113</u>	<u>\$ 90,076</u>

6. ASSETS LIMITED AS TO USE AND INVESTMENTS

Assets limited as to use and investments consist primarily of marketable equity and debt securities, which are held in investment pools to satisfy the investment objectives for which the assets are held or to satisfy donor restrictions. MidMichigan Health also holds certain investments in alternative securities consisting of hedge funds and real estate investments (see Note 2). Assets limited as to use by donor or time restriction also include unconditional promises to contribute.

A summary of the composition of assets limited as to use and investments as of June 30, 2018 and 2017, is as follows:

	2018	2017
Marketable securities and short-term investment funds	\$ 14,277	\$ 8,189
Fixed-income securities, including commingled funds	217,894	242,812
Equity securities, including commingled funds	378,981	350,781
Hedge fund of funds	32,918	31,096
Real estate	75,123	70,465
Other	<u>4,519</u>	<u>-</u>
Total assets limited as to use and investments — excluding pledges receivable	723,712	703,343
Student loan receivables and net pledges	<u>9,489</u>	<u>9,393</u>
Total assets limited as to use and investments	733,201	712,736
Less amount reported as current assets	<u>(17,447)</u>	<u>(18,259)</u>
Assets limited as to use and investments — noncurrent	<u>\$ 715,754</u>	<u>\$ 694,477</u>

The table above comprises all of MidMichigan Health's investments, including those measured at fair value as well as certain alternative investments in hedge funds or real estate measured using NAV.

Substantially all pledges are deemed collectible and consist of the following amounts as of June 30, 2018:

Years Ending June 30	
2019	\$ 3,490
2020	3,415
2021	3,259
2022	253
2023	<u>250</u>
Total expected collections	10,667
Unamortized discount	<u>(1,178)</u>
Total student loan receivables and net pledges	<u>\$ 9,489</u>

The composition and presentation of investment income and the realized and unrealized gains and losses on all investments, including trading securities, for the years ended June 30, 2018 and 2017, are as follows:

	2018	2017
Interest and dividends — net	\$ 6,397	\$ 4,836
Realized gains — net	48,143	8,265
Unrealized gains from investments accounted for using the fair value option	5,518	2,920
Unrealized investment return	<u>(20,429)</u>	<u>44,995</u>
Total investment return	<u>\$ 39,629</u>	<u>\$ 61,016</u>
Reported as:		
Other revenue	\$ -	\$ 346
Nonoperating income	60,058	15,675
Changes in unrestricted net assets	<u>(20,429)</u>	<u>44,995</u>
Total investment return	<u>\$ 39,629</u>	<u>\$ 61,016</u>

7. FAIR VALUE MEASUREMENTS

As of June 30, 2018 and 2017, MidMichigan Health’s consolidated financial statements reflect certain assets and liabilities recorded at fair value. Assets and liabilities measured at fair value on a recurring basis in MidMichigan Health’s consolidated financial statements include cash, cash equivalents, investment funds, commingled funds, and pension and postretirement assets. Liabilities measured at fair value on a recurring basis for disclosure only include debt.

Valuation Principles

Under accounting guidance on fair value measurements, fair value is defined as an exit price, representing the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The valuation techniques used to measure fair value are based upon observable and unobservable inputs. Observable inputs generally reflect market data from independent sources and are supported by market activity, while unobservable inputs are generally unsupported by market activity. The three-level valuation hierarchy, which prioritizes the inputs used in measuring fair value of an asset or liability at the measurement date, includes:

Level 1 Inputs — Quoted prices (unadjusted) for identical assets or liabilities in active markets. Securities typically priced using Level 1 inputs include listed equities and exchange-traded mutual funds.

Level 2 Inputs — Quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets and liabilities in nonactive markets, and model-driven valuations whose inputs are observable for the asset or liability, either directly or indirectly. Securities typically priced using Level 2 inputs include government bonds (including US treasuries and agencies), corporate and municipal bonds, collateralized obligations, interest rate swaps, commercial paper and currency options, and commingled funds where NAV is corroborated with observable data.

Level 3 Inputs — Unobservable inputs for which there is little or no market data available and are based on the reporting entity’s own judgment or estimation of the assumptions that market participants would use in pricing the asset or liability. The fair values for securities typically priced using Level 3 inputs are determined using model-driven techniques, which include option-pricing models, discounted cash flow models, and similar methods.

Fair Value Measurements at the Consolidated Balance Sheet Date

The following tables present MidMichigan Health's fair value hierarchy for its financial assets measured at fair value on a recurring basis as of June 30, 2018 and 2017:

Fair Value Measurements as of June 30, 2018	Level 1	Level 2	Level 3	Total Fair Value
Assets:				
Cash equivalents	\$ 34,170	\$ 890	\$ -	\$ 35,060
Mutual funds:				
Fixed-income funds	159,399	-	-	159,399
US equity funds	27,637	-	-	27,637
Non-US equity funds	46,339	-	-	46,339
Equity securities:				
Common stock	2,663	-	-	2,663
Other	9,122	2,632	3,320	15,074
Total — assets at fair value	<u>\$ 279,330</u>	<u>\$ 3,522</u>	<u>\$ 3,320</u>	<u>286,172</u>
Investments measured at net asset value:				
Equity securities:				
Collective funds — US Fixed income				57,062
Collective funds — US equity				111,879
Collective funds — Non-US equity				190,462
Alternatives:				
Real estate				75,123
Hedge fund of funds				32,918
Total — assets				<u>\$ 753,616</u>
Fair Value Measurements as of June 30, 2017				
	Level 1	Level 2	Level 3	Total Fair Value
Assets:				
Cash equivalents	\$ 22,631	\$ 6,045	\$ -	\$ 28,676
Mutual funds:				
Fixed-income funds	132,718	-	-	132,718
US equity funds	42,215	-	-	42,215
Non-US equity funds	29,772	-	-	29,772
Equity securities:				
Common stock	2,144	-	-	2,144
Other	8,840	1,344	-	10,184
Total — assets at fair value	<u>\$ 238,320</u>	<u>\$ 7,389</u>	<u>\$ -</u>	<u>245,709</u>
Investments measured at net asset value:				
Equity securities:				
Collective funds — US Fixed income				108,748
Collective funds — US equity				132,281
Collective funds — Non-US equity				144,369
Alternatives:				
Real estate				70,465
Hedge fund of funds				31,096
Total — assets				<u>\$ 732,668</u>

There were no security transfers between Levels 1, 2, and 3 during the years ended June 30, 2018 and 2017.

The following table reconciles the information about the fair value of MidMichigan Health's financial instruments measured at fair value on a recurring basis presented in the table above to the amounts presented in the consolidated balance sheets for the years ended June 30, 2018 and 2017:

	2018	2017
Assets:		
Cash and cash equivalents	\$ 20,782	\$ 20,488
Assets limited or restricted as to use — current portion	17,447	18,259
Assets limited as to use and investments:		
Investments	132,180	150,989
Limited as to use by Board for capital acquisitions	488,536	455,033
Self-insurance, deferred compensation, and other	47,398	48,193
Limited as to use by donor or time restriction	47,640	40,262
Less items not recorded at fair value:		
Loan receivable	<u>(367)</u>	<u>(556)</u>
Total assets	<u>\$ 753,616</u>	<u>\$ 732,668</u>

Valuation Methodologies

The instruments listed in the preceding fair value tables use the following valuation techniques and inputs as of the valuation date:

Cash and Cash Equivalents — The carrying amounts reported in the consolidated balance sheets approximate their fair value. Certain cash and cash equivalents are included in investments and assets limited or restricted as to use in the consolidated balance sheets.

Equity Securities — Equity securities are valued at the closing price reported on the applicable exchange on which the security is traded or are estimated using quoted market prices for similar securities.

Exchange Traded/Mutual Funds — Exchange traded funds are valued at the closing price reported on the applicable exchange on which the fund is traded, or estimated using quoted market prices for similar securities. Mutual funds are valued using the NAV based on the value of the underlying assets owned by the fund, minus liabilities, divided by the number of shares outstanding, and multiplied by the number of shares owned.

