

Audited Financial Statements

CMU Medical Education Partners

*Years Ended June 30, 2016 and 2015
with Report of Independent Auditors*

CMU Medical Education Partners

Audited Financial Statements

Years Ended June 30, 2016 and 2015

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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, 2016 and 2015, 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, 2016 and 2015, 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 Pavlik PLC

Saginaw, Michigan
August 19, 2016

CMU Medical Education Partners

Balance Sheets

	June 30	
	2016	2015
Assets		
Current assets:		
Cash	\$ 3,432,850	\$ 4,696,245
Patient accounts receivable, less allowance for doubtful accounts of \$215,571 in 2016 and \$226,795 in 2015	1,453,713	799,949
Other receivables	536,309	900,786
Prepaid expenses and other assets	755,624	779,515
Total current assets	<u>6,178,496</u>	<u>7,176,495</u>
Assets whose use is limited:		
By the Board of Trustees	148,280	129,983
Under professional liability funding arrangement – held by the trustee	629,842	626,209
Total assets whose use is limited	<u>778,122</u>	<u>756,192</u>
Medical education funding receivable, less allowance of \$1,397,291 in 2016 and \$2,033,697 in 2015	518,695	518,695
Leasehold improvements, furniture, and equipment, net	1,423,709	925,198
Total assets	<u>\$ 8,899,022</u>	<u>\$ 9,376,580</u>
Liabilities and net assets		
Current liabilities:		
Accounts payable	\$ 787,943	\$ 740,335
Other accrued liabilities	34,026	34,026
Payroll and related liabilities	1,205,335	1,156,028
Total current liabilities	<u>2,027,304</u>	<u>1,930,389</u>
Estimated professional liability under self-insurance	163,892	246,116
Deferred revenue	9,959	72,744
Payable to CMU	84,957	293,720
Total liabilities	<u>2,286,112</u>	<u>2,542,969</u>
Net assets:		
Unrestricted:		
Designated for professional liability	-	(3,483,126)
Undesignated	6,593,625	10,297,452
Temporarily restricted	19,285	19,285
Total net assets	<u>6,612,910</u>	<u>6,833,611</u>
Total liabilities and net assets	<u>\$ 8,899,022</u>	<u>\$ 9,376,580</u>

See accompanying notes.

CMU Medical Education Partners

Statements of Operations

	Year Ended June 30	
	2016	2015
Unrestricted revenues and other support:		
Member hospitals	\$ 15,492,619	\$ 16,186,451
Net patient service revenue	9,674,146	9,884,279
Interest income	363	277
Professional liability fund	13,562	13,745
Contracts and other revenue	7,482,410	8,114,138
Total unrestricted revenues and other support	<u>32,663,100</u>	<u>34,198,890</u>
Operating expenses:		
Salaries, wages, and payroll taxes	20,835,945	20,566,512
Employee benefits	3,114,883	4,005,184
Recruiting	284,431	98,638
Facility and equipment	1,457,804	1,418,857
Consumable supplies	500,796	517,187
Educational supplies and services	528,257	469,479
Consulting and contractual services	2,370,705	1,947,327
Communications	198,683	181,239
Educational conferences and travel	680,732	608,491
Grant expenses	470,511	481,099
Other expenses	120,342	163,611
Contribution to CMU Endowment Foundation	1,000,000	-
Professional liability insurance expense	689,829	971,089
Depreciation	258,828	289,443
Provision for bad debts	354,936	518,797
Professional liability expense	10,031	9,763
Total operating expenses	<u>32,876,713</u>	<u>32,246,716</u>
Unrestricted revenues and other support over (under)		
operating expenses	(213,613)	1,952,174
Net unrealized gain (loss) on investments whose use is limited	(7,088)	475
Increase (decrease) in unrestricted net assets	<u>\$ (220,701)</u>	<u>\$ 1,952,649</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, 2014	\$ (3,487,583)	\$ 8,349,260	\$ 4,861,677	\$ 19,285	\$ 4,880,962
Revenues over expenses	3,982	1,948,192	1,952,174	-	1,952,174
Net unrealized gain	475	-	475	-	475
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

See accompanying notes.

