
Hurley Medical Center

**Financial Report
with Additional Information
June 30, 2019**

Independent Auditor's Report	1-2
Management's Discussion and Analysis	3-6
Basic Financial Statements	
Proprietary Funds:	
Statement of Net Position	7-8
Statement of Revenue, Expenses, and Changes in Net Position	9
Statement of Cash Flows	10-11
Fiduciary Fund:	
Statement of Net Position - Retiree Health Benefit Trust Fund	12
Statement of Changes in Net Position - Retiree Health Benefit Trust Fund	13
Notes to Financial Statements	14-43
Required Supplemental Information	44
Schedule of Changes in the Net Pension Liability and Related Ratios	45
Schedule of Pension Contributions	46
Schedule of Changes in the Net OPEB Liability and Related Ratios	47
Schedule of OPEB Contributions	48
Schedule of OPEB Investment Returns	49
Additional Information	50
Independent Auditor's Report on Additional Information	51
Consolidating Balance Sheet	52-53
Consolidating Statement of Operations	54

Independent Auditor's Report

To the Board of Hospital Managers
Hurley Medical Center

Report on the Financial Statements

We have audited the accompanying 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, 2019 and 2018 and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the 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, 2019 and 2018 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.

To the Board of Hospital Managers
Hurley Medical Center

Other Matters

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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 30, 2019 on our consideration of Hurley Medical Center's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Hurley Medical Center's internal control over financial reporting and compliance.

Plante & Moran, PLLC

October 30, 2019

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, 2019, 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.

Financial Highlights

The Medical Center reported operating income of \$13.3 million for the fiscal year ending June 30, 2019. This represents an increase of \$1.6 million from 2018. Operating income for the fiscal year ended June 30, 2018 was \$11.7 million, reflecting a decrease from the year ended June 30, 2017.

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. There was an increase in operating margins. Even though inpatient and outpatient volume dropped, increases in case mix and observation days resulted in 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 primarily increased, primarily due to positive operating performance, for fiscal years ending 2019 and 2018, respectively, by \$17.5 million and \$5.3 million.

The Statement of Cash Flows

The statement of cash flows reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities. During 2019, the cash position of the Medical Center increased by approximately \$18.2 million to \$73.8 million.

The Statement of Net Position

	2019	2018	2017
Assets			
Current assets, less assets limited to use	\$ 151,949	\$ 126,564	\$ 136,680
Assets limited as to use	159,149	157,275	158,735
Capital assets	103,894	103,751	103,988
Other assets	<u>6,826</u>	<u>6,325</u>	<u>6,337</u>
Total assets	421,818	393,915	405,740
Deferred Outflow of Resources			
	<u>38,964</u>	<u>14,373</u>	<u>41,611</u>
Total assets and deferred outflow of resources	460,782	408,288	447,351
Liabilities			
Current liabilities	80,507	77,417	92,480
Net pension/OPEB liability	218,491	175,975	209,584
Long-term debt	66,245	72,644	78,756
Other long term liabilities	<u>22,007</u>	<u>23,359</u>	<u>24,285</u>
Total liabilities	<u>387,250</u>	<u>349,395</u>	<u>405,105</u>
Deferred Inflow of Resources			
	<u>11,430</u>	<u>14,320</u>	<u>2,936</u>
Total liabilities and deferred inflow of resources	398,680	363,715	408,041
Net Position			
Net investment in capital assets	35,577	29,429	23,460
Donor restricted for specific operating activities	5,463	6,658	8,128
Unrestricted	<u>21,062</u>	<u>8,486</u>	<u>7,722</u>
Total net position	<u>\$ 62,102</u>	<u>\$ 44,573</u>	<u>\$ 39,310</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, 2019 and 2018, by \$17.5 million and \$5.3 million, respectively, primarily due to positive operating performance, net of investment income and losses.

The Medical Center's unrestricted cash and investments position increased in 2019 by \$25.4 million to \$202.1 million at June 30, 2019. Respectively, the day's cash on hand increased from 152.6 days in 2018 to 166.1 days in 2019. The major increase in cash was primarily due to an increase in operating revenue during 2019.

The Medical Center's liability position was changed primarily due to the pay-down of long-term debt obligations in 2019 and 2018, as well as the impact of changes in net pension/OPEB liability due to investment losses in the plans' net positions of \$11.5 million in 2019 and investment gains in the plans/ net positions of \$57.0 million.

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

In 2019, the Medical Center's net position increased by \$17.5 million. The primary cause of the increase in net position is the positive financial results for the year ended June 30, 2019.

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Operating Revenue			
Net patient service revenue	\$ 415,317	\$ 394,624	\$ 414,807
Other operating revenue	<u>44,446</u>	<u>40,274</u>	<u>40,607</u>
Total operating revenue	459,763	434,898	455,414
Operating Expenses			
Salaries and wages	175,901	171,032	175,056
Employee benefits and payroll taxes	73,164	65,014	74,018
Operating supplies and expenses	63,614	62,763	62,472
Professional services	65,233	63,456	58,634
Purchased services and other	54,760	46,428	47,715
Depreciation and amortization	<u>13,780</u>	<u>14,533</u>	<u>16,837</u>
Total operating expenses	446,452	423,226	434,732
Nonoperating Revenue (Expenses)	<u>4,743</u>	<u>(4,938)</u>	<u>(6,064)</u>
Excess of Revenue Over Expenses Before Other Activity	18,054	6,734	14,618
Grants, Contributions, and Endowments -			
Restricted gifts, income, and transfer to unrestricted	<u>(1,195)</u>	<u>(1,470)</u>	<u>565</u>
Increase in Net Position	17,528	5,264	15,183
Net Position – Beginning of year	44,573	74,151	58,968
Implementation of GASB No. 75	<u>0</u>	<u>(34,842)</u>	<u>0</u>
Net Position - End of year	<u><u>\$ 62,102</u></u>	<u><u>\$ 44,573</u></u>	<u><u>\$ 74,151</u></u>

Operating Income

For the year ending June 30, 2019, the Medical Center experienced a net income from operations of \$13.3 million. The comparable prior period operating income was \$11.7 million.

Inpatient activity decreased from the prior year by 2.4% for discharges and patient days remained steady, however length of stay to increased to 5.26 days. The increase in the length of stay resulted from Medicare CMI (case mix index) increase by 2.4% or 1.70 versus 1.66 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 5.8% up as compared to the previous year. Emergency Room visits were down 2.9% primarily due to more urgent care centers opening as well as primary care physician offices extending clinical hours. Outpatient surgeries increased as a result of advances in surgical procedures that traditionally were inpatient. Other operating revenue increased from the prior year as a result of the sale of some outpatient laboratory operations.

Operating expenses increased by 5.5% from the prior year. Increases in the outpatient visits largely drove the proportionate increase in operating expense, specifically in salaries and wages, employee benefits and payroll taxes, and purchased services for outside agencies. Other notable operating expense increases included pension expense and malpractice expense. Pension expense increased as a result of downturn in the investment market during the final quarter of the measurement period. Malpractice expense increased due to one time large claim settlements.

