



Year Ended  
September 30, 2017

Financial  
Statements and  
Supplementary  
Information

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# GENESEE HEALTH SYSTEM

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## Independent Auditor's Report

Board of Directors  
Genesee Health System  
Flint, Michigan

### Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities, the major fund, and the aggregate remaining fund information of the Genesee Health System (the Authority) as of and for the year ended September 30, 2017, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

#### *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 audit. We conducted our audit 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 Authority'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 Authority'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, the major fund, and the aggregate remaining fund information of the Authority as of September 30, 2017, and the changes in its financial position and where applicable, cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America.



### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis and the schedules for the pension and other postemployment benefit plans, on pages 5 through 8, and 32 through 35, 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, who 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 supplementary 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 Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Authority's basic financial statements. The combining and individual fund financial statements are presented for purposes of additional analysis are not a required part of the basic financial statements.

The combining and individual fund financial statements are the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual fund financial statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

### *Other Reporting Required by Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 21, 2018, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and 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 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 the Authority's internal control over financial reporting and compliance.

*BDO USA, LLP*

Kalamazoo, Michigan

June 21, 2018

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## MANAGEMENT'S DISCUSSION AND ANALYSIS



# GENESEE HEALTH SYSTEM

## Management's Discussion and Analysis

As management of the Genesee Health System (the "Authority"), we offer readers of the Authority's financial statements this narrative overview and analysis of the financial activities of the Authority for the year ended September 30, 2017. We encourage readers to consider the information presented here in conjunction with the auditors' report and with the financial statements, notes to financial statements, and required supplementary information taken as a whole.

### Financial Highlights

|                                                          |                 |
|----------------------------------------------------------|-----------------|
| · Total net position, business-type activities           | \$ (36,961,150) |
| · Change in total net position, business-type activities | (12,286,602)    |
| · Net position, mental health enterprise fund            | (37,853,173)    |
| · Change in net position, mental health enterprise fund  | (11,465,942)    |
| · Net pension liability                                  | 46,857,334      |
| · Change in net pension liability                        | (12,068,282)    |

### Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Authority's basic financial statements. The Authority's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains required supplementary information in addition to the basic financial statements themselves.

**Government-wide Financial Statements.** The government-wide financial statements are designed to provide readers with a broad overview of the Authority's finances, in a manner similar to a private-sector business. As permitted by GASB Statement No. 34, the Authority uses an alternative approach reserved for single program governments to present combined government-wide and fund financial statements by using a columnar format that reconciles individual line items of the fund financial data to government-wide data in a separate column. The columns labeled "total business-type activities" on the statement of position and statement of activities represent the government-wide financial statements.

The statement of net position presents information on all of the Authority's assets, deferred outflows, and liabilities with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating.

The statement of activities presents information showing how the Authority's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows.

**Fund Financial Statements.** A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Authority, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. In general, fund financial statements provide a greater level of detail than the government-wide financial statement, but due to the alternative approach used by the Authority, the same level of detail is presented. All of the funds of the Authority are considered to be proprietary funds.

# GENESEE HEALTH SYSTEM

## Management's Discussion and Analysis

*Proprietary Funds.* The Authority maintains two different types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The Authority uses enterprise funds to account for all daily activities. The Mental Health fund is considered to be the Authority's only major fund. The Authority also presents information for the nonmajor Health Center fund. The Authority uses internal service funds to account for healthcare benefits and other selected retirement costs.

*Notes to the Financial Statements.* The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

*Required Supplementary Information.* In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information. This is limited to this management's discussion and analysis and the schedules for the pension and other postemployment benefits plans immediately following the notes to the financial statements.

*Supplementary Information.* The combining statements referred to earlier in connection with the internal service funds are presented immediately following the required supplementary information.

### Government-wide Financial Analysis

As previously stated, net position may serve over time as a useful indicator of a government's financial position. In the case of the Authority, liabilities and deferred inflows exceeded its assets and deferred outflows by \$36,961,150 at the close of the most recent fiscal year.

|                                | Net Position           |                        |
|--------------------------------|------------------------|------------------------|
|                                | 2017                   | 2016                   |
| Current and other assets       | \$ 25,466,861          | \$ 40,297,607          |
| Capital assets, net            | 5,136,444              | 5,619,287              |
| Total assets                   | <u>30,603,305</u>      | <u>45,916,894</u>      |
| Deferred outflows of resources | <u>10,260,061</u>      | <u>22,019,875</u>      |
| Current and other liabilities  | 70,187,437             | 91,249,436             |
| Long-term liabilities          | 1,452,835              | 1,361,881              |
| Total liabilities              | <u>71,640,272</u>      | <u>92,611,317</u>      |
| Deferred inflows of resources  | <u>6,184,244</u>       | <u>-</u>               |
| Net position:                  |                        |                        |
| Investment in capital assets   | 5,136,444              | 5,619,287              |
| Unrestricted                   | (42,097,594)           | (30,293,835)           |
| Total net position             | <u>\$ (36,961,150)</u> | <u>\$ (24,674,548)</u> |

A total of \$5,136,444 of the Authority's net position reflects its investment in capital assets (e.g., buildings, improvements, vehicles, and equipment). The Authority uses these capital assets to provide services to consumers; consequently, these assets are not available for future spending. The remainder of the Authority's net position was reported as a negative unrestricted net position of \$42,097,594.

# GENESEE HEALTH SYSTEM

## Management's Discussion and Analysis

|                               | Change in Net Position |                        |
|-------------------------------|------------------------|------------------------|
|                               | 2017                   | 2016                   |
| Revenues                      |                        |                        |
| Federal                       | \$ 115,435,602         | \$ 114,778,260         |
| State                         | 4,869,923              | 5,501,220              |
| Local                         | 8,533,932              | 11,024,103             |
| Interest                      | 6,323                  | 10,995                 |
| <b>Total revenues</b>         | <b>128,845,780</b>     | <b>131,314,578</b>     |
| Expenses                      |                        |                        |
| Mental health                 | 127,796,854            | 133,889,020            |
| Health center                 | 8,099,314              | 6,302,451              |
| <b>Total expenses</b>         | <b>135,896,168</b>     | <b>140,191,471</b>     |
| Extraordinary item            | (5,236,214)            | -                      |
| <b>Change in net position</b> | <b>(12,286,602)</b>    | <b>(8,876,893)</b>     |
| Net position                  |                        |                        |
| Beginning of year             | (24,674,548)           | (15,797,655)           |
| End of year                   | <u>\$ (36,961,150)</u> | <u>\$ (24,674,548)</u> |

During the current fiscal year, the Authority's net position decreased by \$12,286,602. The most significant factors in the decrease in the Authority's net position was the decrease in deferred outflows of resources, increase in deferred inflows of resources, the operating loss experienced by the Health Center, and the extraordinary loss from the County's legally disputed decision to deny it is holding the Authority's cash.

### Capital Asset and Debt Administration

**Capital Assets.** The Authority's capital assets balance as of September 30, 2017 was \$5,136,444 (net of accumulated depreciation). This investment in capital assets includes building improvements and vehicles and equipment.

