
Hurley Medical Center

**Financial Report
with Additional Information
June 30, 2017**

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Independent Auditor's Report

To the Board of Hospital Managers
Hurley Medical Center

Report on the Basic Financial Statements

We have audited the accompanying basic financial statements of the business-type activities, fiduciary fund, and blended component unit of Hurley Medical Center (the "Medical Center"), a component unit of the City of Flint, Michigan, as of and for the years ended June 30, 2017 and 2016 and the related notes to the basic financial statements, which collectively comprise Hurley Medical Center's basic financial statements as listed in the table of contents.

Management's Responsibility for the Basic Financial Statements

Management is responsible for the preparation and fair presentation of these basic 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 basic financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these basic 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 basic financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the basic financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the basic 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 basic 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 basic financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities, fiduciary fund, and blended component unit of Hurley Medical Center as of June 30, 2017 and 2016 and the changes in its financial position and its cash flows, thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Note 22 to the basic financial statements, the 2016 basic financial statements have been restated to correct a misstatement. Our opinion is not modified with respect to this matter.

To the Board of Hospital Managers
Hurley Medical Center

Required Supplemental Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedule of changes in the net pension liability and related ratios, schedule of Medical Center contributions, schedule of changes in the net OPEB liability and related ratios, schedule of OPEB contributions, and schedule of OPEB investment returns, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplemental information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Plante & Moran, PLLC

October 25, 2017

Our discussion and analysis of Hurley Medical Center's (the "Medical Center") financial performance provides an overview of the Medical Center's financial activities for the fiscal years ended June 30, 2017 and 2016. Please read it in conjunction with the Medical Center's basic financial statements, which begin on page 7. Unless otherwise indicated, amounts are in thousands.

As described in Note 22 to the basic financial statements, the 2016 basic financial statements have been restated to correct a misstatement. Financial information related to 2016 and 2015 have been restated accordingly.

Financial Highlights

The Medical Center reported operating Income of \$20.7 million for the fiscal year ending June 30, 2017. This represents a decrease of \$27.3 million from 2016. Net income for the fiscal year ended June 30, 2017 was \$14.6 million, reflecting a decrease from the prior year, which was reported net income of \$45.2 million.

Using this Annual Report

The Medical Center's financial statements consist of three statements: (a) a statement of net position; (b) a statement of revenues, expenses, and changes in net position; and (c) a statement of cash flows. These financial statements and its related notes provide information about the activities of the Medical Center, including resources held by the Medical Center but restricted for specific purposes by contributors, grantors, or enabling legislation.

The Statement of Net Position and Statement of Revenues, Expenses, and Changes in Net Position

The Medical Center's financial statements begin with the Statement of Net Position on page 7. Although there was a decline in operating margins, the current year showed a stable position. Inpatient volume remained consistent and outpatient volume continued to grow. The reduction in reimbursement reflected fewer retroactive payments from Medicaid for the Healthy Michigan programs. The statement of net position and the statement of revenues, expenses, and changes in net position report information about the Medical Center's resources and its activities that reflect this activity. These statements include all restricted and unrestricted assets and all liabilities using the accrual basis of accounting. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Medical Center's net position and changes in therein. The net position increased due to net gains for fiscal years ending 2017 and 2016, respectively, by \$15.2 million and \$45.8 million.

The Statement of Cash Flows

The statement of cash flows reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities. During 2017, the cash position of the Medical Center increased by approximately \$7.7 million to \$79.3 million.

The Statement of Net Position

	2017	2016	2015
Assets			
Current assets, less assets limited to use	\$ 136,680	\$ 140,379	\$ 128,242
Assets limited as to use	158,735	128,999	87,738
Capital assets	103,988	109,015	111,070
Other assets	<u>6,337</u>	<u>6,475</u>	<u>6,740</u>
Total assets	405,740	384,868	333,790
Deferred Outflow of Resources			
Total assets and deferred outflow of resources	<u>41,611</u>	<u>67,262</u>	<u>10,577</u>
Liabilities			
Current liabilities	92,480	82,434	78,082
Net pension liability	174,742	195,363	130,936
Long-term debt	78,756	87,936	94,606
Other long term liabilities	<u>24,285</u>	<u>27,201</u>	<u>27,600</u>
Total liabilities	<u>370,263</u>	<u>392,934</u>	<u>331,224</u>
Deferred Inflow of Resources			
Total liabilities and deferred inflow of resources	<u>2,937</u>	<u>228</u>	<u>0</u>
Net Position			
Net investment in capital assets	23,460	19,047	24,367
Donor restricted for specific operating activities	8,128	7,563	6,955
Unrestricted	<u>42,563</u>	<u>32,258</u>	<u>(18,179)</u>
Total net position	<u>\$ 74,151</u>	<u>\$ 58,968</u>	<u>\$ 13,143</u>

The Medical Center's net position is the difference between its assets and liabilities reported in the statement of net position on pages 7 and 8. The Medical Center's net position increased for the fiscal years ending June 30, 2017 and 2016, by \$15.2 million and \$45.8 million, respectively.

The Medical Center's combined cash position increased in 2017 by \$36.6 million to \$201.3 million at June 30, 2017. Respectively, the day's cash on hand increased from 146.9 days in 2016, to 172.1 days in 2017. The major increase in cash was primarily due to the positive operating results and the declining accounts receivable. The overall days in accounts receivable decreased from 47.2 days to 45.3 days.

In 2015, the Medical Center implemented the Governmental Accounting Standards Board Statement (GASB) No. 68, *Accounting and Financial Reporting for Pensions* resulting in an unfunded pension liability being recorded in the financial statements as a long term liability. The liability measurement is significantly impacted by the actuarial assumptions used and the investment market. These changes are reflected in the liability whereas the expense impact of these changes are amortized over a number of years. The difference was reflected as the deferred outflows/inflows on the statement of net position.

During 2016, some of the actuarial assumptions were changed and the investment market performed below expectations causing the unfunded liability to increase. In 2017, the investment market outperformed and unfunded liability decreased. The Medical Center also made extra contributions of \$12 million in 2017 and 2016, to help reduce the unfunded liability.

Other balance sheet accounts remained stable and are within expected ranges for the reporting periods of 2017 and 2016.

Operating Results and Changes in the Medical Center's Net Position

In 2017, the Medical Center's net position increased by \$15.2 million. The primary cause of the increase in net position is the positive financial results for the year ended June 30, 2017.

	2017	2016	2015
Operating Revenue			
Net patient service revenue	\$ 414,807	\$ 422,128	\$ 378,464
Other operating revenue	40,607	38,980	34,409
Total operating revenue	455,414	461,108	412,873
Operating Expenses			
Salaries and wages	175,056	171,793	165,893
Employee benefits and payroll taxes	74,018	70,446	55,253
Operating supplies and expenses	62,472	57,304	52,412
Professional services	58,634	52,867	47,505
Purchased services and other	47,715	42,352	42,721
Depreciation and amortization	16,837	18,386	17,577
Total operating expenses	434,732	413,148	381,361
Nonoperating (Expenses) Revenue	(6,064)	(2,743)	(7,239)
Excess of Revenue Over (Under) Expenses Before Other Activity	14,618	45,217	24,273
Grants, Contributions, and Endowments -			
Restricted gifts, income, and transfer to unrestricted	565	608	662
Increase (Decrease) in Net Position	15,183	45,825	24,935
Net Position - End of year	\$ 74,151	\$ 58,968	\$ 13,143

Operating Income

For the twelve months ending June 30, 2017, the Medical Center experienced a net income from operations of \$20.7 million. The comparable prior period operating income was \$47.9 million.

Inpatient activity decreased slightly from the prior year by 0.2 percent for both discharges and days reflecting a consistent average length of stay from year to year of 4.97. There was a 3.1 percent decline in the Medicare CMI (case mix index) however the overall CMI for all payer groups showed a small improvement of 0.7 percent which still resulted in a decline in net patient revenue. The Medical Center's inpatient market share has remained strong as reflected in the Michigan Hospital Association's market analysis, showing the Medical Center's lead in market share for the last twelve published quarters. In addition to steady inpatient volumes, there was growth in the overall outpatient volumes reflecting an increase of outpatient revenue by 1.6 percent. Although the outpatient volumes have increased there has been a slight decline in the overall reimbursement rates. This decline has been partially offset by the continued reduction in bad debt write-offs due to patient's being insured by the Medicaid Healthy Michigan Plan. Other Operating Revenues has increased approximately 13.6 percent which reflects the professional revenue associated with higher patient volumes and an electronic medical record incentive payment.

Operating expenses increased by 5.2 percent from the prior year. The largest increase reflects the additional salaries and wages and agency expenses associated with the increased FTE count. These increases are primarily associated with the growth of the outpatient volume and the general wage increases. The associated employment expenses increased corresponding including pension expense. The increase in the medical supplies reflects the higher costs associated with the new cardiac programs that opened mid-year as well as the value analysis process to reduce the overall inventory associated with surgery procedures.

Nonoperating Revenues and Expenses

Nonoperating revenues consist primarily of investment earnings on cash balances, joint venture income and interest expense on outstanding long-term debt. Nonoperating revenue/expense declined by \$3.4 million over the prior year primarily due to the unrealized loss in the bond investment market in 2017, as compared to an unrealized investment gain in of \$2.8 million in 2016. The Medical Center's investment policy is restricted by the State of Michigan law Public Act 20, which restricts investments to US backed governmental securities. Also, in the prior year there was a gain on the sale of an ownership interest in a group purchase organization.

Capital Asset and Debt Administration

The Medical Center had \$104 million invested in capital assets, net of accumulated depreciation, as detailed in Note 18 to the financial statements. There was \$11.8 million of building infrastructure, clinical equipment and technology infrastructure assets purchased in 2017. At year end, the Medical Center had \$85 million in revenue bonds outstanding.

Contacting the Medical Center's Financial Management

This financial report is designed to provide our constituents with a general overview of the Medical Center's finances. If you have any questions about this report or need additional financial information, contact the Medical center at: One Hurley Plaza, Flint, MI 48503.

Proprietary Funds
Statement of Net Position

June 30, 2017 and 2016

	2017		2016 (as Restated)	
	Hurley Medical Center	Component Unit Hurley Health Services	Hurley Medical Center	Component Unit Hurley Health Services
Assets and Deferred Outflows of Resources				
Current Assets				
Cash and cash equivalents	\$ 79,284,646	\$ 1,271,037	\$ 71,628,559	\$ 1,305,991
Patient accounts receivable - Net (Note 5)	40,549,479	1,295,832	46,971,137	1,249,683
Other receivables	5,302,443	869,989	5,737,154	1,126,403
Estimated third-party payor settlements (Note 4)	3,076,258	-	6,731,273	-
Assets limited as to use (Note 6)	8,671,091	156,158	8,567,008	155,854
Prepaid expenses and other	3,332,333	332,640	3,413,765	354,653
Inventory	5,134,255	59,063	5,896,727	19,284
Total current assets	145,350,505	3,984,719	148,945,623	4,211,868
Assets Limited as to Use (Note 6)				
By the board	121,999,641	-	93,051,463	-
Held by trustee - Bond	8,310,294	-	8,316,312	-
Restricted and held in trust - Other	19,753,842	-	19,064,463	-
Capital Assets - Net (Note 7)	103,988,255	2,011,470	109,014,964	1,995,773
Other Assets				
Accounts receivable	-	-	-	76,972
Investment in joint ventures	6,337,466	40,500	6,474,901	34,500
Other	-	954,408	-	954,963
Total other assets	6,337,466	994,908	6,474,901	1,066,435
Total assets	405,740,003	6,991,097	384,867,726	7,274,076
Deferred Outflows of Resources	41,610,522	-	67,262,672	-
Total assets and deferred outflows of resources	\$ 447,350,525	\$ 6,991,097	\$ 452,130,398	\$ 7,274,076

Proprietary Funds
Statement of Net Position (Continued)

