

Audited Financial Statements

CMU Medical Education Partners

*Years Ended June 30, 2018 and 2017
with Report of Independent Auditors*

CMU Medical Education Partners
Audited Financial Statements
Years Ended June 30, 2018 and 2017

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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, 2018 and 2017, 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, 2018 and 2017, 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 14, 2018

CMU Medical Education Partners

Balance Sheets

	June 30	
	2018	2017
Assets		
Current assets:		
Cash	\$ 2,315,384	\$ 3,540,114
Patient accounts receivable, net	858,988	1,088,016
Other receivables	1,524,632	935,425
Prepaid expenses and other assets	793,229	643,582
Total current assets	<u>5,492,233</u>	<u>6,207,137</u>
Assets whose use is limited:		
By the Board of Trustees	184,585	121,735
Under professional liability funding arrangement – held by the trustee	753,455	700,336
Total assets whose use is limited	<u>938,040</u>	<u>822,071</u>
Medical education funding receivable, net of allowance	920,648	518,695
Leasehold improvements, furniture, and equipment, net	1,691,632	1,771,529
Total assets	<u>\$ 9,042,553</u>	<u>\$ 9,319,432</u>
Liabilities and net assets		
Current liabilities:		
Accounts payable	\$ 456,325	\$ 452,925
Other accrued liabilities	34,026	34,026
Payroll and related liabilities	1,707,082	1,496,863
Total current liabilities	<u>2,197,433</u>	<u>1,983,814</u>
Estimated professional liability under self-insurance	75,900	75,900
Deferred revenue	39,172	-
Payable to CMU	245,284	270,556
Total liabilities	<u>2,557,789</u>	<u>2,330,270</u>
Net assets:		
Unrestricted:		
Undesignated	6,484,764	6,989,162
Total net assets	<u>6,484,764</u>	<u>6,989,162</u>
Total liabilities and net assets	<u>\$ 9,042,553</u>	<u>\$ 9,319,432</u>

See accompanying notes.

CMU Medical Education Partners

Statements of Operations

	Year Ended June 30	
	2018	2017
Unrestricted revenues and other support:		
Member hospitals	\$ 16,486,327	\$ 16,075,308
Net patient service revenue	11,555,475	11,408,467
Professional liability fund	21,497	28,682
Contracts and other revenue	11,565,948	8,531,300
Total unrestricted revenues and other support	<u>39,629,247</u>	<u>36,043,757</u>
Operating expenses:		
Salaries, wages, and payroll taxes	26,543,957	22,824,783
Employee benefits	4,593,393	4,425,495
Recruiting	448,861	453,858
Facility and equipment	1,991,437	1,496,426
Consumable supplies	643,255	617,883
Educational supplies and services	484,720	544,722
Consulting and contractual services	1,937,930	2,170,606
Communications	257,918	291,857
Educational conferences and travel	826,090	721,348
Grant expenses	518,778	556,443
Other expenses	184,428	132,015
Professional liability insurance expense	794,442	654,430
Depreciation	349,423	319,926
Provision for bad debts	439,882	473,504
Professional liability expense	153,812	28,535
Total operating expenses	<u>40,168,326</u>	<u>35,711,831</u>
Unrestricted revenues and other support over (under)		
operating expenses	(539,079)	331,926
Net unrealized gain on investments whose use is limited	34,681	44,326
Net assets released from restrictions	-	19,285
Increase (decrease) in unrestricted net assets	<u>\$ (504,398)</u>	<u>\$ 395,537</u>

See accompanying notes.

CMU Medical Education Partners

Statements of Changes in Net Assets

Years Ending June 30, 2018 and 2017

	Undesignated Net Assets	Total Unrestricted Net Assets	Temporarily Restricted Net Assets	Total Net Assets
Net assets at July 1, 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	<u>\$ 6,989,162</u>	<u>\$ 6,989,162</u>	<u>\$ -</u>	<u>\$ 6,989,162</u>
Release of designation	-	-	-	-
Revenues under expenses	(539,079)	(539,079)	-	(539,079)
Net unrealized gain	34,681	34,681	-	34,681
Net assets at June 30, 2018	<u><u>\$ 6,484,764</u></u>	<u><u>\$ 6,484,764</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 6,484,764</u></u>

See accompanying notes.

