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# Hurley Medical Center

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**Financial Report  
with Additional Information  
June 30, 2018**

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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, 2018 and 2017 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, 2018 and 2017 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 21, during the year ended June 30, 2018, the Medical Center adopted the provisions of Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions (OPEB)*, which established accounting and financial reporting standards for defined benefit OPEB plans provided to the employees of governmental employers. 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, 2018

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, 2018 and 2017. 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 21 to the basic financial statements, the Medical Center adopted Governmental Accounting Standards Board (GASB) Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions. As a result of implementing this statement, the beginning net position as of July 1, 2017 of the governmental activities has been restated.

### **Financial Highlights**

The Medical Center reported operating Income of \$11.7 million for the fiscal year ending June 30, 2018. This represents a decrease of \$9.0 million from 2017. Net income for the fiscal year ended June 30, 2017 was \$20.7 million, reflecting a decrease from the prior year, which was reported net income of \$20.7 million.

### **Using this Annual Report**

The Medical Center's basic 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 basic 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 basic 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. Even though inpatient and outpatient volume dropped, expense reductions were achieved to maintain a stable position. The Medical Center still leads the inpatient market share as monitored by the Michigan Hospital Association for the last 16 quarters. 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 2018 and 2017, respectively, by \$5.3 million and \$15.2 million, when not considering the \$34.8 million reduction in net position at July 1, 2017, due to the implementation of GASB No. 75.

### **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 2018, the cash position of the Medical Center decreased by approximately \$23.8 million to \$55.5 million.

**The Statement of Net Position**

	2018	2017	2016
<b>Assets</b>			
Current assets, less assets limited to use	\$ 126,564	\$ 136,680	\$ 140,379
Assets limited as to use	157,275	158,735	128,999
Capital assets	103,751	103,988	109,015
Other assets	<u>6,325</u>	<u>6,337</u>	<u>6,475</u>
Total assets	393,915	405,740	384,868
<b>Deferred Outflow of Resources</b>			
Total assets and deferred outflow of resources	<u>408,288</u>	<u>447,351</u>	<u>452,130</u>
<b>Liabilities</b>			
Current liabilities	77,417	92,480	82,434
Net pension/OPEB liability	175,975	209,584	195,363
Long-term debt	72,644	78,756	87,936
Other long term liabilities	<u>23,359</u>	<u>24,285</u>	<u>27,201</u>
Total liabilities	<u>349,395</u>	<u>405,105</u>	<u>392,934</u>
<b>Deferred Inflow of Resources</b>			
Total liabilities and deferred inflow of resources	<u>363,715</u>	<u>408,041</u>	<u>393,162</u>
<b>Net Position</b>			
Net investment in capital assets	29,429	23,460	19,047
Donor restricted for specific operating activities	6,658	8,128	7,563
Unrestricted	<u>8,486</u>	<u>7,722</u>	<u>32,258</u>
Total net position	<u><b>\$ 44,573</b></u>	<u><b>\$ 39,310</b></u>	<u><b>\$ 58,968</b></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, 2018 and 2017, by \$5.3 million and \$15.2 million, respectively, when not considering the \$34.8 million reduction in net position at July 1, 2017, due to the implementation of GASB No. 75 discussed in Note 21.

The Medical Center's unrestricted cash and investments position decreased in 2018 by \$24.6 million to \$176.7 million at June 30, 2018. Respectively, the day's cash on hand decreased from 172.1 days in 2017 to 157.8 days in 2018. The major decrease in cash was primarily due to repayment of third-party settlement payables during 2018, coupled with delays in third-party settlement payments as noted by a \$15.3 million increase in third-party payor settlement receivables.

In 2018, the investment market outperformed expectations causing the unfunded liability to decrease. The Medical Center also made extra contributions of \$18 million in 2018 and 2017 to help reduce the unfunded liability.

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

In 2018, the Medical Center's net position increased by \$5.3 million when not considering the \$34.8 million reduction in net position at July 1, 2017, due to the implementation of GASB No. 75. The primary cause of the increase in net position is the positive financial results for the year ended June 30, 2018.

	2018	2017	2016
<b>Operating Revenue</b>			
Net patient service revenue	\$ 394,624	\$ 414,807	\$ 422,128
Other operating revenue	40,274	40,607	38,980
Total operating revenue	434,898	455,414	461,108
<b>Operating Expenses</b>			
Salaries and wages	171,032	175,056	171,793
Employee benefits and payroll taxes	65,014	74,018	70,446
Operating supplies and expenses	62,763	62,472	57,304
Professional services	63,456	58,634	52,867
Purchased services and other	46,428	47,715	42,352
Depreciation and amortization	14,533	16,837	18,386
Total operating expenses	423,226	434,732	413,148
<b>Nonoperating (Expenses) Revenue</b>	(4,938)	(6,064)	(2,743)
<b>Excess of Revenue Over (Under) Expenses Before Other Activity</b>	6,734	14,618	45,217
<b>Grants, Contributions, and Endowments -</b>			
Restricted gifts, income, and transfer to unrestricted	(1,470)	565	608
<b>Increase (Decrease) in Net Position</b>	5,264	15,183	45,825
<b>Net Position – Beginning of year</b>	74,151	58,968	13,143
<b>Implementation of GASB No. 75</b>	(34,842)	0	0
<b>Net Position - End of year</b>	<u>\$ 44,573</u>	<u>\$ 74,151</u>	<u>\$ 58,968</u>

### Operating Income

For the year ending June 30, 2018, the Medical Center experienced a net income from operations of \$11.7 million. The comparable prior period operating income was \$20.37 million.

Inpatient activity decreased from the prior year by 4.8% for discharges and patient days decreased by 1.5% causing length of stay to increase to 5.14 days. The increase in the length of stay resulted from Medicare CMI (case mix index) increase by 7% or 1.66 versus 1.55 in the previous year. 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 16 published quarters. Outpatient volume was 5.9% down as compared to the previous year. Outpatient revenue was down in Surgery, Emergency Room and Pharmacy. Emergency Room visits were down 1.6% primarily due to more urgent care centers opening as well as primary care physician offices extending clinical hours. Outpatient surgeries were down as a result of a few physicians retiring. Outpatient Pharmacy revenue was down due to adjustments being made for the Medicaid 340b Program. This decline in revenue has been partially offset by the continued reduction in bad debt/charity and write-offs due to patient's being insured by the Medicaid Healthy Michigan Plan. Other operating revenue was approximately the same as the prior year.

Operating expenses decreased by 2.6% from the prior year. Salary and wages offset by outside agency contributed to the reduction in expenses mainly due to the lower volumes. The majority of the expense reduction was in the employee benefits and payroll taxes. The decline in pension and retiree health insurance expense reflects the favorable investment results from the associated investment trusts, as well as, favorable health insurance utilization.

#### **Nonoperating Revenues and Expenses**

Non-operating revenues consist primarily of investment earnings on cash balances, joint venture income and interest expense on outstanding long-term debt. Non-operating revenue/expense improved by \$1.2 million over the prior year. Interest expense was \$419,000 less as a result of paying off debt. Interest income was favorable due to higher rates. 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.