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 \$9.7 million over the prior year largely due to investment income. Interest expense was \$286,000 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 \$14.5 million of building infrastructure, clinical equipment and technology infrastructure assets purchased in 2019. At year end, the Medical Center had \$73 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, 2019 and 2018

	2019		2018	
	Hurley Medical Center	Component Unit Hurley Health Services	Hurley Medical Center	Component Unit Hurley Health Services
Assets and Deferred Outflows of Resources				
Current Assets				
Cash and cash equivalents	\$ 73,737,272	\$ 1,820,942	\$ 55,487,102	\$ 1,397,994
Patient accounts receivable - Net (Note 5)	44,716,234	1,246,090	34,758,619	1,408,585
Other receivables	6,367,498	1,825,686	8,679,450	904,093
Estimated third-party payor settlements (Note 4)	17,895,969	-	18,433,856	-
Assets limited as to use (Note 6)	8,555,700	156,508	8,366,047	156,352
Inventory	5,790,256	24,954	5,378,220	39,787
Prepaid expenses and other	3,441,697	306,479	3,826,585	300,398
Total current assets	160,504,626	5,380,659	134,929,879	4,207,209
Assets Limited as to Use (Note 6)				
Held by trustee - Bond	7,905,664	-	8,092,391	-
Restricted and held in trust - Other	14,360,136	-	19,623,451	-
By the board	128,327,467	-	121,193,090	-
Capital Assets - Net (Note 7)	103,894,340	939,935	103,751,019	1,820,503
Other Assets - Investment in joint ventures	6,826,375	42,000	6,325,250	42,000
Total assets	421,818,608	6,362,594	393,915,080	6,069,712
Deferred Outflows of Resources				
Deferred outflows related to bond defeasance	288,012	-	403,719	-
Deferred outflows related to consideration paid for assets	350,000	960,201	350,000	965,871
Deferred outflows related to pensions (Note 19)	38,325,585	-	13,619,567	-
Total deferred outflows of resources	38,963,597	960,201	14,373,286	965,871
Total assets and deferred outflows of resources	\$ 460,782,205	\$ 7,322,795	\$ 408,288,366	\$ 7,035,583

Proprietary Funds
Statement of Net Position (Continued)

June 30, 2019 and 2018

	2019		2018	
	Hurley Medical Center	Component Unit Hurley Health Services	Hurley Medical Center	Component Unit Hurley Health Services
Liabilities, Deferred Inflows of Resources, and Net Position				
Current Liabilities				
Accounts payable and taxes withheld	\$ 19,811,665	\$ 625,179	\$ 16,967,191	\$ 442,884
Current portion of long-term debt (Note 8)	6,380,000	68,820	6,078,809	150,820
Estimated third-party payor settlements (Note 4)	17,203,163	-	22,159,283	-
Accrued expenses	37,112,777	2,055,294	32,211,625	1,339,612
Total current liabilities	80,507,605	2,749,293	77,416,908	1,933,316
Long-term Debt - Net of current portion (Note 8)	66,244,910	312,376	72,643,542	784,091
Other Long-term Liabilities				
Net pension liability (Note 19)	195,173,840	-	147,720,541	-
Other (Note 15)	22,007,188	-	23,359,613	-
Accrued postretirement benefit obligations (Note 13)	23,316,745	-	28,254,589	-
Total liabilities	387,250,288	3,061,669	349,395,193	2,717,407
Deferred Inflows of Resources				
Deferred inflows related to postemployment benefit obligations (Note 13)	6,699,321	-	4,327,231	-
Deferred inflows related to pensions (Note 19)	4,730,859	-	9,992,394	-
Total deferred inflows of resources	11,430,180	-	14,319,625	-
Total liabilities and deferred inflows of resources	398,680,468	3,061,669	363,714,818	2,717,407
Net Position				
Net investment in capital assets	35,576,590	558,739	29,429,460	885,592
Restricted - Donor restricted for specific capital and operating activities	5,463,084	-	6,658,212	-
Unrestricted	21,062,063	3,702,387	8,485,876	3,432,584
Total net position	62,101,737	4,261,126	44,573,548	4,318,176
Total liabilities, deferred inflows of resources, and net position	<u>\$ 460,782,205</u>	<u>\$ 7,322,795</u>	<u>\$ 408,288,366</u>	<u>\$ 7,035,583</u>

Proprietary Funds

Statement of Revenue, Expenses, and Changes in Net Position

Years Ended June 30, 2019 and 2018

	2019		2018	
	Hurley Medical Center	Component Unit Hurley Health Services	Hurley Medical Center	Component Unit Hurley Health Services
Operating Revenue				
Net patient service revenue	\$ 415,316,681	\$ 5,836,105	\$ 394,624,387	\$ 6,656,374
Other operating revenue	44,446,590	30,181,753	40,274,038	29,401,335
Total operating revenue	459,763,271	36,017,858	434,898,425	36,057,709
Operating Expenses				
Salaries and wages	175,900,424	27,304,806	171,031,548	26,436,408
Employee benefits and payroll taxes	73,164,263	4,571,886	65,014,142	4,449,293
Operating supplies and expenses	63,613,588	-	62,763,259	-
Professional services and consultant fees	65,233,147	495,692	63,455,926	708,716
Purchased services and other	54,760,310	3,543,560	46,427,810	4,071,936
Depreciation and amortization	13,780,372	142,180	14,533,335	154,739
Total operating expenses	446,452,104	36,058,124	423,226,020	35,821,092
Operating Income (Loss)	13,311,167	(40,266)	11,672,405	236,617
Nonoperating Income (Expense)				
Investment income (loss)	8,698,332	256	(414,174)	966
Other income (expense)	501,125	(17,040)	(4,313)	15,542
Interest expense	(4,456,602)	-	(4,742,453)	-
Total nonoperating income (expense)	4,742,855	(16,784)	(5,160,940)	16,508
Excess of Revenue Over (Under) Expenses before Other Activity, Restricted Fund Activity, and Transfer of Funds	18,054,022	(57,050)	6,511,465	253,125
Other - Transfers to unrestricted from restricted funds for the purchase of capital assets	669,305	-	222,268	-
Excess of Revenue Over (Under) Expenses before Restricted Fund Activity and Transfer of Funds	18,723,327	(57,050)	6,733,733	253,125
Restricted Fund Activity and Transfer of Funds	(525,833)	-	(1,247,702)	-
Transfer to Unrestricted Net Position - Purchase of capital assets	(669,305)	-	(222,268)	-
Increase (Decrease) in Net Position	17,528,189	(57,050)	5,263,763	253,125
Net Position - Beginning of year	44,573,548	4,318,176	39,309,785	4,065,051
Net Position - End of year	<u>\$ 62,101,737</u>	<u>\$ 4,261,126</u>	<u>\$ 44,573,548</u>	<u>\$ 4,318,176</u>

Proprietary Funds
Statement of Cash Flows

Years Ended June 30, 2019 and 2018

	2019		2018	
	Hurley Medical Center	Component Unit Hurley Health Services	Hurley Medical Center	Component Unit Hurley Health Services
Cash Flows from Operating Activities				
Cash received from patients and third-party payors	\$ 446,504,248	\$ 35,745,426	\$ 408,394,213	\$ 35,486,496
Cash payments to suppliers for services and goods	(235,275,206)	(7,430,397)	(237,009,013)	(8,906,192)
Cash payments to employees for services	(175,900,424)	(27,321,590)	(171,031,548)	(26,436,408)
Net cash provided by operating activities	35,328,618	993,439	353,652	143,896
Cash Flows Provided by Noncapital Financing Activities - Net proceeds from contributions restricted for specific purposes	669,305	-	222,268	-
Cash Flows from Capital and Related Financing Activities				
Principal payment on long-term debt and capital leases	(6,078,810)	(553,715)	(6,282,103)	(145,050)
Decrease in loans receivable	-	-	-	72,990
Interest paid on long-term debt	(4,682,566)	-	(4,951,555)	-
Purchase of capital assets	(14,506,206)	(16,620)	(14,305,252)	(56,869)
Proceeds from sale of capital assets	582,513	-	9,154	108,638
Net cash used in capital and related financing activities	(24,685,069)	(570,335)	(25,529,756)	(20,291)
Cash Flows from Investing Activities				
(Gain) loss from joint venture activity	(501,125)	-	8,960	-
Sale of assets whose use is limited	15,995,554	-	6,060,672	-
Purchases of assets whose use is limited	(12,675,339)	-	(4,148,381)	-
Investment interest and realized gains (losses)	4,118,226	(156)	(764,959)	3,352
Net cash provided by (used in) investing activities	6,937,316	(156)	1,156,292	3,352
Net Increase (Decrease) in Cash and Cash Equivalents	18,250,170	422,948	(23,797,544)	126,957
Cash and Cash Equivalents - Beginning of year	55,487,102	1,397,994	79,284,646	1,271,037
Cash and Cash Equivalents - End of year	\$ 73,737,272	\$ 1,820,942	\$ 55,487,102	\$ 1,397,994