June 30, 2017 and 2016

	2017		2016 (as Restated)	
	Hurley Medical Center	Component Unit Hurley Health Services	Hurley Medical Center	Component Unit Hurley Health Services
Liabilities, Deferred Inflows of Resources, and Net Position				
Current Liabilities				
Accounts payable and taxes withheld \$	18,507,129	\$ 475,889	\$ 19,465,742	\$ 523,631
Current portion of long-term debt (Note 8)	6,282,103	145,052	6,564,104	98,501
Estimated third-party payor settlements (Note 4)	34,251,657	-	25,805,886	-
Accrued expenses	33,438,819	1,370,196	30,598,254	1,540,691
Total current liabilities	92,479,708	1,991,137	82,433,986	2,162,823
Long-term Debt - Net of current portion (Note 8)	78,756,010	934,909	87,935,986	980,672
Other Long-term Liabilities				
Net pension liability (Note 20)	174,742,143	-	195,363,024	-
Other (Note 16)	24,285,365	-	27,201,371	-
Total liabilities	370,263,226	2,926,046	392,934,367	3,143,495
Deferred Inflows of Resources	2,936,055	-	227,846	-
Total liabilities and deferred inflows of resources	373,199,281	2,926,046	393,162,213	3,143,495
Net Position				
Net investment in capital assets	23,459,592	931,509	19,147,402	1,995,773
Donor restricted for specific operating activities	8,128,180	-	7,563,239	-
Unrestricted	42,563,472	3,133,542	32,257,544	2,134,808
Total net position	74,151,244	4,065,051	58,968,185	4,130,581
Total liabilities, deferred inflows of resources, and net position	<u>\$ 447,350,525</u>	<u>\$ 6,991,097</u>	<u>\$ 452,130,398</u>	<u>\$ 7,274,076</u>

Proprietary Funds

Statement of Revenue, Expenses, and Changes in Net Position

Years Ended June 30, 2017 and 2016

	2017		2016 (as Restated)	
	Hurley Medical Center	Component Unit Hurley Health Services	Hurley Medical Center	Component Unit Hurley Health Services
Net Revenue				
Net patient service revenue	\$ 414,807,485	\$ 6,831,697	\$ 422,127,958	\$ 6,321,562
Other operating revenue	40,606,506	29,197,243	38,979,817	27,546,745
Total net revenue	455,413,991	36,028,940	461,107,775	33,868,307
Operating Expenses				
Salaries and wages	175,056,010	26,678,315	171,793,004	23,054,907
Employee benefits and payroll taxes	74,017,839	4,423,331	70,445,989	3,844,806
Operating supplies and expenses	62,472,459	-	57,304,093	-
Professional services and consultant fees	58,634,258	724,378	52,866,572	727,289
Purchased services and other	47,713,671	4,105,824	42,351,952	4,167,359
Depreciation and amortization	16,837,291	168,704	18,385,795	119,079
Total operating expenses	434,731,528	36,100,552	413,147,405	31,913,440
Operating Income (Loss)	20,682,463	(71,612)	47,960,370	1,954,867
Nonoperating (Expense) Income				
Investment (loss) income	(1,451,336)	6,082	2,908,231	16,568
Joint venture income (loss)	253,584	-	(505,575)	-
Other (expense) income	(12,813)	-	247,164	(1,481)
Interest expense	(5,161,031)	-	(5,449,890)	-
Total nonoperating (expense) income	(6,371,596)	6,082	(2,800,070)	15,087
Excess of Revenue Over (Under) Expenses Before Other Activity, Restricted Fund Activity, and Transfer of Funds	14,310,867	(65,530)	45,160,300	1,969,954
Other - Assets released from restrictions for the purchase of capital assets	307,251	-	57,000	-
Excess of Revenue Over (Under) Expenses Before Restricted Fund Activity and Transfer of Funds	14,618,118	(65,530)	45,217,300	1,969,954
Restricted Fund Activity and Transfer of Funds	872,192	-	664,678	-
Transfer to Unrestricted Net Position - Capital asset additions	(307,251)	-	(57,000)	-
Increase (Decrease) in Net Position	15,183,059	(65,530)	45,824,978	1,969,954
Net Position - Beginning of year, as restated	58,968,185	4,130,581	13,143,207	2,160,627
Net Position - End of year	<u>\$ 74,151,244</u>	<u>\$ 4,065,051</u>	<u>\$ 58,968,185</u>	<u>\$ 4,130,581</u>

Proprietary Funds
Statement of Cash Flows

Years Ended June 30, 2017 and 2016

	2017		2016 (as Restated)	
	Hurley Medical Center	Component Unit Hurley Health Services	Hurley Medical Center	Component Unit Hurley Health Services
Cash Flows from Operating Activities				
Cash received from patients and third-party payors	\$ 474,371,146	\$ 37,381,474	\$ 464,837,707	\$ 32,205,181
Cash payments to suppliers for services and goods	(235,002,131)	(10,628,224)	(214,134,562)	(9,000,927)
Cash payments to employees for services	(175,056,010)	(26,678,315)	(171,793,004)	(23,054,907)
Net cash provided by operating activities	64,313,005	74,935	78,910,141	149,347
Cash Flows from Noncapital Financing Activities				
Net proceeds from contributions restricted for specific purposes	872,192	-	664,678	-
Cash Flows from Capital and Related Financing Activities				
Proceeds from issuance of long-term debt	-	-	-	540,000
Principal payment on long-term debt and capital leases	(9,413,898)	(122,467)	(6,499,979)	(86,414)
Decrease in loans receivable	-	66,470	-	466,566
Interest paid on long-term debt	(5,363,953)	-	(5,595,447)	-
Purchase of capital assets	(12,149,934)	(53,670)	(16,691,263)	(1,100,274)
Proceeds from sale of capital assets	105,966	-	220,538	4,749
Net cash used in capital and related financing activities	(26,821,819)	(109,667)	(28,566,151)	(175,373)
Cash Flows from Investing Activities				
Loss (gain) from joint venture activity	391,019	-	(715,430)	-
Distributions from joint ventures	-	-	450,000	-
Net proceeds from contributions - Unrestricted	-	-	272,164	-
Sale (purchase) of assets whose use is limited	2,844,179	-	2,930,884	1,877
Purchases of assets whose use is limited	(33,154,592)	-	(39,686,407)	(304)
Investment interest and realized (losses) gains	(787,897)	(222)	(1,597,770)	16,568
Net cash (used in) provided by investing activities	(30,707,291)	(222)	(38,346,559)	18,141
Net Increase (Decrease) in Cash and Cash Equivalents	7,656,087	(34,954)	12,662,109	(7,885)
Cash and Cash Equivalents - Beginning of year	71,628,559	1,305,991	58,966,450	1,313,876
Cash and Cash Equivalents - End of year	\$ 79,284,646	\$ 1,271,037	\$ 71,628,559	\$ 1,305,991

Proprietary Funds
Statement of Cash Flows (Continued)

Years Ended June 30, 2017 and 2016

2017		2016 (as Restated)	
Hurley Medical Center	Component Unit Hurley Health Services	Hurley Medical Center	Component Unit Hurley Health Services

A reconciliation of operating income (loss) to net cash from operating activities is as follows:

**Reconciliation of Operating Income (Loss) to
Net Cash from Operating Activities**

Operating income (loss)	\$ 20,682,463	\$ (71,612)	\$ 47,960,370	\$ 1,954,867
Adjustments to reconcile operating income (loss) to net cash from operating activities:				
Depreciation	16,837,291	168,704	18,385,795	119,079
Provision for bad debts	10,792,077	15,848	16,546,301	11,104
Amortization of bond discounts and other deferred outflows	(48,079)	-	182,253	-
Loss on investment in assets	233,387	-	189,385	-
Gain on sale of asset	-	-	-	1,481
Changes in operating assets and liabilities:				
Receivables and third-party payor settlements	8,165,078	743,718	(12,816,369)	(1,674,230)
Inventories	762,472	(47,256)	(194,822)	(93)
Prepaid expenses and other	81,432	22,013	(707,470)	(80,865)
Accounts payable and taxes withheld	(958,614)	(46,366)	2,937,745	(1,045,913)
Accrued expenses	7,765,498	(710,114)	6,426,953	863,917
Net cash provided by operating activities	\$ 64,313,005	\$ 74,935	\$ 78,910,141	\$ 149,347

Fiduciary Funds
Statement of Net Position
Retiree Health Benefit Trust Fund

June 30, 2017 and 2016

	2017	2016
Assets		
Cash and cash equivalents	\$ 1,935,889	\$ 2,899,719
Investments:		
Common stock	29,385,914	18,522,479
Corporate bonds	14,474,162	14,159,265
U.S. government or agency bonds	8,185,356	11,652,142
U.S. government collateralized mortgage obligations	6,169,495	5,666,925
Contribution receivable	-	3,963,664
Interest receivable	203,276	201,827
	\$ 60,354,092	\$ 57,066,021
Total assets	\$ 60,354,092	\$ 57,066,021
Liabilities and Net Position		
Other Long-term Liabilities	\$ 691,624	\$ 3,940,798
Net Position - Held in trust for retiree health benefits	59,662,468	53,125,223
Total liabilities and net position	\$ 60,354,092	\$ 57,066,021

Fiduciary Funds
Statement of Changes in Net Position
Retiree Health Benefit Trust Fund

Years Ended June 30, 2017 and 2016

	2017	2016
Additions		
Contributions - Employer	\$ 5,523,202	\$ 5,613,665
Contributions - Retiree	2,030,357	2,114,107
Total contributions	7,553,559	7,727,772
Dividends	1,315,140	946,354
Realized gain on sale of investments	106,903	380,063
Net increase (decrease) in fair value of investments	4,226,008	(1,063,217)
Less investment expenses	(339,371)	(316,546)
Total Additions	12,862,239	7,674,426
Deductions - Benefit payments	(6,324,994)	(6,054,907)
Increase in Net Position	6,537,245	1,619,519
Net Position - Beginning of year	53,125,223	51,505,704
Net Position - End of year	\$ 59,662,468	\$ 53,125,223

Note 1 - Nature of Business

Hurley Medical Center (the "Medical Center") is an enterprise fund of the City of Flint, Michigan. The Medical Center provides inpatient, outpatient, and emergency care services in Genesee and the surrounding counties. As an instrumentality of a political subdivision of the State of Michigan, as described in Section 115 of the Internal Revenue Code, the Medical Center is exempt from federal income taxes.

The City of Flint Hospital Building Authority (the "Authority") is a blended component unit of the Medical Center and the City of Flint. The Authority only serves the Medical Center by facilitating the issuance of debt for certain capital improvements and equipment via a lease contract. In accordance with generally accepted accounting principles, the lease transactions between the Medical Center and the Authority have been eliminated and all debt and related assets have been recorded in the Medical Center's basic financial statements.

Hurley Health Services (HHS), a municipal support organization, is a wholly owned subsidiary of the Medical Center and is a blended component unit. HHS provides services almost entirely to the Medical Center. HHS, on a consolidated basis, is comprised of two nonprofit entities (HHS and The Hurley Clinics (THC)) and one "for-profit" corporation (Hurley Practice Management Services (HPMS)). Separate financial statements for HHS may be obtained by contacting HHS.

Note 2 - Significant Accounting Policies

Proprietary Fund Accounting

The Medical Center utilizes the full accrual method of accounting, whereby revenue and expenses are recognized on the accrual basis.

Fiduciary Fund Accounting

The Retiree Health Benefit Trust Fund accounts for the funding and expenditures related to providing benefits to retirees. This fund accumulates resources for healthcare benefits financed by the Medical Center. The fiduciary fund also utilizes the full accrual method of accounting.

Basis of Presentation

The Medical Center follows GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, in the presentation of its financial statements. Under GASB Statement No. 34, the Medical Center is classified as a special purpose government and is required to present statements for enterprise funds and fiduciary funds.

Cash and Cash Equivalents

Cash and cash equivalents include investments in highly liquid debt instruments with a maturity of three months or less, excluding amounts limited as to use by board designation or other arrangements under trust agreements or with third-party payors. Cash balances held in the bank exceed the federal depository insurance limit. The Medical Center's cash is only insured up to the federal depository insurance limit.

Assets Limited as to Use

Assets limited as to use include:

- Assets set aside by the board of managers for identified purposes, over which the board retains control, and may, at its discretion, subsequently use for other purposes
- Proceeds of debt issues and funds of the Medical Center deposited with a trustee and limited to use in accordance with the requirements of a bond indenture
- Assets restricted by outside donors

Note 2 - Significant Accounting Policies (Continued)

Investments and Investment Income

The Medical Center accounts for its investments in accordance with GASB Statement No. 31, *Accounting for Certain Investments and for External Investment Pools*. All investments are valued at their fair values in the statement of net position except money market investments and interest earning investment contracts that have a remaining maturity of less than one year at the time of purchase. These investments are carried at amortized cost. Unrealized gains and losses are included in the statement of revenue, expenses, and changes in net position as nonoperating revenue - investment income.

