

Audited Financial Statements

CMU Medical Education Partners

*Years Ended June 30, 2017 and 2016  
with Report of Independent Auditors*



CMU Medical Education Partners

Audited Financial Statements

Years Ended June 30, 2017 and 2016

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## Report of Independent Auditors

To the Board of Trustees of  
CMU Medical Education Partners

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Saginaw Cooperative Hospitals Inc. d/b/a CMU Medical Education Partners, which comprise the balance sheets as of June 30, 2017 and 2016, and the related statements of operations, changes in net assets, and cash flows for the years then ended, and the related notes to the financial statements.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these 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 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 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the 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 the entity'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 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 financial statements referred to above present fairly, in all material respects, the financial position of CMU Medical Education Partners as of June 30, 2017 and 2016, and the statements of its operations, changes in its net assets, and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*Andrews Hooper Paulik PLC*

Saginaw, Michigan  
August 8, 2017

CMU Medical Education Partners

Balance Sheets

	June 30	
	2017	2016
<b>Assets</b>		
Current assets:		
Cash	\$ 3,540,114	\$ 3,432,850
Patient accounts receivable, net	1,088,016	1,453,713
Other receivables	935,425	536,309
Prepaid expenses and other assets	643,582	755,624
Total current assets	<u>6,207,137</u>	<u>6,178,496</u>
Assets whose use is limited:		
By the Board of Trustees	121,735	148,280
Under professional liability funding arrangement – held by the trustee	700,336	629,842
Total assets whose use is limited	<u>822,071</u>	<u>778,122</u>
Medical education funding receivable, less allowance of \$1,038,544 in 2017 and \$1,397,291 in 2016	518,695	518,695
Leasehold improvements, furniture, and equipment, net	1,771,529	1,423,709
Total assets	<u>\$ 9,319,432</u>	<u>\$ 8,899,022</u>
<b>Liabilities and net assets</b>		
Current liabilities:		
Accounts payable	\$ 452,925	\$ 787,943
Other accrued liabilities	34,026	34,026
Payroll and related liabilities	1,496,863	1,205,335
Total current liabilities	<u>1,983,814</u>	<u>2,027,304</u>
Estimated professional liability under self-insurance	75,900	163,892
Deferred revenue	-	9,959
Payable to CMU	270,556	84,957
Total liabilities	<u>2,330,270</u>	<u>2,286,112</u>
Net assets:		
Unrestricted:		
Undesignated	6,989,162	6,593,625
Temporarily restricted	-	19,285
Total net assets	<u>6,989,162</u>	<u>6,612,910</u>
Total liabilities and net assets	<u>\$ 9,319,432</u>	<u>\$ 8,899,022</u>

See accompanying notes.

CMU Medical Education Partners

Statements of Operations

	<b>Year Ended June 30</b>	
	<b>2017</b>	<b>2016</b>
Unrestricted revenues and other support:		
Member hospitals	\$ 16,075,308	\$ 15,492,619
Net patient service revenue	11,408,467	9,674,146
Interest income	90	363
Professional liability fund	28,682	13,562
Contracts and other revenue	8,531,210	7,482,410
Total unrestricted revenues and other support	<u>36,043,757</u>	<u>32,663,100</u>
Operating expenses:		
Salaries, wages, and payroll taxes	22,824,783	20,835,945
Employee benefits	4,425,495	3,114,883
Recruiting	453,858	284,431
Facility and equipment	1,496,426	1,457,804
Consumable supplies	617,883	500,796
Educational supplies and services	544,722	528,257
Consulting and contractual services	2,170,606	2,370,705
Communications	291,857	198,683
Educational conferences and travel	721,348	680,732
Grant expenses	556,443	470,511
Other expenses	132,015	120,342
Contribution to CMU Endowment Foundation	-	1,000,000
Professional liability insurance expense	654,430	689,829
Depreciation	319,926	258,828
Provision for bad debts	473,504	354,936
Professional liability expense	28,535	10,031
Total operating expenses	<u>35,711,831</u>	<u>32,876,713</u>
Unrestricted revenues and other support over (under)		
operating expenses	331,926	(213,613)
Net unrealized gain (loss) on investments whose use is limited	44,326	(7,088)
Net assets released from restrictions	19,285	-
Increase (decrease) in unrestricted net assets	<u>\$ 395,537</u>	<u>\$ (220,701)</u>

See accompanying notes.