Proprietary Funds
Statement of Cash Flows (Continued)

Years Ended June 30, 2019 and 2018

2019		2018	
Hurley Medical Center	Component Unit Hurley Health Services	Hurley Medical Center	Component Unit Hurley Health Services

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

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

Operating income (loss)	\$ 13,311,167	\$ (40,266)	\$ 11,672,405	\$ 236,617
Adjustments to reconcile operating income (loss) to net cash from operating activities:				
Depreciation and amortization	13,780,372	142,180	14,533,334	154,739
Provision for bad debts	11,469,241	91,973	13,082,627	88,200
Amortization of bond discounts	(18,631)	-	(33,659)	-
Contributions released from restrictions	(1,195,128)	-	(1,468,093)	-
Changes in operating assets and liabilities:				
Receivables and third-party payor settlements	(23,533,137)	(917,544)	(38,118,746)	(1,097,760)
Inventories	(412,036)	14,833	(243,965)	19,276
Prepaid expenses and other	384,888	(11,751)	(494,252)	998,113
Deferred outflows of resources	(24,590,311)	5,670	27,237,236	(965,871)
Accounts payable and taxes withheld	2,844,474	1,174	(1,539,938)	30,353
Accrued expenses	3,661,709	1,707,170	(2,048,395)	680,229
Net pension liability	47,453,299	-	(27,021,602)	-
Net OPEB liability	(4,937,844)	-	(6,586,870)	-
Deferred inflows of resources	(2,889,445)	-	11,383,570	-
Net cash provided by operating activities	\$ 35,328,618	\$ 993,439	\$ 353,652	\$ 143,896

Fiduciary Fund
Statement of Net Position
Retiree Health Benefit Trust Fund

June 30, 2019 and 2018

	2019	2018
Assets		
Cash and cash equivalents	\$ 3,666,151	\$ 2,291,214
Investments:		
Common stock	35,351,082	33,517,301
Corporate bonds	13,610,016	13,429,298
U.S. government or agency bonds	7,060,657	7,849,993
U.S. government collateralized mortgage obligations	8,850,522	7,278,225
Interest receivable	208,260	185,678
	\$ 68,746,688	\$ 64,551,709
Total assets	\$ 68,746,688	\$ 64,551,709
Liabilities and Net Position		
Other Long-term Liabilities	\$ -	\$ 1,321,405
Net Position - Held in trust for retiree health benefits	68,746,688	63,230,304
Total liabilities and net position	\$ 68,746,688	\$ 64,551,709

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

Years Ended June 30, 2019 and 2018

	2019	2018
Additions		
Contributions - Employer	\$ 3,841,324	\$ 3,884,465
Contributions - Retiree	2,146,974	2,052,750
Total contributions	5,988,298	5,937,215
Dividends	1,539,830	1,443,931
Realized gain on sale of investments	3,242,211	2,467,868
Net increase in fair value of investments	768,406	731,875
Less investment expenses	(398,057)	(446,022)
Total additions	11,140,688	10,134,867
Deductions - Benefit payments	(5,624,304)	(6,567,031)
Increase in Net Position	5,516,384	3,567,836
Net Position - Beginning of year	63,230,304	59,662,468
Net Position - End of year	\$ 68,746,688	\$ 63,230,304

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, Michigan. 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 and 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 Governmental Accounting Standards Board (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 the following:

- 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/Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to future periods and will not be recognized as an outflow of resources (expense/expenditure) until then.

The Medical Center reports deferred outflows related to 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.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to future periods and will not be recognized as an inflow of resources (revenue) until that time.

The Medical Center reports deferred inflows related to the OPEB plan, made up of differences between projected and actual earnings on investments, differences between the projected and actual experiences, and changes in actuarial assumptions and deferred inflows related to the defined benefit plan, made up of differences between projected and actual earnings on investments and differences between the projected and actual experiences.

Note 2 - Significant Accounting Policies (Continued)

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

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. Net investment in capital assets consists of capital assets net of accumulated depreciation and is reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. The restricted component of net position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. Unrestricted net position is the remaining net position that does not meet the definition of invested in capital or restricted.

Note 2 - Significant Accounting Policies (Continued)

Net Patient Service Revenue

Net patient service revenue is reported at the estimated net realizable amounts from patients and third-party payors for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. Approximately 85 and 88 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 June 30, 2019 and 2018, 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.

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 is 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 2019 and 2018, the Medical Center received and recorded approximately \$500,000 and \$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' 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.

Note 2 - Significant Accounting Policies (Continued)

Reclassification

Certain 2018 amounts have been reclassified to conform to the 2019 presentation.

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.

New and Upcoming Accounting Pronouncements

In November 2016, the Governmental Accounting Standards Board issued 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 provisions of this statement were effective for the year ended June 30, 2019. No asset retirement obligations have been recorded as a part of the adoption of this standard.

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 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. After review of its current leases, the Medical Center believes the new lease standard will have a significant effect on the Medical Center's statement of net position. The effects on the results of operations are not expected to be significant, as recognition and measurement of expenses and cash flows for leases will be substantially the same under the new standard. The provisions of this statement are effective for the Medical Center's basic financial statements for the year ending June 30, 2021.

In June 2018, the GASB issued Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*, which simplifies accounting for interest cost incurred before the end of construction and requires those costs to be expensed in the period incurred. As a result, interest cost incurred before the end of a construction period will not be capitalized and included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. This statement also reiterates that, in financial statements prepared using the current financial resources measurement focus, interest cost incurred before the end of a construction period should be recognized as an expenditure on a basis consistent with governmental fund accounting principles. The requirements of the standard will be applied prospectively and result in increased interest expense during periods of construction. The provisions of this statement are effective for the Medical Center's financial statements for the June 30, 2021 fiscal year.

In August 2018, the GASB issued Statement No. 90, *Majority Equity Interests*. This statement improves the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and improves the relevance of financial statement information for certain component units. The Medical Center is currently evaluating the impact this standard will have on the financial statements when adopted for the year ending June 30, 2020.

Note 3 - Charity Care

The Medical Center provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Medical Center does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. Charity care is determined based on established policies, using patient income and assets to determine payment ability. The amount reflects the cost of free or discounted health services, net of contributions and other revenue received, as direct assistance for the provision of charity care. The estimated cost of providing charity services is based on data derived from the Medical Center's cost accounting system using the ratio of cost to charges. The Medical Center estimates that it provided \$15,300,000 and \$11,700,000 of services to indigent patients during 2019 and 2018, respectively. The Medical Center estimates costs and expenses incurred to provide charity care totaled \$4,800,000 and \$3,500,000 during 2019 and 2018, respectively. Charity care patients made up approximately 1.07 percent and 0.83 percent of all patients during 2019 and 2018, 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.

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 increases totaling approximately \$1,934,000 in net patient service revenue during the year ended June 30, 2019 as a result of unfavorable and favorable changes to prior year settlement estimates and activity. No such change was recognized for the year ended June 30, 2018.