#### **Capital Asset and Debt Administration**

The Medical Center had \$104 million invested in capital assets, net of accumulated depreciation, as detailed in footnote 7 to the financial statements. There was \$14.3 million of building infrastructure, clinical equipment and technology infrastructure assets purchased in 2018. At year end, the Medical Center had \$79 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, 2018 and 2017

	2018		2017	
	Hurley Medical Center	Component Unit Hurley Health Services	Hurley Medical Center	Component Unit Hurley Health Services
<b>Assets and Deferred Outflows of Resources</b>				
<b>Current Assets</b>				
Cash and cash equivalents	\$ 55,487,102	\$ 1,397,994	\$ 79,284,646	\$ 1,271,037
Patient accounts receivable - Net (Note 5)	34,758,619	1,408,585	40,549,479	1,295,832
Inventory	5,378,220	39,787	5,134,255	59,063
Other receivables	8,679,450	904,093	5,302,443	869,989
Estimated third-party payor settlements (Note 4)	18,433,856	-	3,076,258	-
Assets limited as to use (Note 6)	8,366,047	156,352	8,671,091	156,158
Prepaid expenses and other	3,826,585	300,398	3,332,333	332,640
Total current assets	134,929,879	4,207,209	145,350,505	3,984,719
<b>Assets Limited as to Use (Note 6)</b>				
Held by trustee - Bond	8,092,391	-	8,310,294	-
Restricted and held in trust - Other	19,623,451	-	19,753,842	-
By the board	121,193,090	-	121,999,641	-
<b>Capital Assets - Net (Note 7)</b>	103,751,019	1,820,503	103,988,255	2,011,470
<b>Other Assets</b>				
Investment in joint ventures	6,325,250	42,000	6,337,466	40,500
Other	-	965,871	-	954,408
Total other assets	6,325,250	1,007,871	6,337,466	994,908
Total assets	393,915,080	7,035,583	405,740,003	6,991,097
<b>Deferred Outflows of Resources</b>				
	14,373,286	-	41,610,522	-
Total assets and deferred outflows of resources	<b>\$ 408,288,366</b>	<b>\$ 7,035,583</b>	<b>\$ 447,350,525</b>	<b>\$ 6,991,097</b>

Proprietary Funds  
Statement of Net Position (Continued)

June 30, 2018 and 2017

	2018		2017	
	Hurley Medical Center	Component Unit Hurley Health Services	Hurley Medical Center	Component Unit Hurley Health Services
<b>Liabilities, Deferred Inflows of Resources, and Net Position</b>				
<b>Current Liabilities</b>				
Accounts payable and taxes withheld	\$ 16,967,191	\$ 442,884	\$ 18,507,129	\$ 475,889
Current portion of long-term debt (Note 8)	6,078,809	150,820	6,282,103	145,052
Estimated third-party payor settlements (Note 4)	22,159,283	-	34,251,657	-
Accrued expenses	32,211,625	1,339,612	33,438,819	1,370,196
Total current liabilities	77,416,908	1,933,316	92,479,708	1,991,137
<b>Long-term Debt</b> - Net of current portion (Note 8)	72,643,542	784,091	78,756,010	934,909
<b>Other Long-term Liabilities</b>				
Net pension liability (Note 19)	147,720,541	-	174,742,143	-
Other (Note 15)	23,359,613	-	24,285,365	-
Accrued postretirement benefit obligations (Note 13)	28,254,589	-	34,841,459	-
Total liabilities	349,395,193	2,717,407	405,104,685	2,926,046
<b>Deferred Inflows of Resources</b>	14,319,625	-	2,936,055	-
Total liabilities and deferred inflows of resources	363,714,818	2,717,407	408,040,740	2,926,046
<b>Net Position</b>				
Net investment in capital assets Restricted	29,429,460	885,592	23,459,592	931,509
Donor restricted for specific operating activities	6,658,212	-	8,128,180	-
Unrestricted	8,485,876	3,432,584	7,722,013	3,133,542
Total net position	44,573,548	4,318,176	39,309,785	4,065,051
Total liabilities, deferred inflows of resources, and net position	<u>\$ 408,288,366</u>	<u>\$ 7,035,583</u>	<u>\$ 447,350,525</u>	<u>\$ 6,991,097</u>

Proprietary Funds

Statement of Revenue, Expenses, and Changes in Net Position

Years Ended June 30, 2018 and 2017

	2018		2017	
	Hurley Medical Center	Component Unit Hurley Health Services	Hurley Medical Center	Component Unit Hurley Health Services
<b>Net Revenue</b>				
Net patient service revenue	\$ 394,624,387	\$ 6,656,374	\$ 414,807,485	\$ 6,831,697
Other operating revenue	40,274,038	29,401,335	40,606,506	29,197,243
Total net revenue	434,898,425	36,057,709	455,413,991	36,028,940
<b>Operating Expenses</b>				
Salaries and wages	171,031,548	26,436,408	175,056,010	26,678,315
Employee benefits and payroll taxes	65,014,142	4,449,293	74,017,839	4,423,331
Operating supplies and expenses	62,763,259	-	62,472,459	-
Professional services and consultant fees	63,455,926	708,716	58,634,258	724,378
Purchased services and other	46,427,810	4,071,936	47,713,671	4,105,824
Depreciation and amortization	14,533,335	154,739	16,837,291	168,704
Total operating expenses	423,226,020	35,821,092	434,731,528	36,100,552
<b>Operating Income (Loss)</b>	11,672,405	236,617	20,682,463	(71,612)
<b>Nonoperating (Expense) Income</b>				
Investment (loss) income	(414,174)	966	(1,451,336)	6,082
Other (expense) income	(4,313)	15,542	240,771	-
Interest expense	(4,742,453)	-	(5,161,031)	-
Total nonoperating (expense) income	(5,160,940)	16,508	(6,371,596)	6,082
<b>Excess of Revenue Over (Under) Expenses before Other Activity, Restricted Fund Activity, and Transfer of Funds</b>	6,511,465	253,125	14,310,867	(65,530)
<b>Other - Assets released from restrictions for the purchase of capital assets</b>	222,268	-	307,251	-
<b>Excess of Revenue Over (Under) Expenses before Restricted Fund Activity and Transfer of Funds</b>	6,733,733	253,125	14,618,118	(65,530)
<b>Restricted Fund Activity and Transfer of Funds</b>	(1,247,702)	-	872,192	-
<b>Transfer to Unrestricted Net Position - Released for capital expenditures</b>	(222,268)	-	(307,251)	-
<b>Increase (Decrease) in Net Position</b>	5,263,763	253,125	15,183,059	(65,530)
<b>Net Position - Beginning of year (July 1, 2017, as restated) (Note 21)</b>	39,309,785	4,065,051	58,968,185	4,130,581
<b>Net Position - End of year</b>	<u>\$ 44,573,548</u>	<u>\$ 4,318,176</u>	<u>\$ 74,151,244</u>	<u>\$ 4,065,051</u>

Proprietary Funds  
Statement of Cash Flows

Years Ended June 30, 2018 and 2017

	2018		2017	
	Hurley Medical Center	Component Unit Hurley Health Services	Hurley Medical Center	Component Unit Hurley Health Services
<b>Cash Flows from Operating Activities</b>				
Cash received from patients and third-party payors	\$ 408,394,213	\$ 35,486,496	\$ 474,371,146	\$ 37,381,474
Cash payments to suppliers for services and goods	(237,009,013)	(8,906,192)	(235,002,131)	(10,628,224)
Cash payments to employees for services	(171,031,548)	(26,436,408)	(175,056,010)	(26,678,315)
Net cash provided by operating activities	353,652	143,896	64,313,005	74,935
<b>Cash Flows from Noncapital Financing Activities - Net proceeds from contributions restricted for specific purposes</b>	222,268	-	872,192	-
<b>Cash Flows from Capital and Related Financing Activities</b>				
Principal payment on long-term debt and capital leases	(6,282,103)	(145,050)	(9,413,898)	(122,467)
Decrease in loans receivable	-	72,990	-	66,470
Interest paid on long-term debt	(4,951,555)	-	(5,363,953)	-
Purchase of capital assets	(14,305,252)	(56,869)	(12,149,934)	(53,670)
Proceeds from sale of capital assets	9,154	108,638	105,966	-
Net cash used in capital and related financing activities	(25,529,756)	(20,291)	(26,821,819)	(109,667)
<b>Cash Flows from Investing Activities</b>				
Loss from joint venture activity	8,960	-	391,019	-
Sale of assets whose use is limited	6,060,672	-	2,844,179	-
Purchases of assets whose use is limited	(4,148,381)	-	(33,154,592)	-
Investment interest and realized (losses) gains	(764,959)	3,352	(787,897)	(222)
Net cash provided by (used in) investing activities	1,156,292	3,352	(30,707,291)	(222)
<b>Net (Decrease) Increase in Cash and Cash Equivalents</b>	(23,797,544)	126,957	7,656,087	(34,954)
<b>Cash and Cash Equivalents - Beginning of year</b>	79,284,646	1,271,037	71,628,559	1,305,991
<b>Cash and Cash Equivalents - End of year</b>	<b>\$ 55,487,102</b>	<b>\$ 1,397,994</b>	<b>\$ 79,284,646</b>	<b>\$ 1,271,037</b>