Collective Funds — Collective funds are developed for investment by institutional investors only and therefore do not require registration with the Securities and Exchange Commission. Collective funds are recorded at fair value based on either the underlying investments that have a readily determinable market value or based on NAV, which is calculated using the most recent fund financial statements.

Real Estate — MidMichigan Health invests in various commingled real estate funds that are included in investments and assets limited or restricted as to use in the consolidated balance sheets. Real estate funds are recorded based on NAV, which is calculated using the most recent financial statement.

Hedge Fund of Funds — This class includes diversified investments in hedge fund of funds with diverse strategies, including equity long/short, credit long/short, event-driven, relative value, global opportunities, and other multistrategy funds. Hedge fund of funds investments are valued based on MidMichigan Health's ownership interest in the NAV of the respective fund as estimated by the general partner, which approximates fair value. The values for underlying investments are estimated either internally or by an external fund manager based on

many factors, including operating performance, balance sheet indicators, growth, and other market and business fundamentals.

Other – Other includes pledges receivable and restricted real estate which are recorded at fair value based on estimated values and third party appraisals.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while MidMichigan Health believes that its methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

Level 3 Rollforward

A rollforward of the amounts in the consolidated balance sheets for assets classified by MidMichigan Health within Level 3 of the fair value hierarchy is as follows:

	Real Estate	Total
Fair value — June 30, 2017	\$ -	\$ -
Donations	<u>3,320</u>	<u>3,320</u>
Fair value — June 30, 2018	<u>\$ 3,320</u>	<u>\$ 3,320</u>

Investments in Entities That Report Fair Value using NAV

Included within the fair value table above are investments in certain entities that report fair value using a calculated NAV or its equivalent. The following table summarizes the attributes relating to the nature and risk of such investments as of June 30, 2018:

Entities That Report Fair Value Using NAV	Fair Value 2018 (In Thousands)	Fair Value 2017 (In Thousands)	Unfunded Commitments	Redemption Frequency (If Currently Eligible)	Redemption Notice Period
Equity funds	\$ 302,341	\$ 276,650	None	Daily	5-6 days
Fixed-income funds	57,062	108,748	None	Daily	6 days
Real estate investment funds	75,123	70,465	None	Quarterly	30–60 days
Hedge fund of funds	32,918	31,096	None	Semiannual	95 days

8. ENDOWMENTS

MidMichigan Health's endowments consist of various funds established for specific purposes. Its endowments include only donor-restricted endowment funds. Net assets associated with endowment funds are classified and reported based on the existence of donor-imposed restrictions. MidMichigan Health considers various factors in making a determination to appropriate or accumulate donor-restricted endowment funds.

The assets are managed in investment pools. The pools use a targeted asset allocation of 45% equity securities, 10% global balanced funds, 30% fixed income, 10% real estate, and 5% hedge funds. In general, MidMichigan Health uses a long-term rate of return, which is evaluated periodically, to allocate investment earnings to its endowment funds, thus eliminating investment risk on its endowments. The endowment corpus is maintained in perpetuity. MidMichigan Health's spending policy is used as a guideline, in the absence of explicit donor restrictions, to allocate a portion of annual earnings to be maintained in perpetuity along with the corpus. Only amounts exceeding the amounts required to be maintained in perpetuity are expended.

Endowment amounts classified as permanently restricted net assets as of June 30, 2018 and 2017, are described below:

	2018	2017
Permanently restricted net assets:		
Hospital capital support	\$ 7,485	\$ 7,275
Hospital operations support	2,995	2,265
Scholarship funds and education	5,000	3,730
Community service funds	<u>1,423</u>	<u>1,383</u>
Total endowment funds	<u>\$ 16,903</u>	<u>\$ 14,653</u>

No endowment funds have been classified as temporarily restricted.

Changes in endowment net assets for the fiscal years ended June 30, 2018 and 2017, include:

	2018	2017
Endowment net assets — July 1	\$ <u>14,653</u>	\$ <u>14,256</u>
Investment return:		
Investment income - net of annual spending appropriation	258	265
Change in net realized and unrealized gains and losses	<u>26</u>	<u>120</u>
Total investment return	<u>284</u>	<u>385</u>
Contributions	825	12
Acquisition of West Branch	<u>1,141</u>	<u>-</u>
Endowment net assets — June 30	<u>\$ 16,903</u>	<u>\$ 14,653</u>

Funds with Deficiencies

Periodically, the fair value of assets associated with the individual donor-restricted endowment funds may fall below the level that the donor requires MidMichigan Health to retain as a fund of perpetual duration. Deficiencies of this nature are reported in unrestricted net assets. These deficiencies result from unfavorable market fluctuations or continued appropriation for certain programs that continue to be considered necessary by MidMichigan Health. There were no such deficiencies as of June 30, 2018 and 2017.

9. PROPERTY AND EQUIPMENT

Property and equipment as of June 30, 2018 and 2017, consisted of the following:

	2018	2017
Land and improvements	\$ 41,720	\$ 38,153
Building and improvements	451,949	424,131
Equipment	323,146	305,951
Construction in progress	<u>30,237</u>	<u>8,948</u>
Total	847,052	777,183
Less accumulated depreciation	<u>(416,843)</u>	<u>(388,433)</u>
Property and equipment, net	<u>\$ 430,209</u>	<u>\$ 388,750</u>

Internal-use software is included above in equipment. The net book value was \$41,774 and \$39,461 as of June 30, 2018 and 2017, respectively. Approximately \$8,896 related to internal-use software was written off in fiscal 2017 as a result of the implementation of a different EHR. This amount has been included in "Other items – Asset charges for electronic health record legacy costs" in the consolidated statements of operations and change in net assets.

Construction in progress as of June 30, 2018, includes \$16,714 for the new Cardiovascular Regional Referral Center in Midland (including related relocations), \$8,610 for new medical office buildings, as well as various smaller capital projects. As of June 30, 2018, significant commitments include \$2,900 related to the Cardiovascular Regional Referral Center.

The book value of equipment under capital lease obligations at June 30, 2018 and 2017 totaled \$1,845 and \$0, respectively. The related accumulated depreciation totaled \$168 and \$0, respectively at June 30, 2018 and 2017. These amounts are included in the above summary of property and equipment.

10. LONG-TERM DEBT

MidMichigan Health currently has debt outstanding under a master indenture dated December 1, 2014 (the "Master Indenture"), which established an obligated group composed of MidMichigan Health and Midland. The Master Indenture, as supplemented thereto, permits MidMichigan Health to issue obligations to finance certain capital acquisitions and improvements. The MidMichigan Health Credit Group, under the Master Indenture, consists of the obligated group members and all of MidMichigan Health's active controlled subsidiaries, with the exception of MCCO and West Branch. Under the Master Indenture, debt is generally issued as unsecured direct obligations of MidMichigan Health and any future members of the MidMichigan Obligated Group. Proceeds from the tax-exempt revenue and refunding bonds are to be used to finance the construction, acquisition, and equipping of capital improvements. All members of the MidMichigan Obligated Group are jointly and severally liable for debt outstanding of \$206,910 carrying value and \$206,712 fair value as of June 30, 2018.