June 30, 2019 and 2018

Note 5 - Patient Accounts Receivable

Patient accounts receivable at June 30, 2019 and 2018 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 \$9,000,000 and \$8,000,000 at June 30, 2019 and 2018, 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:

	2019	2018
Medicare	25 %	27 %
Blue Cross/Blue Shield of Michigan	9	11
Medicaid	43	39
Other third-party payors	18	17
Self-pay	5	6
Total	<u>100 %</u>	<u>100 %</u>

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 composed of cash and cash equivalents. Assets limited as to use consist of the following at June 30:

	2019	2018
Held by trustee - Bond:		
Cash and cash equivalents	\$ 15,096,624	\$ 12,829,183
U.S. government securities (cost was \$1,350,374 and \$3,669,119 for 2019 and 2018, respectively)	1,330,802	3,587,756
Accrued interest receivable	33,938	41,499
Less assets required for current liabilities	<u>(8,555,700)</u>	<u>(8,366,047)</u>
Total held by trustee - Bond	<u>\$ 7,905,664</u>	<u>\$ 8,092,391</u>
Board designated:		
By board for funded depreciation and capital improvements:		
Cash and cash equivalents	\$ 284,797	\$ 323,325
U.S. government securities (cost was \$30,852,619 and \$30,232,033 for 2019 and 2018, respectively)	31,274,055	29,508,942
Accrued interest receivable	158,837	117,666
By board for operations:		
Cash and cash equivalents	837,621	1,166,217
U.S. government securities (cost of \$94,049,105 and \$92,242,770 for 2019 and 2018, respectively)	95,270,574	89,718,492
Accrued interest receivable	<u>501,583</u>	<u>358,448</u>
Total board designated	<u>\$ 128,327,467</u>	<u>\$ 121,193,090</u>

June 30, 2019 and 2018

Note 6 - Assets Limited as to Use (Continued)

	2019	2018
Held in trust - Self-insurance:		
Cash and cash equivalents	\$ 514,609	\$ 6,224,109
U.S. government securities (cost was \$13,266,363 and \$13,333,397 for 2019 and 2018, respectively)	13,423,712	12,973,274
Accrued interest receivable	82,018	55,412
Total held in trust - Self-insurance	14,020,339	19,252,795
Held in trust - Retirement - Cash and cash equivalents	8	491
Restricted assets - Cash and cash equivalents	339,789	370,165
Total restricted and held in trust - Other	<u>\$ 14,360,136</u>	<u>\$ 19,623,451</u>

Note 7 - Capital Assets

The cost of capital assets and related accumulated depreciation for Hurley Medical Center for June 30, 2019 are summarized below:

	2018	Additions	Disposals and Transfers	2019
Assets not subject to depreciation:				
Land	\$ 4,930,372	\$ -	\$ -	\$ 4,930,372
Construction in progress	6,298,688	14,131,066	(12,316,181)	8,113,573
Total	11,229,060	14,131,066	(12,316,181)	13,043,945
Assets subject to depreciation:				
Land improvements	3,428,144	138,829	(78,982)	3,487,991
Buildings	188,695,242	3,782,764	(2,508,549)	189,969,457
Machinery and equipment	124,503,495	8,400,310	(5,738,450)	127,165,355
Automotive equipment	265,310	-	-	265,310
Total	316,892,191	12,321,903	(8,325,981)	320,888,113
Less accumulated depreciation:				
Land improvements	1,693,303	251,053	(78,065)	1,866,291
Buildings	125,832,421	4,724,761	(2,508,549)	128,048,633
Machinery and equipment	96,663,382	8,780,548	(5,526,225)	99,917,705
Automotive equipment	181,126	23,963	-	205,089
Total	224,370,232	13,780,325	(8,112,839)	230,037,718
Net carrying amount	<u>\$ 103,751,019</u>	<u>\$ 12,672,644</u>	<u>\$ (12,529,323)</u>	<u>\$ 103,894,340</u>

June 30, 2019 and 2018

Note 7 - Capital Assets (Continued)

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	(1,573,554)	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>

Capital asset activity for Hurley Health Services for June 30, 2019 was as follows:

	2018	Additions	Disposals and Transfers	2019
Leasehold improvements				
Buildings	\$ 307,680	\$ -	\$ (5,130)	\$ 302,550
Equipment and furnishings	1,373,255	-	(650,000)	723,255
Total	1,219,539	16,620	(330,845)	905,314
Less accumulated depreciation:				
Leasehold improvements	2,900,474	16,620	(985,975)	1,931,119
Buildings	179,739	11,497	(4,005)	187,231
Equipment and furnishings	109,861	35,212	(148,950)	(3,877)
Total	790,371	90,879	(73,420)	807,830
Total	1,079,971	137,588	(226,375)	991,184
Net carrying amount	<u>\$ 1,820,503</u>	<u>\$ (120,968)</u>	<u>\$ (759,600)</u>	<u>\$ 939,935</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	\$ 2,011,470	\$ (97,871)	\$ (93,096)	\$ 1,820,503

Note 8 - Long-term Debt

Long-term debt activity for the years ended June 30, 2019 and 2018 can be summarized as follows for the Medical Center:

Business-Type Activities

	2019				Due within One Year
	Beginning Balance	Additions	Reductions	Ending Balance	
Bonds and contracts payable - Direct borrowings and direct placements - Mortgage payable					
Series 2010	\$ 31,715,000	\$ -	\$ (500,000)	\$ 31,215,000	\$ 500,000
Series 2011	413,810	-	(413,810)	-	-
Series 2013A	21,940,000	-	(15,000)	21,925,000	530,000
Series 2013B	25,010,000	-	(5,150,000)	19,860,000	5,350,000
Total direct borrowings and direct placements principal outstanding	79,078,810	-	(6,078,810)	73,000,000	6,380,000
Unamortized bond premiums	432,611	-	(69,433)	363,178	-
Unamortized bond discounts	(789,070)	50,802	-	(738,268)	-
Total business-type activities long-term debt	\$ 78,722,351	\$ 50,802	\$ (6,148,243)	\$ 72,624,910	\$ 6,380,000

Notes to Financial Statements

June 30, 2019 and 2018

Note 8 - Long-term Debt (Continued)

	2018				
	Beginning Balance	Additions	Reductions	Ending Balance	Due within One Year
Bonds and contracts payable -					
Direct borrowings and direct placements - Mortgage payable					
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 direct borrowings and direct placements 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 business-type activities long-term debt	\$ 85,038,113	\$ 51,617	\$ (6,367,379)	\$ 78,722,351	\$ 6,078,809

Component Unit

Long-term debt activity for the years ended June 30, 2019 and 2018 can be summarized as follows for Hurley Health Services:

	2019				
	Beginning Balance	Additions	Reductions	Ending Balance	Due within One Year
Bonds and contracts payable -					
Direct borrowings and direct placements - Mortgage payable	\$ 876,707	\$ -	\$ (512,630)	\$ 364,077	\$ 51,701
Capital leases	58,204	-	(41,085)	17,119	17,119
Total component unit long-term debt	\$ 934,911	\$ -	\$ (553,715)	\$ 381,196	\$ 68,820

Notes to Financial Statements

June 30, 2019 and 2018

Note 8 - Long-term Debt (Continued)

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

The Medical Center had deferred outflows of \$288,012 and \$403,719 related to deferred charges on bond refundings at June 30, 2019 and 2018, respectively.

Debt Service Requirements to Maturity

Annual debt service requirements to maturity for the above bonds and note obligations are as follows:

Years Ending June 30	Hurley Medical Center			Hurley Health Services			
	Direct Borrowings and Direct Placements			Direct Borrowings and Direct Placements		Other Debt	
	Principal	Interest	Total	Principal	Interest	Principal	Total
2020	\$ 6,380,000	\$ 4,051,700	\$10,431,700	\$ 51,701	\$ 17,030	\$ 17,119	\$ 85,850
2021	7,025,000	3,710,225	10,735,225	54,346	14,385	-	68,731
2022	2,455,000	3,585,638	6,040,638	57,126	11,604	-	68,730
2023	2,580,000	3,454,613	6,034,613	60,049	8,681	-	68,730
2024	2,710,000	3,316,900	6,026,900	63,121	5,609	-	68,730
2025-2029	15,800,000	14,191,838	29,991,838	77,734	2,451	-	80,185
2030-2034	13,185,000	9,915,207	23,100,207	-	-	-	-
2035-2039	18,380,000	4,327,880	22,707,880	-	-	-	-
2040	4,485,000	-	4,485,000	-	-	-	-
Total	<u>\$3,000,000</u>	<u>\$16,554,001</u>	<u>\$19,554,001</u>	<u>\$ 364,077</u>	<u>\$ 59,760</u>	<u>\$ 17,119</u>	<u>\$ 440,956</u>

Unused Line of Credit

Hurley Health Services has an unused line of credit in the amount of \$150,000 renewable on October 1 of each year as of June 30, 2019 and 2018 that is collateralized by a certificate of deposit.