Major capital asset events that occurred during the year ended September 30, 2017 included the following:

- Construction/renovations of buildings totaling \$820,830
- Equipment and vehicle purchases of \$56,106

|                                  | Capital Assets (Net) |                     |
|----------------------------------|----------------------|---------------------|
|                                  | 2017                 | 2016                |
| Building improvements            | \$ 3,664,194         | \$ 3,137,116        |
| Vehicles and equipment           | 1,472,250            | 2,482,171           |
| <b>Total capital assets, net</b> | <b>\$ 5,136,444</b>  | <b>\$ 5,619,287</b> |

# GENESEE HEALTH SYSTEM

## Management's Discussion and Analysis

Additional information on the Authority's capital assets can be found in the notes to the financial statements.

### Economic Factors and Next Year's Budget and Rates

Genesee Health System monitors all clinical services and trends the utilization of those services. Genesee Health System has a Data and Financial Review Committee that meets monthly. This group of committee member review the financial and services utilization trends. This allows Genesee Health System to predict increases and or decreases in cost, allowing the Authority to react quickly and early to changes in funding or expenses.

For fiscal year 2018, the Authority has made several cost saving changes to our budget. This will allow the Authority to keep costs within the expected Medicaid funding. Genesee Health System does not believe that this will affect any services to our Medicaid beneficiaries. Region 10 continues to negotiate with the State regarding the Healthy Michigan fund for the Region.

Genesee Health System considered these factors in preparing the Authority's budget for the 2018 fiscal year.

### Requests for Information

This financial report is designed to provide a general overview of Genesee Health System's finances for all those with an interest in the Authority's finances. Questions concerning any of the information provided in this report, or requests for additional financial information, may be addressed to the Finance Department, 725 Mason, Flint, Michigan 48503.

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## BASIC FINANCIAL STATEMENTS

# GENESEE HEALTH SYSTEM

## Statement of Net Position

Proprietary Funds  
September 30, 2017

|                                                               | Mental Health Enterprise Fund | Health Center Nonmajor Enterprise Fund | Total Enterprise Funds | Internal Service Funds | Adjustments | Total Business-type Activities |
|---------------------------------------------------------------|-------------------------------|----------------------------------------|------------------------|------------------------|-------------|--------------------------------|
| <b>Assets</b>                                                 |                               |                                        |                        |                        |             |                                |
| Current assets:                                               |                               |                                        |                        |                        |             |                                |
| Cash and cash equivalents                                     | \$ 8,453,209                  | \$ 100                                 | \$ 8,453,309           | \$ 970,852             | \$ -        | \$ 9,424,161                   |
| Investments                                                   | 1,060,600                     | -                                      | 1,060,600              | -                      | -           | 1,060,600                      |
| Accounts receivable, net                                      | 240,274                       | 2,010,396                              | 2,250,670              | 2,541,488              | -           | 4,792,158                      |
| Due from the Michigan Department of Health and Human Services | 165,170                       | 253,708                                | 418,878                | -                      | -           | 418,878                        |
| Due from other funds                                          | 6,113,890                     | -                                      | 6,113,890              | -                      | (6,113,890) | -                              |
| Due from other governments, net                               | 8,878,445                     | 23,535                                 | 8,901,980              | -                      | -           | 8,901,980                      |
| Prepays                                                       | 258,393                       | 27,693                                 | 286,086                | 582,998                | -           | 869,084                        |
| Total current assets                                          | 25,169,981                    | 2,315,432                              | 27,485,413             | 4,095,338              | (6,113,890) | 25,466,861                     |
| Noncurrent assets:                                            |                               |                                        |                        |                        |             |                                |
| Capital assets being depreciated, net                         | 3,773,827                     | 1,362,617                              | 5,136,444              | -                      | -           | 5,136,444                      |
| Total assets                                                  | 28,943,808                    | 3,678,049                              | 32,621,857             | 4,095,338              | (6,113,890) | 30,603,305                     |
| Deferred outflows of resources                                |                               |                                        |                        |                        |             |                                |
| Deferred pension amounts                                      | 10,260,061                    | -                                      | 10,260,061             | -                      | -           | 10,260,061                     |
| <b>Liabilities</b>                                            |                               |                                        |                        |                        |             |                                |
| Current liabilities:                                          |                               |                                        |                        |                        |             |                                |
| Accounts payable                                              | 9,238,140                     | 51,251                                 | 9,289,391              | 290,442                | -           | 9,579,833                      |
| Accrued liabilities                                           | 2,268,692                     | 199,120                                | 2,467,812              | -                      | -           | 2,467,812                      |
| Due to the Michigan Department of Community Health            | 117,261                       | -                                      | 117,261                | -                      | -           | 117,261                        |
| Due to other funds                                            | -                             | 3,178,519                              | 3,178,519              | 2,935,371              | (6,113,890) | -                              |
| Due to other governments                                      | 10,692,861                    | -                                      | 10,692,861             | -                      | -           | 10,692,861                     |
| Unearned revenue                                              | 405,622                       | 66,714                                 | 472,336                | -                      | -           | 472,336                        |
| Compensated absences                                          | 1,292,888                     | 159,947                                | 1,452,835              | -                      | -           | 1,452,835                      |
| Total current liabilities                                     | 24,015,464                    | 3,655,551                              | 27,671,015             | 3,225,813              | (6,113,890) | 24,782,938                     |
| Noncurrent liabilities:                                       |                               |                                        |                        |                        |             |                                |
| Net pension liability                                         | 46,857,334                    | -                                      | 46,857,334             | -                      | -           | 46,857,334                     |
| Total liabilities                                             | 70,872,798                    | 3,655,551                              | 74,528,349             | 3,225,813              | (6,113,890) | 71,640,272                     |
| Deferred inflows of resources                                 |                               |                                        |                        |                        |             |                                |
| Deferred pension amounts                                      | 6,184,244                     | -                                      | 6,184,244              | -                      | -           | 6,184,244                      |
| <b>Net position</b>                                           |                               |                                        |                        |                        |             |                                |
| Investment in capital assets                                  | 3,773,827                     | 1,362,617                              | 5,136,444              | -                      | -           | 5,136,444                      |
| Unrestricted                                                  | (41,627,000)                  | (1,340,119)                            | (42,967,119)           | 869,525                | -           | (42,097,594)                   |
| Total net position                                            | \$ (37,853,173)               | \$ 22,498                              | \$ (37,830,675)        | \$ 869,525             | \$ -        | \$ (36,961,150)                |

The accompanying notes are an integral part of these financial statements.

