

Audited Financial Statements

CMU Medical Education Partners

*Years ended June 30, 2011 and 2010
with Report of Independent Auditors*

Audited Financial Statements
CMU Medical Education Partners
Years ended June 30, 2011 and 2010

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Report of Independent Auditors

Board of Trustees
CMU Medical Education Partners

We have audited the accompanying balance sheets of Saginaw Cooperative Hospitals Inc. d/b/a CMU Medical Education Partners (Corporation) as of June 30, 2011 and 2010 and the related statements of operations, changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of CMU Medical Education Partners' management. 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 audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our 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, 2011 and 2010 and the results of its operations, changes in net assets, and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Andrews Hooper Pavlik PLC

Saginaw, Michigan
August 12, 2011

CMU Medical Education Partners

Balance Sheets

	June 30	
	2011	2010
Assets		
Current assets:		
Cash	\$ 2,846,432	\$ 2,506,872
Patient accounts receivable, less allowance for doubtful accounts of \$161,565 in 2011 and \$167,349 in 2010	530,503	646,877
Other receivables	1,210,788	1,139,701
Prepaid expenses and other assets	463,865	269,546
Total current assets	<u>5,051,588</u>	<u>4,562,996</u>
Assets whose use is limited:		
By the Board of Trustees	113,656	126,807
Under professional liability funding arrangement – held by the trustee	1,516,051	1,357,313
Total assets whose use is limited	<u>1,629,707</u>	<u>1,484,120</u>
Medical education funding receivable, less allowance of \$400,202 in 2011 and 2010	4,071,786	4,173,160
Leasehold improvements, furniture, and equipment, net	930,552	920,470
Total assets	<u>\$ 11,683,633</u>	<u>\$ 11,140,746</u>
Liabilities and net assets		
Current liabilities:		
Accounts payable	\$ 294,755	\$ 280,277
Other liabilities	19,764	26,006
Other accrued liabilities	26,112	26,179
Payroll and related liabilities	1,515,170	1,500,435
Total current liabilities	<u>1,855,801</u>	<u>1,832,897</u>
Estimated professional liability under self-insurance	1,401,786	1,524,538
Deferred revenue	857,835	715,975
Payable to hospitals	3,636,106	-
Notes payable to hospitals	3,495,701	-
Total liabilities	<u>11,247,229</u>	<u>4,073,410</u>
Net assets:		
Unrestricted:		
Designated for professional liability	(4,130,366)	(4,028,084)
Undesignated	4,547,485	11,076,135
Temporarily restricted	19,285	19,285
Total net assets	<u>436,404</u>	<u>7,067,336</u>
Total liabilities and net assets	<u>\$ 11,683,633</u>	<u>\$ 11,140,746</u>

See accompanying notes.

CMU Medical Education Partners

Statements of Operations

	Year ended June 30	
	2011	2010
Unrestricted revenues and other support:		
Member hospitals	\$ 14,509,306	\$ 16,253,125
Net patient service revenue	4,274,491	4,174,935
Interest income	9,015	11,581
Professional liability fund	32,973	25,224
Contracts and other revenue	6,022,120	5,032,521
Total unrestricted revenues and other support	<u>24,847,905</u>	<u>25,497,386</u>
Operating expenses:		
Salaries, wages, and payroll taxes	16,108,745	15,290,965
Employee benefits	3,186,092	2,528,219
Recruiting	193,041	142,751
Facility and equipment	1,151,543	1,084,696
Consumable supplies	361,233	353,512
Educational supplies and services	272,446	228,479
Consulting and contractual services	1,452,765	1,079,966
Communications	161,526	145,263
Educational conferences and travel	738,152	622,930
Grant expenses	10,529	8,311
Other expenses	233,309	208,565
Professional liability insurance expense	339,434	-
Depreciation	353,407	319,409
Provision for bad debts	384,372	388,067
Professional liability expense	381,648	1,081,329
Total operating expenses	<u>25,328,242</u>	<u>23,482,462</u>
Unrestricted revenues and other support over (under) operating expenses	(480,337)	2,014,924
Distribution to member hospitals representing excess funding	(2,901,287)	-
	<u>(3,381,624)</u>	<u>2,014,924</u>
Net unrealized gain on investments whose use is limited	246,393	87,605
Increase (decrease) in unrestricted net assets	<u>\$ (3,135,231)</u>	<u>\$ 2,102,529</u>

See accompanying notes.