Note 8 - Long-term Debt (Continued)

Assets Pledged as Collateral

Direct Borrowings and Direct Placements

The Medical Center's outstanding 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. 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 2020 to \$3,555,000 in 2040, plus interest from 5.84 to 7.5 percent through 2040. Payments on Series 2013A range from \$530,000 in 2020 to \$930,000 in 2040, plus interest from 5.0 to 5.25 percent. Payments on Series 2013B range from \$5,350,000 in 2020 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.

Significant Terms

Direct Borrowings and Direct Placements

The outstanding 2013 Series bond lease agreement with the Authority includes certain financial covenants that, if not met, require the hiring of a consultant. The Medical Center is not in default as a result of violating the covenants unless the Medical Center fails to hire a consultant within 90 days of year end or if days cash on hand falls below 35 days.

Other Debt

The outstanding lease purchase agreement contains certain restrictive covenants, including maintaining a certain minimum debt service ratio and minimum days cash on hand.

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, Michigan 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 for the years ended June 30, 2019 and 2018. 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 who 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 \$80,000 and \$77,000 for 2019 and 2018, 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 \$475,000 and \$482,000 for 2019 and 2018, 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 \$640,000 and \$660,000 for the years ended June 30, 2019 and 2018, respectively. Total rent expense under these leases for HHS was approximately \$503,000 for the years ended June 30, 2019 and 2018, including rental payments to the Medical Center of approximately \$69,000 and \$175,000 for the years ended June 30, 2019 and 2018, respectively.

The following is a schedule of future minimum rental payments:

Years Ending June 30	Hurley Medical Center	Hurley Health Services
2020	\$ 1,324,164	\$ 440,366
2021	1,221,665	411,183
2022	1,021,566	406,122
2023	999,258	402,987
2024	476,422	292,245
Thereafter	355,978	391,777
Total	<u>\$ 5,399,053</u>	<u>\$ 2,344,680</u>

Note 12 - Asset Retirement Obligations

The Medical Center has buildings and various operating equipment. The Medical Center is required to perform future asset retirement activities related to its buildings and operations equipment. The Medical Center has an obligation related to the removal of asbestos and various diagnostic imaging radiation with various buildings on campus upon reconstruction, demolition, or abandonment of the related buildings. The Medical Center has not recorded a liability related to the potential costs associated with the 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 abatement 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. At the time of asset retirement, the Medical Center will be required to provide funding and financial assurance for this liability through insurance policies.

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 593 and 571 at June 30, 2019 and 2018, 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.

Management of the Plan is vested in the pension board, which consists of seven members - three elected by plan members, three appointed by the Medical Center, and the medical center treasurer, who serves as an ex officio member.

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 who 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, 2019
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 pension board establishes contribution rates based on an actuarially determined rate per a funding valuation. For the years ended June 30, 2019 and 2018, the Medical Center's contributions were \$3,841,324 and \$3,884,465, respectively. Employees are not required to contribute to the Plan.

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, 2019 and 2018 fiscal year ends reported net OPEB liability was determined using a measure of the total OPEB liability and the OPEB net position as of the June 30, 2019 and 2018 measurement date, respectively.

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
Balance at July 1, 2018	\$ 91,484,893	\$ 63,230,304	\$ 28,254,589
Changes for the year:			
Service cost	753,386	-	753,386
Interest	6,083,297	-	6,083,297
Differences between expected and actual experience	(2,780,513)	-	(2,780,513)
Contributions - Employer	-	3,841,324	(3,841,324)
Net investment income	-	5,152,690	(5,152,690)
Benefit payments, including refunds	(3,477,330)	(3,477,330)	-
Net changes	578,840	5,516,684	(4,937,844)
Balance at June 30, 2019	<u>\$ 92,063,733</u>	<u>\$ 68,746,988</u>	<u>\$ 23,316,745</u>

The plan's fiduciary net position represents 74.67 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
Balance at July 1, 2017	\$ 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)	-
Net changes	(3,019,034)	3,567,836	(6,586,870)
Balance at June 30, 2018	<u>\$ 91,484,893</u>	<u>\$ 63,230,304</u>	<u>\$ 28,254,589</u>

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

Notes to Financial Statements

June 30, 2019 and 2018

Note 13 - Other Postemployment Benefit Plan (Continued)

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

For the years ended June 30, 2019 and 2018, the Medical Center recognized OPEB expense of \$1,275,569 and \$1,624,826, respectively.

At June 30, 2019 and 2018, the Medical Center reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	2019		2018	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ -	\$ 4,561,140	\$ -	\$ 2,593,155
Changes in assumptions	-	1,325,278	-	1,580,723
Net difference between projected and actual earnings on OPEB plan investments	-	812,903	-	153,353
Total	\$ -	\$ 6,699,321	\$ -	\$ 4,327,231

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
2020	\$ 1,280,784
2021	1,280,784
2022	1,280,784
2023	1,242,446
2024	1,067,974
Thereafter	546,549
Total	\$ 6,699,321

Actuarial Assumptions

The total OPEB liability was determined by an actuarial valuation as of June 30, 2017. Updated procedures were used to roll forward the total OPEB liability to the OPEB plan's fiscal year end of June 30, 2019 and 2018. The valuation used the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified.

	Retiree Health Benefit Plan
Inflation	2.75 percent
Salary increases (including inflation)	N/A
Investment rate of return (net of investment expenses, including inflation)	6.75%
Healthcare cost trend rate	9.0 percent decreasing to 3.25 percent
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 as of June 30, 2019 and 2018. 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, 2019 and 2018 measurement dates 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 as of June 30, 2019:

	1 Percent Decrease (5.75%)	Current Discount Rate (6.75%)	1 Percent Increase (7.75%)
Net OPEB liability of the Retiree Health Benefit Plan	\$ 32,705,354	\$ 23,316,745	\$ 15,301,495

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 as of June 30, 2018:

	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 as of June 30, 2019:

	1 Percent Decrease	Current Healthcare Cost Trend Rate	1 Percent Increase
Net OPEB liability of the Retiree Health Benefit Plan	\$ 17,186,217	\$ 23,316,745	\$ 30,482,624

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 as of June 30, 2018:

	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

For the purpose of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of 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 matures 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 deposits and investment policies that are in accordance with statutory authority 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 \$73,700,000, excluding petty cash. Of the bank balance, \$750,000 was covered by federal depository insurance. The rest of the bank balance, \$72,950,000, 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, 2019. Of the bank balance, \$750,000 was covered by federal depository insurance at June 30, 2019.

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 \$75,909,000 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		
	2019	2018	How Held
U.S. government or agency bonds	\$ 132,188,610	\$ 128,924,407	Counterparty trust dept.
Corporate stocks	33,928,970	32,088,503	Counterparty trust dept.
Corporate bonds	16,900,265	14,859,431	Counterparty trust dept.
Municipal bonds	3,893,362	4,469,257	Counterparty trust dept.
Repurchase agreement	50,982,479	40,114,791	Counterparty trust dept.