Investment income on proceeds of borrowings that are held by a trustee, to the extent not capitalized, and investment income on assets deposited in the self-insurance trust are reported as other operating revenue. Investment income from all other investments and investment income of endowment funds are reported as nonoperating revenue.

The investments in joint ventures are recorded on the equity method of accounting.

Accounts Receivable

Accounts receivable for patients, insurance companies, and governmental agencies are based on gross charges. An allowance for uncollectible accounts is established on an aggregate basis by using historical loss rate factors applied to unpaid accounts based on aging. Loss rate factors are based on historical loss experience and adjusted for economic conditions and other trends affecting the Medical Center's ability to collect outstanding amounts. Uncollectible amounts are written off against the allowance for doubtful accounts in the period they are determined to be uncollectible. An allowance for contractual adjustments and interim payment advances is based on expected payment rates from payors based on current reimbursement methodologies. This amount also includes amounts received as interim payments against unpaid claims by certain payors.

Inventories

Inventories, which consist of medical and office supplies and pharmaceutical products, are stated at cost, determined on a first-in, first-out basis or market.

Deferred Outflows

Deferred outflows include the defeasance loss associated with defeased debt, which is capitalized and amortized over the life of the new debt, consideration paid for assets acquired in a clinic acquisition, as well as deferred outflows related to the defined benefit plan, made up of employer contributions made subsequent to the measurement date, the variance between the plan's actual investment earnings compared to the plan's assumed investment earnings, and the changes in actuarial assumptions.

Capital Assets

Capital assets are defined by the Medical Center as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at cost. Donated capital assets are recorded at acquisition value at the date of donation. Interest incurred during the construction of capital assets is included as part of the capitalized value of the assets constructed.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Note 2 - Significant Accounting Policies (Continued)

Capital assets are depreciated using the straight-line method over the following estimated useful lives.

	Depreciable Life - Years
Land improvements	5 to 25
Buildings	5 to 50
Machinery and equipment	2 to 20
Automotive equipment	2 to 10

Compensated Absences

The Medical Center's employees earn vacation days at varying rates depending on years of service and job classification. Employees may accumulate vacation days up to a specified maximum. The Medical Center's policy is to accrue such unpaid vacation days as they are earned. The amount of vacation days payable is reported as a current liability.

Employees of the Medical Center generally are eligible for receiving a portion of unused sick leave benefits only upon retirement, death, or duty-related disability. The Medical Center's policy is to recognize these sick leave benefits at the time an employee becomes vested for retirement, duty-related disability, or in the case of death. The estimated amount of sick leave payable for employees meeting these requirements is reported as a current liability.

Certain employee groups, however, are eligible to receive a portion of unused sick leave benefits on an annual basis. The Medical Center's policy is to accrue such unpaid sick leave benefits as they are earned. The estimated amount of sick leave payable for employees eligible to receive a portion of unused sick leave benefits on an annual basis is reported as a current liability.

Estimated Self-insured Malpractice Costs

The provision for estimated self-insured medical malpractice claims includes estimates of the ultimate costs for both reported claims and claims incurred but not reported. The estimate for claims incurred but not reported is based on an actuarial determination.

Classification of Net Position

Fund net position of the Medical Center is classified in three components. Fund net position invested in capital assets net of related debt consists of capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. Restricted net position is noncapital net position that must be used for a particular purpose, as specified by grantors or contributors external to the Medical Center. Unrestricted net position is remaining net position that does not meet the definition of invested in capital assets net of related debt or restricted.

Net Patient Service Revenue

Net patient service revenue is reported at the estimated net realizable amounts from patients and third-party payors for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. Approximately 85 percent of the Medical Center's revenue is based on participation in the Blue Cross/Blue Shield, Medicare, and Medicaid programs for the years ended 2017 and 2016.

Note 2 - Significant Accounting Policies (Continued)

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. Management believes that it is in compliance with all applicable laws and regulations. Final determination of compliance of such laws and regulations is subject to future government review and interpretation. Violations may result in significant regulatory action, including fines, penalties, and exclusions from the Medicare and Medicaid programs.

Electronic Health Records Incentive Payments

The American Recovery and Reinvestment Act of 2009 (ARRA) established funding in order to provide incentive payments to hospitals and physicians that implement the use of electronic health record (EHR) technology by 2014. The Medical Center may receive an incentive payment for up to four years, provided the Medical Center demonstrates meaningful use of certified EHR technology for the EHR reporting period. The revenue from the incentive payments are recognized ratably over the EHR reporting period when there is reasonable assurance that the Medical Center will comply with eligibility requirements during EHR reporting period and an incentive payment will be received.

The amounts are recorded within other operating revenue as the incentive payments are related to the Medical Center's and physician's ongoing and central activities yet not critical to the delivery of patient service. During fiscal years 2017 and 2016, the Medical Center received and recorded \$1,700,000 and \$2,700,000, respectively, of incentive payments in other operating revenue.

Operating Revenue and Expenses

The Medical Center's statement of revenue, expenses, and changes in net position distinguishes between operating and nonoperating revenue and expenses. Operating revenue results from exchange transactions associated with providing healthcare services, the Medical Center's principal activity. Operating expenses are all expenses incurred to provide healthcare services, other than financing costs.

Restricted Resources

When the Medical Center has both restricted and unrestricted resources available to finance a particular program, it is the Medical Center's policy to use restricted resources before unrestricted resources.

Income Taxes

The Medical Center and HHS are exempt from income taxes except for HHS's subsidiary, HPMS. A provision for income taxes (at statutory rates) has been provided in the basic financial statements related to this entity's transactions.

Nonoperating Revenue and Expenses

The Medical Center categorizes joint ventures, investment income, interest expense, and operations that the Medical Center does not directly oversee as nonoperating activities. Interest expense is charged to nonoperating expense as incurred, except that interest on funds borrowed for major construction projects is capitalized as a component of the cost of the related projects during the period that the borrowed funds are owed.

Estimates

The preparation of the basic 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 reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the basic financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Note 2 - Significant Accounting Policies (Continued)

Upcoming Accounting Pronouncements

In June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, which addresses reporting by governments that provide postemployment benefits other than pensions (OPEB) to their employees and for governments that finance OPEB for employees of other governments. This OPEB standard will require the Medical Center to recognize on the face of the financial statements its net OPEB liability related to its participation in the Retiree Health Benefit Plan. The statement also enhances accountability and transparency through revised note disclosures and required supplemental information (RSI). The Medical Center is currently evaluating the impact this standard will have on the financial statements when adopted. The provisions of this statement are effective for the Medical Center's financial statements for the year ending June 30, 2018.

In January 2017, the GASB issued Statement No. 84, *Fiduciary Activities*. This statement establishes criteria for identifying fiduciary activities of all state and local governments. An activity meeting the criteria should be reported in a fiduciary fund in the basic financial statements. The Medical Center is currently evaluating the impact this standard will have on the basic financial statements when adopted. The provisions of this statement are effective for the Medical Center's basic financial statements for the year ending June 30, 2020.

In June 2017, the GASB issued GASB Statement No. 87, *Leases*, which improves accounting and financial reporting for leases by governments. This statement requires recognition of certain lease assets and liabilities for leases that were previously classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources. The Medical Center is currently evaluating the impact this standard will have on the basic financial statements when adopted. The provisions of this statement are effective for the Medical Center's basic financial statements for the year ending June 30, 2021.

Note 3 - Charity Care

The Medical Center provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Medical Center does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. Charity care is determined based on established policies, using patient income and assets to determine payment ability. The amount reflects the cost of free or discounted health services, net of contributions and other revenue received, as direct assistance for the provision of charity care. The estimated cost of providing charity services is based on data derived from the Medical Center's cost accounting system using the ratio of cost to charges. The Medical Center estimates that it provided \$15,300,000 and \$18,500,000 of services to indigent patients during 2017 and 2016, respectively. The Medical Center estimates costs and expenses incurred to provide charity care totaled \$4,600,000 and \$5,200,000 during 2017 and 2016, respectively. Charity care patients made up approximately 1.05 percent and 1.27 percent of all patients during 2017 and 2016, respectively.

Note 4 - Net Patient Service Revenue

The Medical Center has agreements with third-party payors that provide for payments to the Medical Center at amounts different from its established rates. A summary of the payment arrangements with major third-party payors is as follows:

Note 4 - Net Patient Service Revenue (Continued)

Medicare

Inpatient, acute-care services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system based on clinical, diagnostic, and other factors. Most outpatient services are paid on an ambulatory payment classification system or fee schedule methodology. Inpatient, nonacute services, and medical education costs related to Medicare beneficiaries are paid based on a cost reimbursement methodology subject to certain limitations.

Medicaid

Inpatient, acute-care services rendered to Medicaid program beneficiaries are also paid at prospectively determined rates per discharge. Outpatient services rendered to Medicaid program beneficiaries are paid on an ambulatory payment classification system or a fee schedule methodology. Capital costs are paid on a cost reimbursement method. The Medical Center participates in a quality assurance assessment program through the State of Michigan. The amounts paid and received under this program are netted and reported in net patient service revenue.

Blue Cross/Blue Shield of Michigan

Inpatient, acute-care services are reimbursed at prospectively determined rates per discharge. These rates are based on the Medicare patient classification system and on hospital-specific costs. Outpatient services are reimbursed on a fee-for-service basis.

Health Maintenance Organization (HMO)/Preferred Provider Organization (PPO)

Services rendered to HMO and PPO beneficiaries are paid at predetermined rates or at a percentage of hospital charges.

Cost report settlements result from the adjustment of interim payments to final reimbursement under the Medicare, Medicaid, and Blue Cross/Blue Shield of Michigan programs and are subject to audit by fiscal intermediaries. The Medical Center recognized decreases in net patient service revenue of approximately \$1.9 million and \$1.3 million during 2017 and 2016, respectively, as a result of unfavorable and favorable changes to prior year settlement estimates and activity.

Note 5 - Patient Accounts Receivable

Patient accounts receivable at June 30, 2017 and 2016 and revenue for the years then ended include estimated amounts due from various third-party payors, which are computed in accordance with their respective reimbursement formulas.

In addition, the Medical Center has established an estimated allowance for uncollectible accounts of approximately \$11,000,000 and \$15,000,000 at June 30, 2017 and 2016, respectively.

The Medical Center grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The composition of receivables from patients and third-party payors was as follows:

	2017	2016
Medicare	27 %	22 %
Blue Cross/Blue Shield of Michigan	11	9
Medicaid	37	42
Other third-party payors	19	20
Self pay	6	7
Total	100 %	100 %

Note 6 - Assets Limited as to Use

Assets limited as to use that are required for obligations classified as current liabilities are reported in current assets and are comprised of cash and cash equivalents. Assets limited as to use consist of the following at June 30:

	<u>2017</u>	<u>2016</u>
Held by trustee - Bond:		
Cash and cash equivalents	\$ 11,883,055	\$ 10,956,616
U.S. government securities (cost was \$5,150,105 and \$5,926,215 for 2017 and 2016, respectively)	5,089,288	5,925,892
Accrued interest receivable	9,042	812
Less assets required for current liabilities	<u>(8,671,091)</u>	<u>(8,567,008)</u>
Total held by trustee - Bond	<u>\$ 8,310,294</u>	<u>\$ 8,316,312</u>
Board designated:		
By board for funded depreciation and capital improvements:		
Cash and cash equivalents	\$ 262,760	\$ 341,766
U.S. government securities (cost was \$29,903,089 and \$29,415,596 for 2017 and 2016, respectively)	29,779,029	30,037,650
Accrued interest receivable	116,858	133,481
By board for operations:		
Cash and cash equivalents	1,708,529	3,501,768
U.S. government securities (cost of \$90,783,821 and \$58,239,279 for 2017 and 2016, respectively)	89,791,634	58,846,556
Accrued interest receivable	340,831	190,242
Assets required for current liabilities	<u>8,671,091</u>	<u>8,567,008</u>
Total board designated	<u>\$ 113,328,550</u>	<u>\$ 84,484,455</u>
Held in trust - Self insurance:		
Cash and cash equivalents	\$ 194,281	\$ 1,241,176
U.S. government securities (cost was \$19,342,775 and \$17,060,754 for 2017 and 2016, respectively)	19,099,269	17,253,717
Accrued interest receivable	<u>52,930</u>	<u>41,992</u>
Total held in trust - Self insurance	19,346,480	18,536,885
Held in trust - Retirement - Cash and cash equivalents	28,953	140,119
Restricted assets - Cash and cash equivalents	<u>378,409</u>	<u>387,459</u>
Total restricted and held in trust - Other	<u>\$ 19,753,842</u>	<u>\$ 19,064,463</u>