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

<b>Reconciliation of Operating Income (Loss) to Net Cash from Operating Activities</b>				
Operating income (loss)	\$ 11,672,405	\$ 236,617	\$ 20,682,463	\$ (71,612)
Adjustments to reconcile operating income (loss) to net cash from operating activities:				
Depreciation and amortization	14,533,334	154,739	16,837,291	168,704
Provision for bad debts	13,082,627	88,200	10,792,077	15,848
Amortization of bond discounts and other deferred outflows	(33,659)	-	(48,079)	-
Loss on investment in assets	-	-	233,387	-
Changes in operating assets and liabilities:				
Receivables and third-party payor settlements	(38,118,746)	(1,097,760)	8,165,078	743,718
Inventories	(243,965)	19,276	762,472	(47,256)
Prepaid expenses and other	(494,252)	32,242	81,432	22,013
Accounts payable and taxes withheld	(1,539,938)	30,353	(958,614)	(46,366)
Accrued expenses	1,495,846	680,229	7,765,498	(710,114)
Net cash provided by operating activities	<b>\$ 353,652</b>	<b>\$ 143,896</b>	<b>\$ 64,313,005</b>	<b>\$ 74,935</b>

Fiduciary Funds  
Statement of Net Position  
Retiree Health Benefit Trust Fund

**June 30, 2018 and 2017**

	2018	2017
<b>Assets</b>		
Cash and cash equivalents	\$ 2,291,214	\$ 1,935,889
Investments:		
Common stock	33,517,301	29,385,914
Corporate bonds	13,429,298	14,474,162
U.S. government or agency bonds	7,849,993	8,185,356
U.S. government collateralized mortgage obligations	7,278,225	6,169,495
Interest receivable	185,678	203,276
	<b>\$ 64,551,709</b>	<b>\$ 60,354,092</b>
<b>Total assets</b>	<b>\$ 64,551,709</b>	<b>\$ 60,354,092</b>
<b>Liabilities and Net Position</b>		
<b>Other Long-term Liabilities</b>	\$ 1,321,405	\$ 691,624
<b>Net Position - Held in trust for retiree health benefits</b>	63,230,304	59,662,468
<b>Total liabilities and net position</b>	<b>\$ 64,551,709</b>	<b>\$ 60,354,092</b>

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

Years Ended June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
<b>Additions</b>		
Contributions - Employer	\$ 3,884,465	\$ 5,523,202
Contributions - Retiree	<u>2,052,750</u>	<u>2,030,357</u>
Total contributions	5,937,215	7,553,559
Dividends	1,443,931	1,315,140
Realized gain on sale of investments	2,467,868	106,903
Net increase in fair value of investments	731,875	4,226,008
Less investment expenses	<u>(446,022)</u>	<u>(339,371)</u>
Total additions	10,134,867	12,862,239
<b>Deductions - Benefit payments</b>	<u>(6,567,031)</u>	<u>(6,324,994)</u>
<b>Increase in Net Position</b>	3,567,836	6,537,245
<b>Net Position - Beginning of year</b>	<u>59,662,468</u>	<u>53,125,223</u>
<b>Net Position - End of year</b>	<u><u>\$ 63,230,304</u></u>	<u><u>\$ 59,662,468</u></u>

**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 serves only 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 support organization to the Medical Center, a municipal entity, is a Michigan nonprofit directorship corporation and is a blended component unit. HHS provides services almost entirely to the Medical Center. HHS, on a consolidated basis, is composed 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

**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.

***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; and 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.

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

**Note 2 - Significant Accounting Policies (Continued)**

***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***

Net position of the Medical Center is classified based on the presence or absence of donor-imposed restrictions.

Earnings, gains, and losses on restricted net position are classified as unrestricted unless specifically restricted by the donor or by applicable state law. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, restricted net position is released to unrestricted net position.

***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 88 and 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 2018 and 2017, respectively.

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.

**Note 2 - Significant Accounting Policies (Continued)**

***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 the 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 2018 and 2017, the Medical Center received and recorded approximately \$700,000 and \$1,700,000, 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.

***Upcoming Accounting Pronouncements***

In November 2016, the Governmental Accounting Standards Board issued GASB Statement No. 83, *Certain Asset Retirement Obligations*, which establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for asset retirement obligations. 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 June 30, 2019 fiscal year.

**Note 2 - Significant Accounting Policies (Continued)**

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 \$11,700,000 and \$15,300,000 of services to indigent patients during 2018 and 2017, respectively. The Medical Center estimates costs and expenses incurred to provide charity care totaled \$3,500,000 and \$4,600,000 during 2018 and 2017, respectively. Charity care patients made up approximately 1.08 percent and 1.05 percent of all patients during 2018 and 2017, 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:

***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.

**Note 4 - Net Patient Service Revenue (Continued)**

**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 no adjustments in net patient service revenue during 2018 and decreases in net patient service revenue of approximately \$1.9 million during 2017, 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, 2018 and 2017 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 \$8,000,000 and \$9,000,000 at June 30, 2018 and 2017, 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:

	2018	2017
Medicare	27 %	27 %
Blue Cross/Blue Shield of Michigan	11	11
Medicaid	39	37
Other third-party payors	17	19
Self-pay	6	6
	<u>100 %</u>	<u>100 %</u>
Total	<u>100 %</u>	<u>100 %</u>

June 30, 2018 and 2017

**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>2018</u>	<u>2017</u>
Held by trustee - Bond:		
Cash and cash equivalents	\$ 12,829,183	\$ 11,883,055
U.S. government securities (cost was \$3,669,119 and \$5,150,105 for 2018 and 2017, respectively)	3,587,756	5,089,288
Accrued interest receivable	41,499	9,042
Less assets required for current liabilities	<u>(8,366,047)</u>	<u>(8,671,091)</u>
Total held by trustee - Bond	<u>\$ 8,092,391</u>	<u>\$ 8,310,294</u>
Board designated:		
By board for funded depreciation and capital improvements:		
Cash and cash equivalents	\$ 323,325	\$ 262,760
U.S. government securities (cost was \$30,232,033 and \$29,903,089 for 2018 and 2017, respectively)	29,508,942	29,779,029
Accrued interest receivable	117,666	116,858
By board for operations:		
Cash and cash equivalents	1,166,217	1,708,529
U.S. government securities (cost of \$92,242,770 and \$90,783,821 for 2018 and 2017, respectively)	89,718,492	89,791,634
Accrued interest receivable	<u>358,448</u>	<u>340,831</u>
Total board designated	<u>\$ 121,193,090</u>	<u>\$ 121,999,641</u>
Held in trust - Self-insurance:		
Cash and cash equivalents	\$ 6,224,109	\$ 194,281
U.S. government securities (cost was \$13,333,397 and \$19,342,775 for 2018 and 2017, respectively)	12,973,274	19,099,269
Accrued interest receivable	<u>55,412</u>	<u>52,930</u>
Total held in trust - Self-insurance	19,252,795	19,346,480
Held in trust - Retirement - Cash and cash equivalents	491	28,953
Restricted assets - Cash and cash equivalents	<u>370,165</u>	<u>378,409</u>
Total restricted and held in trust - Other	<u>\$ 19,623,451</u>	<u>\$ 19,753,842</u>

June 30, 2018 and 2017

**Note 7 - Capital Assets**

The cost of capital assets and related accumulated depreciation for Hurley Medical Center for June 30, 2018 are summarized below:

	2017	Additions	Disposals and Transfers	2018
Assets not subject to depreciation:				
Land	\$ 4,930,372	\$ -	\$ -	\$ 4,930,372
Construction in progress	10,439,426	14,352,333	(18,493,071)	6,298,688
Total	15,369,798	14,352,333	(18,493,071)	11,229,060
Assets subject to depreciation:				
Land improvements	3,119,224	450,927	(142,007)	3,428,144
Buildings	181,394,419	8,876,377	(1,575,554)	188,695,242
Machinery and equipment	117,461,926	9,119,768	(2,078,199)	124,503,495
Automotive equipment	233,397	45,999	(14,086)	265,310
Total	302,208,966	18,493,071	(3,809,846)	316,892,191
Less accumulated depreciation:				
Land improvements	1,601,151	234,157	(142,005)	1,693,303
Buildings	122,849,819	4,555,820	(1,573,218)	125,832,421
Machinery and equipment	88,966,435	9,721,249	(2,024,302)	96,663,382
Automotive equipment	173,104	22,109	(14,087)	181,126
Total	213,590,509	14,533,335	(3,753,612)	224,370,232
Net carrying amount	<u>\$ 103,988,255</u>	<u>\$ 18,312,069</u>	<u>\$ (18,549,305)</u>	<u>\$ 103,751,019</u>

The 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	\$ 5,045,609	\$ -	\$ (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	20,256	(57,512)	173,104
Total	202,250,184	16,837,291	(5,496,966)	213,590,509
Net carrying amount	<u>\$ 109,014,964</u>	<u>\$ 5,302,900</u>	<u>\$ (10,329,609)</u>	<u>\$ 103,988,255</u>

**Note 7 - Capital Assets (Continued)**

Capital asset activity for Hurley Health Services for June 30, 2018 was as follows:

	2017	Additions	Disposals and Transfers	2018
Leasehold improvements	\$ 305,472	\$ 2,208	\$ -	\$ 307,680
Buildings	1,373,255	-	-	1,373,255
Equipment and furnishings	1,304,372	54,660	(139,493)	1,219,539
Total	2,983,099	56,868	(139,493)	2,900,474
Less accumulated depreciation:				
Leasehold improvements	167,568	12,171	-	179,739
Buildings	74,649	35,212	-	109,861
Equipment and furnishings	729,412	107,356	(46,397)	790,371
Total	971,629	154,739	(46,397)	1,079,971
Net carrying amount	<u>\$ 2,011,470</u>	<u>\$ (97,871)</u>	<u>\$ (93,096)</u>	<u>\$ 1,820,503</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, 2018 and 2017

**Note 8 - Long-term Debt**

Long-term debt activity for the years ended June 30, 2018 and 2017 can be summarized as follows for the Medical Center:

**Governmental Activities**

	2018				
	Beginning Balance	Additions	Reductions	Ending Balance	Due within One Year
Long-term debt obligations:					
Series 2010	\$ 32,215,000	\$ -	\$ (500,000)	\$ 31,715,000	\$ 500,000
Series 2011	1,215,913	-	(802,103)	413,810	413,809
Series 2013A	21,940,000	-	-	21,940,000	15,000
Series 2013B	29,990,000	-	(4,980,000)	25,010,000	5,150,000
Total principal outstanding	85,360,913	-	(6,282,103)	79,078,810	6,078,809
Unamortized bond premiums	517,887	-	(85,276)	432,611	-
Unamortized bond discounts	(840,687)	51,617	-	(789,070)	-
Total governmental activities long-term debt	<u>\$ 85,038,113</u>	<u>\$ 51,617</u>	<u>\$ (6,367,379)</u>	<u>\$ 78,722,351</u>	<u>\$ 6,078,809</u>

	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	<u>\$ 94,500,090</u>	<u>\$ 52,429</u>	<u>\$ (9,514,406)</u>	<u>\$ 85,038,113</u>	<u>\$ 6,282,103</u>

Long-term debt activity for the years ended June 30, 2018 and 2017 can be summarized as follows for HHS:

	2018				
	Beginning Balance	Additions	Reductions	Ending Balance	Due within One Year
Mortgage payable	\$ 980,672	\$ -	\$ (103,965)	\$ 876,707	\$ 109,735
Capital leases	99,289	-	(41,085)	58,204	41,085
Total	<u>\$ 1,079,961</u>	<u>\$ -</u>	<u>\$ (145,050)</u>	<u>\$ 934,911</u>	<u>\$ 150,820</u>

**Note 8 - Long-term Debt (Continued)**

	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
<b>Total</b>	<b>\$ 1,079,173</b>	<b>\$ 123,255</b>	<b>\$ (122,467)</b>	<b>\$ 1,079,961</b>	<b>\$ 145,052</b>

**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
2019	\$ 6,078,809	\$ 4,356,472	\$ 10,435,281	\$ 109,735	\$ 44,615	\$ 154,350
2020	6,380,001	4,051,700	10,431,701	115,827	38,524	154,351
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	2,580,000	3,454,613	6,034,613	136,217	18,133	154,350
2024-2028	15,020,000	15,017,750	30,037,750	263,622	13,724	277,346
2029-2033	13,680,000	10,808,344	24,488,344	-	-	-
2034-2038	17,185,000	5,610,282	22,795,282	-	-	-
2039-2040	8,675,000	315,450	8,990,450	-	-	-
<b>Total</b>	<b>\$ 79,078,810</b>	<b>\$ 50,910,474</b>	<b>\$129,989,284</b>	<b>\$ 876,707</b>	<b>\$ 172,391</b>	<b>\$ 1,049,098</b>

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 2019 to \$3,555,000 in 2040, plus interest from 5.84 to 7.5 percent through 2040. The remainder due on Series 2011 totals \$413,809 in 2019, plus interest at 4.19 percent. 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 \$5,150,000 in 2019 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 of 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, 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, 2018 and 2017 that is collateralized by a certificate of deposit.

**Note 8 - Long-term Debt (Continued)**

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 \$1,300,000 and \$1,400,000 for the years ended June 30, 2018 and 2017, 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 \$77,000 and \$74,000 for 2018 and 2017, 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 \$482,000 and \$465,000 for 2018 and 2017, 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 \$660,000 and \$407,000 for the years ended June 30, 2018 and 2017, respectively. Total rent expense under these leases for HHS was approximately \$503,000 and \$538,000 for the years ended June 30, 2018 and 2017, respectively, including rental payments to the Medical Center of approximately \$175,000 and \$175,000 for the years ended June 30, 2018 and 2017, respectively.

The following is a schedule of future minimum rental payments:

Years Ending June 30	Hurley Medical Center	Hurley Health Services
2019	\$ 1,027,203	\$ 537,861
2020	1,078,346	440,366
2021	1,007,157	411,183
2022	807,058	406,122
2023	753,440	402,987
Thereafter	685,652	292,245
Total	<u>\$ 5,358,856</u>	<u>\$ 2,490,764</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 when sufficient information is available to reasonably estimate the amount of the liability.

**Note 13 - Other Postemployment 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 571 and 604 at June 30, 2018 and 2017, 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.

***Benefits Provided***

The healthcare benefits are provided by the Medical Center's self-insurance plan. The third party that administers the Retiree's Health Insurance Trust (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.

***Employees Covered by Benefit Terms***

The following members were covered by the benefit terms:

	<u>Retiree Health Benefit Plan</u>
Date of member count	June 30, 2018
Inactive plan members or beneficiaries currently receiving benefits	502
Inactive plan members entitled to but not yet receiving benefits	69
Active plan members	<u>2,592</u>
Total plan members	<u><u>3,163</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 2, 2018 based on participant data as of June 30, 2018. 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 13 - Other Postemployment Benefit Plan (Continued)**

**Net OPEB Liability**

The Medical Center has chosen to use the June 30 measurement date as its measurement date for the net OPEB liability and, therefore, the total OPEB liability was determined by an actuarial valuation performed as of that date. The June 30, 2018 fiscal year end reported net OPEB liability was determined using a measure of the total OPEB liability and the OPEB net position as of the June 30, 2018 measurement date.