## GENESEE HEALTH SYSTEM

### Statement of Revenues, Expenses, and Changes in Fund Net Position

Proprietary Funds

For the Year Ended September 30, 2017

|                                           | Mental Health Enterprise Fund | Health Center Nonmajor Enterprise Fund | Total Enterprise Funds | Internal Service Funds | Adjustments        | Total Business-type Activities |
|-------------------------------------------|-------------------------------|----------------------------------------|------------------------|------------------------|--------------------|--------------------------------|
| <b>Operating revenues</b>                 |                               |                                        |                        |                        |                    |                                |
| Federal sources:                          |                               |                                        |                        |                        |                    |                                |
| Medicaid                                  | \$ 111,121,635                | \$ -                                   | \$ 111,121,635         | \$ -                   | \$ -               | \$ 111,121,635                 |
| Federal grants                            | 1,445,570                     | 2,114,202                              | 3,559,772              | -                      | -                  | 3,559,772                      |
| State sources:                            |                               |                                        |                        |                        |                    |                                |
| State general fund indigent               | 4,516,763                     | -                                      | 4,516,763              | -                      | -                  | 4,516,763                      |
| State grants                              | 353,160                       | -                                      | 353,160                | -                      | -                  | 353,160                        |
| Local sources:                            |                               |                                        |                        |                        |                    |                                |
| County appropriations                     | 864,400                       | -                                      | 864,400                | -                      | -                  | 864,400                        |
| Charges for services                      | 896,552                       | 4,059,173                              | 4,955,725              | 5,481,163              | (5,481,163)        | 4,955,725                      |
| Local grants and contributions            | 662,044                       | 111,969                                | 774,013                | -                      | -                  | 774,013                        |
| Other revenue                             | 1,852,716                     | 87,078                                 | 1,939,794              | -                      | -                  | 1,939,794                      |
| <b>Total operating revenues</b>           | <b>121,712,840</b>            | <b>6,372,422</b>                       | <b>128,085,262</b>     | <b>5,481,163</b>       | <b>(5,481,163)</b> | <b>128,085,262</b>             |
| <b>Operating expenses</b>                 |                               |                                        |                        |                        |                    |                                |
| Mental health services:                   |                               |                                        |                        |                        |                    |                                |
| Administration                            | 12,086,001                    | -                                      | 12,086,001             | -                      | (152,037)          | 11,933,964                     |
| Managed care                              | 6,101,136                     | -                                      | 6,101,136              | -                      | -                  | 6,101,136                      |
| Children SED                              | 4,077,171                     | -                                      | 4,077,171              | -                      | -                  | 4,077,171                      |
| Residential services                      | 37,258,376                    | -                                      | 37,258,376             | -                      | -                  | 37,258,376                     |
| Adult MI services                         | 21,007,707                    | -                                      | 21,007,707             | -                      | -                  | 21,007,707                     |
| State hospitals                           | 1,428,424                     | -                                      | 1,428,424              | -                      | -                  | 1,428,424                      |
| Developmental disabilities                | 22,113,446                    | -                                      | 22,113,446             | -                      | -                  | 22,113,446                     |
| Inpatient services                        | 15,684,482                    | -                                      | 15,684,482             | -                      | -                  | 15,684,482                     |
| Flint water crisis                        | 1,810,579                     | -                                      | 1,810,579              | -                      | -                  | 1,810,579                      |
| Autism benefits                           | 3,076,313                     | -                                      | 3,076,313              | -                      | -                  | 3,076,313                      |
| Health center                             | -                             | 8,099,314                              | 8,099,314              | -                      | -                  | 8,099,314                      |
| Access center                             | 1,971,906                     | -                                      | 1,971,906              | -                      | -                  | 1,971,906                      |
| CMH Grants                                | 1,333,350                     | -                                      | 1,333,350              | -                      | -                  | 1,333,350                      |
| Employee benefits                         | -                             | -                                      | -                      | 5,329,126              | (5,329,126)        | -                              |
| <b>Total operating expenses</b>           | <b>127,948,891</b>            | <b>8,099,314</b>                       | <b>136,048,205</b>     | <b>5,329,126</b>       | <b>(5,481,163)</b> | <b>135,896,168</b>             |
| <b>Operating income (loss)</b>            | <b>(6,236,051)</b>            | <b>(1,726,892)</b>                     | <b>(7,962,943)</b>     | <b>152,037</b>         | <b>-</b>           | <b>(7,810,906)</b>             |
| <b>Nonoperating revenues (expenses)</b>   |                               |                                        |                        |                        |                    |                                |
| Interest revenue                          | 6,323                         | -                                      | 6,323                  | -                      | -                  | 6,323                          |
| <b>Income (loss) before contributions</b> | <b>(6,229,728)</b>            | <b>(1,726,892)</b>                     | <b>(7,956,620)</b>     | <b>152,037</b>         | <b>-</b>           | <b>(7,804,583)</b>             |
| Capital grants and contributions          | -                             | 754,195                                | 754,195                | -                      | -                  | 754,195                        |
| <b>Extraordinary item</b>                 |                               |                                        |                        |                        |                    |                                |
| Disputed pooled cash balances             | (5,236,214)                   | -                                      | (5,236,214)            | -                      | -                  | (5,236,214)                    |
| <b>Change in net position</b>             | <b>(11,465,942)</b>           | <b>(972,697)</b>                       | <b>(12,438,639)</b>    | <b>152,037</b>         | <b>-</b>           | <b>(12,286,602)</b>            |
| Net position, beginning of year           | (26,387,231)                  | 995,195                                | (25,392,036)           | 717,488                | -                  | (24,674,548)                   |
| <b>Net position, end of year</b>          | <b>\$ (37,853,173)</b>        | <b>\$ 22,498</b>                       | <b>\$ (37,830,675)</b> | <b>\$ 869,525</b>      | <b>\$ -</b>        | <b>\$ (36,961,150)</b>         |

The accompanying notes are an integral part of these financial statements.