Notes to Financial Statements

June 30, 2017 and 2016

Note 7 - Capital Assets

Cost of capital assets and related accumulated depreciation for Hurley Medical Center for June 30, 2017 are summarized below:

	2016	Additions	Disposals and Transfers	2017
Assets not subject to depreciation:				
Land	\$ 5,045,689	\$ -	\$ (115,237)	\$ 4,930,372
Construction in progress	8,279,388	12,149,935	(9,989,897)	10,439,426
Total	13,324,997	12,149,935	(10,105,134)	15,369,798
Assets subject to depreciation:				
Land improvements	2,993,541	125,683	-	3,119,224
Buildings	180,588,452	3,647,924	(2,841,957)	181,394,419
Machinery and equipment	114,067,250	6,216,649	(2,821,973)	117,461,926
Automotive equipment	290,908	-	(57,511)	233,397
Total	297,940,151	9,990,256	(5,721,441)	302,208,966
Less accumulated depreciation:				
Land improvements	1,377,640	223,511	-	1,601,151
Buildings	120,805,928	4,846,419	(2,802,528)	122,849,819
Machinery and equipment	79,856,256	11,747,105	(2,636,926)	88,966,435
Automotive equipment	210,360	20,255	(57,511)	173,104
Total	202,250,184	16,837,290	(5,496,965)	213,590,509
Net carrying amount	<u>\$ 109,014,964</u>	<u>\$ 5,302,901</u>	<u>\$ (10,329,610)</u>	<u>\$ 103,988,255</u>

June 30, 2017 and 2016

Note 7 - Capital Assets (Continued)

Cost of capital assets and related accumulated depreciation for Hurley Medical Center for June 30, 2016 are summarized below:

	2015	Additions	Disposals and Transfers	2016
Assets not subject to depreciation:				
Land	\$ 5,055,968	\$ 15,985	\$ (26,344)	\$ 5,045,609
Construction in progress	8,172,485	16,826,552	(16,719,649)	8,279,388
Total	13,228,453	16,842,537	(16,745,993)	13,324,997
Assets subject to depreciation:				
Land improvements	2,545,320	448,221	-	2,993,541
Buildings	178,135,112	5,373,692	(2,920,352)	180,588,452
Machinery and equipment	110,404,501	10,876,010	(7,213,261)	114,067,250
Automotive equipment	355,105	27,355	(91,552)	290,908
Total	291,440,038	16,725,278	(10,225,165)	297,940,151
Less accumulated depreciation:				
Land improvements	1,158,139	219,501	-	1,377,640
Buildings	118,889,488	4,604,441	(2,688,001)	120,805,928
Machinery and equipment	73,267,052	13,544,333	(6,955,129)	79,856,256
Automotive equipment	284,393	17,520	(91,553)	210,360
Total	193,599,072	18,385,795	(9,734,683)	202,250,184
Net carrying amount	<u>\$ 111,069,419</u>	<u>\$ 15,182,020</u>	<u>\$ (17,236,475)</u>	<u>\$ 109,014,964</u>

Capital asset activity for Hurley Health Services for June 30, 2017 was as follows:

	2016	Additions	Disposals and Transfers	2017
Leasehold improvements	\$ 302,312	\$ 3,160	\$ -	\$ 305,472
Buildings	1,250,000	123,255	-	1,373,255
Equipment and furnishings	1,246,386	57,986	-	1,304,372
Total	2,798,698	184,401	-	2,983,099
Less accumulated depreciation:				
Leasehold improvements	138,212	29,356	-	167,568
Buildings	40,491	34,158	-	74,649
Equipment and furnishings	624,222	105,190	-	729,412
Total	802,925	168,704	-	971,629
Net carrying amount	<u>\$ 1,995,773</u>	<u>\$ 15,697</u>	<u>\$ -</u>	<u>\$ 2,011,470</u>

Notes to Financial Statements

June 30, 2017 and 2016

Note 7 - Capital Assets (Continued)

Capital asset activity for Hurley Health Services for June 30, 2016 was as follows:

	2015	Additions	Disposals and Transfers	2016
Leasehold improvements	\$ 300,679	\$ 19,111	\$ (17,478)	\$ 302,312
Buildings	650,000	600,000	-	1,250,000
Equipment and furnishings	787,728	481,455	(22,797)	1,246,386
Total	1,738,407	1,100,566	(40,275)	2,798,698
Less accumulated depreciation:				
Leasehold improvements	142,447	9,288	(13,523)	138,212
Buildings	9,722	30,769	-	40,491
Equipment and furnishings	567,996	79,022	(22,796)	624,222
Total	720,165	119,079	(36,319)	802,925
Net carrying amount	\$ 1,018,242	\$ 981,487	\$ (3,956)	\$ 1,995,773

Note 8 - Long-term Debt

Long-term debt activity for the years ended June 30, 2017 and 2016 can be summarized as follows for the Medical Center:

	2017				
	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Long-term debt obligations:					
Series 2010	\$ 32,715,000	\$ -	\$ (500,000)	\$ 32,215,000	\$ 500,000
Series 2011	1,985,158	-	(769,245)	1,215,913	802,103
Series 2013A	21,940,000	-	-	21,940,000	-
Series 2013B	34,800,000	-	(4,810,000)	29,990,000	4,980,000
Capital leases	3,334,653	-	(3,334,653)	-	-
Total principal outstanding	94,774,811	-	(9,413,898)	85,360,913	6,282,103
Unamortized bond premiums	618,395	-	(100,508)	517,887	-
Unamortized bond discounts	(893,116)	52,429	-	(840,687)	-
Total long-term debt	\$ 94,500,090	\$ 52,429	\$ (9,514,406)	\$ 85,038,113	\$ 6,282,103

Notes to Financial Statements

June 30, 2017 and 2016

Note 8 - Long-term Debt (Continued)

	2016				
	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Long-term debt obligations					
Series 1998B	\$ 670,000	\$ -	\$ (670,000)	\$ -	\$ -
Series 2003	2,650,000	-	(2,650,000)	-	-
Series 2010	33,215,000	-	(500,000)	32,715,000	500,000
Series 2011	2,722,892	-	(737,734)	1,985,158	769,245
Series 2013A	21,940,000	-	-	21,940,000	-
Series 2013B	36,035,000	-	(1,235,000)	34,800,000	4,810,000
Capital leases	4,041,899	-	(707,246)	3,334,653	484,859
Total principal outstanding	101,274,791	-	(6,499,980)	94,774,811	6,564,104
Unamortized bond premiums	733,632	-	(115,237)	618,395	-
Unamortized bond discounts	(946,359)	53,243	-	(893,116)	-
Total long-term debt	<u>\$ 101,062,064</u>	<u>\$ 53,243</u>	<u>\$ (6,615,217)</u>	<u>\$ 94,500,090</u>	<u>\$ 6,564,104</u>

Long-term debt activity for the years ended June 30, 2017 and 2016 can be summarized as follows for HHS:

	2017				
	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Mortgage payable	\$ 1,079,173	\$ -	\$ (98,501)	\$ 980,672	\$ 103,967
Capital leases	-	123,255	(23,966)	99,289	41,085
Total	<u>\$ 1,079,173</u>	<u>\$ 123,255</u>	<u>\$ (122,467)</u>	<u>\$ 1,079,961</u>	<u>\$ 145,052</u>

	2016				
	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Mortgage payable	\$ 625,587	\$ 540,000	\$ (86,414)	\$ 1,079,173	\$ 98,501

Note 8 - Long-term Debt (Continued)

Debt Service Requirements to Maturity

Annual debt service requirements to maturity for the above long-term debt obligations are as follows:

Years Ending June 30	Hurley Medical Center			Hurley Health Services		
	Principal	Interest	Total	Principal	Interest	Total
2018	\$ 6,282,103	\$ 4,610,134	\$ 10,892,237	\$ 145,052	\$ 50,384	\$ 195,436
2019	6,078,810	4,356,472	10,435,282	150,820	44,615	195,435
2020	6,380,000	4,051,700	10,431,700	132,946	38,524	171,470
2021	7,025,000	3,710,225	10,735,225	122,258	32,093	154,351
2022	2,455,000	3,585,638	6,040,638	129,048	25,302	154,350
2023-2027	14,280,000	15,798,813	30,078,813	399,837	31,859	431,696
2028-2032	14,200,000	11,677,719	25,877,719	-	-	-
2033-2037	16,070,000	6,804,557	22,874,557	-	-	-
2038-2040	12,590,000	925,350	13,515,350	-	-	-
Total	<u>\$ 85,360,913</u>	<u>\$ 55,520,608</u>	<u>\$140,881,521</u>	<u>\$ 1,079,961</u>	<u>\$ 222,777</u>	<u>\$ 1,302,738</u>

The revenue refunding bonds are payable from the revenue of the Medical Center pursuant to lease/purchase agreements between the Medical Center and the City of Flint Hospital Building Authority (the "Authority"). Under terms of the lease/purchase agreements, the Medical Center transferred title to substantially all of its facilities to the Authority and leases such facilities from the Authority. Ownership of the facilities reverts to the Medical Center upon payment of the bonds. Rental payments to the Authority are equal to the amounts required to make principal and interest payments on the bonds. Payments on Series 2010 range from \$500,000 in 2018 to \$3,555,000 in 2040, plus interest from 5.84 to 7.5 percent through 2040. Payments on Series 2011 range total \$802,103 in 2018 with the remainder due in 2019, plus interest at 4.19 percent through 2019. Payments on Series 2013A range from \$15,000 in 2019 to \$930,000 in 2040, plus interest from 5.0 to 5.25 percent. Payments on Series 2013B range from \$4,980,000 in 2018 to \$1,305,000 in 2029, plus interest ranging from 3.5 percent to 5.0 percent over the life of the bond.

The net revenue of the Medical Center is pledged for payment of principal and interest on the revenue rental and revenue refunding bonds. Accordingly, the basic financial statements of the Medical Center include the facilities as if owned by the Medical Center and the bonds as if issued by the Medical Center.

The lease purchase agreements contain certain restrictive covenants, including maintaining a certain minimum debt service ratio and minimum days of cash on hand. The Medical Center entered into two leases for buildings, which included a rider for transfer ownership of the property at the end of the lease term. The leases required monthly lease payments totaling \$74,440. During 2017, the Medical Center accelerated its lease payments under the agreement and full title was transferred to the Medical Center and the lease obligation was paid in full.

HHS has an unused irrevocable letter of credit of \$150,000 renewable on October 1 of each year as of June 30, 2017 and 2016 that is collateralized by a certificate of deposit.

During 2015, HHS entered into a mortgage note payable to acquire real property and a building in Lapeer, Michigan. The mortgage note payable is due in monthly installments of \$7,135, including interest of 5.75 percent. The mortgage note payable is collateralized by the building and real property and is due on December 1, 2024. The balance of the mortgage note payable was paid in full during 2017.

During 2016, HHS entered into a mortgage note payable to acquire real property and a building in Lapeer, Michigan. The mortgage note payable is due in monthly installment of \$5,728, including interest of 5 percent. The mortgage note payable is collateralized by the building and real property and is due on August 3, 2025.

Note 9 - Defined Contribution Pension Plan

The Medical Center has a defined contribution plan established under a City of Flint ordinance for employees who meet certain requirements as to date of hire. Contributions to the plan are 4.5 percent of the employee's annual compensation. Each employee's interest is vested as specified in the plan. Pension expense included in the statement of revenue, expenses, and changes in net position was approximately \$1,400,000 and \$1,200,000 for the years ended June 30, 2017 and 2016, respectively. The defined contribution plan is no longer offered to employees hired after January 1, 2014.

Note 10 - Profit-sharing and 403(b) Retirement Plan

HHS has a qualified 401(k) profit-sharing plan for HPMS employees. Eligible employees, those that have attained the age of 21 and completed 90 days of service, may defer up to the federal pension law limitations. HHS may make a discretionary contribution. HHS' contributions to the 401(k) plan were approximately \$74,000 and \$46,000 for 2017 and 2016, respectively.