A summary of MidMichigan Health's long-term debt as of June 30, 2018 and 2017, is as follows:

	<u>Interest Rates</u>	<u>Final Maturity Date</u>	<u>Amount Outstanding at</u>	
			<u>June 30,</u>	
			<u>2018</u>	<u>2017</u>
Fixed-rate revenue bonds:				
Michigan Finance Authority				
Revenue Bonds:				
Series 2014	4.00%–5.00%	June 1, 2039	\$ 165,455	\$ 167,235
Gratiot Community Hospital Finance Authority				
Revenue Bonds:				
Series 1998	5.34%	December 1, 2018	<u>116</u>	<u>351</u>
Other loans payable:				
United States Department of Agriculture Loans	3.25%	October 28, 2035	<u>11,497</u>	<u>-</u>
Total fixed-rate debt			<u>177,068</u>	<u>167,586</u>
Variable-rate revenue bonds:				
Michigan Finance Authority				
Revenue Bonds:				
Series 2016	1.27%-2.55%	October 1, 2031	27,000	24,466
Hospital Equipment Loan Program Bonds:				
Series D	0.5%–2.00%	September 15, 2020	<u>3,413</u>	<u>4,930</u>
Total variable-rate debt			<u>30,413</u>	<u>29,396</u>
Other debt:				
Capital lease obligations collateralized				
by equipment	2.75%-6.50%	October 18, 2022	<u>2,314</u>	<u>132</u>
Total other debt			<u>2,314</u>	<u>132</u>
Total debt			209,795	197,114
Less current portion of long-term debt			(6,496)	(5,663)
Unamortized debt issue costs on bonds			(1,483)	(1,558)
Unamortized premium on bonds			<u>15,922</u>	<u>16,849</u>
Long-term debt — net			<u>\$ 217,738</u>	<u>\$ 206,742</u>
Estimated fair value based on quoted market				
prices and other relevant information				
(Level 2 classification)			<u>\$ 224,035</u>	<u>\$ 214,547</u>

The fair value of MidMichigan Health's fixed-rate long-term debt is estimated by an independent third party using a pricing scale based on spreads to municipal market data of comparable transactions that price in the market, as well as secondary market trades for comparable credits. As MidMichigan Health is responsible for the determination of fair value, it performs quarterly analyses on the prices received from independent third parties to determine whether the prices are reasonable estimates of fair value. As a result of these reviews, MidMichigan Health has not historically adjusted the prices obtained from third parties. Since such amounts are estimated based on limited available market information and do not acknowledge certain restrictions that may exist, the actual fair value market values for these obligations may differ significantly from what is provided herein or upon settlement of the obligation. The carrying value of MidMichigan Health's variable rate bonds and other obligations approximates the fair value.

Under its various indebtedness agreements, the MidMichigan Health Credit Group is subject to certain financial covenants, including maintaining a minimum historical debt service coverage and maximum annual debt service coverage ratios; limitations on selling, leasing, or otherwise disposing of MidMichigan Obligated Group property; and certain other nonfinancial covenants. MidMichigan Health has no knowledge of any default in the performance of the terms, covenants, provisions, or conditions of the Master Indenture. Long-term obligations outstanding as of June 30, 2018 and 2017, excluding amounts issued under the Master Indenture, are generally collateralized by certain property and equipment and secured by a letter of credit with a third-party institution. As of June 30, 2018 and 2017, there were no outstanding draws against the letter of credit related to the Series D Hospital Equipment Loan Program Bonds, which are not subject to remarketing. This letter of credit expires in June 2019. As of June 30, 2018 and 2017, the outstanding obligation was \$3,413 and \$4,930, respectively, which approximated the net book value of property and equipment collateralized. Annual principal payments on long-term debt as of June 30, 2018, are due as follows:

Years Ending June 30

2019	\$ 6,496
2020	7,779
2021	6,820
2022	6,555
2023	6,391
Thereafter	<u>175,754</u>
Total	<u>\$ 209,795</u>

Acquisition/Financing Activities

The acquisition of West Branch, during the year ended June 30, 2018, as described in Note 3, resulted in the assumption of debt of \$12,215. The majority of this debt, \$11,621, is fixed rate, twenty-year loans payable with the United States Department of Agriculture. Under the terms of the loans, West Branch is required to maintain certain deposits with a trustee.

On December 15, 2016, MidMichigan Health issued \$30,000 of tax-exempt variable-rate Michigan Finance Authority Revenue Bonds Series 2016. The debt was issued as a direct purchase. As of June 30, 2017, \$25,467 of the debt had been drawn down, and as of June 30, 2018 the entire \$30,000 had been drawn.

11. OTHER LONG-TERM LIABILITIES

The composition of other long-term liabilities as of June 30, 2018 and 2017, is as follows:

	2018	2017
Self-insurance liabilities	\$ 19,600	\$ 19,431
Estimated payables to third-party payors, long-term	13,984	10,704
Deferred compensation plan liabilities	28,696	25,774
Asset retirement obligations	10,133	8,859
Long-term accrued fees	6,265	9,442
Equity option	3,000	3,000
Unearned revenue	3,849	1,276
Other	<u>649</u>	<u>1,325</u>
Total self-insurance, deferred compensation, and other liabilities	86,176	79,811
Less current portion	<u>(3,154)</u>	<u>(5,081)</u>
Total	<u>\$ 83,022</u>	<u>\$ 74,730</u>

Asset Retirement Obligation

Asset retirement obligations represent legal or contractual obligations associated with the retirement of tangible long-lived assets that are incurred upon the acquisition, construction, development, or normal operation of that long-lived asset. Asset retirement obligations are required to be recognized in the period in which they are incurred if a reasonable estimate of fair value can be made. The asset retirement obligations are accreted to their present value at the end of each reporting period. The associated estimated asset retirement costs are capitalized as part of the carrying amount of the long-lived asset and depreciated over its useful life. MidMichigan Health annually evaluates its leased and owned properties for potential asset retirement obligations. Based on these reviews, MidMichigan Health identified obligations primarily related to the removal of certain materials previously utilized in the construction process.

The following table summarizes changes in the total liability for asset retirement obligations as of June 30, 2018 and 2017:

	2018	2017
Asset retirement obligation — beginning of the year	\$ 8,859	\$ 9,857
Accretion	457	541
Liabilities settled	(17)	(986)
Liabilities incurred (West Branch acquisition)	<u>834</u>	<u>(553)</u>
Asset retirement obligation — end of the year	<u>\$ 10,133</u>	<u>\$ 8,859</u>

12. PENSION, POSTRETIREMENT, AND OTHER EMPLOYEE BENEFIT PLANS

MidMichigan Health maintains a defined benefit/cash balance pension plan (the “Pension Plan”), two defined benefit pension plans (the “Alpena Pension Plan” and the “West Branch Pension Plan”), defined contribution plans, and other postretirement benefit plans that together cover substantially all of MidMichigan Health’s employees.

Effective April 1, 2018, MidMichigan Health assumed the obligation for the West Branch Pension Plan, a single-employer defined benefit plan, which covers the employees of West Branch. The plan is closed to new participants and benefit accruals were frozen in May 2018. On the effective date, \$24,628 of benefit obligations and \$15,806 of assets were assumed by MidMichigan Health.

Effective April 1, 2016, MidMichigan Health established a new defined benefit plan for Alpena employees, which was a spin-off of the Municipal Employees Retirement System plan that was in place for Alpena employees prior to MidMichigan Health acquiring Alpena.

Effective January 1, 2008, the Pension Plan was amended and changed to a cash balance plan. The majority of MidMichigan Health’s employees participate in the qualified noncontributory Pension Plan. Benefits for the Pension Plan are based on pay credits and interest credits; at the end of each calendar year, participant accounts are credited with a percentage of the participant’s annual salary. The minimum amounts required to meet the provisions of the Department of Labor’s Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974 (ERISA), as amended, are funded on an annual basis, plus any additional amounts that MidMichigan Health may determine to be appropriate. Plan assets and obligations are measured as of June 30 (the “Measurement Date”) each year. The Pension Plan can be terminated by the board subject to certain notification requirements. MidMichigan Health, at this time, does not intend to terminate the Pension Plan.

In addition to the pension programs, MidMichigan Health (primarily, Midland) also provides postretirement health care benefits (the “Postretirement Healthcare Plan”) to certain retirees. Further benefits under the Postretirement Healthcare Plan have been curtailed. Contributions are intended to provide not only for benefits

attributed to service to date, but also for the related interest cost associated with the Postretirement Healthcare Plan. Retirees who have the Postretirement Healthcare Plan are required to make contributions toward the cost of their benefits based on their years of service at retirement. For retirements on or after January 1, 1994, retirees are required to contribute, in addition to a percentage of the premium based on years of service, the difference between actual cost for a particular year and four times the 1994 cost. Midland reserves the right to amend, modify, or terminate these benefits at any time.

A closed group of Alpena retirees are provided quarterly fixed Medicare Part B premium reimbursement under the Medicare Part B Reimbursement Program. This plan is unfunded.