## GENESEE HEALTH SYSTEM

### Statement of Cash Flows

Proprietary Funds

For the Year Ended September 30, 2017

|                                                                                                          | Mental Health Enterprise Fund | Health Center Nonmajor Enterprise Fund | Total Enterprise Funds | Internal Service Funds |
|----------------------------------------------------------------------------------------------------------|-------------------------------|----------------------------------------|------------------------|------------------------|
| <b>Cash flows from operating activities</b>                                                              |                               |                                        |                        |                        |
| Cash received from contracts, grants, customers and other                                                | \$ 119,125,206                | \$ 6,971,593                           | \$ 126,096,799         | \$ -                   |
| Cash received from interfund services                                                                    | -                             | -                                      | -                      | 6,012,542              |
| Cash payments to employees                                                                               | (39,988,540)                  | (4,511,243)                            | (44,499,783)           | -                      |
| Cash payments to suppliers for goods and services                                                        | (89,362,339)                  | (2,446,879)                            | (91,809,218)           | (5,715,752)            |
| <b>Net cash provided by (used in) operating activities</b>                                               | <b>(10,225,673)</b>           | <b>13,471</b>                          | <b>(10,212,202)</b>    | <b>296,790</b>         |
| <b>Cash flows from capital and related financing activities</b>                                          |                               |                                        |                        |                        |
| Purchase of capital assets                                                                               | (109,270)                     | (767,666)                              | (876,936)              | -                      |
| Capital grants received                                                                                  | -                             | 754,195                                | 754,195                | -                      |
| <b>Net cash used in capital and related financing activities</b>                                         | <b>(109,270)</b>              | <b>(13,471)</b>                        | <b>(122,741)</b>       | <b>-</b>               |
| <b>Cash flows from investing activities</b>                                                              |                               |                                        |                        |                        |
| Disputed pooled cash balances by County                                                                  | (5,236,214)                   | -                                      | (5,236,214)            | -                      |
| Purchase of investments                                                                                  | (6,319)                       | -                                      | (6,319)                | -                      |
| Interest received                                                                                        | 6,323                         | -                                      | 6,323                  | -                      |
| <b>Net cash used in investing activities</b>                                                             | <b>(5,236,210)</b>            | <b>-</b>                               | <b>(5,236,210)</b>     | <b>-</b>               |
| <b>Change in cash and cash equivalents</b>                                                               | <b>(15,571,153)</b>           | <b>-</b>                               | <b>(15,571,153)</b>    | <b>296,790</b>         |
| Cash and cash equivalents, beginning of year                                                             | 24,024,362                    | 100                                    | 24,024,462             | 674,062                |
| <b>Cash and cash equivalents, end of year</b>                                                            | <b>\$ 8,453,209</b>           | <b>\$ 100</b>                          | <b>\$ 8,453,309</b>    | <b>\$ 970,852</b>      |
| <b>Reconciliation of operating income to net cash used in operating activities</b>                       |                               |                                        |                        |                        |
| Operating income (loss)                                                                                  | \$ (6,236,051)                | \$ (1,726,892)                         | \$ (7,962,943)         | \$ 152,037             |
| Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities: |                               |                                        |                        |                        |
| Depreciation                                                                                             | 1,108,616                     | 251,163                                | 1,359,779              | -                      |
| Changes in assets and liabilities:                                                                       |                               |                                        |                        |                        |
| Accounts receivable                                                                                      | (66,902)                      | 759,633                                | 692,731                | (1,460,635)            |
| Due from the Michigan Department of Health and Human Services                                            | 26,956                        | (176,441)                              | (149,485)              | -                      |
| Due from other governments                                                                               | 960,973                       | (23,535)                               | 937,438                | -                      |
| Due from other funds                                                                                     | (2,711,472)                   | -                                      | (2,711,472)            | 175,023                |
| Prepays                                                                                                  | (15,808)                      | (9,842)                                | (25,650)               | (431,697)              |
| Accounts payable                                                                                         | 3,612,086                     | 44,068                                 | 3,656,154              | 45,071                 |
| Accrued liabilities                                                                                      | (1,845,041)                   | (23,602)                               | (1,868,643)            | -                      |
| Due to the Michigan Department of Health and Human Services                                              | (328,484)                     | -                                      | (328,484)              | -                      |
| Due to other funds                                                                                       | -                             | 719,458                                | 719,458                | 1,816,991              |
| Due to other governments                                                                                 | (9,740,140)                   | -                                      | (9,740,140)            | -                      |
| Unearned revenue                                                                                         | (797,189)                     | 39,514                                 | (757,675)              | -                      |
| Compensated absences                                                                                     | (68,993)                      | 159,947                                | 90,954                 | -                      |
| Net pension liability and deferred amounts                                                               | 5,875,776                     | -                                      | 5,875,776              | -                      |
| <b>Net cash provided by (used in) operating activities</b>                                               | <b>\$ (10,225,673)</b>        | <b>\$ 13,471</b>                       | <b>\$ (10,212,202)</b> | <b>\$ 296,790</b>      |

The accompanying notes are an integral part of these financial statements.

# GENESEE HEALTH SYSTEM

## Statement of Fiduciary Assets and Liabilities

Agency Fund  
September 30, 2017

### Assets

|                           |                  |
|---------------------------|------------------|
| Cash and cash equivalents | <u>\$ 43,636</u> |
|---------------------------|------------------|

### Liabilities

|                  |                  |
|------------------|------------------|
| Accounts payable | <u>\$ 43,636</u> |
|------------------|------------------|

The accompanying notes are an integral part of these financial statements.

## NOTES TO FINANCIAL STATEMENTS

# GENESEE HEALTH SYSTEM

## Notes to Financial Statements

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Genesee Health System (the “Authority”), established under Section 205 of the Mental Health Code, have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Government Accounting Standards Board (GASB) is the accepted standards-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Authority’s accounting policies are described below.

#### Government-wide and Fund Financial Statements

As permitted by GASB Statement No. 34, the Authority uses an alternative approach reserved for single program governments to present combined government-wide and fund financial statements by using a columnar format that reconciles individual line items of fund financial data to government-wide data in a separate column. Accordingly, this is presented in the Statement of Net Position - Proprietary Funds and the Statement of Revenues, Expenses and Changes in Fund Net Position. The Authority’s major fund is reported in a separate column in the aforementioned financial statements.

The operations of the Authority are accounted for as an enterprise fund (a proprietary fund type), which is designed to be self-supporting. Enterprise funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the cost of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

#### Measurement Focus and Basis of Accounting

The government-wide and proprietary fund financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The Authority reports the following major enterprise funds -

The *mental health fund* accounts for the provision of mental health services in Genesee County.

The *health center fund* accounts for the provision of services in Genesee County that include physical health care and behavioral health care as a Federally Qualified Health Center.

Additionally, the Authority reports the following fund types:

The *internal service funds* are used to account for healthcare benefits and other selected retirement costs.

The *agency fund* is used to account for assets held on behalf of the Authority’s consumers in which the Authority acts only in a fiduciary capacity.

# GENESEE HEALTH SYSTEM

## Notes to Financial Statements

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Authority's operating fund are contract revenues from the Michigan Department of Health and Human Services ("MDHHS"), Region 10 Prepaid Inpatient Health Plan ("Region10"), county appropriations, and first and third party billings. Operating revenues of the internal service fund is comprised of charges to other funds for risk financing. Operating expenses include the cost of providing mental health and substance abuse services. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the Authority's policy to use restricted resources first, then unrestricted resources as they are needed.

### Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Net Position

#### *Deposits and Investments*

The Authority's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. All investments are recorded at fair value.

#### *Statutory Authority*

State statutes authorize the Authority to invest in:

- Bond, securities, other obligations and repurchase agreements of the United States, or an agency or instrumentality of the United States.
- Certificates of deposit, savings accounts, deposit accounts or depository receipts of a qualified financial institution.
- Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and that matures not more than 270 days after the date of purchase.
- Bankers acceptances of United States banks.
- Obligations of the State of Michigan and its political subdivisions that, at the time of purchase are rated as investment grade by at least one standard rating service.
- Mutual funds registered under the Investment Company Act of 1940 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation.
- External investment pools as authorized by Public Act 20 as amended through December 31, 1997.

The Authority's investment policy allows for all of these types of investments.

# GENESEE HEALTH SYSTEM

## Notes to Financial Statements

### *Accounts Receivable*

Accounts receivable are shown net of an allowance for uncollectibles. Consumer accounts receivable and revenue are recorded when services are performed. A substantial portion of the Authority's receivables from services to consumers is received under contractual arrangements with Medicaid, Medicare and Michigan Blue Cross/Blue Shield programs, whereby the Authority is paid based on allowable costs incurred. The preliminary settlement of amounts due to the Authority is subject to redetermination upon audit by the applicable agency. An estimated provision is made for possible adjustments that may result from such reviews and any differences between the amounts accrued and amounts settled are recorded in operations in the period of settlement. The Authority's allowance for doubtful accounts as of September 30, 2017 was \$972,075.

### *Interfund Receivables/Payables*

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "interfund receivables/payables" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds".

