



MANAGEMENT'S DISCUSSION OF FINANCIAL PERFORMANCE

As of December 31, 2017



Memorial Health System
Management's Discussion of Financial Performance
(Dollars in Thousands)

Introduction

The consolidated financial statement information and other data for the three months ended December 31, 2017 and 2016 are derived from the consolidated financial statements and other records of Memorial Health System (MHS). The consolidated financial statements include all adjustments, consisting of normal recurring and other accruals, which MHS management considers necessary for a fair presentation of financial position, results of operations and changes in net assets, and cash flows for these periods in conformity with generally accepted accounting principles (GAAP) in the United States. All balance sheet references are from fiscal year end 2017 results and all income statement references compare the three months ended December 31, 2017 to the three months ended December 31, 2016.

Unrestricted Cash and Investments

MHS had \$733,523 in cash and investments on December 31, 2017. This represents an increase of \$60,118 from the end of fiscal year 2017. The increase in unrestricted cash and investments primarily resulted from an increase in short-term and unrestricted investments of \$25,333, which was largely attributed to market returns, combined with the collection of receivables, which increased cash by \$27,919.

Receivables

Total receivables decreased by \$27,919 from fiscal year end 2017, largely attributed to payments received from the State of Illinois.

Long-term Debt

MHS decreased its long-term debt obligations, net from \$437,260 to \$427,440, primarily due to normal principal payments in addition to accelerated repayments of the 2016 Direct Note Obligation totaling \$3,750 as of December 31, 2017.

Net Assets

Total net assets reached \$1,010,181, which is an increase of \$31,528 or 3.2% from fiscal year end 2017.

Utilization

During fiscal year 2018, total inpatient discharges for all of MHS's hospitals increased 1.9% while outpatient visits increased 0.7% compared to fiscal year 2017.

Revenues

Net patient service revenues increased by \$9,722 or 4.5% from the prior year. This increase correlates with the increase in both outpatient and inpatient visits. Hospital access improvement payments, net of Hospital provider assessment expenses decreased by \$450 and Capitation revenues increased by \$1,144 from the prior year. In aggregate, total revenues increased by \$11,256 or 4.5% in fiscal year 2018.

Expenses

Total expenses increased by \$1,007 or 0.4% from the prior year. Salaries increased \$1,634 or 1.8% due primarily from annual compensation adjustments. Benefits increased \$873 or 2.9%. These increases were offset by a decrease of \$1,095 or 3.1% in pharmaceutical supplies and patient service supplies.

Memorial Health System
Management's Discussion of Financial Performance - Continued
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Income from Operations

Income from operations of \$13,194 reflects a 5.0% operating margin and a \$10,249 increase from prior year.

Nonoperating Gains (Losses)

A nonoperating gain of \$19,004 increased \$19,683 compared to prior year largely due to changes in the fair market value of investments. MHS investment performance (interest and dividends, realized and unrealized gains/losses, and gains/losses on derivatives) accounted for \$19,929 of the change from the prior year.

Excess of Revenues over Expenses

MHS reported excess revenues over expenses of \$32,198, due to income from operations totaling \$13,194 and a nonoperating gain of \$19,004. This represents an 11.5% excess margin and a \$29,932 increase from prior year.