Effective April 1, 2018, MidMichigan Health assumed a \$7,516 postretirement obligation for the West Branch Regional Medical Center and Dental Insurance Plan for Retirees. This plan is unfunded. The plan provides a closed group of retirees' medical and dental coverage.

The table below sets forth the accumulated benefit obligation, the change in the projected benefit obligation, and the change in the plan assets of MidMichigan Health's pension and postretirement benefit plans (collectively, the "Plans"). The table also reflects the funded status of the Plans as of the Measurement Date and amounts recognized in MidMichigan Health's consolidated balance sheets as of June 30, 2018 and 2017.

Obligations and Funded Status	Pension Plans		Postretirement Healthcare Plans	
	2018	2017	2018	2017
Actuarial present value of benefit obligations				
accumulated benefit obligation	\$ 583,263	\$ 557,915	\$ 10,887	\$ 4,642
Change in benefit obligations:				
Benefit obligation — beginning of measurement period	\$ 594,853	\$ 629,011	\$ 4,642	\$ 5,297
Service cost	9,612	10,932	5	-
Interest cost	22,257	21,822	214	138
Acquisition of West Branch	24,628	-	7,516	-
Plan changes	-	-	(708)	-
Actuarial gains	(17,132)	(42,204)	(203)	(304)
Plan participants' contributions	164	177	-	-
Benefits paid	(25,949)	(24,885)	(579)	(489)
Projected benefit obligation — end of measurement period	\$ 608,433	\$ 594,853	\$ 10,887	\$ 4,642
Change in plan assets:				
Fair value of plan assets — beginning of measurement period	\$ 443,274	\$ 378,833	\$ 16,288	\$ 14,942
Actual return on plan assets	23,119	46,399	1,468	1,749
Acquisition of West Branch	15,806	-	-	-
Plan participants' contributions	164	177	-	-
Employer contributions	30,737	42,750	193	112
Administrative expenses paid	-	-	(24)	(26)
Benefits paid	(25,949)	(24,885)	(579)	(489)
Fair value of plan assets — end of measurement period	\$ 487,151	\$ 443,274	\$ 17,346	\$ 16,288
Accrued liability (asset)	\$ 121,282	\$ 151,579	\$ (6,459)	\$ (11,646)
Recognized in the consolidated balance sheets as follows:				
Noncurrent asset	\$ -	\$ -	\$ (14,491)	\$ (12,938)
Noncurrent liability	121,282	151,579	8,032	1,292
Accrued liability (asset)	\$ 121,282	\$ 151,579	\$ (6,459)	\$ (11,646)

The actuarial cost method used to compute the Pension Plan liabilities and expenses is the projected unit credit method.

The components of net periodic pension cost for the Plans were as follows:

Components of Net Periodic Pension Cost Years Ended June 30	Pension Plans		Postretirement Healthcare Plans	
	2018	2017	2018	2017
Net periodic pension cost comprised the following:				
Service cost	\$ 9,612	\$ 10,932	\$ 5	\$ -
Interest cost	22,257	21,822	214	138
Expected return on plan assets	(27,362)	(24,552)	(1,041)	(940)
Amortization of prior service cost and other actuarial amounts	215	217	(14)	(14)
Amortization of unrecognized net loss (gain)	4,526	8,050	(76)	(32)
Net periodic pension cost (credit)	<u>\$ 9,248</u>	<u>\$ 16,469</u>	<u>\$ (912)</u>	<u>\$ (848)</u>

In accordance with FASB guidance regarding accounting for defined benefit pension and other postretirement plans, all previously unrecognized actuarial losses and prior service costs are reflected in the consolidated balance sheets. The postretirement-related charges other than net periodic benefit cost related to the pension and postretirement health care plans are included as a separate increase to unrestricted net assets and total \$18,855 and \$73,360 for fiscal 2018 and 2017, respectively. For fiscal 2018, this amount includes actuarial gains and net prior service credit arising during fiscal 2018 of \$14,203 and a reclassification adjustment for losses and prior service cost reflected in periodic expense in fiscal 2018 of \$4,652. For fiscal 2017, this amount includes actuarial gains arising during fiscal 2017 of \$65,140 and a reclassification adjustment for losses and prior service cost reflected in periodic expense in fiscal 2017 of \$8,220.

In accordance with FASB Accounting Standards Codification Topic 715, Compensation — Retirement Benefits, all previously unrecognized actuarial losses are reflected in the consolidated balance sheets. The pension plan and postretirement benefit plan items not yet recognized as a component of periodic pension and postretirement medical plan expense, but included within unrestricted net assets, as of and for the years ended June 30, 2018 and 2017, are as follows:

	Pension Plans		Postretirement Healthcare Plans	
	2018	2017	2018	2017
Unrecognized prior service (cost) credit	\$ (202)	\$ (418)	\$ 969	\$ 275
Unrecognized net actuarial (loss) gain	<u>(35,385)</u>	<u>(81,311)</u>	<u>3,716</u>	<u>3,185</u>
Total	<u>\$ (35,587)</u>	<u>\$ (81,729)</u>	<u>\$ 4,685</u>	<u>\$ 3,460</u>

An estimated \$(202) in prior service cost and \$(2,747) in net actuarial loss will be included as components of periodic pension expense in fiscal 2019. An estimated \$64 in prior service credit and \$107 in net actuarial gain will be included as components of periodic postretirement medical plan expense in fiscal 2019.

Assumptions

The actuarial assumptions used to determine benefit obligations at the measurement date and net periodic benefit cost for the Plans are as follows:

Assumptions Used to Determine Benefit Obligations and Net Periodic Benefit Cost	Pension Plans		Postretirement Healthcare Plans	
	2018	2017	2018	2017
Discount rate — benefit obligation	4.10-4.15%	3.80 %	3.80-4.00%	3.15 %
Discount rate — pension expense	3.80-3.95	3.55	3.15-4.00	2.75
Rate of increase in compensation levels				
2017–2018	3.50-4.00	3.50-4.00		
2019 and after	4.00	4.00		
Expected return on plan assets	6.35-6.50	6.25	6.35	6.25
Health care cost trend rate (initial)			6.00-7.08	7.50
Health care cost trend rate (ultimate)			4.50-5.00	5.00
Health care cost trend year			2020-2022	2022

The discount rate utilized to measure the Plans' obligations is based on the yield on high-quality fixed-income investments as of the measurement dates of June 30, 2018 and 2017. Future expected actuarially determined cash flows for the Plans are matched against the Towers Watson U.S. RATE:Link 10-90 Pension Discount Curve (a theoretical yield curve derived from bonds with yields that are within the 10th to 90th percentiles of the yields in a universe of AA graded corporate bonds chosen using defined selection criteria) as of June 30, 2018 and 2017, to arrive at a single discount rate by plan. Peer data and historical returns are reviewed to ensure reasonableness and appropriateness.

MidMichigan Health determines the expected long-term rate of return on plan assets by performing a detailed analysis, with the assistance of MidMichigan Health's actuaries and investment consultants, of historical and expected returns based on the strategic asset allocation approved by the investment committee (the "Investment Committee") under the direction of the Board and the underlying return fundamentals of each asset class. For the years ended June 30, 2018 and 2017, the actual rate of return on plan assets was 5.5% and 11.8%, respectively.

Assumed health care cost trend rates generally have a significant effect on the amounts reported for the Postretirement Healthcare Plan. However, since MidMichigan Health's postretirement costs are capped and the Postretirement Healthcare Plan is closed to any new participants, the impact has been significantly mitigated.

Plan Assets

MidMichigan Health's primary investment objective for its Plans is to achieve a total return on plan assets that meets or exceeds the return on the Plans' liability over a full market cycle with consideration of the Plans' current funded status. MidMichigan Health employs a total return investment approach whereby a mix of equities and fixed-income investments are used to maximize the long-term return of plan assets for a prudent level of risk. Risk tolerance is established through careful consideration of plan liabilities, plan funded status, and MidMichigan Health's consolidated financial condition. The investment portfolio includes a diversified blend of equity and fixed-income investments. Furthermore, equity investments are diversified across US and non-US stocks, as well as growth, value, and small and large capitalizations. Investment management of the Plans is delegated to professional investment management firms that must adhere to policy guidelines and objectives. An independent investment consultant is used to measure and report on investment performance; perform asset and liability modeling studies and recommend changes to objectives, guidelines, managers, or asset class structure; and inform MidMichigan Health of current investment trends and issues.