### *Prepays*

Payments made to vendors for services that will benefit periods beyond September 30, 2017, are recorded as "prepays" in the accompanying statement of net position.

### *Capital Assets*

Capital assets, which include property, plant, vehicles and equipment, are reported in the statement of net position. Capital assets are defined by the Authority 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 historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition cost at the date of donation.

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

Major outlays for capital assets and improvements are capitalized as projects are constructed. Capital assets of the Authority are depreciated using the straight-line method over the following estimated useful lives:

| Asset                  | Years |
|------------------------|-------|
| Building improvements  | 15    |
| Vehicles and equipment | 5-30  |

# GENESEE HEALTH SYSTEM

## Notes to Financial Statements

### *Deferred Outflows of Resources*

In addition to assets, the statement of financial 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 one or more future periods and so will not be recognized as an outflow of resources (expense) until then. The Authority reports deferred outflows of resources for change in expected and actual investment returns, assumptions, and benefits provided in its pension plan.

### *Deferred Inflows of Resources*

In addition to liabilities, the statement of financial 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 one or more future periods and so will not be recognized as an inflow of resources (revenue) until then. The Authority reports deferred inflows of resources for change in expected and actual investment returns, assumptions, and benefits provided in its pension plan and contributions made subsequent to the measurement date.

### *Contract with Michigan Department of Health and Human Services*

The Authority has several account balances that relate to the Authority's contract with the MDHHS. The amount reported as "Due from the Michigan Department of Health and Human Services" primarily represents a receivable from the various grantor agencies for services provided under the contract for the year. "Due to the Michigan Department of Health and Human Services" reflects amounts due to the State for clients of the Authority placed in state institutions and amounts owed back to the State as the result of year end cost settlements.

### *Unearned Revenue*

The Authority reported unearned revenue in connection with resources that have been received, but not yet earned, including the portion of the current year MDHHS contract amount that may be carried-over to and expended in subsequent fiscal years. Such carryover is generally limited to five percent of the MDHHS contract amount.

### *Compensated Absences*

The Authority provides three types of compensated absences - paid time off, compensatory, and holiday time. Authority employees are granted leave in varying amounts based on length of service. Pay for compensated absences is accrued and fully vested when earned.

### *Pensions*

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Plan and additions to/deductions from the Plan fiduciary net position have been determined on the same basis as they are reported by the Plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

# GENESEE HEALTH SYSTEM

## Notes to Financial Statements

### *Use of Estimates*

The preparation of financial statements in conformity with generally accepted accounting principles 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 financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

## 2. DEPOSITS AND INVESTMENTS

Following is a reconciliation of deposit and investment balances as of September 30, 2017:

|                                               |                      |
|-----------------------------------------------|----------------------|
| Statement of Net Position                     |                      |
| Cash and cash equivalents                     | \$ 9,424,161         |
| Investments                                   | 1,060,600            |
| Statement of Fiduciary Assets and Liabilities |                      |
| Cash and cash equivalents                     | <u>43,636</u>        |
|                                               | <u>\$ 10,528,397</u> |
| Deposits and investments                      |                      |
| Bank deposits - checking/savings accounts     | \$ 9,465,922         |
| Investments - U.S. government mutual funds    | 1,060,600            |
| Cash on hand                                  | <u>1,875</u>         |
|                                               | <u>\$ 10,528,397</u> |

### *Investment and Deposit Risk*

*Custodial Credit Risk - Deposits.* Custodial credit risk is the risk that in the event of a bank failure, the Authority's deposits may not be returned. State law does not require and the Authority does not have a policy for deposit custodial credit risk. As of year end, \$9,751,395 of the Authority's bank balance of \$10,001,399 was exposed to custodial credit risk because it was uninsured and uncollateralized.

*Custodial Credit Risk - Investments.* For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Authority will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State law does not require and the Authority does not have a policy for investment custodial credit risk. At year end, the Authority's investments consisted entirely of mutual funds totaling \$1,060,600. There is no custodial credit risk, as these investments are not evidenced by physical securities.

*Credit Risk.* State law limits investments to specific government securities, certificates of deposit and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of specific financial institutions, qualified mutual funds and qualified external investment pools as identified in the list of authorized investments in the summary of significant accounting policies. The Authority's investment policy does not have specific limits in excess of state law on investment credit risk. The Authority's investments in U.S. government mutual funds were rated AAAm by S&P.



# GENESEE HEALTH SYSTEM

## Notes to Financial Statements

*Interest Rate Risk.* State law limits the allowable investments and the maturities of some of the allowable investments as identified in the summary of significant accounting policies. The Authority's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. At year end, the weighted average maturity of the Authority's investments in U.S. government mutual funds ranged from 24 - 54 days.

*Concentration of Credit Risk.* Concentration of credit risk is the risk of loss attributed to the magnitude of the Authority's investment in a single issuer. State law limits allowable investments but does not limit concentration of credit risk as identified in the list of authorized investments in the summary of significant accounting policies. The Authority's investment policy does not have specific limits in excess of state law on concentration of credit risk. All investments held at year end are reported above.

*Fair Value Measurements.* The Authority categorizes the fair value measurements of its investments within the fair value hierarchy established by generally accepted accounting principles. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities. Level 2 inputs - other than quoted prices - included within Level 1 that are observable for the asset or liability, either directly or indirectly. Finally, Level 3 inputs are unobservable and are based on estimates and assumptions. These levels are determined by the management's review of the type and substance of investments held by the Authority. At year end, all of the Authority's investments in U.S. government mutual funds were determined to be Level 1 (fair value determined based on quoted prices in active markets for identical assets).

### 3. CAPITAL ASSETS

Capital assets activity for the year ended September 30, 2017 was as follows:

|                                   | Beginning<br>Balance | Additions           | Deletions       | Ending<br>Balance   |
|-----------------------------------|----------------------|---------------------|-----------------|---------------------|
| Capital assets being depreciated: |                      |                     |                 |                     |
| Building improvements             | \$ 4,607,709         | \$ 820,830          | \$ -            | \$ 5,428,539        |
| Vehicles and equipment            | 4,432,163            | 56,106              | (15,294)        | 4,472,975           |
|                                   | <u>9,039,872</u>     | <u>876,936</u>      | <u>(15,294)</u> | <u>9,901,514</u>    |
| Accumulated depreciation:         |                      |                     |                 |                     |
| Building improvements             | (1,470,593)          | (293,752)           | -               | (1,764,345)         |
| Vehicles and equipment            | (1,949,992)          | (1,066,027)         | 15,294          | (3,000,725)         |
|                                   | <u>(3,420,585)</u>   | <u>(1,359,779)</u>  | <u>15,294</u>   | <u>(4,765,070)</u>  |
| Total capital assets, net         | <u>\$ 5,619,287</u>  | <u>\$ (482,843)</u> | <u>\$ -</u>     | <u>\$ 5,136,444</u> |

# GENESEE HEALTH SYSTEM

## Notes to Financial Statements

### 4. COMPENSATED ABSENCES

Compensated absences activity for the year ended September 30, 2017 was as follows:

|                      | Beginning Balance | Additions    | Deletions      | Ending Balance | Due Within One Year |
|----------------------|-------------------|--------------|----------------|----------------|---------------------|
| Compensated absences | \$ 1,361,881      | \$ 1,193,912 | \$ (1,102,958) | \$ 1,452,835   | \$ 1,452,835        |

### 5. OPERATING LEASE

The Authority continues to lease out various buildings as part of the Greater Flint Mental Health Facilities Board Lease. The Authority continues to use the buildings with the original lease terms and conditions on a month by month basis for 23 facilities whereby rent is charged at approximately \$50,000 per month, based off lease square footage. The lease includes locations such as 3218 Morrish, 2162 Stanley, 8155 Burleigh, 4074 Henderson, and 420 W. 5th Ave. The lease agreement has an automatic renewal clause.