CMU Medical Education Partners

Statements of Changes in Net Assets

	<b>Unrestricted Net Assets</b>				
	<b>Designated for Professional Liability</b>	<b>Undesignated</b>	<b>Total Unrestricted Net Assets</b>	<b>Temporarily Restricted</b>	<b>Total</b>
Net assets (deficit) at June 30, 2015	\$ (3,483,126)	\$ 10,297,452	\$ 6,814,326	\$ 19,285	\$ 6,833,611
Release of designation	3,483,126	(3,483,126)	-	-	-
Revenues under expenses	-	(213,613)	(213,613)	-	(213,613)
Net unrealized loss	-	(7,088)	(7,088)	-	(7,088)
Net assets at June 30, 2016	-	6,593,625	6,593,625	19,285	6,612,910
Release of restriction	-	19,285	19,285	(19,285)	-
Revenues over expenses	-	331,926	331,926	-	331,926
Net unrealized gain	-	44,326	44,326	-	44,326
Net assets at June 30, 2017	<b>\$ -</b>	<b>\$ 6,989,162</b>	<b>\$ 6,989,162</b>	<b>\$ -</b>	<b>\$ 6,989,162</b>

See accompanying notes.

CMU Medical Education Partners

Statements of Cash Flows

	<b>Year Ended June 30</b>	
	<b>2017</b>	<b>2016</b>
<b>Operating activities</b>		
Net change in unrestricted net assets	\$ 395,537	\$ (220,701)
Adjustments to reconcile net change in unrestricted net assets to net cash from operating activities:		
Depreciation	319,926	258,828
Net loss on disposal of leasehold improvements, furniture, and equipment	490	655
Net unrealized loss (gain) on investments	(44,326)	7,088
Release from restriction	(19,285)	-
Change in assets and liabilities:		
Patient accounts receivable	365,697	(653,764)
Other receivables	(399,116)	364,477
Prepaid expenses and other assets	112,042	23,891
Accounts payable	(335,018)	47,608
Other accrued liabilities and payroll and related liabilities	291,528	49,307
Estimated professional liability under self-insurance	(87,992)	(82,224)
Deferred revenue	(9,959)	(62,785)
Net cash from operating activities	<u>589,524</u>	<u>(267,620)</u>
<b>Investing activities</b>		
Purchases of leasehold improvements, furniture, and equipment	(668,236)	(757,994)
Change in Board restricted funds	26,545	(18,297)
Change in funds held by the trustee	(26,168)	(10,721)
Net cash from investing activities	<u>(667,859)</u>	<u>(787,012)</u>
<b>Financing activities</b>		
Change in payable to CMU	185,599	(208,763)
Net cash from financing activities	<u>185,599</u>	<u>(208,763)</u>
Net change in cash and cash equivalents	107,264	(1,263,395)
Cash at beginning of period	3,432,850	4,696,245
Cash at end of period	<u>\$ 3,540,114</u>	<u>\$ 3,432,850</u>

See accompanying notes.



# CMU Medical Education Partners

## Notes to Financial Statements

June 30, 2017

### **1. Summary of Accounting Policies**

#### **Organization and Nature of Operations**

Saginaw Cooperative Hospitals, Inc. (Corporation), d/b/a CMU Medical Education Partners is a Michigan nonprofit corporation located in Saginaw, Michigan. The Corporation was incorporated in Michigan in 1968 and is a tax-exempt organization pursuant to §501(c)(3) of the Internal Revenue Code. The Corporation is organized on a non-stock membership basis. Effective January 1, 2011 the Corporation is subject to a Members' Agreement that provides Central Health Advancement Solutions (CHAS) with a 90% membership interest in CMU Medical Education Partners (CMU Partners); St. Mary's of Michigan (St. Mary's) with a 5% membership interest; and Covenant Medical Center, Inc. (Covenant) with a 5% membership interest. All members are entitled to vote on any matter reserved to them in accordance with their membership interests. CHAS is a Michigan nonprofit corporation organized on a non-stock membership basis. The sole member of CHAS is the Board of Trustees of Central Michigan University.