Based on consideration of the Plans' projected benefit obligation and long-term investment horizon, the Plans' ability to tolerate risk is in the moderate-to-aggressive range. Asset allocation is consistent with this level of risk, with assets being a mix of equities and fixed-income securities. Equity investments are diversified across US and non-US stocks. Minimum and maximum ranges are established for each asset class to control risk and maximize the effectiveness of the Plans' asset allocation strategy. Asset allocation is reviewed quarterly and rebalanced, if necessary. To protect against risk, derivative instruments may only be utilized when consistent with the manager's stated style and objectives and may not be used for speculative purposes. Specific investment guidelines, restrictions, and investment return objectives exist for each asset class and corresponding investment manager.

MidMichigan Health's actual weighted-average asset allocations as of June 30, 2018 and 2017, by investment category, as well as the ongoing weighted average target allocation percentages, are as follows:

	Pension Plans	Pension Plans		Postretirement Healthcare Plans	
	Target	Actual		Actual*	
	2018	2018	2017	2018	2017
Cash and cash equivalents	- %	2.2 %	1.3 %	0.1 %	0.2 %
US equity	19.6	22.1	23.2	34.2	34.0
Non-US equity	17.6	17.4	21.2	-	-
Global equity	11.4	11.7	15.1	28.9	26.5
Emerging markets equity	2.0	2.2	2.2	-	-
Fixed income	<u>49.4</u>	<u>44.4</u>	<u>37.0</u>	<u>36.8</u>	<u>39.3</u>
Total	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>

* Given the nature of the Postretirement Healthcare Plan (curtailed), the Investment Committee reviews and sets its allocation annually. The actual allocation approximates the targeted allocation for the Postretirement Healthcare Plan.

The Plans' asset portfolio by asset category as of June 30, 2018 and 2017, is as follows:

Asset Category as of June 30, 2018	Level 1	Level 2	Level 3	Total Fair Value
Pension plans:				
Cash and cash equivalents	\$ -	\$ 11,672	\$ -	\$ 11,672
Mutual funds:				
Fixed-income funds	19,444	-	-	19,444
US equity fund	58,189	-	-	58,189
Non-US equity fund	48,616	-	-	48,616
Emerging markets fund	<u>10,486</u>	<u>-</u>	<u>-</u>	<u>10,486</u>
Subtotal	<u>\$ 136,735</u>	<u>\$ 11,672</u>	<u>\$ -</u>	<u>148,407</u>
Investments measured at net asset value:				
Equity securities:				
Collective funds — fixed income				196,603
Collective funds — US equity				49,388
Collective funds — non-US equity				35,922
Collective funds — global equity				<u>56,831</u>
Total pension plans assets				<u>\$ 487,151</u>
Postretirement plans:				
Cash and cash equivalents	\$ -	\$ 36	\$ -	\$ 36
Mutual funds:				
Fixed-income funds	<u>6,535</u>	<u>-</u>	<u>-</u>	<u>6,535</u>
Subtotal	<u>\$ 6,535</u>	<u>\$ 36</u>	<u>\$ -</u>	<u>6,571</u>
Investments measured at net asset value:				
Equity securities:				
Collective funds — US equity				5,656
Collective funds — global equity				<u>5,119</u>
Total postretirement plans assets				<u>\$ 17,346</u>

Asset Category as of June 30, 2017	Level 1	Level 2	Level 3	Total Fair Value
Pension plans:				
Cash and cash equivalents	\$ -	\$ 6,177	\$ -	\$ 6,177
Mutual funds:				
Fixed-income funds	38,146	-	-	38,146
US equity fund	41,584	-	-	41,584
Non-US equity fund	43,705	-	-	43,705
Emerging markets fund	9,917	-	-	9,917
Subtotal	<u>\$ 133,352</u>	<u>\$ 6,177</u>	<u>\$ -</u>	<u>139,529</u>
Investments measured at net asset value:				
Equity securities:				
Collective funds — fixed income				125,581
Collective funds — US equity				61,106
Collective funds — non-US equity				50,251
Collective funds — global equity				<u>66,807</u>
Total pension plans assets				<u>\$ 443,274</u>
Postretirement plans:				
Cash and cash equivalents	\$ -	\$ 35	\$ -	\$ 35
Mutual funds:				
Fixed-income funds	6,565	-	-	6,565
Subtotal	<u>\$ 6,565</u>	<u>\$ 35</u>	<u>\$ -</u>	<u>6,600</u>
Investments measured at net asset value:				
Equity securities:				
Collective funds — US equity				5,266
Collective funds — global equity				<u>4,422</u>
Total postretirement plans assets				<u>\$ 16,288</u>

As of June 30, 2018 and 2017, there were no security transfers between Levels 1 and 2 and no securities valued using Level 3 unobservable inputs.

Cash Flows

MidMichigan Health's funding policy is to contribute annually, not less than the minimum required by applicable laws and regulations. MidMichigan Health contributed \$30,737 and \$42,750 to its Pension Plans in fiscal 2018 and 2017, respectively. Pension contributions are expected to be \$31,520 in fiscal 2019.

MidMichigan Health expects to pay the following for pension benefits and expected postretirement benefits:

Estimated benefit payments	Pension Plans	Postretirement Healthcare Plans	
		Before Subsidy	Part D Subsidy
2019	\$ 34,597	\$ 742	\$ 45
2020	33,466	756	45
2021	34,423	773	45
2022	36,394	779	45
2023	36,390	762	44
2024 through 2028	196,054	3,358	207

Other Postretirement Benefit Plans

MidMichigan Health maintains a voluntary tax-deferred retirement savings plan, 403(b) plan, covering substantially all of its employees, except West Branch. Under this defined contribution plan, employees may elect to contribute a percentage of their salary, which may be matched with a discretionary employer contribution in accordance with the provisions of the plan. Benefits are based on matching 50% of an employee's contribution up to 4% of covered compensation. For Alpena, only employees hired as of January 1, 2018 are eligible for the employer matching contribution. Matching amounts become 100% vested after three years of service, and employee elective deferrals are 100% vested from the date of contribution.

MidMichigan Health maintains a 401(a) plan for Alpena employees. MidMichigan Health makes matching contributions in accordance with the provisions of the plan. Additionally, all employees hired prior to January 1, 2018 may make elective contributions to the Plan up to the limits contained in the IRC. Employer and employee contributions are self-directed by plan participants hired prior to January 1, 2018 and cannot be changed once elected. Employer matching amounts become 100% vested after three years of service, and employee elective deferrals are 100% vested from the date of contribution.

MidMichigan Health maintains a separate 403(b) plan for West Branch Employees. Under this defined contribution plan, employees may elect to contribute a percentage of their salary, which may be matched with a discretionary employer contribution for nonunion employees in accordance with the provisions of the plan. Benefits are based on matching 50% of an employee's contribution up to 4% of covered compensation. Union employees receive a discretionary employer contribution, regardless of whether the employees make an elective contribution. Employer matching contributions and employer discretionary contributions become 100% vested after three years of service, and employee elective deferrals are 100% vested from the date of contribution.

Employer contributions to the plans were \$6,710 and \$6,365 for the years ended June 30, 2018 and 2017, respectively.

MidMichigan Health also sponsors a nonqualified deferred compensation plan, 457(b) plan that permits eligible employees to defer a portion of their compensation. The deferred amounts are distributable in cash after retirement or termination of employment. As of June 30, 2018 and 2017, the assets under these plans totaled \$25,895 and \$23,311, respectively, and the liabilities totaled \$28,696 and \$25,774, respectively. Although these assets are held in a trust, these assets belong to MidMichigan Health and are subject to the claims of MidMichigan Health's general creditors.