CMU Medical Education Partners

Statements of Cash Flows

	Year Ended June 30	
	2016	2015
Operating activities		
Net change in unrestricted net assets	\$ (220,701)	\$ 1,952,649
Adjustments to reconcile net change in unrestricted net assets to net cash from operating activities:		
Depreciation	258,828	289,443
Net loss on disposal of leasehold improvements, furniture, and equipment	655	-
Net unrealized loss (gain) on investments	7,088	(475)
Change in assets and liabilities:		
Patient accounts receivable	(653,764)	162,769
Other receivables	364,477	678,069
Prepaid expenses and other assets	23,891	(265,653)
Medical education funding receivable	-	(83,015)
Accounts payable	47,608	(224,256)
Other accrued liabilities and payroll and related liabilities	49,307	(230,324)
Estimated professional liability under self-insurance	(82,224)	(147,480)
Deferred revenue	(62,785)	22,814
Net cash from operating activities	<u>(267,620)</u>	2,154,541
Investing activities		
Purchases of leasehold improvements, furniture, and equipment	(757,994)	(658,328)
Change in Board restricted funds	(18,297)	39,775
Change in funds held by the trustee	(10,721)	(11,389)
Net cash from investing activities	<u>(787,012)</u>	(629,942)
Financing activities		
Change in payable to CMU	(208,763)	50,848
Net cash from financing activities	<u>(208,763)</u>	50,848
Net change in cash and cash equivalents	(1,263,395)	1,575,447
Cash at beginning of period	4,696,245	3,120,798
Cash at end of period	<u>\$ 3,432,850</u>	<u>\$ 4,696,245</u>

See accompanying notes.

CMU Medical Education Partners

Notes to Financial Statements

June 30, 2016

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.

Effective August 26, 2013, the Corporation acquired the assets of a medical practice group in Saginaw. The cost of the assets was not considered significant to the overall assets of the Corporation. Most of the employees of the acquired practice group became employees of the Corporation.

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, 2016

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, 2016 or 2015.

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, 2016

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, 2016, 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, 2016

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 97% of total investments at June 30, 2016 and nine equity mutual funds and six fixed income mutual funds that represent 95% of total investments at June 30, 2015.

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 Account 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.

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Notes to Financial Statements

June 30, 2016

1. Summary of Accounting Policies (continued)

Net Patient Service Revenue and Patient Account 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, 2016 include Medicare (23.1%), Blue Cross (10.2%), Medicaid (25.1%), and other commercial insurers and self-pay (41.6%). Significant concentrations of accounts receivable at June 30, 2015 include Medicare (16.8%), Blue Cross (10.3%), Medicaid (33.3%), and other commercial insurers and self-pay (39.6%).

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 \$22,000 for the year ended June 30, 2016 and \$76,000 for the year ended June 30, 2015.

Subsequent Events

Subsequent events have been evaluated through August 16, 2016 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, 2016

2. Patient Accounts Receivable

The detail of patient accounts receivable is as follows:

	June 30, 2016			June 30, 2015
	Patient	Insurance	Total	Total
Family Practice Department	\$ 6,542	\$ 456,629	\$ 463,171	\$ 182,242
OB/GYN Department	40,074	448,148	488,222	372,723
Internal Medicine Department	19,400	262,099	281,499	98,386
Pediatrics Department	33,576	276,083	309,659	158,927
Surgery Department	–	–	–	(1,711)
Surgery – Tawas	–	–	–	136,740
Surgery – MSA	214,882	1,816,387	2,031,269	1,085,342
Psychiatry Department	16,108	108,235	124,343	55,483
Geriatrics Home Care	2,156	97,372	99,528	41,569
	<u>332,738</u>	<u>3,464,953</u>	<u>3,797,691</u>	2,129,701
Less:				
Contractual allowances	–	2,128,407	2,128,407	1,102,957
Allowance for doubtful accounts	215,571	–	215,571	226,795
Net patient accounts receivable	<u>\$117,167</u>	<u>\$1,336,546</u>	<u>\$1,453,713</u>	<u>\$ 799,949</u>

The receivable for “Surgery – Tawas” represents amounts billed by the Corporation on behalf of St. Joseph Health System in accordance with its agreement dated March 1, 2014. Under this agreement, the Corporation agreed to provide general surgical services and medical director services to St. Joseph Health System located in Tawas, Michigan. In addition, the Corporation agreed to bill and collect for these surgical services on behalf of St. Joseph Health System in exchange for a fee representing 5% of the surgical services collected. The outstanding fees receivable (net of contractual adjustments and allowance for doubtful accounts) billed on behalf of St. Joseph Health System at June 30, 2015 were approximately \$104,000. The agreement was terminated in September, 2015.