The purpose of the Corporation is to integrate medical education, research, and service primarily for the training of medical residents and other medical related personnel. The two member hospitals, Covenant and St. Mary's, both of Saginaw, have provided greater than 50 percent of the total support of the Corporation. The Corporation operates under a Master Affiliation Agreement (Agreement) between the Corporation, St. Mary's, and Covenant. The Agreement was effective July 1, 2010 and expired June 30, 2013 and has continued on a month-to-month basis until a new agreement can be reached. This agreement covers the operation and funding of the Corporation's medical residency program as it relates to training the hospitals' medical residents.

#### **Cash and Cash Equivalents**

For purposes of the statements of cash flows, cash and cash equivalents consists of savings and checking account balances.

#### **Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

#### **Basis of Accounting and Presentation**

The financial statements of the Corporation have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

# CMU Medical Education Partners

## Notes to Financial Statements

June 30, 2017

### **1. Summary of Accounting Policies (continued)**

#### **Designated Unrestricted Net Assets**

Designated unrestricted net assets represent amounts that have been contributed by the member hospitals and the accumulated earnings from investment of those amounts for the purpose of self-funding medical malpractice insurance at the Corporation.

#### **Temporarily Restricted Net Assets**

Temporarily restricted net assets consist of grant funds received from outside sources that carry restrictions as to how they are to be spent.

#### **Donor-Restricted Gifts**

Unconditional promises to give cash and other assets to the Corporation are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the gift is received. Gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the contributions. When a donor restriction expires, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statement of operations as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reported as unrestricted contributions in the accompanying financial statements. There were no permanently restricted net assets at June 30, 2017 or 2016.

#### **Fair Value Measurements**

Fair value is the exchange price that would be received for an asset or paid to transfer a liability (exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. There are three levels of inputs that may be used to measure fair values:

Level 1 – Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2 – Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3 – Significant unobservable inputs that reflect a company's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

# CMU Medical Education Partners

## Notes to Financial Statements

June 30, 2017

### **1. Summary of Accounting Policies (continued)**

#### **Fair Value Measurements (continued)**

In determining the appropriate levels, the Corporation performs a detailed analysis of the assets and liabilities. At each reporting period, all assets and liabilities for which the fair value measurement is based on significant unobservable inputs are classified as Level 3.

For the fiscal year ended June 30, 2017, the application of valuation techniques applied to similar assets and liabilities has been consistent.

#### **Investments**

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value based on quoted market prices as of the balance sheet date. Investment income or loss (including realized gains and losses on investments, interest, and dividends) is included in revenues and other support over (under) operating expenses unless the income or loss is restricted by donor or law. Unrealized gains and losses on investments are excluded from revenues and other support over (under) operating expenses unless the investments are trading securities.

#### **Assets Whose Use is Limited**

Assets whose use is limited primarily include investments held by trustees under indenture agreements and designated assets set aside by the Board of Trustees for specific purposes, over which the Board retains control and may at its discretion subsequently use for other purposes.

#### **Revenues and Other Support Over (Under) Operating Expenses**

The statements of operations include revenues and other support over (under) operating expenses. Changes in unrestricted net assets, which are excluded from revenues and other support over (under) operating expenses, include unrealized gains and losses on investments whose use is limited.

#### **Deposits with Financial Institutions**

The Corporation maintains interest-bearing deposits, with a bank located in Saginaw, Michigan, which are recorded in the financial statements as cash and funds held by the trustee. At year end and at times during the year, the Corporation had balances in these accounts that exceeded federal deposit insurance limits.