MidMichigan Health also sponsors certain nonqualified supplemental plan arrangements that provide retirement benefits to certain employees, as designated by the compensation committee of the Board of Directors. MidMichigan Health has accrued liabilities for the supplemental plan based on actuarial valuations. The supplemental pension plan is unfunded. Benefits are paid when incurred from operating funds.

It is MidMichigan Health's policy to meet all regulatory requirements, including ERISA, the Pension Protection Act of 2006, and the IRC.

13. COMMITMENTS AND CONTINGENCIES

Professional and General Liability Programs

MidMichigan Health self-insures primary medical, professional, and general liability claims. Until March 31, 2017, MidMichigan Health operated a primary captive insurance company, MAG, domiciled offshore where it operated and provided professional and general liability insurance coverage to MidMichigan Health and its subsidiaries. MAG was dissolved effective April 1, 2017, and the remaining assets and liabilities were transferred back to MidMichigan Health. MidMichigan Health has limited its liability by membership in Caymich Insurance Company, Ltd. ("Caymich"), which provides excess insurance above the self-insurance and MAG limits.

Effective April 1, 2017, coverage limits per claim are \$3 million and \$8 million annual aggregate. Caymich self-insures the next layer, with shared risk among its seven members, and purchases reinsurance above that layer. The first \$20 million reinsured limit is also shared among its seven members, and the remaining \$30 million reinsured limit is MidMichigan Health's unshared limit. The total Caymich limit is \$59 million (\$9 million in the retained layer and \$50 million in the reinsured layers). As of July 1, 2016, the coverage limit per claim through MAG was \$3 million while the annual aggregate was \$8 million. The total amount available for the subsequent layer was \$65 million (shared with the Caymich members). The same structure and limits were in effect from April 1, 2016, through March 31, 2017, as described above. MidMichigan Health also self-insures \$100 per claim in property damage, with commercial insurance providing coverage up to \$650 million per occurrence. Segregated funds, included in assets limited as to use have been established to settle claims, subject to self-insurance.

MidMichigan Health has recorded a liability of \$16,752 and \$16,749 as of June 30, 2018 and 2017, respectively for known claims and unreported incidents. The discount rate used in calculating the present value of the liability was 3.5% for fiscal years ended June 30, 2018 and 2017. Loss reserves are determined based on assumptions that are reviewed and adjusted as necessary.

MidMichigan Health is subject to various other regulatory investigations, legal proceedings, and claims that are incidental to its normal business activities. Management believes the ultimate disposition of such litigation will not have a material effect on the consolidated financial position of MidMichigan Health. Management also believes that MidMichigan Health is in substantial compliance with current laws and regulations.

Workers' Compensation Self-Insurance Program

MidMichigan Health is a qualified self-insurer within the State of Michigan. MidMichigan Health maintains a trust fund for the payment of claims, which includes provisions for known claims and unreported incidents discounted to their present value at 2.75% as of June 30, 2018 and 2017. Excess commercial insurance was purchased, on a statutory basis, from an unrelated commercial insurer. As of June 30, 2018 and 2017, the amount recorded for MidMichigan Health's self-insured workers' compensation liability was \$2,480 and \$2,682, respectively. Loss reserves are determined based on assumptions that are reviewed and adjusted as necessary.

Obligations under Operating Leases

MidMichigan Health leases certain buildings and equipment under noncancelable operating lease agreements with third parties. Total rental expense for operating leases was approximately \$1,833 and \$2,206 for the years ended June 30, 2018 and 2017, respectively, and was included in purchased services and other in the accompanying consolidated statements of operations and changes in net assets.

Total future minimum payments under these leases as of June 30, 2018, are as follows:

Years Ending June 30	
2019	\$ 1,331
2020	925
2021	696
2022	574
2023	299
Thereafter	<u>2,354</u>
Total	<u>\$ 6,179</u>

14. JOINT VENTURES AND OTHER AFFILIATIONS

MidMichigan Health maintains investments in several unconsolidated joint ventures, with ownership interests ranging from 16% to 51%. Investments in unconsolidated joint ventures, accounted for on the equity method, totaled \$7,945 and \$8,265 as of June 30, 2018 and 2017, respectively, and are included in investments in joint ventures in the accompanying consolidated balance sheets. Income recognized from these joint ventures, reported in other revenue, was \$936 and \$528 during the years ended June 30, 2018 and 2017, respectively.

The summarized financial information for unconsolidated joint ventures as of June 30, 2018 and 2017, consisted of the following:

	2018	2017
Total assets	\$ 23,592	\$ 20,425
Total liabilities	7,077	5,989
Net assets	16,515	14,435
Net revenues	17,668	17,944
Deficiency of revenue over expenses	(1,741)	(250)

15. FUNCTIONAL EXPENSES

The functional classifications of expenses for the years ended June 30, 2018 and 2017, were as follows:

	2018	2017
Patient care	\$ 653,975	\$ 624,151
Support services	159,132	141,505
Medicaid hospital assessment	<u>17,414</u>	<u>15,585</u>
Total	<u>\$ 830,521</u>	<u>\$ 781,241</u>

16. UNIVERSITY OF MICHIGAN HEALTH SYSTEM TRANSACTION

On June 21, 2013, the University of Michigan Regents through its operating division, the University of Michigan Health System (UMHS), and Michigan Health Corporation, together with MidMichigan Health, executed an affiliation agreement (the "Agreement"). The Agreement objectives include improvement of the health of our residents; increased access to high-quality service; achievement of significant efficiencies; enhancement of clinical integration; and the furtherance of both MidMichigan Health's and UMHS's missions.

As a result of this transaction, MidMichigan Health established two member classes:

- The Michigan Health Corporation member class, consisting of a one-tenth of one percent (0.1%) membership interest in MidMichigan Health during the initial term of the Agreement; and
- The MidMichigan Health member class, consisting of a 99.9% membership interest in MidMichigan Health during the initial term of the Agreement.

In order to preserve the benefits of the affiliation, the Agreement was amended on June 30, 2016. The Amendment resulted in the following changes to the Agreement, after the initial term expired June 30, 2017:

- The membership change in ownership from 0.1% to 12.0% effective July 1, 2017;
- The automatic renewal for successive 20 year terms;
- The right to purchase up to an additional 8% interest expiring on June 30, 2019;
- The continuation of the reserve powers (such as termination, dissolution, and approval of certain capital expenditures in excess of various thresholds); and
- With respect to the financials provisions:
 - The elimination of all value sharing payments; and
 - The indexing for inflation of the annual distribution amount.

The Agreement includes certain restrictive covenants, including the rights of first refusal related to the provision of clinical care, exclusivity, and noncompetes upon the termination of the Agreement and allows for MidMichigan Health's use of the MidMichigan/UMHS Brand.

The Agreement may be terminated under certain conditions. The termination payments range from MidMichigan Health making an exit payment to UMHS, from \$38 million to \$115 million.

Recognition of Membership Interest of UMHS by MidMichigan Health

MidMichigan Health has concluded that its affiliation with UMHS meets the criteria for classifying the agreement as a collaborative arrangement. MidMichigan Health has evaluated the financial statement impact and classification of this collaborative arrangement for the periods ended June 30, 2018 and 2017. The impacts on the consolidated balance sheets as of June 30, 2018 and 2017, are as follows:

A long-term asset and a long-term liability of \$3.0 million were recorded to reflect the value of the option provided by MidMichigan Health to Michigan Health Corporation to purchase up to an additional 8% interest (total interest of 20%) at an agreed-upon 5% discount to MidMichigan Health's fair market value at the time of Michigan Health Corporation's notice of its intent to purchase the additional interest.

For the years ended June 30, 2018 and 2017, the long-term asset continued to be amortized over its remaining seven-year estimated life and the liability remained at \$3.0 million for both years. Approximately \$0.6 million was recorded in depreciation and amortization in the consolidated statements of operations and changes in net assets to reflect the estimated long-term asset. The annual distribution of \$4.4 million is included in fees in both fiscal 2018 and 2017 in the consolidated statements of operations and changes in net assets.