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

Changes in Net OPEB Liability	Increase (Decrease)		
	Total OPEB Liability	Plan Net Position	Net OPEB Liability
<b>Balance at July 1, 2017</b>	\$ 94,503,927	\$ 59,662,468	\$ 34,841,459
Changes for the year:			
Service cost	735,528	-	735,528
Interest	6,251,484	-	6,251,484
Changes in benefits	(643,385)	-	(643,385)
Differences between expected and actual experience	(3,012,210)	-	(3,012,210)
Changes in assumptions	(1,836,169)	-	(1,836,169)
Contributions - Employer	-	3,884,465	(3,884,465)
Net investment income	-	4,197,653	(4,197,653)
Benefit payments, including refunds	(4,514,282)	(4,514,282)	-
<b>Net changes</b>	<b>(3,019,034)</b>	<b>3,567,836</b>	<b>(6,586,870)</b>
<b>Balance at June 30, 2018</b>	<b>\$ 91,484,893</b>	<b>\$ 63,230,304</b>	<b>\$ 28,254,589</b>

The plan's fiduciary net position represents 69.12 percent of the total OPEB liability.

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

Changes in Net OPEB Liability	Increase (Decrease)		
	Total OPEB Liability	Plan Net Position	Net OPEB Liability
<b>Balance at July 1, 2016</b>	\$ 91,993,917	\$ 53,125,222	\$ 38,868,695
Changes for the year:			
Service cost	715,842	-	715,842
Interest	6,088,805	-	6,088,805
Contributions - Employer	-	5,523,202	(5,523,202)
Net investment income	-	5,308,681	(5,308,681)
Benefit payments, including refunds	(4,294,637)	(4,294,637)	-
<b>Net changes</b>	<b>2,510,010</b>	<b>6,537,246</b>	<b>(4,027,236)</b>
<b>Balance at June 30, 2017</b>	<b>\$ 94,503,927</b>	<b>\$ 59,662,468</b>	<b>\$ 34,841,459</b>

The plan's fiduciary net position represents 63.13 percent of the total OPEB liability.

**OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB**

For the year ended June 30, 2018, the Medical Center recognized OPEB expense of \$1,624,826.

**Note 13 - Other Postemployment Benefit Plan (Continued)**

At June 30, 2018, the Medical Center reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	2018	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ -	\$ 2,593,155
Changes in assumptions	-	1,580,723
Net difference between projected and actual earnings on OPEB plan investments	-	153,353
Total	<u>\$ -</u>	<u>\$ 4,327,231</u>

Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows :

Years Ending June 30	Amount
2019	\$ 712,839
2020	712,839
2021	712,839
2022	712,841
2023	674,501
Thereafter	801,372
Total	<u>\$ 4,327,231</u>

**Actuarial Assumptions**

The total OPEB liability was determined by an actuarial valuation as of June 30, 2018. Updated procedures were used to roll forward the total OPEB liability to the OPEB plan's fiscal year end of June 30, 2018. The valuation used the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

The total OPEB liability in the previous actuarial valuations was determined using the following actuarial assumptions applied to all periods included in the measurement:

	Retiree Health Benefit Plan
Inflation	2.75%
Salary increases (including inflation)	N/A
Investment rate of return (net of investment expenses, including inflation)	6.75
Healthcare cost trend rate	9.0% decreasing to 3.25%
Mortality rates	RP-2014 Mortality Table

**Note 13 - Other Postemployment Benefit Plan (Continued)**

**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.

Based on those assumptions, the OPEB 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 OPEB plan 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 OPEB 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 adding expected inflation. Best estimates of arithmetic real rates of return as of the June 30, 2018 measurement date for each major asset class included in the OPEB plan's target asset allocation, as disclosed in the investment footnote, are summarized in the following tables:

Asset Class	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	40.00	4.00

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

The following presents the net OPEB liability of the Medical Center, calculated using the discount rate of 6.75 percent, as well as what the Medical Center's net OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current rate:

	1 Percent Decrease (5.75%)	Current Discount Rate (6.75%)	1 Percent Increase (7.75%)
Net OPEB liability of the Retiree Health Benefit Plan	\$ 37,584,168	\$ 28,254,589	\$ 20,289,734

**Note 13 - Other Postemployment Benefit Plan (Continued)**

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

The following presents the net OPEB liability of the Medical Center, calculated using the healthcare cost trend rate of 9.00 percent decreasing to 3.25 percent, as well as what the Medical Center's net OPEB liability would be if it were calculated using a healthcare cost trend rate that is 1 percentage point lower or 1 percentage point higher than the current rate:

	1 Percent Decrease	Current Healthcare Cost Trend Rate	1 Percent Increase
Net OPEB liability of the Retiree Health Benefit Plan	\$ 22,162,606	\$ 28,254,589	\$ 35,375,413

***OPEB 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 OPEB liability, deferred outflows of resources, and deferred inflows or resources related to OPEB and OPEB expense, information about the plan's fiduciary net position and additions to/deductions 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 14 - 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.

**Note 14 - Deposits and Investments (Continued)**

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 was approximately \$55,500,000, excluding petty cash. Of the bank balance, \$505,000 was covered by federal depository insurance. The rest of the bank balance, \$54,995,000, 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) was 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, 2018. Of the bank balance, \$750,000 was covered by federal depository insurance at June 30, 2018.

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 \$57,899,000 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.

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		
	2018	2017	How Held
U.S. government or agency bonds	\$ 128,924,407	\$ 132,474,680	Counterparty trust dept.
Corporate stocks	32,088,503	28,320,078	Counterparty trust dept.
Corporate bonds	14,859,431	15,539,998	Counterparty trust dept.
Municipal bonds	4,469,257	5,062,607	Counterparty trust dept.
Repurchase agreement	40,114,791	40,098,835	Counterparty

June 30, 2018 and 2017

**Note 14 - Deposits and Investments (Continued)**

**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		
	2018	Weighted-average Maturity	2017
<b>Primary Government</b>			
U.S. government or agency bonds	\$ 128,924,407	3.70 years	\$ 132,474,680
GNMA pool	10,019,261	15.31 years	7,736,048
U.S. government CMOs	7,503,756	19.11 years	12,840,735
Corporate bonds	14,859,431	5.65 years	15,539,998
Municipal bonds	4,469,257	Less than one year	5,062,607
Money market funds	22,825,863	Less than one year	15,951,049
Repurchase agreement	40,114,791	Less than one year	40,098,635

**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		
	2018	Rating	Rating Organization
U.S. agency bonds	\$ 9,954,211	AA+	Fitch
U.S. agency bonds	118,970,197		Not rated
U.S. government CMOs	7,503,756		Not rated
Corporate bonds	638,905	AAA	S&P
Corporate bonds	6,424,007	AA+ - A-	S&P
Corporate bonds	3,972,907	BBB+ - B	S&P
Corporate bonds	215,315	CCC+	S&P
Corporate bonds	3,608,296		Not rated
Money market funds	22,825,863		Not rated
Repurchase agreement	40,114,791		Not rated

**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, 2018 and 2017.

**Note 15 - 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:

	2018	2017	2016
Estimated liability - Beginning of year	\$ 24,445,924	\$ 26,025,399	\$ 29,833,112
Increase (decrease) in claims liability	293,984	293,984	(1,350,545)
Defense costs and other fund expenses	(555,473)	(695,684)	(284,852)
Excess insurance premium payments	-	(681,525)	(1,053,166)
Claim payments	-	(496,250)	(1,119,150)
Estimated liability - End of year	<u>\$ 24,184,435</u>	<u>\$ 24,445,924</u>	<u>\$ 26,025,399</u>

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 \$19,346,545 at June 30, 2018 and 2017, respectively.

The Medical Center is self-insured for workers' compensation claims with a self-insured retainer of \$600,000 per claim. As of June 30, 2018 and 2017 the Medical Center has recorded long-term accrued liabilities for workers' compensation of \$1,725,178 and \$1,439,441, respectively. The changes in the aggregate workers' compensation claims for the past three years were as follows:

	2018	2017	2016
Estimated liability - Beginning of year	\$ 1,439,441	\$ 1,175,972	\$ 1,093,257
Increase in claims liability	1,612,688	1,273,341	847,606
Excess premium policy	(99,725)	(99,725)	(99,694)
Claim payments	(1,227,226)	(910,147)	(665,197)
Estimated liability - End of year	<u>\$ 1,725,178</u>	<u>\$ 1,439,441</u>	<u>\$ 1,175,972</u>

Total long-term accrued liabilities as of June 30, 2018 and 2017 are \$23,359,613 and \$24,285,365, 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 16 - 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.