# CMU Medical Education Partners

## Notes to Financial Statements

June 30, 2017

### **1. Summary of Accounting Policies (continued)**

#### **Significant Concentrations of Credit Risk**

Financial instruments which potentially subject the Corporation to concentrations of credit risk consist principally of cash and investments included in assets whose use is limited. The Corporation invests temporary cash in money market securities in various banks, commercial paper of industrial and other companies with high credit ratings, and securities backed by the United States Government. The Corporation holds the majority of its investments in equity and fixed income mutual funds. Included in investments are nine equity mutual funds and six fixed income mutual funds that represent 98% of total investments at June 30, 2017 and nine equity mutual funds and six fixed income mutual funds that represent 97% of total investments at June 30, 2016.

#### **Leasehold Improvements, Furniture, and Equipment**

Leasehold improvements, furniture, and equipment are stated at cost. Leasehold improvements, furniture, and equipment purchases in excess of \$500 are depreciated over their estimated useful lives using the straight-line method. Assets under capital lease obligations are amortized on the straight-line method over the estimated useful lives of the related assets. Such amortization is included in depreciation in the financial statements.

#### **Net Patient Service Revenue and Patient Accounts Receivable**

Patient service revenue is recorded when patient services are performed. The Corporation has agreements with third-party payors that provide for reimbursements to the Corporation at amounts different from its established rates. Contractual adjustments under third-party reimbursement programs represent the difference between the Corporation's established rates for services and amounts reimbursed by third-party payors.

Patient accounts receivable are recorded when patient services are performed. Patient accounts receivable are recorded at the Corporation's established rates with contractual adjustments, charity allowances, policy discounts, and the provision for uncollectible accounts deducted to arrive at net patient accounts receivable. The Corporation pursues collection of all past due accounts. Accounts are written off when they are deemed uncollectible.

# CMU Medical Education Partners

## Notes to Financial Statements

June 30, 2017

### **1. Summary of Accounting Policies (continued)**

#### **Net Patient Service Revenue and Patient Accounts Receivable (continued)**

The Corporation grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. Significant concentrations of accounts receivable at June 30, 2017 include Medicare (16.5%), Blue Cross (8.6%), Medicaid (28.0%), and other commercial insurers and self-pay (46.9%). Significant concentrations of accounts receivable at June 30, 2016 include Medicare (23.1%), Blue Cross (10.2%), Medicaid (25.1%), and other commercial insurers and self-pay (41.6%).

The allowance is calculated as a percentage of outstanding receivable balances for patient pay receivables and commercial insurance receivables. Percentages have been developed based on historical collection information. The allowance is increased by the provision charged to operations and reduced by charge-offs.

#### **Estimated Professional Liability**

The provision for estimated self-insured medical malpractice claims is actuarially determined and includes estimates of the costs for both reported claims and claims incurred but not reported.

#### **Advertising**

The Corporation expenses advertising costs as incurred. Advertising costs were approximately \$34,000 for the year ended June 30, 2017 and \$22,000 for the year ended June 30, 2016.

#### **Subsequent Events**

Subsequent events have been evaluated through August 8, 2017 as part of the annual audit of the Corporation's financial statements. This is also the date the financial statements were available to be issued.

CMU Medical Education Partners

Notes to Financial Statements

June 30, 2017

**2. Patient Accounts Receivable**

The detail of patient accounts receivable is as follows:

	<b>June 30, 2017</b>			<b>June 30, 2016</b>
	<b>Patient</b>	<b>Insurance</b>	<b>Total</b>	<b>Total</b>
Family Practice Department	\$ 66,690	\$ 187,394	\$ 254,084	\$ 463,171
OB/GYN Department	94,893	877,409	972,302	488,222
Internal Medicine Department	29,563	208,563	238,126	281,499
Pediatrics Department	57,820	154,011	211,831	309,659
Surgery Department	203,950	801,320	1,005,270	2,031,269
Psychiatry Department	4,043	48,890	52,933	124,343
Geriatrics Home Care	906	34,961	35,867	99,528
	<u>457,865</u>	<u>2,312,548</u>	<u>2,770,413</u>	<u>3,797,691</u>
Less:				
Contractual allowances	–	1,417,385	1,417,385	2,128,407
Allowance for doubtful accounts	<u>265,012</u>	–	<u>265,012</u>	<u>215,571</u>
Net patient accounts receivable	<u>\$192,853</u>	<u>\$ 895,163</u>	<u>\$1,088,016</u>	<u>\$1,453,713</u>