CMU Medical Education Partners

Statements of Cash Flows

	Year Ended June 30	
	2018	2017
Operating activities		
Net change in unrestricted net assets	\$ (504,398)	\$ 395,537
Adjustments to reconcile net change in unrestricted net assets to net cash from operating activities:		
Depreciation	349,423	319,926
Net loss on disposal of leasehold improvements, furniture, and equipment	-	490
Net unrealized gain on investments whose use is limited	(34,681)	(44,326)
Release from restriction	-	(19,285)
Change in assets and liabilities:		
Patient accounts receivable	229,028	365,697
Other receivables	(589,207)	(399,116)
Prepaid expenses and other assets	(149,647)	112,042
Medical education funding receivable	(401,953)	-
Accounts payable	3,400	(335,018)
Other accrued liabilities and payroll and related liabilities	210,219	291,528
Estimated professional liability under self-insurance	-	(87,992)
Deferred revenue	39,172	(9,959)
Net cash from operating activities	<u>(848,644)</u>	589,524
Investing activities		
Purchases of leasehold improvements, furniture, and equipment	(269,526)	(668,236)
Change in Board restricted funds	(62,850)	26,545
Change in funds held by the trustee	(18,438)	(26,168)
Net cash from investing activities	<u>(350,814)</u>	(667,859)
Financing activities		
Change in payable to CMU	(25,272)	185,599
Net cash from financing activities	<u>(25,272)</u>	185,599
Net change in cash and cash equivalents	(1,224,730)	107,264
Cash at beginning of period	3,540,114	3,432,850
Cash at end of period	<u>\$ 2,315,384</u>	<u>\$ 3,540,114</u>

See accompanying notes.

CMU Medical Education Partners

Notes to Financial Statements

June 30, 2018

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 current Agreement and its amendments are effective through June 30, 2020 and cover 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, 2018

1. Summary of Accounting Policies (continued)

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 or temporarily restricted net assets at June 30, 2018 or 2017.

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.

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, 2018, the application of valuation techniques applied to similar assets and liabilities has been consistent.

CMU Medical Education Partners

Notes to Financial Statements

June 30, 2018

1. Summary of Accounting Policies (continued)

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.

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 79% of total investments at June 30, 2018 and nine equity mutual funds and six fixed income mutual funds that represent 84% of total investments at June 30, 2017.

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Notes to Financial Statements

June 30, 2018

1. Summary of Accounting Policies (continued)

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.

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, 2018 include Medicare (19.6%), Blue Cross (9.2%), Medicaid (26.9%), and other commercial insurers and self-pay (44.3%). 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%).

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.

CMU Medical Education Partners

Notes to Financial Statements

June 30, 2018

1. Summary of Accounting Policies (continued)

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 \$83,000 for the year ended June 30, 2018 and \$34,000 for the year ended June 30, 2017.

Subsequent Events

Subsequent events have been evaluated through August 14, 2018 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, 2018

2. Patient Accounts Receivable

The detail of patient accounts receivable is as follows:

	June 30, 2018		
	Patient	Insurance	Total
Family Practice Department	\$ 61,434	\$ 86,185	\$ 147,619
OB/GYN Department	109,083	465,829	574,912
Internal Medicine Department	28,444	138,787	167,231
Pediatrics Department	61,068	160,549	221,617
Surgery Department	179,294	874,053	1,053,347
Psychiatry Department	3,750	24,471	28,221
Geriatrics Home Care	(16)	(1,445)	(1,461)
	<u>443,057</u>	<u>1,748,429</u>	<u>2,191,486</u>
Less:			
Contractual allowances	–	1,073,699	1,073,699
Allowance for doubtful accounts	<u>258,799</u>	–	<u>258,799</u>
Net patient accounts receivable	<u>\$184,258</u>	<u>\$ 674,730</u>	<u>\$ 858,988</u>