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 that 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		
	2019	Weighted-average Maturity	2018
Primary Government			
U.S. government or agency bonds	\$ 132,188,610	3.7 years	\$ 128,924,407
GNMA pool	9,257,292	15.31 years	10,019,261
U.S. government CMOs	9,445,627	19.11 years	7,503,756
Corporate bonds	16,900,265	5.65 years	14,859,431
Municipal bonds	3,893,362	Less than 1 year	4,469,257
Money market funds	20,957,096	Less than 1 year	22,825,863
Repurchase agreement	50,982,479	Less than 1 year	40,114,791

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			
	2019	Rating	Rating Organization	2018
U.S. agency bonds	\$ 9,876,905	AA+	Fitch	\$ 9,954,211
U.S. agency bonds	122,311,705		Not Rated	118,970,197
U.S. government CMOs	9,445,627		Not Rated	7,503,756
Corporate bonds	308,407	AAA	S&P	638,905
Corporate bonds	5,407,366	AA+ - A-	S&P	6,424,007
Corporate bonds	4,202,180	BBB+ - B-	S&P	3,972,907
Corporate bonds	219,474	CCC+	S&P	215,315
Corporate bonds	6,762,838		Not Rated	3,608,296
Money market funds	20,957,096		Not Rated	22,825,863
Repurchase agreement	50,982,479		Not Rated	40,114,791

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 percent of the portfolio. No single investment exceeded 5 percent of the investment portfolio at June 30, 2019 and 2018.

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.

Note 15 - Risk Management (Continued)

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:

	2019	2018	2017
Estimated liability - Beginning of year	\$ 24,184,435	\$ 24,445,924	\$ 26,025,399
Increase in claims liability	10,613,967	293,984	293,984
Defense costs and other fund expenses	(996,811)	(555,473)	(695,684)
Excess insurance premium payments	(554,699)	-	(681,525)
Claim payments	(9,293,964)	-	(496,250)
Estimated liability - End of year	<u>\$ 23,952,928</u>	<u>\$ 24,184,435</u>	<u>\$ 24,445,924</u>

Professional liability for claims is reported in other long-term liabilities, net of \$3,815,775 and \$1,600,000 included as a current liability in accrued expenses for the years ending June 30, 2019 and 2018, respectively. The carrying amount of the insurance trust assets (at market) amounted to \$14,019,847 and \$19,346,545 at June 30, 2019 and 2018, 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, 2019 and 2018, the Medical Center has recorded long-term accrued liabilities for workers' compensation of \$1,901,763 and \$1,725,178, respectively. The changes in the aggregate workers' compensation claims for the past three years were as follows:

	2019	2018	2017
Estimated liability - Beginning of year	\$ 1,725,178	\$ 1,439,441	\$ 1,175,972
Increase in claims liability	2,059,522	1,612,688	1,273,341
Excess premium policy	(99,725)	(99,725)	(99,725)
Claim payments	(1,783,212)	(1,227,226)	(910,147)
Estimated liability - End of year	<u>\$ 1,901,763</u>	<u>\$ 1,725,178</u>	<u>\$ 1,439,441</u>

Total long-term accrued liabilities as of June 30, 2019 and 2018 are \$22,007,188 and \$23,359,613, 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, 2019 and 2018 was \$6,826,375 and \$6,325,250, respectively. The arrangement provides that the two entities will share equally in the income or losses of the joint venture. The equity income (loss) to the Medical Center from this joint venture was approximately \$501,125 and \$(12,000) for the years ended June 30, 2019 and 2018, respectively, and is included in other income (expense) 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, 2019 and 2018. GHCI paid the Medical Center \$621,516 and \$564,000 for leased employees for the years ended June 30, 2019 and 2018, respectively. The following is a summary of financial position and results of operations of GHCI as of and for the years ended June 30, 2019 and 2018 (in thousands):

	2019	2018
Total assets	\$ 19,502	\$ 18,848
Total liabilities	5,891	5,886
Total net assets	<u>\$ 13,611</u>	<u>\$ 12,962</u>
	2019	2018
Operating revenue	\$ 9,036	\$ 7,786
Operating expenses	8,463	7,621
Operating income	573	165
Nonoperating income	85	148
Excess of revenue over expense	<u>\$ 658</u>	<u>\$ 313</u>

Note 17 - Union Contract

The Medical Center has nine active collective bargaining agreements and one expired contract currently undergoing active negotiations. These agreements cover approximately 85 percent of the Medical Center's employees. The agreements have varying expiration dates ranging from June 30, 2020 through June 30, 2023.

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, 2019 and 2018 amounted to approximately \$29,721,000 and \$27,906,000, respectively. Amounts paid by HHS to the Medical Center for rent and other miscellaneous expenses for the years ended June 30, 2019 and 2018 amounted to approximately \$69,000 and \$145,000, respectively.

As of June 30, 2019 and 2018, the Medical Center had accounts receivable from HHS of \$352,373 and \$280,752, respectively, and accounts payable to HHS of \$536,635 and \$656,751, 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 or in writing to MERS of Michigan at 1134 Municipal Way, Lansing, MI 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 "MERS Plan") that was established by City of Flint, Michigan ordinances, which includes four benefit options. 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 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 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 5 percent for every year thereafter.

The Hurley Post 2014 Plan provides for employer and employee contributions. Benefits fully vest after 15 years of service. Employees may retire at age 50 with 25 years of credited service or age 55 with 15 years of credited service. The monthly retirement benefit is 1 percent of FAC.

Employees hired on or after January 1, 2014 participate in the Hurley Post 2014 Plan.

Plan Membership Covered by Benefit Terms

At the December 31, 2018 measurement date, the following members were covered by the benefit terms:

Inactive plan members or beneficiaries currently receiving benefits	1,985
Inactive plan members entitled to but not yet receiving benefits	268
Active plan members	1,985
	<hr/>
Total plan members covered by MERS of Michigan	<u>4,238</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, 2019 and 2018, the Medical Center reported a payable of \$1,700,000 and \$1,400,000, respectively, in accrued expenses on the statement of net position for the outstanding amount of contributions to the MERS Plan required for the years ended June 30, 2019 and 2018.

Net Pension Liability

The total pension liability reported at June 30, 2019 was determined using a measure of the total pension liability and the pension net position as of December 31, 2018. The December 31, 2018 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
Balance at December 31, 2017	\$ 591,238,454	\$ 443,517,913	\$ 147,720,541
Changes for the year:			
Service cost	7,326,233	-	7,326,233
Interest	45,880,833	-	45,880,833
Experience differences	(4,451,707)	-	(4,451,707)
Other changes	(877)	-	(877)
Contributions - Employer	-	12,221,518	(12,221,518)
Contributions - Employee	-	6,574,528	(6,574,528)
Net investment loss	-	(16,652,228)	16,652,228
Benefit payments, including refunds	(42,782,322)	(42,782,322)	-
Administrative expenses	-	(842,635)	842,635
Net changes	5,972,160	(41,481,139)	47,453,299
Balance at December 31, 2018	\$ 597,210,614	\$ 402,036,774	\$ 195,173,840

June 30, 2019 and 2018

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
Balance at December 31, 2016	\$ 578,695,439	\$ 403,953,296	\$ 174,742,143
Changes for the year:			
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)
Balance at December 31, 2017	\$ 591,238,454	\$ 443,517,913	\$ 147,720,541

Pension Expense and Deferred Outflows of Resources Related to Pensions

For the years ended June 30, 2019 and 2018, the Medical Center recognized pension expense of \$31,113,848 and \$29,729,534, respectively.

At June 30, 2019 and 2018, the Medical Center reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	2019		2018	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 684,115	\$ 4,730,859	\$ 912,154	\$ 2,164,067
Changes in assumptions	-	-	7,291,032	-
Net difference between projected and actual earnings on pension plan investments	30,817,973	-	-	7,828,327
Employer contributions to the plan subsequent to the measurement date	6,823,497	-	5,416,381	-
Total	\$ 38,325,585	\$ 4,730,859	\$ 13,619,567	\$ 9,992,394

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 of \$6,823,497, which will impact the net pension liability in fiscal year 2020, rather than pension expense.