CMU Medical Education Partners

Notes to Financial Statements

June 30, 2017

**3. Leasehold Improvements, Furniture, and Equipment**

The detail of leasehold improvements, furniture, and equipment by department is as follows:

	<b>June 30</b>	
	<b>2017</b>	<b>2016</b>
Leasehold improvements, furniture, and equipment:		
Clinical Trials	\$ 1,108	\$ 1,108
North Building	189,444	189,444
Student Programs	11,085	11,085
Administration	206,435	265,962
Family Practice Department	191,500	191,168
OB/GYN Department	153,106	161,131
Internal Medicine Department	133,749	140,423
Pediatrics Department	34,898	24,569
Surgery Department	123,062	126,067
Library Department	51,234	73,666
Graduate Medical Education	25,477	29,638
Emergency Medicine	32,582	36,803
Information Systems	516,763	520,810
Leasehold Improvements	2,596,818	2,148,073
Business Office	447,239	453,537
Geriatrics Home Care	10,418	15,704
Research Department	18,764	31,099
Psychiatry Department	22,964	22,964
Saginaw Medical Control	235,797	239,995
Sexual Assault Response Team	28,261	28,261
Human Resources	25,938	25,938
Simulation Lab	561,733	548,995
Continuing Medical Education	15,621	15,621
	<b>5,633,996</b>	<b>5,302,061</b>
Less: accumulated depreciation	<b>3,862,467</b>	<b>3,878,352</b>
	<b>\$1,771,529</b>	<b>\$1,423,709</b>

CMU Medical Education Partners

Notes to Financial Statements

June 30, 2017

**4. Assets Whose Use is Limited**

The composition of assets whose use is limited at June 30 is as follows:

	<u>2017</u>		<u>2016</u>	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
Board designated:				
Cash	\$112,571	\$112,571	\$139,017	\$139,017
Mutual funds: fixed income	9,053	9,164	9,152	9,263
	<u>121,624</u>	<u>121,735</u>	148,169	148,280
Malpractice funding – held by trustee:				
Cash and short-term investments	15,947	15,947	14,858	14,858
Mutual funds:				
Equities	247,079	431,649	236,268	373,269
Fixed income	246,810	252,740	232,541	241,715
	<u>509,836</u>	<u>700,336</u>	<u>483,667</u>	<u>629,842</u>
	<u>\$631,460</u>	<u>\$822,071</u>	<u>\$631,836</u>	<u>\$778,122</u>

Fair values of assets and liabilities measured on a recurring basis at June 30, 2017 and 2016 are as follows:

	<u>Fair Value Measurements at Reporting Date Using</u>			
	<u>Fair Value</u>	<u>Quoted Prices in Active Markets for Identical Assets/Liabilities (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
<b>June 30, 2017</b>				
Assets whose use is limited	<u>\$822,071</u>	<u>\$822,071</u>	<u>\$ –</u>	<u>\$ –</u>
<b>June 30, 2016</b>				
Assets whose use is limited	<u>\$778,122</u>	<u>\$778,122</u>	<u>\$ –</u>	<u>\$ –</u>



# CMU Medical Education Partners

## Notes to Financial Statements

June 30, 2017

### 5. Medical Educational Funding Receivable

A master affiliation agreement between St. Mary's and Covenant (the Hospitals) provides for 100% of the direct graduate medical education (DGME), indirect medical education (IME), and other graduate medical education (GME) funding received by the Hospitals to pass through to the Corporation. An independent firm (The Rybar Group) was hired to review hospital cost report information and provide a report on filed cost report amounts. The initial affiliation agreement covered the 3 years ending June 30, 2009 and, through an amendment, was extended one year through June 30, 2010. The Hospitals are operated under the master affiliation agreement that was effective July 1, 2010 through June 30, 2013 and continued on a month-to-month basis until a new agreement was reached. Under the agreement, the Hospitals agreed to pay the Corporation for amounts not previously paid under the 2006 agreement subject to adjustment based on the Hospitals' receipt of their final cost reports. The 2010 agreement was terminated June 30, 2015.