**Note 16 - Joint Ventures (Continued)**

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, 2018 and 2017 was \$6,325,250 and \$6,337,466, respectively. The arrangement provides that the two entities will share equally in the income or losses of the joint venture. The equity (loss) income to the Medical Center from this joint venture was approximately \$(8,000) and \$137,000 for the years ending June 30, 2018 and 2017, respectively, and is included in other (expense) income on the statement of revenue, expenses, and changes in net position. No distributions were made to the Medical Center during the years ended June 30, 2018 and 2017. GHCI paid the Medical Center \$564,000 and \$775,000 for leased employees for the years ended June 30, 2018 and 2017, respectively. The following is a summary of financial position and results of operations of GHCI as of and for the years ended June 30, 2018 and 2017 (in thousands):

	2018	2017
Total assets	\$ 18,848	\$ 21,406
Total liabilities	5,886	8,757
Total net assets	<u>\$ 12,962</u>	<u>\$ 12,649</u>
	2018	2017
Operating revenue	\$ 7,786	\$ 7,936
Operating expenses	7,621	8,432
Operating income (loss)	165	(496)
Nonoperating income	148	199
Excess of revenue over (under) expense	<u>\$ 313</u>	<u>\$ (297)</u>

**Note 17 - Union Contract**

The Medical Center has 10 active collective bargaining agreements. These agreements cover approximately 85 percent of the Medical Center's employees. The agreements have varying expiration dates ranging from December 31, 2018 through June 30, 2022.

**Note 18 - Related Party Transactions**

The Medical Center pays 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, 2018 and 2017 amounted to \$27,905,865 and \$27,905,865, respectively. Amounts paid by HHS to the Medical Center for rent and other miscellaneous expenses for the years ended June 30, 2018 and 2017 amounted to \$145,284 and \$145,284, respectively.

As of June 30, 2018 and 2017, the Medical Center had accounts receivable from HHS of \$280,752 and \$297,098, respectively, and accounts payable to HHS of \$656,751 and \$178,404, respectively.

**Note 19 - 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](http://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.

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 (HAPP), 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 HAPP option. Employees may participate in any of the three plan options (MCP, HAPP, or OCP).

***Plan Membership Covered by Benefit Terms***

At the December 31, 2017 measurement date, the following members were covered by the benefit terms:

Inactive plan members or beneficiaries currently receiving benefits	1,959
Inactive plan members entitled to but not yet receiving benefits	271
Active plan members	<u>2,041</u>
Total plan members covered by MERS of Michigan	<u><u>4,271</u></u>

**Note 19 - Agent Defined Benefit Pension Plan Description (Continued)**

**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, 2018 and 2017, the Medical Center reported a payable of \$1,400,000 and \$2, 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, 2018 and 2017.

**Net Pension Liability**

The total pension liability reported at June 30, 2018 was determined using a measure of the total pension liability and the pension net position as of December 31, 2017. The December 31, 2017 total pension liability was determined by an actuarial valuation performed as of that date.

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
<b>Balance at December 31, 2016</b>	\$ 578,695,439	\$ 403,953,296	\$ 174,742,143
Service cost	7,618,014	-	7,618,014
Interest	44,953,604	-	44,953,604
Experience differences	1,140,193	-	1,140,193
Contributions - Employer	-	22,043,768	(22,043,768)
Contributions - Employee	-	6,693,178	(6,693,178)
Net investment income	-	52,833,446	(52,833,446)
Benefit payments, including refunds	(41,168,796)	(41,168,796)	-
Administrative expenses	-	(836,979)	836,979
Net changes	12,543,015	39,564,617	(27,021,602)
<b>Balance at December 31, 2017</b>	<b>\$ 591,238,454</b>	<b>\$ 443,517,913</b>	<b>\$ 147,720,541</b>

June 30, 2018 and 2017

**Note 19 - Agent Defined Benefit Pension Plan Description (Continued)**

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
<b>Balance at December 31, 2015</b>	\$ 569,797,218	\$ 374,434,194	\$ 195,363,024
Changes for the year:			
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
<b>Net changes</b>	<b>8,898,221</b>	<b>29,519,102</b>	<b>(20,620,881)</b>
<b>Balance at December 31, 2016</b>	<b>\$ 578,695,439</b>	<b>\$ 403,953,296</b>	<b>\$ 174,742,143</b>

**Pension Expense and Deferred Outflows of Resources Related to Pensions**

For the years ended June 30, 2018 and 2017, the Medical Center recognized pension expense of \$23,939,789 and \$29,729,534, respectively.

At June 30, 2018 and 2017, the Medical Center reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	2018		2017	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 912,154	\$ 2,164,067	\$ -	\$ 2,936,055
Changes in assumptions	7,291,032	-	14,582,064	-
Net difference between projected and actual earnings on pension plan investments	-	7,828,327	15,485,713	-
Employer contributions to the plan subsequent to the measurement date	5,416,381	-	10,628,748	-
<b>Total</b>	<b>\$ 13,619,567</b>	<b>\$ 9,992,394</b>	<b>\$ 40,696,525</b>	<b>\$ 2,936,055</b>

**Note 19 - Agent Defined Benefit Pension Plan Description (Continued)**

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 \$5,416,381, which will impact the net pension liability in fiscal year 2019, rather than pension expense.

Years Ending June 30	Amount
2019	\$ 9,013,188
2020	368,825
2021	(7,189,672)
2022	(3,981,549)

**Actuarial Assumptions**

The total pension liability in the December 31, 2017 and 2016 actuarial valuations was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.5 percent
Salary increases	3.75 percent, in the long term, including inflation
Investment rate of return	8.00 percent, 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.

**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.

June 30, 2018 and 2017

**Note 19 - Agent Defined Benefit Pension Plan Description (Continued)**

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, 2017, 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 %	9 %
Global fixed income	18	4
Real assets	14	10
Diversifying strategies	13	8

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, 2018, 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	\$ 207,533,999	\$ 147,720,541	\$ 96,540,311

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 (7.000 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	\$ 234,156,808	\$ 174,742,143	\$ 123,942,346

***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 additions to/deductions 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 20 - 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 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, 2018 and 2017:

Fair values determined by Level 2 inputs use other inputs that are observable, either directly or indirectly. These Level 2 inputs include quoted prices for similar assets in active markets and other inputs, such as interest rates and yield curves, that are observable at commonly quoted intervals.

Level 3 inputs are unobservable inputs, including inputs that are available in situations where there is little, if any, market activity for the related asset. These Level 3 fair value measurements are based primarily on management's own estimates using pricing models, discounted cash flow methodologies, or similar techniques taking into account the characteristics of the asset.

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.

Assets Measured at Fair Value on a Recurring Basis at  
June 30, 2018

	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, 2018
Debt securities:				
Money market mutual funds	\$ 22,825,863	\$ -	\$ -	\$ 22,825,863
U.S. Treasury securities	-	133,393,665	-	133,393,665
Government mortgage-backed securities	-	17,523,017	-	17,523,017
Corporate bonds	-	14,859,431	-	14,859,431
Total debt securities	22,825,863	165,776,113	-	188,601,976
Equity securities - Domestic equity securities	26,082,910	-	-	26,082,910
Private equity funds - International private equity funds	6,005,593	-	-	6,005,593
Total investments at fair value level	\$ 54,914,366	\$ 165,776,113	\$ -	\$ 220,690,479

Notes to Financial Statements

June 30, 2018 and 2017

Note 20 - Fair Value Measurements (Continued)

	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	\$ 43,941,313	\$ 173,983,882	\$ -	\$ 217,925,195

Debt and equity securities classified in Level 1 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, 2018 and 2017 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 21 - Change in Accounting Principle

During the current year, the Medical Center adopted Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*. As a result, the financial statements now include a liability for the unfunded portion of the Medical Center's retiree healthcare costs. Some of the change in this net OPEB liability will be recognized immediately as part of the OPEB expense measurement and part will be deferred and recognized over future years. Refer to the other postemployment benefit plan footnotes for further details.