CMU Medical Education Partners

Statements of Changes in Net Assets

	Unrestricted Net Assets				
	Designated for Professional Liability	Undesignated	Total Unrestricted Net Assets	Temporarily Restricted	Total
Net assets (deficit) at June 30, 2009	\$ (3,059,584)	\$ 8,005,106	\$ 4,945,522	\$ 19,285	\$ 4,964,807
Revenues over (under) expenses	(1,056,105)	3,071,029	2,014,924	-	2,014,924
Net unrealized gain	87,605	-	87,605	-	87,605
Net assets (deficit) at June 30, 2010	(4,028,084)	11,076,135	7,048,051	19,285	7,067,336
Revenues under expenses	(348,675)	(3,032,949)	(3,381,624)	-	(3,381,624)
Net unrealized gain	246,393	-	246,393	-	246,393
Equity transfer of net assets	-	(3,495,701)	(3,495,701)	-	(3,495,701)
Net assets (deficit) at June 30, 2011	\$ (4,130,366)	\$ 4,547,485	\$ 417,119	\$ 19,285	\$ 436,404

See accompanying notes.

CMU Medical Education Partners

Statements of Cash Flows

	Year ended June 30	
	2011	2010
Operating activities		
Increase (decrease) in unrestricted net assets	\$ (3,135,231)	\$ 2,102,529
Adjustments to reconcile increase (decrease) in unrestricted net assets to net cash provided by (used in) operating activities:		
Depreciation	353,407	319,409
Net unrealized gain (loss) on investments	(246,393)	(87,605)
Loss on disposal of leasehold improvements, furniture, and equipment	-	3,724
Change in assets and liabilities:		
Patient accounts receivable	116,374	186,590
Other receivables	(71,087)	(350,200)
Prepaid expenses and other assets	(194,319)	60,376
Medical education funding receivable	101,374	(1,716,131)
Accounts payable	14,478	(31,703)
Other accrued liabilities and payroll and related liabilities	8,426	53,381
Estimated professional liability under self-insurance	(122,752)	198,240
Deferred revenue	141,860	419,044
Net cash provided by (used in) operating activities	<u>(3,033,863)</u>	1,157,654
Investing activities		
Purchases of leasehold improvements, furniture, and equipment	(363,489)	(316,197)
Decrease (increase) in Board restricted funds	13,151	(13,021)
Decrease (increase) in funds held by the trustee	87,655	(510,012)
Net cash used in investing activities	<u>(262,683)</u>	(839,230)
Financing activities		
Increase in payable to hospitals	<u>3,636,106</u>	-
Increase in cash	339,560	318,424
Cash at beginning of period	2,506,872	2,188,448
Cash at end of period	<u>\$ 2,846,432</u>	<u>\$ 2,506,872</u>
Supplemental information		
Noncash financing transactions:		
Increase in note payable to hospitals for equity distribution	\$ 3,495,701	\$ -
Decrease in net assets as a result of equity distribution	(3,495,701)	-

See accompanying notes.

CMU Medical Education Partners

Notes to Financial Statements

June 30, 2011

1. Summary of Accounting Policies

Organization and Nature of Operations

Saginaw Cooperative Hospitals, Inc. (Corporation), d/b/a CMU Medical Education Partners (formerly d/b/a Synergy Medical Education Alliance) 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 (CMEP); 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 current Agreement was effective July 1, 2010 and expires June 30, 2013 and covers the operation and funding of the Corporation's medical residency program as it relates to training the hospitals' medical residents.

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.

Designated Net Assets

Designated 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.

CMU Medical Education Partners

Notes to Financial Statements (continued)

1. Summary of Accounting Policies (continued)

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, 2011 or 2010.