The Authority has also entered into agreements of leases for multiple group homes. Many of these leases are charged to the provider and payable to either the State of Michigan or to Genesee County. Gross rental expense amounted to \$559,371 for the year ended September 30, 2017.

The Authority also has six lease agreements with Konica Minolta for Copier Leases. Rent expense totaled approximately \$19,400 for the year ended September 30, 2017. Locations include 421 W. 5th Ave, 806 Tuuri Place, 808 Grand Traverse, 422 W 4th Ave, 3109 Kleinpell, and 420 W. 5th Ave.

The Authority also has a lease agreement with Hurley Medical Center from 2013, amended in 2016. This is a 5 year lease that expires in August 2018. Lease payments are \$9,194 per month and are based off square footage. Rent expense amounted to \$110,063 for the year ended September 30, 2017.

### 6. RISK MANAGEMENT

The Authority is exposed to various risks of loss related to property loss, torts, errors and omissions, malpractice and employee injuries. The Authority has purchased commercial insurance for these claims. Settled claims for the commercial insurance did not exceed insurance coverage in the current period. The Authority also participates in the Genesee County self-insurance program for automobile insurance. The Authority does not retain any risk through participation in this program.

# GENESEE HEALTH SYSTEM

## Notes to Financial Statements

The self-insurance program for health insurance is accounted for in the healthcare internal service funds. An independent administrator (HAP) is hired to process the daily claims. The Authority is responsible for individual claims up to \$200,000 per participant. The Authority is also responsible for paying administrative charges and stop loss insurance premiums. The liability at the end of the year is based on claims already incurred and reported as well as estimates of incurred but not reported claims as estimated by management which cannot exceed the stop loss insurance limits. Settled claims did not exceed insurance coverage in the last two fiscal periods.

| Year Ended<br>September 30, | Beginning<br>of Period<br>Liability | Current Year<br>Claims and<br>Changes in<br>Estimates | Claims<br>Paid | End<br>of Period<br>Liability |
|-----------------------------|-------------------------------------|-------------------------------------------------------|----------------|-------------------------------|
| 2016                        | \$ 571,763                          | \$ 6,345,254                                          | \$ 6,671,646   | \$ 245,371                    |
| 2017                        | 245,371                             | 5,329,126                                             | 5,284,055      | 290,442                       |

The self-insurance program for dental insurance is accounted for in the mental health and retiree health fund. An independent administrator (Delta Dental) is hired to process the daily claims and to perform management duties. Benefits under the program are capped at \$1,200 for Teamsters and \$1,200 for AFSCME and non-union employees for routine dental and \$1,400 for orthodontic procedures per covered person annually. There were no reductions of insurance coverage from the prior year. Settled claims did not exceed insurance coverage in the last two fiscal periods.

| Year Ended<br>September 30, | Beginning<br>of Period<br>Liability | Current Year<br>Claims and<br>Changes in<br>Estimates | Claims<br>Paid | End<br>of Period<br>Liability |
|-----------------------------|-------------------------------------|-------------------------------------------------------|----------------|-------------------------------|
| 2016                        | \$ -                                | \$ 38,392                                             | \$ 38,392      | \$ -                          |
| 2017                        | -                                   | 38,964                                                | 38,964         | -                             |

## 7. DEFINED BENEFIT PENSION PLAN

### *Employees' Retirement System*

The Authority participates in a contributory agent multi-employer, defined benefit pension plan (the Genesee County Employees' Retirement System or GCERS). GCERS was organized pursuant to Section 12A of Act 156, Public Acts of 1851 (MSA 5.333(1); MCLA 46.12a) as amended. The GCERS is regulated under the Genesee County Employees' Retirement System Ordinance, the sections of which have been approved by the state pension commission and is administered by the Genesee County Retirement Commission. The GCERS was established in 1946, beginning with the General Unit and the County Road Commission. Water and Waste joined the system in 1956, Community Mental Health in 1966, the City of Mt. Morris in 1969, and the Genesee District Library in 1980. GCERS issues a stand-alone financial report; a copy of this report may be obtained by contacting the retirement office.

# GENESEE HEALTH SYSTEM

## Notes to Financial Statements

*Benefits Provided.* Employees who retire with minimum age and years of service requirements are entitled to annual retirement benefits, payable in monthly installments for life, in an amount equal to a percentage of their final average compensation times years of credited service. Benefit computations may vary by bargaining group, but are generally computed at final average compensation times the sum of 2.4% for the first 25 years of service, plus 1% for years of service in excess of 25 years, up to a maximum of 60% - 65%.

Employees are eligible for regular retirement at either the 23 year anniversary date of employment; or age 60 with a minimum of 8 years of service. Full retirement benefits vary by bargaining unit. Members with 8 to 15 years of service may elect a deferred annuity providing a lifetime benefit which varies by employer bargaining unit. Members leaving service may withdraw their accumulated contributions together with the interest credited to their account.

*Contributions.* GCERS employers are required by the Retirement System Ordinance to make adequate contributions to fund the retirement allowances provided by the System. Because the Retirement System is a multiple-employer retirement fund, each employer has the ability to negotiate and/or establish through personnel policy retirement benefits with their respective employees. The contribution rates are determined by an annual actuarial valuation based on certain assumptions along with consideration of members' contributions and assumed investment income. The Authority's contribution rate for the plan for the year ended September 30, 2017 was 32.27% of projected valuation payroll. Eligible employees are required to contribute from 5.0% of eligible monetary compensation to the Plan.

*Employees Covered by Benefit Terms.* At December 31, 2016, plan membership consisted of the following:

|                                                                  |                       |
|------------------------------------------------------------------|-----------------------|
| Inactive employees or beneficiaries currently receiving benefits | 326                   |
| Inactive employees entitled to but not yet receiving benefits    | 27                    |
| Active employees                                                 | <u>146</u>            |
| <br>Total membership                                             | <br><u><u>499</u></u> |

*Net Pension Liability.* The Authority's net pension liability was measured as of December 31, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

*Actuarial Assumptions.* The total pension liability in the December 31, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

|                           |                                                                |
|---------------------------|----------------------------------------------------------------|
| Inflation                 | 3.00%                                                          |
| Salary increases          | 3.00-7.03%, based on age-related rates and including inflation |
| Investment rate of return | 8.0%, net of investment expense and including inflation        |

Mortality rates were based on the RP-2000 Combined Healthy Mortality Table projected to 2014.