HHS also maintains two qualified deferred compensation plans under Section 403(b) of the Internal Revenue Code. Under the plans, HHS and THC employees may elect to defer a percentage of their salary, subject to the Internal Revenue Service limits. HHS may make a discretionary contribution. HHS' contributions to the 403(b) plans amounted to approximately \$465,000 and \$402,000 for 2017 and 2016, respectively.

Note 11 - Leases

Hurley Medical Center and Hurley Health Services lease office space under various operating leases. Certain operating leases contain rental escalation clauses that are based on prime rate at a future date and purchase options at fair market value. Total rent expense under these leases for Hurley Medical Center was approximately \$407,000 and \$507,000 for the years ended June 30, 2017 and 2016, respectively. Total rent expense under these leases for HHS was approximately \$529,000 and \$539,000 for the years ended June 30, 2017 and 2016, respectively, including rental payments to the Medical Center of approximately \$175,000 and \$161,000 for the years ended June 30, 2017 and 2016, respectively.

The following is a schedule of future minimum rental payments:

Years Ending June 30	Hurley Medical Center	Hurley Health Services
2018	\$ 616,246	\$ 552,290
2019	622,461	565,985
2020	625,740	496,797
2021	555,551	451,546
2022	356,852	398,643
Thereafter	926,892	1,079,409
Total	<u>\$ 3,703,742</u>	<u>\$ 3,544,670</u>

Note 12 - Conditional Asset Retirement Obligations

The Medical Center has an obligation related to the removal of asbestos within various buildings on campus upon reconstruction, demolition, or abandonment of the buildings. The Medical Center has not recorded a liability related to the potential costs associated with the asbestos abatement, as the amount of the liability cannot currently be reasonably estimated. The Medical Center currently has no plans or expectation of plans to undertake a major renovation that would require significant removal of the asbestos or demolition of the buildings. The Medical Center will recognize a liability in the period sufficient information is available to reasonably estimate the amount of the liability.

Note 13 - Retiree Health Benefit Plan

Plan Description

The Medical Center provides retiree health insurance premiums to eligible retirees and their spouses through the Retiree Health Benefit Plan (the "Plan"). Retirees receive full or partial health insurance coverage depending on the employee's date of employment and union affiliation. During the year ended June 30, 2010, the Plan was amended to eliminate the full coverage benefits to those eligible employees. Eligible retirees prior to December 31, 2009 were grandfathered into the Plan with full health insurance benefits. The number of participants was 604 and 531 at June 30, 2017 and 2016, respectively.

The Plan's activity is accounted for in an irrevocable trust and the activity is reported in the fiduciary fund financial statements. The Plan is a single-employer defined benefit plan administered by the Medical Center. The Plan does not issue a separate stand-alone financial statement.

Funding Policy

The Medical Center expenses the cost of the Plan in its proprietary fund. The cost of providing retiree healthcare benefits is estimated through an actuarial valuation issued on June 30, 2015 based on participant data as of June 30, 2015. The valuation computes the annual required contribution, which represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years. The Medical Center has no obligation to make contributions in advance of when the insurance premiums are due for payment (in other words, this may be financed on a pay-as-you-go basis). However, as shown below, the Medical Center has made contributions to advance fund certain of these benefits.

This valuation's computed contribution and actual funding are summarized as follows for the year ended June 30, 2017:

For the years ended June 30, 2017 and 2016, the annual required contribution, as determined by the supplemental actuarial valuation, was \$5,523,153 and \$5,558,658, respectively.

The funding progress of the Plan as of the most recent valuation dates is as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (Percent) (a/b)
June 30, 2011	\$ 28,182,766	\$ 90,042,892	\$ 61,860,126	31.30 %
June 30, 2013	37,529,448	92,812,089	55,282,641	40.44

Actuarial Methods and Assumptions

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented above, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets consistent with the long-term perspective of the calculations.

Note 13 - Retiree Health Benefit Plan (Continued)

In the June 30, 2013 actuarial valuation, the individual entry age actuarial cost method was used. The actuarial assumptions included an 8 percent investment rate of return (net of administrative expenses), which is a blended rate of the expected long-term investment returns on plan assets and on the Medical Center's own investments calculated based on the funded level of the plan at the valuation date and an annual healthcare cost trend rate of 6 percent initially, reduced by decrements to an ultimate rate of 3.75 percent after 10 years. Both rates included a 3.75 percent inflation assumption. The UAAL is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at June 30, 2013 was 22 years.

Note 14 - Retiree Health Insurance Trust

Plan Description

The Hurley Medical Center board of managers established Hurley Medical Center Retiree's Health Insurance Trust (RHI Trust), a single-employer defined benefit plan that is used to provide post-employment healthcare benefits to eligible retirees and their beneficiaries. Hurley Medical Center's Chief Financial Officer serves as the trust administrator. The board of managers consists of 15 members that are appointed by the mayor and approved by the Flint City Council and such body has the powers granted under the State of Michigan Public Employees' Retirement System Act including but not limited to make rules with respect to the trust to be consistent with the Act, to determine the consistency with the applicable laws, rules and regulations, to invest all RHI Trust assets and to adopt, establish, and abide by investment policies.

Benefits Provided

The healthcare benefits are provided by the Medical Center's self-insurance plan. The third party that administers the RHI Trust formulates an illustrative rate based on the coverage provided. RHI Trust members receive full or partial health coverage (illustrative rate) depending on the member's date of employment and union affiliation. Those members that were employed by 1989 and retired on or before December 31, 2009, are eligible to receive full healthcare benefits. All other members may receive a specified stipend that is used to offset the cost of the healthcare benefit illustrative rate and the retiree contributes the remainder. Once RHI Trust members reach the age 65, the member's coverage is converted to a fully insured product and the stipend is reduced.

Plan Membership Covered by Benefit Terms

The following members were covered by the benefit terms:

Date of member count	June 30, 2015
Inactive plan members or beneficiaries currently receiving benefits	542
Inactive plan members entitled to but not yet receiving benefits	62
Active plan members	<u>2,561</u>
Total plan members	<u><u>3,165</u></u>

Contributions

The RHI Trust is funded based on discretionary contributions as determined by the Hurley Medical Center board of managers. The cost of providing retiree healthcare benefits was estimated through an actuarial valuation issued August 8, 2017, based on participant data as of June 30, 2015. The valuation computes the annual required contribution, which represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actual liabilities over 20 years.

Note 14 - Retiree Health Insurance Trust (Continued)

Net OPEB Liability

The Medical Center reports OPEB expense based on funding requirements, as directed by GASB Statement No. 45. Beginning in 2018, the Medical Center will adopt GASB Statement No. 75, which will require the measurement of OPEB expense as it is earned, rather than as it is funded. The net OPEB liability of the Medical Center has been measured as of June 30, 2017 and is composed of the following:

Changes in the net OPEB liability during the measurement year were as follows:

Total OPEB liability	\$ 94,503,927
Plan fiduciary net position	<u>59,662,468</u>
Net OPEB liability	<u>\$ 34,841,459</u>
Plan fiduciary net position as a percentage of the total OPEB liability	63.13 %

Actuarial Assumptions

The total OPEB liability was determined by an actuarial valuation as of June 30, 2015. Updated procedures were used to roll forward the total OPEB liability to the OPEB plan's fiscal year end of June 30, 2017. The valuation used the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.75%
Healthcare cost trend rate	9% decreasing to 3.25%
Salary increases	3.25% average, including inflation
Investment rate of return	6.75% net of OPEB plan investment expense, including inflation

Discount Rate

The discount rate used to measure the total OPEB liability was 6.75 percent. The projection of cash flows used to determine the discount rate assumed that the Medical Center contributions will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the RHI Trust's fiduciary net position was projected to be available to make all projected future benefit payments of current members. Therefore, the long-term expected rate of return on RHI Trust investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

Investment Rate of Return

The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	2017	
	Target Allocation	Long-term Expected Real Rate of Return
U.S. equities	40.00 %	10.20 %
International equities	10.00	8.90
U.S. convertibles	10.00	8.60
U.S. fixed income	<u>40.00</u>	<u>4.00</u>
Total	<u>100.00 %</u>	

Note 14 - Retiree Health Insurance Trust (Continued)

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate

The following presents the net OPEB liability, calculated using the discount rate of 6.75 percent, depending on the plan option. The following also reflects what the Medical Center's net OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower (5.75 percent) or 1 percentage point higher (7.75 percent) than the current rate:

	2017		
	1 Percent Decrease (5.75%)	Current Discount Rate (6.75%)	1 Percent Increase (7.75%)
Net OPEB liability	\$ 44,446,818	\$ 34,841,459	\$ 26,654,494

Sensitivity of the Net OPEB Liability to Changes in the Healthcare Cost Trend

Regarding the sensitivity of the net OPEB liability to changes in the healthcare cost trend rates, the following presents the Medical Center's net OPEB liability, calculated using the assumed trend rates as well as what the Medical Center's net OPEB liability would be if it were calculated using the trend rate that is 1 percentage lower or 1 percentage higher:

	2017		
	1 Percent Decrease	Current Discount Rate	1 Percent Increase
Net OPEB liability	\$ 28,686,110	\$ 34,841,459	\$ 42,065,674

Investment Policy

The RHI Trust's investment policy indicates that the RHI Trust investment must be in compliance with Public Acts 149 and 314. The investment policy and future changes shall be approved by the board of managers. The ongoing responsibility of the review of the investment activity has been delegated to its finance committee and the Chief Investment Officer (CIO) is responsible for the implementing the investment strategy including the investment allocation. The investment policy and asset allocation are reviewed annually. The following is the board of managers' adopted asset allocation policy as of June 30, 2017:

Asset Class	Target Allocation
U.S. equities	40 %
International equities	10
U.S. convertibles	10
U.S. fixed income	40
Total	<u>100 %</u>

Investment Policy Changes

During the annual investment policy update, the allocation of investments increased U.S. equities by 5 percent and international equities by 5 percent and decreased the U.S. fixed income by 10 percent.

Rate of Return

For the year ended June 30, 2017, the annual money weighted rate of return on investments, net of investment expense, was 10.58 percent. The money weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Note 15 - Deposits and Investments

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The law also allows investments outside the State of Michigan when fully insured. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The Retiree Healthcare Fund is also authorized by Michigan Public Act 314 of 1965, as amended, to invest in certain reverse repurchase agreements, stocks, diversified investment companies, annuity investment contracts, real estate leased to public entities, mortgages, real estate (if the trust fund's assets exceed \$250 million), debt or equity of certain small businesses, certain state and local government obligations, and certain other specified investment vehicles.

The Medical Center has designated three banks for the deposit of its funds. The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized investment in all of the items listed above. The Medical Center's deposits and investment policies are in accordance with statutory authority.

The Medical Center's deposits consist of checking and savings accounts and money market funds. At year end, the carrying amount of the Medical Center's deposits were approximately \$79,300,000, excluding petty cash. Of the bank balance, \$580,000 was covered by federal depository insurance. The rest of the bank balance, \$82,800,000, was not insured or collateralized.

HHS deposits consist of checking accounts and money market funds. Deposits are recorded on the financial statements as cash and cash equivalents. At year end, the carrying amount of HHS' deposits (excluding petty cash) were approximately \$1,300,000 and the bank balance was \$1,400,000. The bank balance was higher than the carrying value due to outstanding checks that had not yet cleared the bank at June 30, 2017. Of the bank balance, \$750,000 was covered by federal depository insurance at June 30, 2017.

The Medical Center's cash and investments are subject to several types of risk, which are examined in more detail below:

Custodial Credit Risk of Bank Deposits

Custodial credit risk is the risk that in the event of a bank failure, the Medical Center's deposits may not be returned to it. At year end, the Medical Center had approximately \$82,800,000 of bank deposits (certificates of deposit and checking and savings accounts) that were uninsured and uncollateralized. The Medical Center believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Medical Center evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Custodial Credit Risk of Investments

Custodial credit risk is the risk that, in the event of the failure of the counterparty, the Medical Center will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Medical Center has a deposit policy for custodial credit risk that requires the investments be held by a nationally chartered custodian bank. The chief investment officer shall select the custodian bank based on various factors including bank stability.