	June 30, 2017		
	Patient	Insurance	Total
Family Practice Department	\$ 66,690	\$ 187,394	\$ 254,084
OB/GYN Department	94,893	877,409	972,302
Internal Medicine Department	29,563	208,563	238,126
Pediatrics Department	57,820	154,011	211,831
Surgery Department	203,950	801,320	1,005,270
Psychiatry Department	4,043	48,890	52,933
Geriatrics Home Care	906	34,961	35,867
	<u>457,865</u>	<u>2,312,548</u>	<u>2,770,413</u>
Less:			
Contractual allowances	–	1,417,385	1,417,385
Allowance for doubtful accounts	<u>265,012</u>	–	<u>265,012</u>
Net patient accounts receivable	<u>\$192,853</u>	<u>\$ 895,163</u>	<u>\$1,088,016</u>

CMU Medical Education Partners

Notes to Financial Statements

June 30, 2018

3. Leasehold Improvements, Furniture, and Equipment

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

	June 30	
	2018	2017
Clinical Trials	\$ 1,108	\$ 1,108
North Building	189,444	189,444
Student Programs	11,085	11,085
Administration	222,671	206,435
Family Practice Department	200,144	191,500
OB/GYN Department	164,327	153,106
Internal Medicine Department	141,349	133,749
Pediatrics Department	34,898	34,898
Surgery Department	157,687	123,062
Library Department	51,234	51,234
Graduate Medical Education	25,477	25,477
Emergency Medicine	32,582	32,582
Information Systems	603,118	516,763
Leasehold Improvements	2,643,564	2,596,818
Business Office	447,239	447,239
Geriatrics Home Care	10,418	10,418
Research Department	18,764	18,764
Psychiatry Department	22,964	22,964
Saginaw Medical Control	235,797	235,797
Sexual Assault Response Team	28,261	28,261
Human Resources	25,938	25,938
Simulation Lab	619,829	561,733
Continuing Medical Education	15,621	15,621
	5,903,519	5,633,996
Less: accumulated depreciation	4,211,887	3,862,467
	\$1,691,632	\$1,771,529

CMU Medical Education Partners

Notes to Financial Statements

June 30, 2018

4. Assets Whose Use is Limited

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

	2018		2017	
	Cost	Fair Value	Cost	Fair Value
Board designated:				
Cash	\$175,704	\$175,704	\$112,571	\$112,571
Mutual funds: fixed income	8,770	8,881	9,053	9,164
	<u>184,474</u>	<u>184,585</u>	121,624	121,735
Malpractice funding – held by trustee:				
Cash and short-term investments	18,992	18,992	15,947	15,947
Mutual funds:				
Equities	248,575	475,065	247,079	431,649
Fixed income	260,707	259,398	246,810	252,740
	<u>528,274</u>	<u>753,455</u>	<u>509,836</u>	<u>700,336</u>
	<u>\$712,748</u>	<u>\$938,040</u>	<u>\$631,460</u>	<u>\$822,071</u>

Fair values of assets and liabilities measured on a recurring basis at June 30, 2018 and 2017 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, 2018				
Assets whose use is limited	<u>\$938,040</u>	<u>\$938,040</u>	<u>\$ –</u>	<u>\$ –</u>
June 30, 2017				
Assets whose use is limited	<u>\$822,071</u>	<u>\$822,071</u>	<u>\$ –</u>	<u>\$ –</u>

CMU Medical Education Partners

Notes to Financial Statements

June 30, 2018

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, 2018, the Rybar Group has updated its report with the allocation of the receivable as follows:

	<u>St. Mary's</u>	<u>Covenant</u>	<u>Total</u>
Fiscal year ending June 30			
2011	\$ 631,404	\$ 577,344	
2012	(145,857)	648,600	
2013	(297,406)	147,974	
2014	45,475	(392,822)	
2015	294,880	(485,865)	
2016	360,536	44,398	
2017	(168,346)	597,916	
2018	4,308	96,653	
Total receivable	724,994	1,234,198	\$ 1,959,192
Allowance	(222,812)	(815,732)	(1,038,544)
Net receivable	<u>\$ 502,182</u>	<u>\$ 418,466</u>	<u>\$ 920,648</u>

The Corporation recognized a total allowance of approximately \$1,039,000 in 2018 and 2017, in anticipation of a variance between filed and final audited cost reports.