Effective July 1, 2015, a new master affiliation agreement was signed. This agreement covers a 5 year period, ending June 30, 2020. Under this agreement, the Hospitals agree to pay the Corporation their proportionate share of funding shortfall within 30 days of receipt of the final cost report. Similarly, the Corporation has agreed to pay the Hospitals any excess funding within 30 days of receipt of the final cost report.

As of June 30, 2017, the Rybar Group has updated its report with the allocation of the receivable as follows:

	<u>St. Mary's</u>	<u>Covenant</u>
Fiscal year 2011	\$ 631,404	\$ 577,344
Fiscal year 2012	(145,857)	648,600
Fiscal year 2013	(297,406)	(19,056)
Fiscal year 2014	45,475	(400,327)
Fiscal year 2015	294,945	(542,699)
Fiscal year 2016	278,937	87,876
Fiscal year 2017	(65,991)	463,994
Total receivable	741,507	815,732
Allowance	(222,812)	(815,732)
Net receivable	<u>\$ 518,695</u>	<u>\$ -</u>

The Corporation recognized a total allowance of approximately \$1,039,000 in 2017 and \$1,400,000 in 2016, in anticipation of a variance between filed and final audited cost reports.

## CMU Medical Education Partners

### Notes to Financial Statements

June 30, 2017

#### 5. Medical Educational Funding Receivable (continued)

As of June 30, 2017, the cost reports for St. Mary's and Covenant have been finalized through the fiscal years shown below.

	<u>St. Mary's</u>	<u>Covenant</u>
Medicare	2014	2013
Blue Cross Traditional, Blue Cross Trust, and Blue Care Network	2015	2015
Medicaid	2013	2013

#### 6. Payable to Hospitals

Under the Master Affiliation Agreement, as of the end of each fiscal year, the Corporation should have a cash balance equal to 1) the sum of 45 days cash on hand plus 2) an amount equal to the budgeted capital expenditures, less budgeted depreciation (Annual Funding Reserve), for the following fiscal year. Under the agreement, two-thirds of the excess funding is payable to Covenant and one-third of the excess funding is payable to St. Mary's within 30 days of the calculation of the Annual Funding Reserve.

The Corporation has not recorded a payable for the years ended June 30, 2017 and 2016.

#### 7. Notes Payable to Hospitals

Under the Members' Agreement described in Note 1, the Hospitals were to receive their allocable share of net assets as of December 31, 2010. On February 7, 2012 an amendment to the Members' Agreement was made to maintain the Hospitals' allocable shares of net assets in the possession of the Corporation and the notes payable to hospitals were reclassified as additional members' equity. There were no notes payable to St. Mary's and Covenant at June 30, 2017 or 2016.

#### 8. Money Accumulation Pension Plan

In 1974, the Corporation established a money accumulation pension plan for all eligible employees. Any employee who has completed more than 1,000 hours of service and has attained the age of 21 is eligible to participate.

# CMU Medical Education Partners

## Notes to Financial Statements

June 30, 2017

### 8. Money Accumulation Pension Plan (continued)

The Corporation contributed 4 percent of the participants' pay into the program for both the years ended June 30, 2017 and 2016. The cost to the Corporation was approximately \$503,000 for the year ended June 30, 2017 and \$509,000 for the year ended June 30, 2016.

### 9. Lease Commitments

During 1976, the Corporation entered into a 25-year lease agreement beginning in 1978 upon completion of construction with Saginaw Medical Center for the occupancy of a portion of the Clinical Arts and Education Center. During the year ended June 30, 2002, the lease was amended and provided for a renewal option for an additional 5 years ending in August 2006. During the year ended June 30, 2007, the lease was not amended and the Corporation has continued payments on a month to month basis. Total lease expense related to this rental was \$600,606 for the year ended June 30, 2017 and \$600,606 for the year ended June 30, 2016.