Fair Value Measurements

Fair value is 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. In determining fair value, the Corporation uses various methods including market, income, and cost approaches. Based on these approaches, the Corporation often utilizes certain assumptions that market participants would use in pricing the asset or liability, including assumptions about risk and or the risks inherent in the inputs to the valuation technique. These inputs can be readily observable, market corroborated, or generally unobservable inputs. The Corporation utilizes valuation techniques, that maximize the use of observable inputs and minimize the use of unobservable inputs. Based on the observability of the inputs used in the valuation techniques the Corporation is required to provide the following information according to the fair value hierarchy. The fair value hierarchy ranks the quality and reliability of the information used to determine fair values. Financial assets and liabilities carried at fair value will be classified and disclosed in one of the following three categories:

- Level 1 – Valuations for assets and liabilities traded in active exchange markets, such as the New York Stock Exchange. Level 1 also includes U.S. Treasury and federal agency securities and federal agency mortgage-backed securities, which are traded by dealers or brokers in active markets. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.
- Level 2 – Valuations for assets and liabilities traded in less active dealer or broker markets. Valuations are obtained from third party pricing services for identical or similar assets or liabilities.

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Notes to Financial Statements (continued)

1. Summary of Accounting Policies (continued)

Fair Value Measurements (continued)

- Level 3 – Valuations for assets and liabilities that are derived from other valuation methodologies; including option pricing models, discounted cash flow models, and similar techniques, and not based on market exchange, dealer, or broker traded transactions. Level 3 valuations incorporate certain assumptions and projections in determining the fair value assigned to such assets or liabilities.

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, 2011, 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 revenue over (under) operating expenses unless the income or loss is restricted by donor or law. Unrealized gains and losses on investments are excluded from revenue 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 Over (Under) Operating Expenses

The statements of operations include revenues over (under) operating expenses. Changes in unrestricted net assets, which are excluded from revenues over (under) operating expenses, include unrealized gains and losses.

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, funds held by trustee, and donor restricted funds. 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 (continued)

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 common stock and mutual funds. Included in investments are six mutual funds that represent 44% of total investments at June 30, 2011 and five mutual funds that represent 39% of total investments at June 30, 2010.

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

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.

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, 2011 and June 30, 2010 include Medicare (16.5% and 19.6%), Blue Cross (8.9% and 10.6%), Medicaid (34.3% and 31.3%), and other commercial insurers and self-pay (40.3% and 38.5%), respectively.

Patient Accounts Receivable

Patient accounts receivable and revenue 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 (continued)

1. Summary of Accounting Policies (continued)

Patient Accounts Receivable (continued)

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 \$104,000 for the year ended June 30, 2011 and \$107,000 for the year ended June 30, 2010.

Subsequent Events

Subsequent events have been evaluated through August 12, 2011 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.

2. Patient Accounts Receivable

The detail of patient accounts receivable is as follows:

	June 30, 2011			June 30, 2010
	Patient	Insurance	Total	Total
Family Practice Department	\$ 58,956	\$ 239,474	\$ 298,430	\$ 301,520
Ob/Gyn Department	56,286	310,787	367,073	382,961
Internal Medicine Department	103,414	239,649	343,063	341,533
Pediatrics Department	8,380	33,040	41,420	46,246
Surgery Department	36,853	78,964	115,817	100,196
Psychiatry Department	33,736	63,009	96,745	244,061
Geriatrics Home Care	1,559	30,976	32,535	48,422
	299,184	995,899	1,295,083	1,464,939
Less:				
Contractual allowances	–	603,015	603,015	650,713
Allowance for doubtful accounts	161,565	–	161,565	167,349
Net patient accounts receivable	\$ 137,619	\$ 392,884	\$ 530,503	\$ 646,877

CMU Medical Education Partners

Notes to Financial Statements (continued)