Related-Party Transactions

As of and for the years ended June 30, 2018 and 2017, the only significant related-party transactions with UMHS or Michigan Health Corporation is the payment by MidMichigan Health to Michigan Health Corporation of \$4.4 million, the annual distribution.

In addition to the Affiliation Agreement, UMHS and Alpena are the sole members of the North East Michigan Cancer Center (NEMCC). NEMCC was formed in 2001 to provide radiation oncology treatment to patients in northeastern Michigan.

17. SUBSEQUENT EVENTS

Management has evaluated subsequent events through October 12, 2018, the date the consolidated financial statements were issued. As a result of this evaluation, MidMichigan Health has no subsequent events to disclose.

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MIDMICHIGAN HEALTH SUPPLEMENTARY CONSOLIDATING INFORMATION

MIDMICHIGAN HEALTH
CONSOLIDATING BALANCE SHEET INFORMATION
AS OF JUNE 30, 2018
(Dollars In thousands)

	Midland	Alpena	Griot	Clare	Gladwin	West Branch	MPG	Foundation	Tolfree Foundation	MHC	Hospice of Helping Hands	MHDA	MCCO	MH	Total	Eliminations	Consolidated
ASSETS																	
CURRENT ASSETS:																	
Cash and cash equivalents	\$ 8,056	\$ 4,073	\$ 634	\$ 198	\$ 281	\$ 1,011	\$ 3,077	\$ -	\$ 139	\$ 1,286	\$ 230	\$ 638	\$ 747	\$ 412	\$ 20,782	\$ -	\$ 20,782
Accounts receivable for patient services — net	44,012	11,044	14,052	5,633	3,083	3,395	3,756	-	-	4,482	128	-	-	-	89,585	-	89,585
Estimated receivables from third-party payors	5,149	3,689	2,590	1,091	1,535	803	-	-	-	-	-	-	-	-	14,857	-	14,857
Inventories	5,896	1,907	2,363	642	713	603	-	-	-	-	-	-	-	-	12,124	-	12,124
Prepaid expenses and other current assets	2,292	445	1,166	397	194	2,475	412	-	2	111	4	158	276	3,318	11,250	(413)	10,837
Assets limited or restricted as to use — current portion	12,375	-	2,243	357	472	-	-	-	-	-	-	-	-	2,000	17,447	-	17,447
Total current assets	77,780	21,158	23,048	8,318	6,278	8,287	7,245	-	141	5,879	362	796	1,023	5,730	166,045	(413)	165,632
ASSETS LIMITED AS TO USE AND INVESTMENTS:																	
Investments — less current portion	72,662	8,069	67	4,507	5,276	-	(39)	-	177	841	-	-	-	40,620	132,180	-	132,180
Limited as to use by Board for capital acquisitions	352,384	34,587	23,276	17,101	44,408	11,497	-	-	-	5,283	-	-	-	-	488,536	-	488,536
Self-insurance, deferred compensation, and other	-	45	-	-	-	-	-	-	-	-	-	-	-	47,353	47,398	-	47,398
Limited as to use by donor or time restriction	-	770	-	-	-	-	-	45,600	1,270	-	-	-	-	-	47,640	-	47,640
Total assets limited as to use and investments	425,046	43,471	23,343	21,608	49,684	11,497	(39)	45,600	1,447	6,124	-	-	-	87,973	715,754	-	715,754
PROPERTY AND EQUIPMENT — net	159,021	66,168	45,425	11,514	4,314	32,147	3,401	-	116	1,433	1	56,445	-	50,224	430,209	-	430,209
INVESTMENTS IN SUBSIDIARIES	-	-	-	-	-	-	-	-	-	-	-	-	-	767,091	767,091	(767,091)	-
INVESTMENTS IN JOINT VENTURES	1,962	3,550	-	-	-	272	-	-	-	-	-	-	-	2,161	7,945	-	7,945
OTHER ASSETS	15,544	762	367	-	-	-	505	-	-	-	-	-	-	4,047	21,225	-	21,225
TOTAL ASSETS	\$ 679,353	\$ 135,109	\$ 92,183	\$ 41,440	\$ 60,276	\$ 52,203	\$ 11,112	\$ 45,600	\$ 1,704	\$ 13,436	\$ 363	\$ 57,241	\$ 1,023	\$ 917,226	\$ 2,108,269	\$ (767,504)	\$ 1,340,765
LIABILITIES AND NET ASSETS																	
CURRENT LIABILITIES:																	
Accounts payable and accrued expenses	\$ 9,340	\$ 2,241	\$ 2,736	\$ 675	\$ 339	\$ 1,649	\$ 1,518	\$ -	\$ 413	\$ 350	\$ 30	\$ 628	\$ -	\$ 20,839	\$ 40,758	\$ (413)	\$ 40,345
Salaries, wages, and payroll-related liabilities	6,510	2,706	1,895	756	442	1,661	8,683	-	-	644	42	-	44	23,005	46,388	-	46,388
Estimated third-party settlements payable	8,195	1,485	4,235	1,101	543	1,842	112	-	-	-	-	-	-	-	17,513	-	17,513
Current portion of long-term debt	5,188	-	466	98	79	665	-	-	-	-	-	-	-	-	6,496	-	6,496
Current portion of self-insurance, deferred compensation, and other liabilities	-	294	248	-	-	369	-	-	-	243	-	-	-	2,000	3,154	-	3,154
Total current liabilities	29,233	6,726	9,580	2,630	1,403	6,186	10,313	-	413	1,237	72	628	44	45,844	114,309	(413)	113,896
LONG-TERM LIABILITIES:																	
Self-insurance, deferred compensation, and other liabilities — less current portion	12,294	5,826	2,618	769	1,616	4,975	763	-	-	119	-	25	2	54,015	83,022	-	83,022
Accrued pension and postretirement benefits	-	47,864	-	-	-	15,278	-	-	-	-	-	-	-	66,172	129,314	-	129,314
Long-term debt — less current portion	160,168	-	33,932	4,589	7,660	11,389	-	-	-	-	-	-	-	-	217,738	-	217,738
Total long-term liabilities	172,462	53,690	36,550	5,358	9,276	31,642	763	-	-	119	-	25	2	120,187	430,074	-	430,074
Total liabilities	201,695	60,416	46,130	7,988	10,679	37,828	11,076	-	413	1,356	72	653	46	166,031	544,383	(413)	543,970
NET ASSETS:																	
Unrestricted	477,658	73,923	46,053	33,452	49,597	14,375	36	-	21	12,080	291	56,588	977	751,195	1,516,246	(767,091)	749,155
Temporarily restricted	-	-	-	-	-	-	-	30,609	128	-	-	-	-	-	30,737	-	30,737
Permanently restricted	-	770	-	-	-	-	-	14,991	1,142	-	-	-	-	-	16,903	-	16,903
Total net assets	477,658	74,693	46,053	33,452	49,597	14,375	36	45,600	1,291	12,080	291	56,588	977	751,195	1,563,886	(767,091)	796,795
TOTAL LIABILITIES AND NET ASSETS	\$ 679,353	\$ 135,109	\$ 92,183	\$ 41,440	\$ 60,276	\$ 52,203	\$ 11,112	\$ 45,600	\$ 1,704	\$ 13,436	\$ 363	\$ 57,241	\$ 1,023	\$ 917,226	\$ 2,108,269	\$ (767,504)	\$ 1,340,765

MIDMICHIGAN HEALTH
CONSOLIDATING STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS INFORMATION
FOR THE YEAR ENDED JUNE 30, 2018
(Dollars In thousands)