In 2003, the Corporation began a 10-year lease agreement with SSP Associates upon the completion of construction for the occupancy of an office complex in Saginaw, Michigan. The Corporation exercised a renewal option for an additional 5 years and covers the period through February 2018. In 2013, the Corporation entered into a 15-year lease with MSA Ventures II LLC for commercial office space in Saginaw, Michigan. Total lease expense for multi-year non-cancelable and cancelable leases was approximately \$431,000 for the year ended June 30, 2017 and \$389,000 for the year ended June 30, 2016. The future lease commitments as of June 30, 2017 for all non-cancelable leases are as follows:

2017-18	\$ 322,000
2018-19	257,000
2019-20	236,000
2020-21	234,000
2021-22	203,000
Thereafter	1,192,000
	<u>\$2,444,000</u>

# CMU Medical Education Partners

## Notes to Financial Statements

June 30, 2017

### 10. Professional Liability Insurance

The Corporation was self-insured for professional medical malpractice through December 31, 2010 for claims based on occurrences on or before December 31, 2010. In connection with the self-insurance program, the Corporation has:

- Determined aggregate limits of \$100,000/\$300,000 for residents and \$200,000/\$600,000 for doctors.
- Established a trust fund and placed the management of the fund in the hands of an independent fiduciary who has legal title to it and is responsible for its proper administration and control.

	<b>June 30</b>	
	<b>2017</b>	<b>2016</b>
Estimated professional liability under self-insurance	<b>\$ 75,900</b>	\$ 163,892
Total malpractice assets:		
Investments under professional liability funding arrangement – held by the trustee, at fair value	<b>700,336</b>	629,842
Over funding of liability	<b><u>\$(624,436)</u></b>	<u>\$(465,950)</u>

Claim losses based upon occurrences prior to July 1, 1986 remain insured under prior insurance policies subject to the policy limits.

Effective November 1, 2012, the Corporation purchased commercial insurance coverage for professional medical malpractice. Coverage consists of \$2,000,000 per occurrence with an annual aggregate to \$12,000,000.

Malpractice and other claims have been asserted against the Corporation by various claimants. Such claims are in various stages of processing and some may be litigated. Accordingly, management and counsel cannot determine the ultimate outcome of the actions commenced. In the opinion of management, all such matters are adequately covered by prior and existing insurance policies and the Self-Insurance Trust Fund.

# CMU Medical Education Partners

## Notes to Financial Statements

June 30, 2017

### 11. Managed Care Risk Pool Liability

The Corporation also entered into an agreement with Great Lakes Health Plan, Inc. (GLHP) for Medicaid covered services on October 1, 2000. The agreement is effective for one year and is automatically renewable for yearly terms unless terminated by the Corporation or GLHP. Under the agreement, the Corporation receives capitated and covered services compensation. Covered services are reimbursed according to GLHP's fee schedule. The Corporation agrees to bear the risk for the cost of the covered services which exceeds the covered service compensation. Since the Corporation bears the risk of loss, there is no risk pool liability associated with their plan.

### 12. Claims and Contingencies

The Corporation periodically is subject to claims and lawsuits that arise in the ordinary course of business. It is the opinion of management that, as of June 30, 2017, the disposition or ultimate resolution of such claims and lawsuits will not have an adverse material effect on the financial position of the Corporation.

### 13. Net Assets

There were no temporarily restricted net assets available for health care services and education at June 30, 2017 and \$19,285 at June 30, 2016.

### 14. Functional Expenses

The Corporation provides general health care services to residents within its geographic location. Expenses related to providing these services for the year ended June 30 are as follows:

	<u>2017</u>	<u>2016</u>
Health care services	<b>\$31,453,529</b>	\$28,865,482
General and administrative	<b>4,258,302</b>	4,011,231
Total operating expenses	<b><u>\$35,711,831</u></b>	<u>\$32,876,713</u>