## GENESEE HEALTH SYSTEM

### Notes to Financial Statements

The pension plan's investment policy discourages the use of cash equivalents except for liquidity purposes, and aims to refrain from dramatically shifting asset class allocations over short time spans. The following was the Board's adopted asset allocation policy as of December 31, 2016:

| Asset Class                        | Target Allocation |
|------------------------------------|-------------------|
| U.S. Equities Active or Passive    | 32.00%            |
| Non-U.S. Equities                  | 18.00%            |
| Global Fixed Income                | 20.00%            |
| Commercial Real Estate             | 20.00%            |
| Alternative Investment Hedge Funds | 10.00%            |
|                                    | <u>100.00%</u>    |

*Rate of Return.* The annual money weighted rate of return on pension plan investments is calculated as the internal rate of return on pension plan investments, net of investment expenses, not including inflation. This expresses investment performance, adjusted for the changing amounts actually invested throughout the year, measured on monthly inputs with expenses measured on an accrual basis. At December 31, 2016, the annual money-weighted rate of return, net of investment expenses was 1.03%.

*Discount Rate.* The discount rate used to measure the total pension liability was 6.07%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that Authority contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. 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.

# GENESEE HEALTH SYSTEM

## Notes to Financial Statements

*Changes in the Net Pension Liability.* The components of the change in the net pension liability are summarized as follows:

|                                                                  | Total Pension<br>Liability<br>(a) | Plan Fiduciary<br>Net Position<br>(b) | Net Pension<br>Liability<br>(a) - (b) |
|------------------------------------------------------------------|-----------------------------------|---------------------------------------|---------------------------------------|
| Balances at December 31, 2015                                    | \$ 140,774,616                    | \$ 81,849,000                         | \$ 58,925,616                         |
| Changes for the year:                                            |                                   |                                       |                                       |
| Service cost                                                     | 1,998,936                         | -                                     | 1,998,936                             |
| Interest                                                         | 7,676,712                         | -                                     | 7,676,712                             |
| Changes in benefit terms                                         | -                                 | -                                     | -                                     |
| Differences between expected and<br>actual experience            | (5,174,366)                       | -                                     | (5,174,366)                           |
| Changes in assumptions                                           | (4,875,031)                       | -                                     | (4,875,031)                           |
| Employer contributions                                           | -                                 | 4,528,171                             | (4,528,171)                           |
| Employee contributions                                           | -                                 | 597,146                               | (597,146)                             |
| Net investment income                                            | -                                 | 6,648,406                             | (6,648,406)                           |
| Benefit payments, including refunds of<br>employee contributions | (7,368,755)                       | (7,368,755)                           | -                                     |
| Rollover to other pension                                        | (38,698)                          | (38,698)                              | -                                     |
| Administrative expense                                           | -                                 | (79,190)                              | 79,190                                |
| Net changes                                                      | <u>(7,781,202)</u>                | <u>4,287,080</u>                      | <u>(12,068,282)</u>                   |
| Balances at December 31, 2016                                    | <u>\$ 132,993,414</u>             | <u>\$ 86,136,080</u>                  | <u>\$ 46,857,334</u>                  |

*Sensitivity of the Net Pension Liability to Changes in the Discount Rate.* The following presents the net pension liability of the Authority, calculated using the discount rate of 6.07%, as well as what the Authority's net pension liability would be if it were calculated using a discount rate that is 1% lower (5.07%) or 1% higher (7.07%) than the current rate:

|                                   | 1% Decrease<br>(5.07%) | Current<br>Discount Rate<br>(6.07%) | 1% Increase<br>(7.07%) |
|-----------------------------------|------------------------|-------------------------------------|------------------------|
| Authority's net pension liability | \$ 61,976,906          | \$ 46,857,334                       | \$ 34,050,485          |

*Pension Plan Fiduciary Net Position.* Detailed information about the pension plan's fiduciary net position is available in the separately issued Plan financial statements.

## GENESEE HEALTH SYSTEM

### Notes to Financial Statements

*Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions.* For the year ended September 30, 2017, the Authority recognized pension expense of \$10,497,186. At September 30, 2017, the Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

|                                                                                  | Deferred<br>Outflows of<br>Resources | Deferred<br>Inflows of<br>Resources | Total               |
|----------------------------------------------------------------------------------|--------------------------------------|-------------------------------------|---------------------|
| Difference between expected and actual experience                                | \$ 865,495                           | \$ (3,184,225)                      | \$ (2,318,730)      |
| Changes in assumptions                                                           | 6,509,837                            | (3,000,019)                         | 3,509,818           |
| Net difference between projected and actual earnings on pension plan investments | 872,462                              | -                                   | 872,462             |
|                                                                                  | <u>8,247,794</u>                     | <u>(6,184,244)</u>                  | <u>2,063,550</u>    |
| Contributions subsequent to the measurement date                                 | 2,012,267                            | -                                   | 2,139,029           |
|                                                                                  | <u>2,012,267</u>                     | <u>-</u>                            | <u>2,139,029</u>    |
| Total                                                                            | <u>\$ 10,260,061</u>                 | <u>\$ (6,184,244)</u>               | <u>\$ 4,202,579</u> |

The amount reported as deferred outflows of resources resulting from contributions subsequent to the measurement date will be recognized as a reduction in the net pension liability for the year ending September 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

| Year Ended<br>September 30, | Deferred<br>Outflows of<br>Resources |
|-----------------------------|--------------------------------------|
| 2018                        | \$ 3,943,140                         |
| 2019                        | (1,886,127)                          |
| 2020                        | 474,892                              |
| 2021                        | <u>(468,355)</u>                     |
| Total                       | <u>\$ 2,063,550</u>                  |

*Payable to the Pension Plan.* At September 30, 2017, the Authority reported a payable of \$126,726 for the outstanding amount of contributions to the pension plan required for the year ended September 30, 2017.

# GENESEE HEALTH SYSTEM

## Notes to Financial Statements

### 8. DEFINED CONTRIBUTION PENSION PLANS

In 2000, the Authority allowed new retirees to elect to transfer the actuarial present value of the participants accrued benefit under the defined benefit plan to an account within the Genesee County Defined Contribution Pension Plan. Presently, AFSCME employees hired after October 1, 2007, Teamsters employees hired after November 20, 2007 and Non-Union employees hired after May 8, 2012 participate in the International City Management Association (ICMA-RA). Participants in ICMA-RC need 6 years of credited service to be fully vested. Employer contributions for the year ended September 30, 2017 were \$570,021.

In addition, all employees hired on or after October 1, 2006, participate in a defined contribution pension plan through MERS (separate from the retiree health funding vehicle defined benefit plan) in lieu of participation in the retiree healthcare plan. Employees vest after 8 years of service. The Authority contributes 5% of the employee's annual salary to the plan after the employee's probationary period is complete. Employer contributions for the year ended September 30, 2017 were \$859,650.

### 9. OTHER POSTEMPLOYMENT BENEFITS

#### Plan Description

The Genesee Health System Retiree Healthcare Plan (the "Plan") is a single-employer defined benefit healthcare plan administered by the Authority. The Plan provides health insurance benefits, including medical, prescriptions, dental, and optical coverage to certain retirees and their beneficiaries, which are advance-funded on a discretionary basis. Plan assets are held in trust by a third party administrator. The Plan was closed to new hires as of May 2008.