Years Ending June 30	Amount
2020	\$ 9,484,000
2021	1,925,502
2022	5,133,626
2023	10,228,101

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

Actuarial Assumptions

The total pension liability in the December 31, 2018 and 2017 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 percent (net of investment expenses). 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, 2019 and 2018

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, 2018, 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	56 %	6 %
Global fixed income	19	1
Real assets	14	7
Diversifying strategies	13	5

The target allocation and best estimates of arithmetic real rates of return as of December 31, 2017, the prior year 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

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, 2019, 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	\$ 254,533,529	\$ 195,173,840	\$ 144,324,708

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

June 30, 2019 and 2018

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

Pension Plan Fiduciary Net Position

Detailed information about the plan's fiduciary net position is available in the separately issued financial report. For the purpose of measuring the net pension liability, deferred outflows of resources and deferred inflows of 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, 2019 and 2018:

Fair values determined by Level 1 inputs use quoted prices in active markets for identical assets or liabilities that the Medical Center has the ability to access.

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.

Notes to Financial Statements

June 30, 2019 and 2018

Note 20 - Fair Value Measurements (Continued)

Assets Measured at Fair Value on a Recurring Basis at June 30, 2019				
	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, 2019
Debt securities:				
Money market mutual funds	\$ 20,957,096	\$ -	\$ -	\$ 20,957,096
U.S. Treasury securities	-	136,081,972	-	136,081,972
Government mortgage-backed securities	-	18,702,919	-	18,702,919
Corporate bonds	-	16,900,265	-	16,900,265
Total debt securities	20,957,096	171,685,156	-	192,642,252
Equity securities - Domestic equity securities	26,221,772	-	-	26,221,772
Private equity funds - International private equity funds	6,413,143	-	-	6,413,143
Total investments at fair value level	\$ 53,592,011	\$ 171,685,156	\$ -	\$ 225,277,167
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

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, 2019 and 2018 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.

Required Supplemental Information

Hurley Medical Center

Required Supplemental Information

Schedule of Changes in the Net Pension Liability and Related Ratios

	Last Five Fiscal Years				
	2019	2018	2017	2016	2015
Total Pension Liability					
Service cost	\$ 7,326,233	\$ 7,618,014	\$ 7,542,280	\$ 7,442,132	\$ 7,262,751
Interest	45,880,833	44,953,604	44,306,689	42,384,435	41,412,276
Other changes	(877)	-	(1,066)	(1,010)	-
Differences between expected and actual experience	(4,451,707)	1,140,193	(3,480,197)	(303,795)	-
Changes in assumptions	-	-	-	29,164,128	-
Benefit payments, including refunds	(42,782,322)	(41,168,796)	(39,469,485)	(37,836,677)	(36,129,561)
Net Change in Total Pension Liability	5,972,160	12,543,015	8,898,221	40,849,213	12,545,466
Total Pension Liability - Beginning of year	591,238,454	578,695,439	569,797,218	528,948,005	516,402,539
Total Pension Liability - End of year	\$ 597,210,614	\$ 591,238,454	\$ 578,695,439	\$ 569,797,218	\$ 528,948,005
Plan Fiduciary Net Position					
Contributions - Employer	\$ 12,221,518	\$ 22,043,768	\$ 21,315,066	\$ 14,609,493	\$ 5,979,573
Contributions - Member	6,574,528	6,693,178	6,487,981	6,197,682	5,883,466
Net investment (loss) income	(16,652,228)	52,833,446	42,015,304	(5,694,176)	24,690,814
Administrative expenses	(842,635)	(836,979)	(829,764)	(854,403)	(901,753)
Benefit payments, including refunds	(42,782,322)	(41,168,796)	(39,469,485)	(37,836,677)	(36,129,561)
Net Change in Plan Fiduciary Net Position	(41,481,139)	39,564,617	29,519,102	(23,578,081)	(477,461)
Plan Fiduciary Net Position - Beginning of year	443,517,913	403,953,296	374,434,194	398,012,275	398,489,736
Plan Fiduciary Net Position - End of year	\$ 402,036,774	\$ 443,517,913	\$ 403,953,296	\$ 374,434,194	\$ 398,012,275
Medical Center's Net Pension Liability - Ending	\$ 195,173,840	\$ 147,720,541	\$ 174,742,143	\$ 195,363,024	\$ 130,935,730
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	67.32 %	75.02 %	69.80 %	65.71 %	75.25 %
Covered Payroll	\$ 114,343,952	\$ 117,262,869	\$ 113,422,810	\$ 109,316,532	\$ 103,276,871
Medical Center's Net Pension Liability as a Percentage of Covered Payroll	170.69 %	125.97 %	154.06 %	178.71 %	126.78 %

Required Supplemental Information
Schedule of Pension Contributions

Last Ten Fiscal Years
Years Ended June 30

	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Actuarially determined contribution	\$ 12,221,518	\$ 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
Contributions in relation to the actuarially determined contribution	13,628,634	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
Contribution Excess (Deficiency)	\$ 1,407,116	\$ 12,000,000	\$ 13,000,000	\$ 7,000,000	\$ (633,450)	\$ 1,443,533	\$ (2,269,856)	\$ (998,939)	\$ 3,391,379	\$ (1,212,855)
Covered Payroll	\$ 114,343,952	\$ 117,262,869	\$ 113,422,810	\$ 109,316,532	\$ 103,276,871	\$ 107,836,591	\$ 82,825,759	\$ 116,841,151	\$ 114,100,876	\$ 123,941,771
Contributions as a Percentage of Covered Payroll	11.92 %	18.80 %	18.79 %	13.36 %	6.86 %	9.99 %	12.57 %	9.25 %	8.28 %	9.54 %

Notes to Schedule of Pension Contributions

Actuarial valuation information relative to the determination of contributions:

Valuation date Contributions for the Medical Center's fiscal year ended June 30, 2019 were determined based on the actuarial valuation as of December 31, 2017. 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	21 years
Asset valuation method	Five-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 Four Fiscal Years			
	2019	2018	2017	2016
Total OPEB Liability				
Service cost	\$ 753,386	\$ 735,528	\$ 715,842	\$ 787,997
Interest	6,083,297	6,251,484	6,088,805	5,916,624
Changes in benefit terms	-	(643,385)	-	-
Differences between expected and actual experience	(2,780,513)	(3,012,210)	-	-
Changes in assumptions	-	(1,836,169)	-	-
Benefit payments, including refunds	(3,477,330)	(4,514,282)	(4,294,637)	(3,940,800)
Net Change in Total OPEB Liability	578,840	(3,019,034)	2,510,010	2,763,821
Total OPEB Liability - Beginning of year	91,484,893	94,503,927	91,993,917	89,230,096
Total OPEB Liability - End of year	<u>\$ 92,063,733</u>	<u>\$ 91,484,893</u>	<u>\$ 94,503,927</u>	<u>\$ 91,993,917</u>
Plan Fiduciary Net Position				
Contributions - Employer	\$ 3,841,324	\$ 3,884,465	\$ 5,523,202	\$ 5,613,665
Net investment income (loss)	5,152,690	4,197,653	5,308,681	(53,346)
Benefit payments, including refunds	(3,477,330)	(4,514,282)	(4,294,637)	(3,940,800)
Net Change in Plan Fiduciary Net Position	5,516,684	3,567,836	6,537,246	1,619,519
Plan Fiduciary Net Position - Beginning of year	63,230,304	59,662,468	53,125,222	51,505,703
Plan Fiduciary Net Position - End of year	<u>\$ 68,746,988</u>	<u>\$ 63,230,304</u>	<u>\$ 59,662,468</u>	<u>\$ 53,125,222</u>
Net OPEB Liability - Ending	<u>\$ 23,316,745</u>	<u>\$ 28,254,589</u>	<u>\$ 34,841,459</u>	<u>\$ 38,868,695</u>
Plan Fiduciary Net Position as a Percentage of Total OPEB Liability	74.67 %	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
Years Ended June 30

	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Actuarially determined contribution	\$ 3,841,324	\$ 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
Contributions in relation to the actuarially determined contribution	3,841,324	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
Contribution Excess	\$ -	\$ -	\$ 41	\$ 55,007	\$ 6	\$ 4	\$ 215	\$ 5	\$ 419	\$ -

