

Meadville Medical Center, PA (PA)

1 Crawford County Hospital Authority, Hospital Revenue Bonds (Meadville Medical Center Project), Series 2016A, \$74,935,000, Dated: November 16, 2016

Series 2016

A list of the Members of the Obligated Group

Meadville Medical Center and its affiliates including Meadville Medical Center Foundation, Meadville Physician Services, French Creek Internal Medicine, Community Health Services, Inc., Conneaut Valley Health Center, Inc., Hospice of Crawford County, Inc., Home Care Connections, Inc., Titusville Area Health Center, Inc., The Titusville Area Hospital, Titusville Area Health Services, Inc., and Titusville Area Health Center

Series 2016

A statement identifying the amount and purpose of any bonds or notes issued by or on behalf of the Obligated Group or its Members during the most recent fiscal year, and a statement of any such other bonds or notes retired in the prior fiscal year in advance of the maturity thereof

On June 29, 2017, Meadville Medical Center obtained an intermediate term, revolving line of credit under the Master Trust Indenture of the 2016 Revenue Notes. The maximum amount of the line is \$3,000,000 and matures on September 30, 2018. The interest rate is the Prime Rate plus 1.5% (not less than 4%) and is payable monthly.

Series 2016

An annual narrative summary of historical revenues and expenses, compared to the prior year

Meadville Medical Center and Subsidiaries FYE June 30, 2017

Financial and operational Narrative

Meadville Medical Center (MMC) remains committed to its mission of operating a high quality independent community health system and to maintaining what it considers to be a longstanding track record. This is evident by the increase in admission for FY ending 2017 for Meadville Medical Center (MMC) and Titusville Area Hospital (TAH).

Meadville Medical Center admission numbers for FY 2017 is at 7,734 as compared to FY 2016 of 7,535. This is an increase of 2.6%. Outpatient volume numbers for FY 2017 is 268,052 compared to FY 2016 of 261,380. This is also an increase of 2.6% from prior year.

Titusville Area Hospital admission numbers for FY 2017 is 1,030 compared to FY 2016 of 937. This is a 9.9% increase from prior year. Outpatient volume numbers for FY 2017 is 52,440 compared to FY 2016 of 51,618. This is an increase of 1.6%.

On a fully consolidated basis, Total Operating Revenue for FY 2017 is \$229.6M compared to FY 2016 of \$203.2 M. This is a top line growth of 13%. Total Operating Expenses for FY 2017 are at \$236.7 M compared to FY 2016 of \$222.4 M. This is a decrease of 6.4%. The resulting Net Operating Income (Loss) for FY 2017 is a Loss of \$7.1 M compared to FY 2016 Loss of \$19.2 M. This is a 137% substantial improvement over last year.

The factors impacting the results for this year are as follows:

*The Meditech system implementation problems that MMC experienced last year are now working properly. Billing and cash collections are back to normal if not better.

*The Vernon Place Outpatient Campus and Oncology Institute are fulfilling the expected volume increase as forecasted.

*The acquisition of Titusville Area Hospital worked as planned. MMC admissions and outpatient visits increased from the Titusville Area zip codes. Additionally, MMC has made available Oncology, Cardiology and Pain Management physician services to the Titusville community.

*The VERIP (Voluntary Early Retirement Program) decreased the number of FTE's at MMC. MMC has achieved the forecasted reduction in the number of FTE's as planned. The resulting Year End Financial statement for June 30, 2017 is the result of the above factors that were implemented by the MMC management. It is also notable that MMC met all the bond covenants for FY 2017. Days Cash on Hand is at 70 days and the Debt Service Covenant is at 1.43.

Due to uncertainty surround the timing of receipt of its annual cost report settlement and "Meaningful Use" dollars from Medicare, as well as annual Quality Care incentive payments from Highmark and other third party payors, MMC borrowed \$3 million from Eire Bank in June of 2017. The loan is due on September 30, 2018, secured by a parity master note issued under MMC's Master Trust Indenture (MTI) and was incurred as permitted long term indebtedness under the MTI. Without the Eire Bank loan, Debt Service Coverage would have been 1.93 and Days Cash on Hand would be at 65.5 as calculated by the auditors.

RESULTS OF OPERATIONS

Series 2016

Operating Statistics

Fiscal Year Ended June 30,	MMC 2017	TAH 2017
Discharges	7,734	1,030
Observation Cases	3,698	557
Discharges plus Observation Cases	11,432	1,587
Patient Days	36,961	4,549
Length of Stay	4.8	4.4
Licensed Beds	238	25
Occupancy (percent) -Overall	46.90%	49..9%
Occupancy (percent) - Acute	39.90%	
Medicare Case Mix Index	1.5170	1.0810
Surgical Procedures Inpatient	1,863	208
Surgical Procedures Outpatient	4,552	1,519
Emergency Room Visits	34,971	10,384
Outpatient Visits	268,052	52,440

Series 2016

Payer Mix

Fiscal Year Ended June 30,	MMC 2017	TAH 2017
Medicare	35%	35%
Medicare managed care	18%	17%
Total Medicare	53%	51%
Medicaid	1%	1%
Medicaid Managed Care	12%	17%
Total Medicaid	13%	18%
Total Commercial	29%	27%
Self-Pay	2%	2%
Other	4%	2%
Total	100%	100%

Net revenues available for debt service and calculation of debt service coverage ratio and days' cash on hand

Series 2016

Long Term Debt Service Coverage Ratio

Fiscal Year Ended June 30, 2017	
Excess (deficiency) of revenues over expenses	\$ <u>2017</u> (9,195,483)
Add:	
Depreciation and amortization expense	<u>13,606,135</u>
Interest expense	<u>4,457,467</u>
Curtailment gain on defined benefit pension plan	<u>-</u>
Loss on extinguishment of debt	<u>4,903,022</u>
Termination benefits and settlement on pension plan	<u>-</u>
Net revenue available for debt service (A)	<u>13,771,141</u>
Maximum annual debt service (B)	<u>9,662,770</u>
Long-term debt service coverage (A/B)	<u>1.43</u>

Series 2016

Days' Cash on Hand

Fiscal Year Ended June 30, 2017	
Cash and cash equivalents	\$ <u>2017</u> 26,389,065
Assets limited as to use - internally designated	<u>15,788,093</u>
Long-term investments	<u>531,983</u>
Cash and investments (A)	<u>42,709,141</u>
Total operating expenses	<u>235,030,116</u>
Less: depreciation and amortization	<u>13,746,015</u>
Expenses excluding depreciation and amortization	<u>221,284,101</u>
Daily expenses (B)	<u>606,258</u>
Days' Cash on Hand (A/B)	<u>70.4</u>