3. Leasehold Improvements, Furniture, and Equipment

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

	June 30	
	2011	2010
Leasehold improvements, furniture, and equipment:		
Clinical Trials	\$ 5,067	\$ 5,974
North Building	264,364	240,902
Student Programs	7,077	1,077
Administration	386,259	290,840
Family Practice Department	376,671	380,461
Ob/Gyn Department	167,244	161,381
Internal Medicine Department	169,013	161,942
Pediatrics Department	23,424	21,919
Surgery Department	35,271	34,838
Library Department	188,014	190,106
Graduate Medical Education	28,131	19,600
Emergency Medicine	43,398	40,134
Information Systems	413,216	411,285
Leasehold Improvements	1,063,725	1,036,129
Business Office	482,554	521,610
Geriatrics Home Care	19,188	16,868
Research Department	34,645	31,167
Psychiatry Department	23,789	23,323
Saginaw Medical Control	172,527	137,232
Sexual Assault Response Team	28,261	28,261
Human Resources	24,775	10,874
Stimulation Lab	238,424	193,623
Continuing Medical Education	14,823	2,488
	4,209,860	3,962,034
Less: accumulated depreciation	3,279,308	3,041,564
	\$ 930,552	\$ 920,470

CMU Medical Education Partners

Notes to Financial Statements (continued)

4. Assets Whose Use is Limited

The composition of assets whose use is limited at June 30, 2011 and 2010 is as follows:

	2011		2010	
	Cost	Fair Value	Cost	Fair Value
Board designated:				
Cash	\$ 104,843	\$ 104,843	\$ 118,147	\$ 118,147
Mutual funds	9,057	8,813	9,057	8,660
	<u>113,900</u>	<u>113,656</u>	127,204	126,807
Malpractice funding – held by trustee:				
Cash and short-term investments	33,647	33,647	33,717	33,717
Mutual funds	1,227,588	1,482,404	1,301,375	1,323,596
	<u>1,261,235</u>	<u>1,516,051</u>	<u>1,335,092</u>	<u>1,357,313</u>
	<u>\$ 1,375,135</u>	<u>\$ 1,629,707</u>	<u>\$ 1,462,296</u>	<u>\$ 1,484,120</u>

Fair values of assets and liabilities measured on a recurring basis at June 30, 2011 and 2010 are as follows:

	Fair Value Measurements at Reporting Date Using			
	Fair Value	Quoted Prices in Active Markets for Identical Assets/Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
June 30, 2011				
Assets whose use is limited	<u>\$ 1,629,707</u>	<u>\$ 1,629,707</u>	<u>\$ –</u>	<u>\$ –</u>
June 30, 2010				
Assets whose use is limited	<u>\$ 1,484,120</u>	<u>\$ 1,484,120</u>	<u>\$ –</u>	<u>\$ –</u>

CMU Medical Education Partners

Notes to Financial Statements (continued)

5. Medical Educational Funding Receivable and Payable

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 agreed to a new three-year master affiliation agreement effective July 1, 2010 and expiring June 30, 2013. Under the new agreement, the Hospitals agreed to pay CMEP (Synergy) for amounts not previously paid under the 2006 agreement subject to adjustment based on the Hospitals' receipt of their final cost reports.

As of June 30, 2011, the Rybar Group has updated its report with the allocation of the receivable (payable) as follows:

	<u>St. Mary's</u>	<u>Covenant</u>
Fiscal year 2007	\$ 571,876	\$ (77,787)
Fiscal year 2008	561,913	(901,592)
Fiscal year 2009	1,194,785	221,242
Fiscal year 2010	1,316,222	14,628
Fiscal year 2011	827,192	8,690
Total receivable	<u>4,471,988</u>	<u>(734,819)</u>
Allowance	(400,202)	-
Net receivable (payable)	<u>\$ 4,071,786</u>	<u>\$ (734,819)</u>

The Corporation recognized an allowance of approximately \$400,000 in 2011 and 2010, in anticipation of a variance between filed and final audited cost reports. See Note 6 regarding the net payable to Covenant.

As of June 30, 2011, 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	2007	2007
Blue Cross Traditional, Blue Cross Trust, and Blue Care Network	2010	2009
Medicare	Not finalized	Not finalized

CMU Medical Education Partners

Notes to Financial Statements (continued)

6. Payable to Hospitals

As of June 30, 2011, the Corporation has recorded a payable in the amount of \$3,636,106 as follows.