CMU Medical Education Partners

Notes to Financial Statements

June 30, 2018

5. Medical Educational Funding Receivable (continued)

As of June 30, 2018, 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	2015	2014
Blue Cross Traditional, Blue Cross Trust, and Blue Care Network	2017	2016
Medicaid	2015	2015

6. Related Party Receivables

Other receivables include the following related party amounts at June 30:

	<u>2018</u>	<u>2017</u>
St. Mary's	\$308,283	\$ 42,565
Covenant	93,863	114,664
CMU	462,158	472,061

7. 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, 2018 or 2017.

8. 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, 2018 or 2017.

CMU Medical Education Partners

Notes to Financial Statements

June 30, 2018

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 and has attained the age of 21 is eligible to participate.

The Corporation contributed 4 percent of the participants' pay into the program for each of the years ended June 30, 2018 and 2017. The cost to the Corporation was approximately \$573,000 for the year ended June 30, 2018 and \$503,000 for the year ended June 30, 2017.

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. In 2013, the Corporation entered into a 30-year lease agreement with Covenant for the occupancy of a portion of the Clinical Arts and Education Center. Under the terms of the lease, the Corporation pays Covenant \$1 annually. Management of the Corporation has estimated that the fair value of the lease is approximately \$600,600 per year. For each of the years ended June 30, 2018 and 2017, \$600,600 is recorded as contribution revenue with an equal amount recorded as facility expense.

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 renewal options for an additional 15 years and covers the period through January 2028. In 2013, the Corporation entered into a 15-year lease with MSA Ventures II LLC for commercial office space in Saginaw, Michigan. In 2017, the Corporation began a 10-year lease agreement with Central Michigan University upon the completion of construction for the occupancy of a School of Medicine Building in Saginaw, Michigan. Total lease expense for multi-year non-cancelable and cancelable leases was approximately \$431,000 for the year ended June 30, 2018 and \$431,000 for the year ended June 30, 2017. The future lease commitments as of June 30, 2018 for all non-cancelable leases are as follows:

2018-19	\$ 877,000
2019-20	857,000
2020-21	855,000
2021-22	823,000
2022-23	817,000
Thereafter	<u>3,571,000</u>
	<u>\$7,800,000</u>

CMU Medical Education Partners

Notes to Financial Statements

June 30, 2018

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. Under that 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	
	2018	2017
Estimated professional liability under self-insurance	\$ 75,900	\$ 75,900
Less: investments under professional liability funding arrangement – held by the trustee, at fair value	<u>753,455</u>	<u>700,336</u>
Estimated over funding of liability	<u>\$(677,555)</u>	<u>\$(624,436)</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.

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, 2018, the disposition or ultimate resolution of such claims and lawsuits will not have an adverse material effect on the financial position of the Corporation.

CMU Medical Education Partners

Notes to Financial Statements

June 30, 2018

13. Net Assets

There were no permanently restricted or temporarily restricted net assets as of June 30, 2018 or June 30, 2017.

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>2018</u>	<u>2017</u>
Health care services	\$35,346,893	\$31,453,529
General and administrative	4,821,433	4,258,302
Total operating expenses	<u>\$40,168,326</u>	<u>\$35,711,831</u>

15. Subsequent Accounting Standards

Financial Accounting Standards Board Accounting Standards Update No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*, will apply to the Corporation's financial statements starting with the year ending June 30, 2019. Specifically, the standard changes certain elements of the financial statement presentation and disclosures. One change revises the current model for reporting net assets from a three-level to a two-level approach. Under this model, on the face of the financial statements, net assets will be presented as either "with donor restrictions" or "without donor restrictions." As of June 30, 2018, under the terminology of the new standard, the Corporation's net assets would be considered as "without donor restrictions."

Other changes primarily relate to disclosure about the amounts and purposes of board-designated net assets; the composition of net assets with donor restrictions at the end of the period and how the restrictions affect the use of resources; qualitative information that shows how a not-for-profit manages its liquid resources available to meet cash needs for general expenditures within one year of the balance sheet date; details about the method(s) used to allocate costs among program and support functions; and enhanced disclosure of underwater endowment funds, if any, including the aggregate amounts by which funds are underwater. As of June 30, 2018, the Corporation has no endowments.