Note 15 - Deposits and Investments (Continued)

At year end, the balances of investment securities that were uninsured and unregistered with securities held by the counterparty or by its trust department or agent, but not in the Medical Center's name, are as follows:

Investment Type	Fair Value		How Held
	2017	2016	
U.S. government or agency bonds	\$ 132,474,680	\$ 92,681,910	Counterparty trust dept.
Corporate stocks	28,320,078	18,522,478	Counterparty trust dept.
Corporate bonds	15,539,998	18,670,166	Counterparty trust dept.
Municipal bonds	5,062,607	-	Counterparty trust dept.
Repurchase agreement	40,098,635	10,031	Counterparty

Interest Rate Risk

Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. As a means of limiting its exposure to fair value losses arising from rising interest rates, the Medical Center's investment policy indicates the duration of each investment account should approximate the duration of its specific benchmark within a range of 80 percent to 120 percent. At year end, the average maturities of investments are as follows:

Investment	Fair Value		
	2017	Weighted Average Maturity	2016
Primary Government			
U.S. government or agency bonds	\$ 132,474,680	3.70 years	\$ 92,681,910
GNMA pool	7,736,048	15.31 years	4,435,278
U.S. government CMOs	12,840,735	19.11 years	27,754,793
Corporate bonds	15,539,998	5.65 years	18,670,166
Municipal bonds	5,062,607	Less than one year	-
Money market funds	15,951,049	Less than one year	19,081,165
Repurchase agreement	40,098,635	Less than one year	10,031

Note 15 - Deposits and Investments (Continued)

Credit Risk

State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The Medical Center has no investment policy that would further limit its investment choices. As of year end, the credit quality ratings of debt securities (other than the U.S. government) are as follows:

Investment	Fair Value			
	2017	Rating	Rating Organization	2016
U.S. agency bonds	\$ 10,397,233	AA+	Fitch	\$ 8,122,841
U.S. agency bonds	122,077,447		Not rated	-
U.S. government CMOs	12,840,735		Not rated	27,754,793
Corporate bonds	655,293	AAA	S&P	2,366,308
Corporate bonds	6,376,389	AA+ - A-	S&P	8,451,092
Corporate bonds	5,151,125	BBB+ - B	S&P	4,624,756
Corporate bonds	171,244	CCC+	S&P	99,151
Corporate bonds	3,185,947		Not rated	3,128,859
Money market funds	15,951,049		Not rated	19,081,165
Repurchase agreement	40,098,635		Not rated	10,031

Concentration of Credit Risk

The Medical Center's investment policy limits any single investment to 10 percent of the portfolio, with the exception of cash or U.S. treasuries, and further restricts that combined mortgage-backed securities may not exceed 50 of the portfolio. No single investment exceeded 5 percent of the investment portfolio at June 30, 2017 and 2016.

Note 16 - Risk Management

The Medical Center is exposed to various risks of loss, including hospital professional and patient general liability claims. The Medical Center has established an irrevocable trust to assist in accumulating resources to fund excess insurance premiums and to pay claims.

The Medical Center's self-insured retention is \$6 million per occurrence annually with excess claims-made coverage up to \$20 million annually. The Medical Center employs the use of an actuary to provide an analysis of the existing claims and to estimate the liability for incurred but not reported (IBNR) claims.

The changes in the aggregate malpractice claims for the past three years were as follows:

	2017	2016	2015
Estimated liability - Beginning of year	\$ 26,025,399	\$ 29,833,112	\$ 33,339,343
Increase (decrease) in claims liability	293,984	(1,350,545)	(180,910)
Defense costs and other fund expenses	(695,684)	(284,852)	(1,456,321)
Excess insurance premium payments	(681,525)	(1,053,166)	(1,066,000)
Claim payments	(496,250)	(1,119,150)	(803,000)
Estimated liability - End of year	\$ 24,445,924	\$ 26,025,399	\$ 29,833,112

Professional liability for claims is reported in other long-term liabilities, net of \$1,600,000 included as a current liability in accrued expenses. The carrying amount of the insurance trust assets (at market) amounted to \$19,346,545 and \$18,924,344 at June 30, 2017 and 2016, respectively.

Note 16 - Risk Management (Continued)

The Medical Center is self insured for workers' compensation claims with a self-insured retainer of \$600,000 per claim. As of June 30, 2017 and 2016, the Medical Center has recorded long-term accrued liabilities for workers' compensation of \$1,439,441 and \$1,175,972, respectively. The changes in the aggregate workers' compensation claims for the past three years were as follows:

	2017	2016	2015
Estimated liability - Beginning of year	\$ 1,175,972	\$ 1,093,257	\$ 1,610,787
Increase in claims liability	1,273,341	847,606	814,208
Excess premium policy	(99,725)	(99,694)	(93,719)
Claim payments	(910,147)	(665,197)	(1,238,019)
Estimated liability - End of year	<u>\$ 1,439,441</u>	<u>\$ 1,175,972</u>	<u>\$ 1,093,257</u>

Total long-term accrued liabilities as of June 30, 2017 and 2016 are \$24,285,365 and \$27,201,371, respectively.

There are various legal actions pending against HHS, its subsidiaries, and certain employees. Due to the inconclusive nature of these actions, it is not possible for legal counsel of HHS to determine in the aggregate either the probable outcome of these actions or a reasonable estimate of HHS' ultimate liability, if any. HHS maintains what it believes to be adequate coverage of malpractice, errors and omissions, and directors and officers insurances to cover any possible claims.

Note 17 - Joint Ventures

Hurley Medical Center participates in a privately held joint venture. The corporate joint venture is recorded in the financial statements under the equity method of accounting. Joint venture financial statements can be obtained by contacting the Medical Center. The Medical Center is unaware of any circumstances that would cause an additional financial benefit or burden to the Medical Center in the near future.

Genesys Hurley Cancer Institute (GHCI) is a joint venture between Hurley Medical Center and Genesys Regional Medical Center. The venture was established during 2001 to provide outpatient oncology services, including laboratory and radiation oncology. The Medical Center's net investment at June 30, 2017 and 2016 was \$6,337,466 and \$6,474,901, respectively. The arrangement provides that the two entities will share equally in the income or losses of the joint venture. The equity income (loss) to the Medical Center from this joint venture was \$(137,435) and \$353,000 for the years ending June 30, 2017 and 2016, respectively. A total of \$0 and \$450,000 was distributed to the Medical Center during the years ended June 30, 2017 and 2016, respectively. GHCI paid the Medical Center \$775,000 and \$697,000 for leased employees for the years ended June 30, 2017 and 2016, respectively. The following is a summary of financial position and results of operations of GHCI as of and for the years ended June 30, 2017 and 2016 (in thousands):

	2017	2016
Total assets	\$ 21,406	\$ 23,389
Total liabilities	<u>8,757</u>	<u>10,439</u>
Total net assets	<u>\$ 12,649</u>	<u>\$ 12,950</u>

June 30, 2017 and 2016

Note 17 - Joint Ventures (Continued)

	2017	2016
Operating revenue	\$ 7,936	\$ 9,540
Operating expenses	8,432	8,339
Operating (loss) income	(496)	1,201
Nonoperating income (expense)	199	(91)
Excess of revenue (under) over expense	<u>\$ (297)</u>	<u>\$ 1,110</u>

Note 18 - Union Contract

The Medical Center has nine active collective bargaining agreements and one group seeking to establish a new collective bargaining agreement. These agreements cover approximately 85 percent of the Medical Center's employees. There are six groups that have agreements in place with varying expiration dates ranging from June 30, 2018 through June 30, 2021. The other two groups have expired contracts and are in active negotiations.

Note 19 - Related Party Transactions

The Medical Center pays subsidies and management fees for services rendered by HHS to the Medical Center. Management fees and contributions from the Medical Center to HHS for the years ended June 30, 2017 and 2016 amounted to \$27,905,865 and \$24,931,391, respectively. Amounts paid by HHS to the Medical Center for rent and other miscellaneous expenses for the years ended June 30, 2017 and 2016 amounted to \$145,284 and \$246,290, respectively.

As of June 30, 2017 and 2016, the Medical Center had accounts receivable from HHS of \$297,098 and \$350,560, respectively, and accounts payable to HHS of \$178,404 and \$766,070, respectively.

Note 20 - Agent Defined Benefit Pension Plan Description

In an effort to control future costs, effective January 1, 2014, the Medical Center amended the existing defined benefit plans. The significant plan provisions prior to January 1, 2014 were as follows:

Plan Description

The Medical Center participates in an agent multiple-employer defined benefit pension plan administered by the Municipal Employees' Retirement System of Michigan (MERS of Michigan) that covers all employees of the Medical Center. MERS of Michigan was established as a statewide public employee pension plan by the Michigan Legislature under PA 135 of 1945 and is administered by a nine-member retirement board. MERS of Michigan issues a publicly available financial report, which includes the financial statements and required supplemental information of this defined benefit plan. This report can be obtained at www.mersofmich.com or in writing to MERS of Michigan at 1134 Municipal Way, Lansing, Michigan 48917.

Benefits Provided

The Plan provides certain retirement, disability, and death benefits to plan members and beneficiaries. PA 427 of 1984, as amended, established and amends the benefit provisions of the participants in MERS of Michigan.

The MERS of Michigan plan covers all bargaining and nonbargaining unit employees.

Note 20 - Agent Defined Benefit Pension Plan Description (Continued)

The Medical Center offers a defined benefit plan (the "Plan") that was established by City of Flint ordinances, which includes three benefit options. The basic plan option, the Old Contributory Pension Plan (OCP), provides for employer contributions and requires employee contributions. Under OCP, employees may retire with 25 years of credited service or at age 55 with 10 years of credited service. The monthly retirement benefit is 2.2 percent of final average compensation (FAC) for the first 25 years of credited service and 1 percent for every year thereafter.

The second plan option, the Modified Contributory Pension Plan (MCP), provides for employer contributions and requires a higher rate of employee contributions. Benefits fully vest after 15 years of service or at age 55 with 10 years of service. Employees may retire any time after completion of 25 years of credited service or at age 55 with 10 years of credited service. The monthly retirement benefit is 2.2 percent of the FAC for the first 15 years of credited service, plus 2.4 percent of the next 10 years, and 1 percent of every year beyond year 25.

The third plan option, the Hurley Alternative Pension Plan (HAP), provides for employer contributions. Benefits fully vest after 10 years of credited service and a normal retirement age of 60. There are provisions for early retirement at age 55 with a reduced benefit. The monthly retirement benefit is 1.7 percent of FAC for the first 25 years of credited service and 1.7 percent for every year thereafter.

Bargaining unit employees may participate in either the MCP or HAP option. Employees may participate in any of the three plan options (MCP, HAP, or OCP).

Plan Membership Covered by Benefit Terms

At the December 31, 2016 measurement date, the following members were covered by the benefit terms:

Inactive plan members or beneficiaries currently receiving benefits	1,913
Inactive plan members entitled to but not yet receiving benefits	278
Active plan members	1,980
Total plan members covered by MERS of Michigan	4,171

Contributions

Article 9, Section 24 of the State of Michigan constitution requires that financial benefits arising on account of employee service rendered in each year be funded during that year. Accordingly, MERS retains an independent actuary to determine the annual contribution. The employer is required to contribute amounts at least equal to the actuarially determined rate, as established by the MERS retirement board. The actuarially determined rate is the estimated amount necessary to finance the cost of benefits earned by plan members during the year, with an additional amount to finance any unfunded accrued liability. The employer may establish contribution rates to be paid by its covered employees.

Payable to the Pension Plan

At June 30, 2017 and 2016, the Medical Center reported a payable of \$2,295,722 and \$2,126,156, respectively, in accrued expenses on the statement of net position for the outstanding amount of contributions to the Plan required for the year ended June 30, 2017 and 2016.

Net Pension Liability

The total pension liability reported at June 30, 2017 was determined using a measure of the total pension liability and the pension net position as of December 31, 2016. The December 31, 2016 total pension liability was determined by an actuarial valuation performed as of that date.