	<u>St. Mary's</u>	<u>Covenant</u>	<u>Total</u>
Medical education funding payable (See Note 5)	\$ -	\$ 734,819	\$ 734,819
Excess funding payable under Master Affiliation Agreement	967,096	1,934,191	2,901,287
	<u>\$ 967,096</u>	<u>\$ 2,669,010</u>	<u>\$ 3,636,106</u>

Under the Master Affiliation Agreement, as of the end of each fiscal year, beginning June 30, 2011, 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 excess funding payable above reflects the payable as of December 31, 2010.

7. Notes Payable to Hospitals

Under the Members' Agreement described in Note 1, the Hospitals are to receive their allocable share of net assets as of December 31, 2010. As of August 12, 2011, the specific payment terms of the note payable have not been finalized, but no payments are expected until after June 30, 2012. Amounts payable to St. Mary's and Covenant at June 30, 2011 are as follows:

<u>St. Mary's</u>	<u>Covenant</u>	<u>Total</u>
\$ 1,165,234	\$ 2,330,477	\$ 3,495,701

CMU Medical Education Partners

Notes to Financial Statements (continued)

8. Michigan State University Agreement

The Corporation currently has an agreement with Michigan State University, whereby the University will pay a portion of the personnel, fringe benefits, and operational costs of CMEP. The status of the agreement is as follows:

	<u>2011</u>	<u>2010</u>
Total billing for the year ended June 30	\$ 347,711	\$ 366,010
Less: amounts received as of June 30	347,711	366,010
Balance at June 30	<u>\$ —</u>	<u>\$ —</u>

9. 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 is eligible to participate.

The Corporation contributed 4 percent of the participants' pay into the program for both the years ended June 30, 2011 and 2010. The cost to the Corporation was approximately \$464,000 for the years ended June 30, 2011 and 2010.

10. 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 \$599,185 for the year ended June 30, 2011 and \$518,090 for the year ended June 30, 2010.

In 2002, the Corporation entered into a 10-year lease agreement with SSP Associates beginning in 2003 upon the completion of construction for the occupancy of an office complex. The lease has a renewal option for an additional 5 years, which would end in February 2018.

Total lease expense for multi-year non-cancelable and cancelable leases was approximately \$188,000 for the year ended June 30, 2011 and \$179,000 for the year ended June 30, 2010.

CMU Medical Education Partners

Notes to Financial Statements (continued)

10. Lease Commitments (continued)

The approximate future lease commitments as of June 30, 2011 for all non-cancelable leases are as follows:

2011-12	\$ 177,000
2012-13	113,000
2013-14	24,000
2014-15	16,000
2015-16	—
	\$ 330,000

11. 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.

	June 30	
	2011	2010
Estimated professional liability under self-insurance	\$ 1,401,786	\$ 1,524,538
Total malpractice assets:		
Investments under professional liability funding arrangement – held by the trustee, at fair value	1,516,051	1,357,313
(Over) under funding of liability	\$ (114,265)	\$ 167,225

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

Effective January 1, 2011, the Corporation purchased commercial insurance coverage for professional medical malpractice. Coverage consists of \$1,000,000 per occurrence with annual aggregates ranging from \$3,000,000 to \$9,000,000.

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 (continued)

12. Resident Housing Loan Guarantee

The Corporation has guaranteed various housing loans for its residents. The Corporation has an agreement with a local bank which allows the Corporation to guarantee up to \$325,000 in housing loans. As of June 30, the aggregate amount of loans outstanding and guaranteed by the Corporation was \$106,442 for 2011 and \$176,139 for 2010.

13. 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.

14. 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, 2011, the disposition or ultimate resolution of such claims and lawsuits will not have a material adverse effect on the financial position of the Corporation.

15. Temporarily Restricted Net Assets

Temporarily restricted net assets were available for health care services and education in the amount of \$19,285 at June 30, 2011 and June 30, 2010.

16. Functional Expenses

The Corporation provides general health care services to residents within its geographic location. Expenses related to providing these services are as follows:

	For the year ended June 30	
	2011	2010
Health care services	\$ 21,713,550	\$ 20,536,134
General and administrative	3,614,692	2,946,328
Total operating expenses	<u>\$ 25,328,242</u>	<u>\$ 23,482,462</u>