	Midland	Alpena	Gratiot	Clare	Gladwin	West Branch	MPG	Foundation	Tolfree Foundation	MHC	Hospice of Helping Hands	MHDA	MCCO	MAG	MH	Total	Eliminations	Consolidated
REVENUE:																		
Net patient service revenue	\$ 428,169	\$ 137,042	\$ 125,852	\$ 56,304	\$ 32,834	\$ 11,732	\$ 33,083	\$ -	\$ -	\$ 23,148	\$ 338	\$ -	\$ -	\$ -	\$ -	\$ 848,502	\$ -	\$ 848,502
Provision for uncollectible accounts	(19,370)	(5,838)	(7,276)	(3,620)	(2,679)	(714)	(2,081)	-	-	(344)	-	-	-	-	-	(41,922)	-	(41,922)
Net patient service revenue less provision for uncollectible accounts	408,799	131,204	118,576	52,684	30,155	11,018	31,002	-	-	22,804	338	-	-	-	-	806,580	-	806,580
Other revenue	18,510	7,390	2,840	833	349	246	83,127	2,173	12	267	-	4,959	1,530	-	58,982	181,218	(156,431)	24,787
Total revenue	427,309	138,594	121,416	53,517	30,504	11,264	114,129	2,173	12	23,071	338	4,959	1,530	-	58,982	987,798	(156,431)	831,367
EXPENSES:																		
Salaries and wages	117,366	50,190	36,326	14,991	8,517	3,879	92,946	-	32	10,919	185	65	598	-	29,817	365,831	-	365,831
Employee benefits	27,583	16,959	8,754	3,816	2,038	1,584	13,423	-	4	2,629	44	20	152	-	5,225	82,231	-	82,231
Supplies	77,177	31,580	21,051	6,449	3,875	3,023	6,670	-	2	4,907	52	18	2	-	325	155,131	-	155,131
Purchased services and other	57,975	13,603	25,428	8,081	4,880	680	18,548	2,173	55	3,754	96	1,298	694	-	19,912	157,177	(78,356)	78,821
Fees	27,898	11,978	12,609	4,023	2,989	1,955	1,078	-	-	238	18	137	39	-	8,386	71,348	-	71,348
Depreciation and amortization	19,555	5,826	5,816	1,807	993	785	604	-	-	167	2	4,080	-	-	9,732	49,367	-	49,367
Utilities	4,720	1,432	1,876	568	384	199	1,163	-	-	247	4	58	-	-	56	10,707	-	10,707
Insurance	4,065	1,652	1,146	403	231	77	1,694	-	-	145	2	58	-	-	(259)	9,214	-	9,214
Interest	5,907	2	1,375	183	306	98	-	-	-	-	-	-	-	-	-	7,871	-	7,871
Physician practice investment	50,098	3,420	9,373	10,435	4,749	-	-	-	-	-	-	-	-	-	-	78,075	(78,075)	-
Total expenses	392,344	136,642	123,754	50,756	28,962	12,280	136,126	2,173	93	23,006	403	5,734	1,485	-	73,194	986,952	(156,431)	830,521
OPERATING INCOME (LOSS) - BEFORE OTHER ITEMS	34,965	1,952	(2,338)	2,761	1,542	(1,016)	(21,997)	-	(81)	65	(65)	(775)	45	-	(14,212)	846	-	846
OTHER ITEMS:																		
Asset impairment charges for receivables	(5,250)	(70)	(2,493)	(1,671)	(441)	-	(210)	-	-	(600)	-	-	-	-	-	(10,735)	-	(10,735)
Total other items	(5,250)	(70)	(2,493)	(1,671)	(441)	-	(210)	-	-	(600)	-	-	-	-	-	(10,735)	-	(10,735)
OPERATING INCOME (LOSS)	29,715	1,882	(4,831)	1,090	1,101	(1,016)	(22,207)	-	(81)	(535)	(65)	(775)	45	-	(14,212)	(9,889)	-	(9,889)
NONOPERATING INCOME:																		
Investment income	39,456	3,848	2,503	1,915	4,637	82	221	-	152	644	-	-	-	-	6,600	60,058	-	60,058
Inherent contribution from acquisition	-	-	-	-	-	14,432	-	-	(51)	-	356	-	-	-	-	14,737	-	14,737
Total nonoperating income	39,456	3,848	2,503	1,915	4,637	14,514	221	-	101	644	356	-	-	-	6,600	74,795	-	74,795
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENSES	\$ 69,171	\$ 5,730	\$ (2,328)	\$ 3,005	\$ 5,738	\$ 13,498	\$ (21,986)	\$ -	\$ 20	\$ 109	\$ 291	\$ (775)	\$ 45	\$ -	\$ (7,612)	\$ 64,906	\$ -	\$ 64,906

(Continued)

MIDMICHIGAN HEALTH
CONSOLIDATING STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS INFORMATION
FOR THE YEAR ENDED JUNE 30, 2018
(Dollars In thousands)

	Midland	Alpena	Gratiot	Clare	Gladwin	West Branch	MPG	Foundation	Tolfree Foundation	MHC	Hospice of Helping Hands	MHDA	MCCO	MAG	MH	Total	Eliminations	Consolidated
UNRESTRICTED NET ASSETS:																		
Excess (deficiency) of revenue over expenses	\$ 69,171	\$ 5,730	\$ (2,328)	\$ 3,005	\$ 5,738	\$ 13,498	\$ (21,986)	\$ -	\$ 20	\$ 109	\$ 291	\$ (775)	\$ 45	\$ -	\$ (7,612)	\$ 64,906	\$ -	\$ 64,906
Net assets released from restrictions - capital acquisitions	-	1,386	-	-	-	-	-	464	-	-	-	-	-	-	-	1,850	-	1,850
Change in unrealized investment return	(13,598)	(1,196)	(840)	(623)	(1,519)	-	(51)	-	-	(240)	-	-	-	-	(2,362)	(20,429)	-	(20,429)
Equity earnings from subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-	-	-	62,372	62,372	(62,372)	-
Transfers to/from subsidiaries	(18,781)	-	(3,084)	(3,236)	(4,699)	196	21,315	(465)	-	-	-	8,950	-	-	-	196	(196)	-
Postretirement-related liability adjustments	499	7,557	-	-	-	681	-	-	-	-	-	-	-	-	10,523	19,260	-	19,260
INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS	37,291	13,477	(6,252)	(854)	(480)	14,375	(722)	(1)	20	(131)	291	8,175	45	-	62,921	128,155	(62,568)	65,587
RESTRICTED NET ASSETS																		
TEMPORARILY RESTRICTED NET ASSETS:																		
Pledges, contributions, grants, and interest income	-	(2,777)	-	-	-	-	-	12,342	7	-	-	-	-	-	-	9,572	-	9,572
Acquisition of West Branch	-	-	-	-	-	-	-	-	121	-	-	-	-	-	-	121	-	121
Net assets released from restrictions	-	(1,928)	-	-	-	-	-	(2,637)	-	-	-	-	-	-	-	(4,565)	-	(4,565)
(DECREASE) INCREASE IN TEMPORARILY RESTRICTED NET ASSETS	-	(4,705)	-	-	-	-	-	9,705	128	-	-	-	-	-	-	5,128	-	5,128
PERMANENTLY RESTRICTED NET ASSETS:																		
Acquisition of West Branch	-	-	-	-	-	-	-	-	1,141	-	-	-	-	-	-	1,141	-	1,141
Pledges, contributions, grants, and investment income	-	770	-	-	-	-	-	313	-	-	-	-	-	-	-	1,083	-	1,083
Investment gains on trustee-held investments	-	-	-	-	-	-	-	26	-	-	-	-	-	-	-	26	-	26
INCREASE IN PERMANENTLY RESTRICTED NET ASSETS	-	770	-	-	-	-	-	339	1,141	-	-	-	-	-	-	2,250	-	2,250
INCREASE (DECREASE) IN NET ASSETS	37,291	9,542	(6,252)	(854)	(480)	14,375	(722)	10,043	1,289	(131)	291	8,175	45	-	62,921	135,533	(62,568)	72,965
NET ASSETS — Beginning of year	440,367	65,151	52,305	34,306	50,077	-	758	35,557	-	12,213	-	48,413	932	-	688,274	1,428,353	(704,523)	723,830
NET ASSETS — End of year	\$ 477,658	\$ 74,693	\$ 46,053	\$ 33,452	\$ 49,597	\$ 14,375	\$ 36	\$ 45,600	\$ 1,289	\$ 12,082	\$ 291	\$ 56,588	\$ 977	\$ -	\$ 751,195	\$ 1,563,886	\$ (767,091)	\$ 796,795

(Concluded)