June 30, 2017 and 2016

Note 20 - Agent Defined Benefit Pension Plan Description (Continued)

Changes in the net pension liability during the measurement year were as follows:

Changes in Net Pension Liability	Increase (Decrease)		
	Total Pension Liability	Plan Net Position	Net Pension Liability
Balance at December 31, 2015	\$ 569,797,218	\$ 374,434,194	\$ 195,363,024
Service cost	7,542,280	-	7,542,280
Interest	44,306,689	-	44,306,689
Experience differences	(3,480,197)	-	(3,480,197)
Other changes	(1,066)	-	(1,066)
Contributions - Employer	-	21,315,066	(21,315,066)
Contributions - Employee	-	6,487,981	(6,487,981)
Net investment income	-	42,015,304	(42,015,304)
Benefit payments, including refunds	(39,469,485)	(39,469,485)	-
Administrative expenses	-	(829,764)	829,764
Net changes	8,898,221	29,519,102	(20,620,881)
Balance at December 31, 2016	<u>\$ 578,695,439</u>	<u>\$ 403,953,296</u>	<u>\$ 174,742,143</u>

Changes in the net pension liability during the previous measurement year were as follows:

Changes in Net Pension Liability	Increase (Decrease)		
	Total Pension Liability	Plan Net Position	Net Pension Liability
Balance at December 31, 2014	\$ 528,948,005	\$ 398,012,275	\$ 130,935,730
Changes for the year:			
Service cost	7,442,132	-	7,442,132
Interest	42,384,435	-	42,384,435
Experience differences	(303,795)	-	(303,795)
Other changes	(1,010)	-	(1,010)
Changes in assumptions	29,164,128	-	29,164,128
Contributions - Employer	-	14,609,493	(14,609,493)
Contributions - Employee	-	6,197,682	(6,197,682)
Net investment income	-	(5,694,176)	5,694,176
Benefit payments, including refunds	(37,836,677)	(37,836,677)	-
Administrative expenses	-	(854,403)	854,403
Net changes	40,849,213	(23,578,081)	64,427,294
Balance at December 31, 2015	<u>\$ 569,797,218</u>	<u>\$ 374,434,194</u>	<u>\$ 195,363,024</u>

Pension Expense and Deferred Outflows of Resources Related to Pensions

For the years ended June 30, 2017 and 2016, the Medical Center recognized pension expense of \$29,729,534 and \$28,586,835, respectively.

Note 20 - Agent Defined Benefit Pension Plan Description (Continued)

At June 30, 2017 and 2016, the Medical Center reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	2017		2016	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ -	\$ 2,936,055	\$ -	\$ 227,846
Changes in assumptions	14,582,064	-	21,873,096	-
Net difference between projected and actual earnings on pension plan investments	15,485,713	-	34,521,821	-
Employer contributions to the plan subsequent to the measurement date	10,628,748	-	9,750,696	-
Total	\$ 40,696,525	\$ 2,936,055	\$ 66,145,613	\$ 227,846

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows. These amounts are exclusive of the employer contributions to the plan made subsequent to the measurement date \$10,628,748, which will impact the net pension liability in fiscal year 2017, rather than pension expense.

Years Ending June 30	Amount
2018	\$ 12,994,736
2019	12,994,737
2020	4,350,372
2021	(3,208,123)

Actuarial Assumptions

The total pension liability in the December 31, 2016 and December 31, 2015 actuarial valuations was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.5%
Salary increases	3.75%, in the long term, including inflation
Investment rate of return	8.00%, net of investment expense, gross of administrative expense, including inflation
Mortality rates	The RP-2014 Healthy Annuitant Mortality tables, with rates multiplied by 105 percent The RP-2014 Employee Mortality Tables The RP-2014 Juvenile Mortality Tables

Mortality rates were based on a 50 percent male and 50 percent female blend of the tables above. For disabled retirees, the mortality rates were based on the 50 percent male - 50 percent female blend of the RP-2014 Disabled Retiree Mortality Tables.

Discount Rate

The discount rate used to measure the total pension liability was 8.00 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the employee rate.

Note 20 - Agent Defined Benefit Pension Plan Description (Continued)

Projected Cash Flows

Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

The long-term expected rate of return on pension plan investments was determined using a model in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return as of December 31, 2016, the measurement date, for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Global equity	55 %	7 %
Global fixed income	18	2
Real assets	14	8
Diversifying strategies	13	6

The preceding target allocation was amended as of January 1, 2017 to reduce the previous allocation to global equity and global fixed income and to increase the allocation of real assets and diversifying strategies. The target allocation as of January 1, 2017 will be 55.5 percent global equity, 18.5 percent global fixed income, 13.5 percent real assets, and 12.5 percent diversifying strategies.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability of the Medical Center at June 30, 2017, calculated using the discount rate of 8.00 percent, as well as what the Medical Center's net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (7.00 percent) or 1 percentage point higher (9.00 percent) than the current rate:

	1 Percent Decrease (7.00%)	Current Discount Rate (8.00%)	1 Percent Increase (9.00%)
Net pension liability of the Medical Center	\$ 234,156,808	\$ 174,742,143	\$ 123,942,346

The following presents the net pension liability of the Medical Center at June 30, 2016, calculated using the discount rate of 8.00 percent, as well as what the Medical Center's net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (7.000 percent) or 1 percentage point higher (9.00 percent) than the current rate:

	1 Percent Decrease (7.00%)	Current Discount Rate (8.00%)	1 Percent Increase (9.00%)
Net pension liability of the Medical Center	\$ 254,595,469	\$ 195,363,024	\$ 144,746,099

June 30, 2017 and 2016

Note 20 - Agent Defined Benefit Pension Plan Description (Continued)

Pension Plan Fiduciary Net Position

Detailed information about the plan's fiduciary net position is available in the separately issued financial report. For the purpose of measuring the net pension liability, deferred outflows of resources, and deferred inflows or resources related to pension and pension expense, information about the plan's fiduciary net position and addition to/deduction from fiduciary net position have been determined on the same basis as they are reported by the plan. The plan uses the economic resources measurement focus and the full accrual basis of accounting. Investments are stated at fair value. Contribution revenue is recorded as contributions are due, pursuant to legal requirements. Benefit payments and refunds of employee contributions are recognized as expense when due and payable in accordance with the benefit terms.

Note 21 - Fair Value Measurements

The Medical Center categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. Investments that are measured at fair value using the net asset value per share (or its equivalent) as a practical expedient are not classified in the fair value hierarchy below.

In instances whereby inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The Medical Center's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset.

The Medical Center has the following recurring fair value measurements as of June 30, 2017:

	Assets Measured at Fair Value on a Recurring Basis at June 30, 2017			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at June 30, 2017
Debt securities:				
Money market mutual funds	\$ 15,951,049	\$ -	\$ -	\$ 15,951,049
U.S. Treasury securities	-	137,537,287	-	137,537,287
Government mortgage-backed securities	-	20,576,783	-	20,576,783
Corporate bonds	-	15,539,998	-	15,539,998
Total debt securities	15,951,049	173,654,068	-	189,605,117
Equity securities - Domestic equity securities	22,943,510	-	-	22,943,510
Private equity funds - International private equity funds	5,046,754	329,814	-	5,376,568
Total investments at fair value level	<u>\$ 43,941,313</u>	<u>\$173,983,882</u>	<u>\$ -</u>	<u>\$ 217,925,195</u>

Notes to Financial Statements

June 30, 2017 and 2016

Note 21 - Fair Value Measurements (Continued)

	Assets Measured at Fair Value on a Recurring Basis at June 30, 2016			Balance at June 30, 2016
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Debt securities:				
Money market mutual funds	\$ 19,081,165	\$ -	\$ -	\$ 19,081,165
U.S. Treasury securities	-	92,681,910	-	92,681,910
Government mortgage-backed securities	-	32,190,071	-	32,190,071
Corporate bonds	-	18,670,166	-	18,670,166
Total debt securities	19,081,165	143,542,147	-	162,623,312
Equity securities - Domestic equity securities	14,406,438	-	-	14,406,438
Private equity funds - International private equity funds	-	4,116,040	-	4,116,040
Total investments at fair value level	<u>\$ 33,487,603</u>	<u>\$147,658,187</u>	<u>\$ -</u>	<u>\$ 181,145,790</u>

Debt and equity securities classified in Level I are valued using prices quotes in active markets for those securities.

The fair value of U.S. Treasury securities, government mortgage-backed securities, corporate bonds, and international private equity funds at June 30, 2017 and 2016 were determined primarily based on Level 2 inputs. The Medical Center estimates the fair value of these investments by automatic methods using other inputs such as interest rates and yield curves that are observable at commonly quoted intervals.

Note 22 - Prior Period Adjustment

The accompanying financial statements for 2016 have been restated to correct an error in the recording of a capital lease previously recorded as an operating lease in a prior year. Capital assets were increased from \$102,566,954 to \$109,014,964, current portion of long-term debt increased from \$6,079,245 to \$6,564,104, long-term debt - net of current portion increased from \$85,086,192 to \$87,935,986, and total net position increased from \$55,854,828 to \$58,968,185. The following financial statement of revenue, expenses, and changes in net position line items for fiscal year 2016 were affected by the change:

Statement of Revenue, Expenses, and Changes in Net Position for the Year Ended June 30, 2016 -
Primary Government Hurley Medical Center

	As Previously Reported	As Restated	Effect of Change
Total operating revenue	\$ 461,107,775	\$ 461,107,775	\$ -
Total operating expense	(413,739,009)	(413,147,405)	591,604
Nonoperating expenses	(2,614,037)	(2,800,070)	(186,033)
Excess of revenue over expenses before other activity and restricted fund activity and transfer of funds	<u>\$ 44,754,729</u>	<u>\$ 45,160,300</u>	<u>\$ 405,571</u>

Notes to Financial Statements

June 30, 2017 and 2016

Note 22 - Prior Period Adjustment (Continued)

Changes in Net Position
Primary Government Hurley Medical Center

	<u>As Previously Reported</u>	<u>As Restated</u>	<u>Effect of Change</u>
Net position - July 1, 2015	\$ 10,435,421	\$ 13,143,207	\$ 2,707,786
Increase in net position	<u>45,419,407</u>	<u>45,824,978</u>	<u>405,571</u>
Net position - June 30, 2016	<u>\$ 55,854,828</u>	<u>\$ 58,968,185</u>	<u>\$ 3,113,357</u>

Required Supplemental Information

Required Supplemental Information
Schedule of Changes in the Net Pension Liability and Related Ratios

	Last Ten Fiscal Years		
	2017	2016	2015
Total Pension Liability			
Service cost	\$ 7,542,280	\$ 7,442,132	\$ 7,262,751
Interest	44,306,689	42,384,435	41,412,276
Other changes	(1,066)	(1,010)	-
Differences between expected and actual experience	(3,480,197)	(303,795)	-
Changes in assumptions	-	29,164,128	-
Benefit payments, including refunds	(39,469,485)	(37,836,677)	(36,129,561)
Net Change in Total Pension Liability	8,898,221	40,849,213	12,545,466
Total Pension Liability - Beginning of year	569,797,218	528,948,005	516,402,539
Total Pension Liability - End of year	\$ 578,695,439	\$ 569,797,218	\$ 528,948,005
Plan Fiduciary Net Position			
Contributions - Employer	\$ 21,315,066	\$ 14,609,493	\$ 5,979,573
Contributions - Member	6,487,981	6,197,682	5,883,466
Net investment income (loss)	42,015,304	(5,694,176)	24,690,814
Administrative expenses	(829,764)	(854,403)	(901,753)
Benefit payments, including refunds	(39,469,485)	(37,836,677)	(36,129,561)
Net Change in Plan Fiduciary Net Position	29,519,102	(23,578,081)	(477,461)
Plan Fiduciary Net Position - Beginning of year	374,434,194	398,012,275	398,489,736
Plan Fiduciary Net Position - End of year	\$ 403,953,296	\$ 374,434,194	\$ 398,012,275
Medical Center's Net Pension Liability - Ending	\$ 174,742,143	\$ 195,363,024	\$ 130,935,730
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	69.80 %	65.71 %	75.25 %
Covered Employee Payroll	\$ 113,422,810	\$ 109,316,532	\$ 103,276,871
Medical Center's Net Pension Liability as a Percentage of Covered Employee Payroll	154.06 %	178.71 %	126.78 %

Required Supplemental Information
Schedule of Medical Center Contributions

Last Ten Fiscal Years
Year Ended June 30

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Actuarially determined contribution	\$ 8,315,067	\$ 7,609,493	\$ 7,720,716	\$ 9,333,014	\$ 12,682,496	\$ 11,808,875	\$ 6,059,456	\$ 13,041,452	\$ 12,198,479	\$ 10,926,397
Contributions in relation to the actuarially determined contribution	21,315,067	14,609,493	7,087,266	10,776,547	10,412,640	10,809,936	9,450,835	11,828,597	21,212,789	3,266,993
Contribution Excess (Deficiency)	\$ 13,000,000	\$ 7,000,000	\$ (633,450)	\$ 1,443,533	\$ (2,269,856)	\$ (998,939)	\$ 3,391,379	\$ (1,212,855)	\$ 9,014,310	\$ (7,659,404)
Covered Employee Payroll	\$ 113,422,810	\$ 109,316,532	\$ 103,276,871	\$ 107,836,591	\$ 82,825,759	\$ 116,841,151	\$ 114,100,876	\$ 123,943,771	\$ 41,524,209	\$ 111,456,399
Contributions as a Percentage of Covered Employee Payroll	18.79 %	13.36 %	6.86 %	9.99 %	12.57 %	9.25 %	8.28 %	9.54 %	51.09 %	2.93 %