As a result of implementing this statement, the beginning net position of the governmental activities has been restated as follows:

	As Previously Reported	As Restated	Effect of Change
Hurley Medical Center - Net position	\$ 74,151,244	\$ 39,309,785	\$ (34,841,459)

The impact on the prior year changes in net position could not be determined.

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## Required Supplemental Information

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

	Last Four Fiscal Years			
	2018	2017	2016	2015
<b>Total Pension Liability</b>				
Service cost	\$ 7,618,014	\$ 7,542,280	\$ 7,442,132	\$ 7,262,751
Interest	44,953,604	44,306,689	42,384,435	41,412,276
Other changes	-	(1,066)	(1,010)	-
Differences between expected and actual experience	1,140,193	(3,480,197)	(303,795)	-
Changes in assumptions	-	-	29,164,128	-
Benefit payments, including refunds	<u>(41,168,796)</u>	<u>(39,469,485)</u>	<u>(37,836,677)</u>	<u>(36,129,561)</u>
<b>Net Change in Total Pension Liability</b>	12,543,015	8,898,221	40,849,213	12,545,466
<b>Total Pension Liability - Beginning of year</b>	<u>578,695,439</u>	<u>569,797,218</u>	<u>528,948,005</u>	<u>516,402,539</u>
<b>Total Pension Liability - End of year</b>	<u><b>\$ 591,238,454</b></u>	<u><b>\$ 578,695,439</b></u>	<u><b>\$ 569,797,218</b></u>	<u><b>\$ 528,948,005</b></u>
<b>Plan Fiduciary Net Position</b>				
Contributions - Employer	\$ 22,043,768	\$ 21,315,066	\$ 14,609,493	\$ 5,979,573
Contributions - Member	6,693,178	6,487,981	6,197,682	5,883,466
Net investment income (loss)	52,833,446	42,015,304	(5,694,176)	24,690,814
Administrative expenses	(836,979)	(829,764)	(854,403)	(901,753)
Benefit payments, including refunds	<u>(41,168,796)</u>	<u>(39,469,485)</u>	<u>(37,836,677)</u>	<u>(36,129,561)</u>
<b>Net Change in Plan Fiduciary Net Position</b>	39,564,617	29,519,102	(23,578,081)	(477,461)
<b>Plan Fiduciary Net Position - Beginning of year</b>	<u>403,953,296</u>	<u>374,434,194</u>	<u>398,012,275</u>	<u>398,489,736</u>
<b>Plan Fiduciary Net Position - End of year</b>	<u><b>\$ 443,517,913</b></u>	<u><b>\$ 403,953,296</b></u>	<u><b>\$ 374,434,194</b></u>	<u><b>\$ 398,012,275</b></u>
<b>Medical Center's Net Pension Liability - Ending</b>	<u><b>\$ 147,720,541</b></u>	<u><b>\$ 174,742,143</b></u>	<u><b>\$ 195,363,024</b></u>	<u><b>\$ 130,935,730</b></u>
<b>Plan Fiduciary Net Position as a Percentage of Total Pension Liability</b>	75.02 %	69.80 %	65.71 %	75.25 %
<b>Covered Employee Payroll</b>	\$ 117,262,869	\$ 113,422,810	\$ 109,316,532	\$ 103,276,871
<b>Medical Center's Net Pension Liability as a Percentage of Covered Employee Payroll</b>	125.97 %	154.06 %	178.71 %	126.78 %

Required Supplemental Information  
Schedule of Medical Center Contributions

Last Ten Fiscal Years  
Year Ended June 30

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Actuarially determined contribution	\$ 10,043,768	\$ 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
Contributions in relation to the actuarially determined contribution	22,043,768	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
<b>Contribution Excess (Deficiency)</b>	<b>\$ 12,000,000</b>	<b>\$ 13,000,000</b>	<b>\$ 7,000,000</b>	<b>\$ (633,450)</b>	<b>\$ 1,443,533</b>	<b>\$ (2,269,856)</b>	<b>\$ (998,939)</b>	<b>\$ 3,391,379</b>	<b>\$ (1,212,855)</b>	<b>\$ 9,014,310</b>
<b>Covered Employee Payroll</b>	\$ 117,262,869	\$ 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
<b>Contributions as a Percentage of Covered Employee Payroll</b>	18.80 %	18.79 %	13.36 %	6.86 %	9.99 %	12.57 %	9.25 %	8.28 %	9.54 %	51.09 %

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, 2018 were determined based on the actuarial valuation as of December 31, 2015. The most recent valuation is as of December 31, 2017.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age
Amortization method	Level percentage of pay
Remaining amortization period	22 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

	Last Three Fiscal Years		
	2018	2017	2016
<b>Total OPEB Liability</b>			
Service cost	\$ 735,528	\$ 715,842	\$ 787,997
Interest	6,251,484	6,088,805	5,916,624
Changes in benefit terms	(643,385)	-	-
Differences between expected and actual experience	(3,012,210)	-	-
Changes in assumptions	(1,836,169)	-	-
Benefit payments, including refunds	(4,514,282)	(4,294,637)	(3,940,800)
<b>Net Change in Total OPEB Liability</b>	(3,019,034)	2,510,010	2,763,821
<b>Total OPEB Liability - Beginning of year</b>	94,503,927	91,993,917	89,230,096
<b>Total OPEB Liability - End of year</b>	<b>\$ 91,484,893</b>	<b>\$ 94,503,927</b>	<b>\$ 91,993,917</b>
<b>Plan Fiduciary Net Position</b>			
Contributions - Employer	\$ 3,884,465	\$ 5,523,202	\$ 5,613,665
Net investment income	4,197,653	5,308,681	(53,346)
Benefit payments, including refunds	(4,514,282)	(4,294,637)	(3,940,800)
<b>Net Change in Plan Fiduciary Net Position</b>	3,567,836	6,537,246	1,619,519
<b>Plan Fiduciary Net Position - Beginning of year</b>	59,662,468	53,125,222	51,505,703
<b>Plan Fiduciary Net Position - End of year</b>	<b>\$ 63,230,304</b>	<b>\$ 59,662,468</b>	<b>\$ 53,125,222</b>
<b>Net OPEB Liability - Ending</b>	<b>\$ 28,254,589</b>	<b>\$ 34,841,459</b>	<b>\$ 38,868,695</b>
<b>Plan Fiduciary Net Position as a Percentage of Total OPEB Liability</b>	69.12 %	63.13 %	57.75 %

Contributions to the OPEB plan are not based on a measure of pay; therefore, no covered payroll is presented.

Required Supplemental Information  
Schedule of OPEB Contributions

Last Ten Fiscal Years  
Year Ended June 30

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Actuarially determined contribution	\$ 3,884,465	\$ 5,523,161	\$ 5,558,658	\$ 5,930,118	\$ 5,964,296	\$ 7,011,793	\$ 7,071,235	\$ 7,417,585	\$ 7,521,118	\$ 7,737,798
Contributions in relation to the actuarially determined contribution	3,884,465	5,523,202	5,613,665	5,930,124	5,964,300	7,012,008	7,071,240	7,418,004	7,521,118	7,737,798
Contribution excess	\$ -	\$ 41	\$ 55,007	\$ 6	\$ 4	\$ 215	\$ 5	\$ 419	\$ -	\$ -

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:

Actuarial cost method Entry age normal  
 Amortization method Level dollar, closed  
 Remaining amortization period 20 years  
 Asset valuation method Market value  
 Inflation 2.75 percent  
 Healthcare cost trend rates Trend starting at 9.0 percent and gradually decreasing to an ultimate trend rate of 3.25 percent  
 Salary increase 3.25 percent, including inflation  
 Investment rate of return 6.75 percent, net of OPEB plan investment expense, including inflation  
 Retirement age Experience-based table of rates that are specific to the type of eligibility condition  
 Mortality 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 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.  
 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.