Notes to Schedule of OPEB Contributions

Actuarial valuation information relative to the determination of contributions:

Valuation date Actuarially determined contributions 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 19 years
 Asset valuation method Market value
 Inflation 2.75 percent
 Healthcare cost trend rates Trend started 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

Required Supplemental Information Schedule of OPEB Investment Returns

Last Four Fiscal Years Years Ended June 30

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Annual money-weighted rate of return, net of investment expense	8.3 %	7.6 %	10.6 %	0.6 %

Additional Information

Independent Auditor's Report on Additional Information

To the Board of Hospital Managers
Hurley Medical Center

We have audited the basic financial statements of Hurley Medical Center as of and for the years ended June 30, 2019 and 2018. 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 are presented for the purpose of additional analysis and are 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 30, 2019

Consolidating Balance Sheet

June 30, 2019

(with comparative totals for 2018)

	Hurley Medical Center	Hurley Health Services	Eliminating Entries	2019 Consolidated Total	2018 Consolidated Total
Assets					
Current Assets					
Cash and cash equivalents	\$ 73,737,272	\$ 1,820,942	\$ -	\$ 75,558,214	\$ 56,885,096
Patient accounts receivable - Net	44,716,234	1,246,090	(3,841)	45,958,483	36,164,122
Other receivables	6,367,498	1,825,686	(920,501)	7,272,683	8,611,615
Estimated third-party payor settlements	17,895,969	-	-	17,895,969	18,433,856
Assets limited as to use	8,555,700	156,508	-	8,712,208	8,522,399
Inventory	5,790,256	24,954	-	5,815,210	4,126,983
Prepaid expenses and other	3,441,697	306,479	(1,550)	3,746,626	5,417,957
Total current assets	160,504,626	5,380,659	(925,892)	164,959,393	138,162,028
Assets Limited as to Use					
Held by trustee - Bond	7,905,664	-	-	7,905,664	8,092,391
Restricted and held in trust - Other	14,360,136	-	-	14,360,136	19,623,451
By the board	128,327,467	-	-	128,327,467	121,193,090
Capital Assets - Net	103,894,340	939,935	-	104,834,275	105,571,522
Other Assets					
Investment in Hurley Health Services	4,261,126	-	(4,261,126)	-	-
Investment in joint ventures	6,826,375	42,000	-	6,868,375	6,367,250
Other	-	-	-	-	965,871
Total other assets	11,087,501	42,000	(4,261,126)	6,868,375	7,333,121
Total assets	426,079,734	6,362,594	(5,187,018)	427,255,310	399,975,603
Deferred Outflows of Resources	38,963,597	960,201	-	39,923,798	14,373,286
Total assets and deferred outflows of resources	\$ 465,043,331	\$ 7,322,795	\$ (5,187,018)	\$ 467,179,108	\$ 414,348,889

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, 2019

(with comparative totals for 2018)

	Hurley Medical Center	Hurley Health Services	Eliminating Entries	2019 Consolidated Total	2018 Consolidated Total
Liabilities, Deferred Inflows of Resources, and Net Position					
Current Liabilities					
Accounts payable and taxes withheld	\$ 19,811,665	\$ 625,179	\$ (924,342)	\$ 19,512,502	\$ 16,435,065
Current portion of long-term debt	6,380,000	68,820	-	6,448,820	6,229,629
Estimated third-party payor settlements	17,203,163	-	-	17,203,163	22,159,283
Accrued expenses	37,112,777	2,055,294	-	39,168,071	33,551,237
Total current liabilities	80,507,605	2,749,293	(924,342)	82,332,556	78,375,214
Long-term Debt - Net of current portion - Notes payable	66,244,910	312,376	-	66,557,286	73,427,633
Other Long-term Liabilities					
Net pension liability	195,173,840	-	-	195,173,840	147,720,541
Other	22,007,188	-	-	22,007,188	23,359,613
Accrued postretirement benefit obligations	23,316,745	-	-	23,316,745	28,254,589
Total liabilities	387,250,288	3,061,669	(924,342)	389,387,615	351,137,590
Deferred Inflows of Resources					
Deferred inflows related to postemployment benefit obligations	6,699,321	-	(1,550)	6,697,771	14,319,575
Deferred inflows related to pensions	4,730,859	-	-	4,730,859	-
Total deferred inflows of resources	11,430,180	-	(1,550)	11,428,630	14,319,575
Total liabilities and deferred inflows of resources	398,680,468	3,061,669	(925,892)	400,816,245	365,457,165
Net Position					
Net investment in capital assets	35,576,590	558,739	-	36,135,329	30,315,052
Donor restricted for specific operating activities	5,463,084	-	-	5,463,084	6,658,212
Unrestricted	25,323,189	3,702,387	(4,261,126)	24,764,450	11,918,460
Total net position	66,362,863	4,261,126	(4,261,126)	66,362,863	48,891,724
Total liabilities, deferred inflows of resources, and net position	\$ 465,043,331	\$ 7,322,795	\$ (5,187,018)	\$ 467,179,108	\$ 414,348,889

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, 2019
(with comparative totals for 2018)

	Hurley Medical Center	Hurley Health Services	Eliminating Entries	2019 Consolidated Total	2018 Consolidated Total
Operating Revenue					
Net patient service revenue	\$ 415,316,681	\$ 5,836,105	\$ (221,048)	\$ 420,931,738	\$ 401,096,761
Other operating revenue	44,446,590	30,181,753	(30,679,209)	43,949,134	39,852,029
Total operating revenue	459,763,271	36,017,858	(30,900,257)	464,880,872	440,948,790
Operating Expenses					
Salaries and wages	175,900,424	27,304,806	-	203,205,230	197,467,956
Employee benefits and payroll taxes	73,164,263	4,571,886	-	77,736,149	69,463,435
Operating supplies and expenses	63,613,588	-	-	63,613,588	62,763,259
Purchased services and other	65,233,147	495,692	(29,058,262)	36,670,577	36,276,246
Purchased services and other	54,760,310	3,543,560	(1,841,995)	56,461,875	48,380,798
Depreciation and amortization	13,780,372	142,180	-	13,922,552	14,688,074
Interest expense	4,456,602	-	-	4,456,602	4,742,453
Total operating expenses	450,908,706	36,058,124	(30,900,257)	456,066,573	433,782,221
Nonoperating Income (Expense)	8,854,565	(40,266)	-	8,814,299	7,166,569
Other Income (Expense)					
Investment income (loss)	8,698,332	256	-	8,698,588	(413,208)
Decrease in investment in Hurley Health Services	(57,050)	-	57,050	-	-
Other income (loss)	501,125	(17,040)	-	484,085	11,229
Total nonoperating income (expense)	9,142,407	(16,784)	57,050	9,182,673	(401,979)
Excess of Revenue Over (Under) Expenses before Other Activity, Restricted Funds Activity, and Transfer of Funds	17,996,972	(57,050)	57,050	17,996,972	6,764,590
Other - Transfers to unrestricted from restricted funds for the purchase of capital assets	669,305	-	-	669,305	222,268
Excess of Revenue Over (Under) Expenses before Other Activity, Restricted Funds Activity, and Transfer of Funds - Before Restricted Fund Activity and Transfer of Funds	18,666,277	(57,050)	57,050	18,666,277	6,986,858
Restricted Fund Activity and Transfer of Funds	(525,833)	-	-	(525,833)	(1,247,702)
Transfer to Unrestricted Net Position - Purchase of capital assets	(669,305)	-	-	(669,305)	(222,268)
Net Position	17,471,139	(57,050)	57,050	17,471,139	5,516,888
Net Assets - Beginning of year	48,891,724	4,318,176	(4,318,176)	48,891,724	43,374,836
Net Assets - End of year	<u>\$ 66,362,863</u>	<u>\$ 4,261,126</u>	<u>\$ (4,261,126)</u>	<u>\$ 66,362,863</u>	<u>\$ 48,891,724</u>