Notes to Schedule of Contributions

Actuarial valuation information relative to the determination of contributions:

Valuation date Actuarially determined contribution rates are calculated as of December 31, two years prior to the end of the fiscal year in which the contributions are reported. Contributions for the Medical Center's fiscal year ended June 30, 2017 were determined based on the actuarial valuation as of December 31, 2014. The most recent valuation is as of December 31, 2016.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age
Amortization method	Level percentage of pay
Remaining amortization period	23 years
Asset valuation method	10-year smoothed market
Inflation	2.50 percent
Salary increase	3.75 percent in the long term
Investment rate of return	8.0 percent - Gross of pension plan investment expense, including inflation
Retirement age	Experience-based table of rates are specific to the type of eligibility condition
Mortality	RP-2014 Disabled Retiree Mortality Tables of a 50 percent male and 50 percent female blend
Other information	None

Required Supplemental Information
Schedule of Changes in the Net OPEB Liability and Related Ratios

	Fiscal Years Ended June 30	
	2017	2016
Total OPEB Liability		
Service cost	\$ 715,842	\$ 787,997
Interest	6,088,805	5,916,624
Benefit payments, including refunds	(4,294,637)	(3,940,800)
Net Change in Total OPEB Liability	2,510,010	2,763,821
Total OPEB Liability - Beginning of year	91,993,917	89,230,096
Total OPEB Liability - End of year	\$ 94,503,927	\$ 91,993,917
Plan Fiduciary Net Position		
Contributions - Employer	\$ 5,523,202	\$ 5,613,665
Net investment income	5,308,681	(53,346)
Benefit payments, including refunds	(4,294,637)	(3,940,800)
Net Change in Plan Fiduciary Net Position	6,537,246	1,619,519
Plan Fiduciary Net Position - Beginning of year	53,125,222	51,505,703
Plan Fiduciary Net Position - End of year	\$ 59,662,468	\$ 53,125,222
Net OPEB Liability - Ending	\$ 34,841,459	\$ 38,868,695
Plan Fiduciary Net Position as a Percentage of Total OPEB Liability	63.1 %	57.7 %
Covered Employee Payroll	\$ 169,685,956	\$ 166,189,110
Net OPEB Liability as a Percentage of Covered Employee Payroll	20.5 %	23.4 %

Required Supplemental Information
Schedule of OPEB Contributions

Last Two Fiscal Years
Year Ended June 30

	2017	2016
Actuarially determined contribution	\$ 5,523,161	\$ 5,558,658
Contributions in relation to the actuarially determined contribution	5,523,202	5,613,665
Contribution excess	\$ 41	\$ 55,007
Covered employee payroll	\$ 169,685,956	\$ 166,189,110
Contributions as a percentage of covered employee payroll	3.3 %	3.4 %

Notes to Schedule of Contributions

Actuarial valuation information relative to the determination of contributions:

Valuation date Actuarially determined contribution rates are calculated as of June 30, two years prior to the end of the fiscal year in which the contributions are reported.

Methods and assumptions used to determine contribution rates:

<p>Actuarial cost method Amortization method Remaining amortization period Asset valuation method Inflation Healthcare cost trend rates Salary increase Investment rate of return Retirement age Mortality</p>	<p>Entry age normal Level dollar, closed 20 years Market value 2.75 percent Trend starting at 9.0 percent and gradually decreasing to an ultimate trend rate of 3.25 percent 3.25 percent, including inflation 6.75 percent, net of OPEB plan investment expense, including inflation Experience-based table of rates that are specific to the type of eligibility condition Postretirement: RPH-2014 Blue Collar Health Annuitant Mortality Table for males and females, adjusted backward to 2006 with MP-2014. The provision for future mortality improvement is the fully generational projection table MP-2015, beginning in 2006. Disabled Retirement: RPH-2014 Disabled Mortality Table for males and females issued, adjusted backward to 2006 with MP-2014. The provision for future mortality improvement is the fully generational projection table MP-2015, beginning in 2006. Preretirement: RPH-2014 Blue Collar Employee Mortality Table for males and females is used, adjusted backward to 2006 with MP-2014. The provision for future mortality improvement is the fully generational projection table MP-2015, beginning in 2006.</p>
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Required Supplemental Information
Schedule of OPEB Investment Returns

**Last Two Fiscal Years
Year Ended June 30**

	2017	2016
Annual money-weighted rate of return, net of investment expense	10.6 %	0.6 %

Additional Information

Independent Auditor's Report on Additional Information

To the Board of Hospital Managers
Hurley Medical Center

We have audited the basic financial statements of Hurley Medical Center as of and for the years ended June 30, 2017 and 2016. Our audits were performed for the purpose of forming an opinion on the basic financial statements as a whole. The consolidating balance sheet and consolidating statement of operations supplemental information is presented for the purpose of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Plante & Moran, PLLC

October 25, 2017

Consolidating Balance Sheet

June 30, 2017

(with comparative totals for 2016)

	Hurley Medical Center	Hurley Health Services	Eliminating Entries	2017 Consolidated Totals	2016 Consolidated Totals
Assets					
Current Assets					
Cash and cash equivalents	\$ 79,284,646	\$ 1,271,037	\$ -	\$ 80,555,683	\$ 72,934,550
Patient accounts receivable - Net	40,549,479	1,295,832	-	41,845,311	48,220,820
Other receivables	5,302,443	869,989	(476,253)	5,696,179	5,746,927
Estimated third-party payor settlements	3,076,258	-	-	3,076,258	6,731,273
Assets limited as to use	8,671,091	156,158	-	8,827,249	8,722,862
Prepaid expenses and other	3,332,333	332,640	-	3,664,973	3,768,418
Inventory	5,134,255	59,063	-	5,193,318	5,916,011
Total current assets	145,350,505	3,984,719	(476,253)	148,858,971	152,040,861
Assets Limited as to Use					
By the board	121,999,641	-	-	121,999,641	93,051,463
Held by trustee - Bond	8,310,294	-	-	8,310,294	8,316,312
Restricted and held in trust - Other	19,753,842	-	-	19,753,842	19,064,463
Capital Assets - Net	103,988,255	2,011,470	-	105,999,725	111,010,737
Other Assets					
Accounts receivable	-	-	-	-	76,972
Investment in Hurley Health Services	4,065,051	-	(4,065,051)	-	-
Investment in joint ventures	6,337,466	40,500	-	6,377,966	6,509,401
Other	-	954,408	-	954,408	954,963
Total other assets	10,402,517	994,908	(4,065,051)	7,332,374	7,541,336
Total assets	409,805,054	6,991,097	(4,541,304)	412,254,847	391,025,172
Deferred Outflows of Resources					
	41,610,522	-	-	41,610,522	67,262,672
Total assets and deferred outflows of resources	\$ 451,415,576	\$ 6,991,097	\$ (4,541,304)	\$ 453,865,369	\$ 458,287,844

Additional schedules are not GAAP basis under GASB, but are for comparative purposes to hospital industry practices for not-for-profit healthcare providers.

Consolidating Balance Sheet (Continued)

June 30, 2017

(with comparative totals for 2016)

	Hurley Medical Center	Hurley Health Services	Eliminating Entries	2017 Consolidated Totals	2016 Consolidated Totals
Liabilities, Deferred Inflows of Resources, and Fund Net Position					
Current Liabilities					
Accounts payable and taxes withheld	\$ 18,507,129	\$ 475,889	\$ (476,253)	\$ 18,506,765	\$ 18,872,743
Current portion of long-term debt	6,282,103	145,052	-	6,427,155	6,662,605
Estimated third-party payor settlements	34,251,657	-	-	34,251,657	25,805,886
Accrued expenses	33,438,819	1,370,196	-	34,809,015	32,138,945
Total current liabilities	92,479,708	1,991,137	(476,253)	93,994,592	83,480,179
Long-term Debt - Net of current portion	78,756,010	934,909	-	79,690,919	88,916,658
Other Long-term Liabilities					
Net pension liability	174,742,143	-	-	174,742,143	195,363,024
Other	24,285,365	-	-	24,285,365	27,201,371
Total liabilities	370,263,226	2,926,046	(476,253)	372,713,019	394,961,232
Deferred Inflows of Resources	2,936,055	-	-	2,936,055	227,846
Total liabilities and deferred inflows of resources	373,199,281	2,926,046	(476,253)	375,649,074	395,189,078
Fund Net Position					
Net investment in capital assets	23,459,592	931,509	-	24,391,101	21,143,175
Donor restricted for specific operating activities	8,128,180	-	-	8,128,180	7,563,239
Unrestricted	46,628,523	3,133,542	(4,065,051)	45,697,014	34,392,352
Total fund net position	78,216,295	4,065,051	(4,065,051)	78,216,295	63,098,766
Total liabilities, deferred inflows of resources, and fund net position	<u>\$ 451,415,576</u>	<u>\$ 6,991,097</u>	<u>\$ (4,541,304)</u>	<u>\$ 453,865,369</u>	<u>\$ 458,287,844</u>

Additional schedules are not GAAP basis under GASB, but are for comparative purposes to hospital industry practices for not-for-profit healthcare providers.

Consolidating Statement of Operations

Year Ended June 30, 2017
(with comparative totals for 2016)

	Hurley Medical Center	Hurley Health Services	Eliminating Entries	2017 Consolidated Totals	2016 Consolidated Totals
Operating Revenue					
Net patient service revenue	\$ 414,807,485	\$ 6,831,697	\$ -	\$ 421,639,182	\$ 428,449,520
Other operating revenue	40,606,506	29,197,243	(28,135,568)	41,668,181	39,506,205
Total operating revenue	455,413,991	36,028,940	(28,135,568)	463,307,363	467,955,725
Operating Expenses					
Salaries and wages	175,056,010	26,678,315	-	201,734,325	194,847,911
Employee benefits and payroll taxes	74,017,839	4,423,331	-	78,441,170	74,290,795
Operating supplies and expenses	62,472,459	-	-	62,472,459	57,304,093
Professional services	58,634,258	724,378	(18,009,575)	41,349,061	37,463,397
Purchased services and other	47,713,671	4,105,824	(10,125,993)	41,693,502	37,472,094
Depreciation and amortization	16,837,291	168,704	-	17,005,995	18,504,874
Interest expense	5,161,031	-	-	5,161,031	5,449,890
Total operating expenses	439,892,559	36,100,552	(28,135,568)	447,857,543	425,333,054
Net Operating Income (Loss)	15,521,432	(71,612)	-	15,449,820	42,622,671
Nonoperating (Expense) Income					
Investment (loss) income	(1,451,336)	6,082	-	(1,445,254)	2,924,799
(Decrease) increase in investment in Hurley Health Services	(65,530)	-	65,530	-	-
Management fees to HHS and joint venture income	253,584	-	-	253,584	1,337,101
Other (loss) income	(12,813)	-	-	(12,813)	245,683
Total nonoperating (expense) income	(1,276,095)	6,082	65,530	(1,204,483)	4,507,583
Excess of Revenue Over (Under) Expenses Before Other Activity, Restricted Fund Activity, and Transfer of Funds	14,245,337	(65,530)	65,530	14,245,337	47,130,254
Other - Assets released from restrictions for the purchase of capital assets	307,251	-	-	307,251	57,000
Excess of Revenue Over (Under) Expenses Before Restricted Fund Activity and Transfer of Funds	14,552,588	(65,530)	65,530	14,552,588	47,187,254
Restricted Gifts and Bequests	872,192	-	-	872,192	664,678
Transfer of Funds to General Fund - Capital asset additions	(307,251)	-	-	(307,251)	(57,000)
Increase (Decrease) in Net Position	15,117,529	(65,530)	65,530	15,117,529	47,794,932
Fund Net Position - Beginning of year	63,098,766	4,130,581	(4,130,581)	63,098,766	15,303,834
Fund Net Position - End of year	\$ 78,216,295	\$ 4,065,051	\$ (4,065,051)	\$ 78,216,295	\$ 63,098,766