## Hurley Medical Center

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### Required Supplemental Information Schedule of OPEB Investment Returns

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	<b>Last Three Fiscal Years</b>		
	<b>Year Ended June 30</b>		
	<u>2018</u>	<u>2017</u>	<u>2016</u>
Annual money-weighted rate of return, net of investment expense	7.6 %	10.6 %	0.6 %

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## Additional Information

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## 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, 2018 and 2017. 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 additional 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, 2018

Consolidating Balance Sheet

June 30, 2018

(with comparative totals for 2017)

	Hurley Medical Center	Hurley Health Services	Eliminating Entries	2018 Consolidated Totals	2017 Consolidated Totals
<b>Assets</b>					
<b>Current Assets</b>					
Cash and cash equivalents	\$ 55,487,102	\$ 1,397,994	\$ -	\$ 56,885,096	\$ 80,555,683
Patient accounts receivable - Net	34,758,619	1,408,585	-	36,167,204	41,845,311
Other receivables	8,679,450	904,093	-	9,583,543	5,696,179
Estimated third-party payor settlements	18,433,856	-	-	18,433,856	3,076,258
Assets limited as to use	8,366,047	156,352	-	8,522,399	8,827,249
Prepaid expenses and other	3,826,585	300,398	-	4,126,983	3,664,973
Inventory	5,378,220	39,787	-	5,418,007	5,193,318
<b>Total current assets</b>	<b>134,929,879</b>	<b>4,207,209</b>	<b>-</b>	<b>139,137,088</b>	<b>148,858,971</b>
<b>Assets Limited as to Use</b>					
By the board	121,193,090	-	-	121,193,090	121,999,641
Held by trustee - Bond	8,092,391	-	-	8,092,391	8,310,294
Restricted and held in trust - Other	19,623,451	-	-	19,623,451	19,753,842
<b>Capital Assets - Net</b>	<b>103,751,019</b>	<b>1,820,503</b>	<b>-</b>	<b>105,571,522</b>	<b>105,999,725</b>
<b>Other Assets</b>					
Investment in Hurley Health Services	4,318,176	-	(4,318,176)	-	-
Investment in joint ventures	6,325,250	42,000	-	6,367,250	6,377,966
Other	-	965,871	-	965,871	954,408
<b>Total other assets</b>	<b>10,643,426</b>	<b>1,007,871</b>	<b>(4,318,176)</b>	<b>7,333,121</b>	<b>7,332,374</b>
<b>Total assets</b>	<b>398,233,256</b>	<b>7,035,583</b>	<b>(4,318,176)</b>	<b>400,950,663</b>	<b>412,254,847</b>
<b>Deferred Outflows of Resources</b>	<b>14,373,286</b>	<b>-</b>	<b>-</b>	<b>14,373,286</b>	<b>41,610,522</b>
<b>Total assets and deferred outflows of resources</b>	<b>\$ 412,606,542</b>	<b>\$ 7,035,583</b>	<b>\$ (4,318,176)</b>	<b>\$ 415,323,949</b>	<b>\$ 453,865,369</b>

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, 2018

(with comparative totals for 2017)

	Hurley Medical Center	Hurley Health Services	Eliminating Entries	2018 Consolidated Totals	2017 Consolidated Totals
<b>Liabilities, Deferred Inflows of Resources, and Fund Net Position</b>					
<b>Current Liabilities</b>					
Accounts payable and taxes withheld	\$ 16,967,191	\$ 442,884	\$ -	\$ 17,410,075	\$ 18,506,765
Current portion of long-term debt	6,078,809	150,820	-	6,229,629	6,427,155
Estimated third-party payor settlements	22,159,283	-	-	22,159,283	34,251,657
Accrued expenses	32,211,625	1,339,612	-	33,551,237	34,809,015
Total current liabilities	77,416,908	1,933,316	-	79,350,224	93,994,592
<b>Long-term Debt</b> - Net of current portion - Notes payable	72,643,542	784,091	-	73,427,633	79,690,919
<b>Other Long-term Liabilities</b>					
Net pension liability	147,720,541	-	-	147,720,541	174,742,143
Other	23,359,613	-	-	23,359,613	24,285,365
Accrued postretirement benefit obligations	28,254,589	-	-	28,254,589	-
Total liabilities	349,395,193	2,717,407	-	352,112,600	372,713,019
<b>Deferred Inflows of Resources</b>	14,319,625	-	-	14,319,625	2,936,055
Total liabilities and deferred inflows of resources	363,714,818	2,717,407	-	366,432,225	375,649,074
<b>Fund Net Position</b>					
Net investment in capital assets	29,429,460	885,592	-	30,315,052	24,391,101
Donor restricted for specific operating activities	6,658,212	-	-	6,658,212	8,128,180
Unrestricted	12,804,052	3,432,584	(4,318,176)	11,918,460	45,697,014
Total fund net position	48,891,724	4,318,176	(4,318,176)	48,891,724	78,216,295
Total liabilities, deferred inflows of resources, and fund net position	<u>\$ 412,606,542</u>	<u>\$ 7,035,583</u>	<u>\$ (4,318,176)</u>	<u>\$ 415,323,949</u>	<u>\$ 453,865,369</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, 2018  
(with comparative totals for 2017)

	Hurley Medical Center	Hurley Health Services	Eliminating Entries	2018 Consolidated Totals	2017 Consolidated Totals
<b>Operating Revenue</b>					
Net patient service revenue	\$ 394,624,387	\$ 6,656,374	\$ -	\$ 401,280,761	\$ 421,639,182
Other operating revenue	40,274,038	29,401,335	-	69,675,373	41,668,181
Total operating revenue	434,898,425	36,057,709	-	470,956,134	463,307,363
<b>Operating Expenses</b>					
Salaries and wages	171,031,548	26,436,408	-	197,467,956	201,734,325
Employee benefits and payroll taxes	65,014,142	4,449,293	-	69,463,435	78,441,170
Operating supplies and expenses	62,763,259	-	-	62,763,259	62,472,459
Professional services	63,455,926	708,716	-	64,164,642	41,349,061
Purchased services and other	46,427,810	4,071,936	-	50,499,746	41,693,502
Depreciation and amortization	14,533,335	154,739	-	14,688,074	17,005,995
Interest expense	4,742,453	-	-	4,742,453	5,161,031
Total operating expenses	427,968,473	35,821,092	-	463,789,565	447,857,543
<b>Net Operating Income</b>	6,929,952	236,617	-	7,166,569	15,449,820
<b>Nonoperating (Expense) Income</b>					
Investment (loss) income	(414,174)	966	-	(413,208)	(1,445,254)
Increase in investment in Hurley Health Services	253,125	-	(253,125)	-	-
Management fees to HHS and joint venture income	-	-	-	-	253,584
Other (loss) income	(4,313)	15,542	-	11,229	(12,813)
Total nonoperating (expense) income	(165,362)	16,508	(253,125)	(401,979)	(1,204,483)
<b>Excess of Revenue Over (Under) Expenses before Other Activity, Restricted Fund Activity, and Transfer of Funds</b>	6,764,590	253,125	(253,125)	6,764,590	14,245,337
<b>Other - Assets released from restrictions for the purchase of capital assets</b>	222,268	-	-	222,268	307,251
<b>Excess of Revenue Over (Under) Expenses before Restricted Fund Activity and Transfer of Funds</b>	6,986,858	253,125	(253,125)	6,986,858	14,552,588
<b>Restricted Gifts and Bequests (Used) Received</b>	(1,247,702)	-	-	(1,247,702)	872,192
<b>Transfer of Funds to General Fund - Capital asset additions</b>	(222,268)	-	-	(222,268)	(307,251)
<b>Increase (Decrease) in Net Position</b>	5,516,888	253,125	(253,125)	5,516,888	15,117,529
<b>Fund Net Position - Beginning of year (as restated)</b>	43,374,836	4,065,051	(4,065,051)	43,374,836	63,098,766
<b>Fund Net Position - End of year</b>	<b>\$ 48,891,724</b>	<b>\$ 4,318,176</b>	<b>\$ (4,318,176)</b>	<b>\$ 48,891,724</b>	<b>\$ 78,216,295</b>