CMU Medical Education Partners

Notes to Financial Statements

June 30, 2016

3. Leasehold Improvements, Furniture, and Equipment

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

	June 30	
	2016	2015
Leasehold improvements, furniture, and equipment:		
Clinical Trials	\$ 1,108	\$ 3,590
North Building	189,444	259,770
Student Programs	11,085	12,162
Administration	265,962	337,638
Family Practice Department	191,168	197,307
OB/GYN Department	161,131	161,131
Internal Medicine Department	140,423	143,747
Pediatrics Department	24,569	24,569
Surgery Department	126,067	126,993
Library Department	73,666	173,732
Graduate Medical Education	29,638	29,638
Emergency Medicine	36,803	32,094
Information Systems	520,810	498,480
Leasehold Improvements	2,148,073	1,589,796
Business Office	453,537	455,946
Geriatrics Home Care	15,704	16,672
Research Department	31,099	33,653
Psychiatry Department	22,964	29,913
Saginaw Medical Control	239,995	239,995
Sexual Assault Response Team	28,261	28,261
Human Resources	25,938	25,938
Simulation Lab	548,995	472,187
Continuing Medical Education	15,621	15,621
	5,302,061	4,908,833
Less: accumulated depreciation	3,878,352	3,983,635
	\$1,423,709	\$ 925,198

CMU Medical Education Partners

Notes to Financial Statements

June 30, 2016

4. Assets Whose Use is Limited

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

	2016		2015	
	Cost	Fair Value	Cost	Fair Value
Board designated:				
Cash	\$139,017	\$139,017	\$120,737	\$120,737
Mutual funds: fixed income	9,152	9,263	9,135	9,246
	148,169	148,280	129,872	129,983
Malpractice funding – held by trustee:				
Cash and short-term investments	14,858	14,858	23,379	23,379
Mutual funds:				
Equities	236,268	373,269	221,452	377,020
Fixed income	232,541	241,715	219,791	225,810
	483,667	629,842	464,622	626,209
	\$631,836	\$778,122	\$594,494	\$756,192

Fair values of assets and liabilities measured on a recurring basis at June 30, 2016 and 2015 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, 2016				
Assets whose use is limited	\$778,122	\$778,122	\$ –	\$ –
June 30, 2015				
Assets whose use is limited	\$756,192	\$756,192	\$ –	\$ –

CMU Medical Education Partners

Notes to Financial Statements

June 30, 2016

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, 2016, 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	25,787	832,960
Fiscal year 2014	92,297	(400,327)
Fiscal year 2015	307,624	(542,699)
Fiscal year 2016	189,977	(301,124)
Total receivable	1,101,232	814,754
Allowance	(582,537)	(814,754)
Net receivable	<u>\$ 518,695</u>	<u>\$ -</u>

The Corporation recognized an allowance of approximately \$1,400,000 in 2016 and \$2,000,000 in 2015, in anticipation of a variance between filed and final audited cost reports.

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Notes to Financial Statements

June 30, 2016

5. Medical Educational Funding Receivable (continued)

As of June 30, 2016, 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	2011
Blue Cross Traditional, Blue Cross Trust, and Blue Care Network	2014	2014
Medicaid	2012	2012

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, 2016 and 2015. However, the Corporation made a distribution of approximately \$700,000 to the hospitals representing excess funding as of June 30, 2015.

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, 2016 or 2015.

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.

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Notes to Financial Statements

June 30, 2016

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, 2016 and 2015. The cost to the Corporation was approximately \$509,000 for the year ended June 30, 2016 and \$493,000 for the year ended June 30, 2015.

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, 2016 and \$600,613 for the year ended June 30, 2015.

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 \$389,000 for the year ended June 30, 2016 and \$354,000 for the year ended June 30, 2015. The future lease commitments as of June 30, 2016 for all non-cancelable leases are as follows:

2016-17	\$ 361,000
2017-18	220,000
2018-19	220,000
2019-20	199,000
2020-21	197,000
Thereafter	<u>1,389,000</u>
	<u>\$2,586,000</u>

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Notes to Financial Statements

June 30, 2016

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.

	June 30	
	2016	2015
Estimated professional liability under self-insurance	\$ 163,892	\$ 246,116
Total malpractice assets:		
Investments under professional liability funding arrangement – held by the trustee, at fair value	629,842	626,209
Over funding of liability	<u>\$(465,950)</u>	<u>\$(380,093)</u>

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.

Effective April 1, 2012, 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 \$8,500,000.

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, 2016

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, 2016, 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

Temporarily restricted net assets were available for health care services and education in the amount of \$19,285 at June 30, 2016 and at June 30, 2015.

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>2016</u>	<u>2015</u>
Health care services	\$28,865,482	\$28,744,446
General and administrative	4,011,231	3,502,270
Total operating expenses	<u>\$32,876,713</u>	<u>\$32,246,716</u>