As of January 12, 2005, employees need 15 years of credited service to be fully vested in GCERS. Employees who retired before that date needed 8 years of credited service. Membership in the plan at December 31, 2015, the date of the latest actuarial valuation, is comprised of 63 active members, 30 inactive members, and 376 retirees and beneficiaries.

#### Funding Policy

The contribution requirements of Plan members and the Authority are established and may be amended by the Authority Board of Directors. The required contribution is based on actuarially determined financed rates, with an additional amount to prefund benefits as determined annually by the Agency. For the year ended September 30, 2017, the Authority contributed \$3,221,643 to the Plan. Employees are not required to contribute to the Plan.

#### Annual OPEB Cost and Net OPEB Obligation

The Authority's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC). The ARC was calculated using the projected unit credit actuarial cost method. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. For the year ended September 30, 2017, the Authority's actual contributions to the Plan of \$3,221,643 were equal to the annual required contribution.



# GENESEE HEALTH SYSTEM

## Notes to Financial Statements

The Authority's annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation were as follows:

| Three-Year Trend Information |                        |                                                  |                           |
|------------------------------|------------------------|--------------------------------------------------|---------------------------|
| Year Ended<br>September 30,  | Annual<br>OPEB<br>Cost | Percent of<br>Annual<br>OPEB Cost<br>Contributed | Net<br>OPEB<br>Obligation |
| 2015                         | \$ 6,874,904           | 118.8%                                           | \$ -                      |
| 2016                         | 7,885,191              | 100.0%                                           | -                         |
| 2017                         | 3,221,643              | 100.0%                                           | -                         |

### Funded Status and Funding Progress

As of December 31, 2015, the most recent actuarial valuation date, the Authority was 83.9 percent funded. The actuarial accrued liability for benefits was \$55,899,853 and the actuarial value of assets was \$46,884,584, resulting in an unfunded actuarial accrued liability (UAAL) of \$9,014,999. The covered payroll (annual payroll of active employees covered by the plan) was \$14,230,421, and the ratio of UAAL to covered payroll was 63.35 percent.

The schedule of funding progress, presented as RSI following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

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

In the December 31, 2015 actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions includes: (a) a rate of return on investments of 7.5%; (b) projected salary increases of 3.5% attributable to inflation; (c) additional projected salary increases ranging from 0.0% to 4.03%, depending on age, attributable to seniority/merit; and (d) projected healthcare benefit increases of 3.5% to 9.0%. The actuarial value of assets was determined based on market value. The unfunded actuarial accrued liability is being amortized on a level dollar basis on a closed basis. The remaining amortization period at December 31, 2015, the date of the latest actuarial valuation, was 4 years.

# GENESEE HEALTH SYSTEM

## Notes to Financial Statements

### 10. MEDICAID AND STATE GENERAL FUND REVENUE

The Authority provides services to individuals with mental illnesses, developmental disabilities, and substance abuse disorders on behalf of the MDHHS in accordance with a managed specialty supports and services contract (the "Contract"). Under the Contract, the Authority receives monthly capitation payments based on the number of eligible participants, regardless of services actually performed by the Authority. In addition, the MDHHS makes fee-for-service payments to the Authority for certain covered services.

The Authority receives funding for Medicaid eligible consumers through Region 10 PIHP, the Prepaid Inpatient Health Plan (PIHP) created by Genesee Health System, Lapeer County Community Mental Health, Sanilac County Community Mental Health Authority, and St. Clair County Community Mental Health Authority.

### 11. CONTINGENCIES

Under the terms of various federal and state grants and regulatory requirements, the Authority is subject to periodic audits of its agreements. Such audits could lead to questioned costs and/or requests for reimbursement to grantor or regulatory agencies. Management does not consider such amounts to be significant.

As is the case with other entities, the Authority faces exposure from potential claims and legal proceedings involving environmental and other matters. No such claims or proceedings have been asserted as of September 30, 2017.

### 12. LOSS FROM POOLED CASH DISPUTE WITH COUNTY

The Authority became an independent mental health authority effective December 31, 2012, after having previously been an agency of Genesee County. Under Michigan Mental Health Code, the County was required to turn over all agency assets, including cash, to the Authority. The County continued to hold the cash until the MDHHS advised the County in May 2016 that continuing to hold the funds was unlawful. Only then did the County dispute that it was obligated to transfer the remaining funds to the Authority and instead contended that the appropriations made by the County (and approved by the County Board of Commissioners) from January 1, 2013 through September 30, 2016, had been made in error. Despite this contention, the County confirmed the balance outstanding at September 30, 2016. However, the County refused to respond in the current year and has contested that they no longer hold any cash on behalf of the Authority. While the Authority continues to vigorously defend its rights to the cash, including having recently filed a lawsuit to remedy the County's conduct and recover its funds for its rightful use and benefit, the Authority has reported a loss of \$5,236,214 in the current year financial statements as the County will no longer acknowledge that it holds the asset.

### 13. RELATED PARTIES

The Authority conducted business with Region 10 for the leasing of staff. During the year ended September 30, 2017, total revenues and expenses related to this lease arrangement amounted to \$1,975,249.



## REQUIRED SUPPLEMENTARY INFORMATION

# GENESEE HEALTH SYSTEM

## Employees' Retirement System

### Schedule of Changes in Net Pension Liability and Related Ratios

|                                                                                      | Year Ended September 30, |                      |                      |
|--------------------------------------------------------------------------------------|--------------------------|----------------------|----------------------|
|                                                                                      | 2017                     | 2016                 | 2015                 |
| <b>Total pension liability</b>                                                       |                          |                      |                      |
| Service cost                                                                         | \$ 1,998,936             | \$ 1,269,466         | \$ 1,351,737         |
| Interest                                                                             | 7,676,712                | 7,830,710            | 7,576,741            |
| Differences between expected and actual experience                                   | (5,174,366)              | 1,507,736            | 4,373,348            |
| Changes of assumptions                                                               | (4,875,031)              | 20,976,139           | -                    |
| Benefit payments, including refunds of employee contributions                        | (7,368,755)              | (7,307,322)          | (6,928,961)          |
| Rollover to other pension                                                            | (38,698)                 | (678,965)            | (1,240,669)          |
| <b>Net change in total pension liability</b>                                         | <b>(7,781,202)</b>       | <b>23,597,764</b>    | <b>5,132,196</b>     |
| <b>Total pension liability, beginning of year</b>                                    | <b>140,774,616</b>       | <b>117,176,852</b>   | <b>112,044,656</b>   |
| <b>Total pension liability, end of year</b>                                          | <b>132,993,414</b>       | <b>140,774,616</b>   | <b>117,176,852</b>   |
| <b>Plan fiduciary net position</b>                                                   |                          |                      |                      |
| Employer contributions                                                               | 4,528,171                | 4,037,724            | 4,147,902            |
| Employee contributions                                                               | 597,146                  | 503,823              | 553,918              |
| Net investment income                                                                | 6,648,406                | 1,043,740            | 5,740,032            |
| Benefit payments, including refunds of employee contributions                        | (7,368,755)              | (7,307,322)          | (6,928,961)          |
| Rollover to other pension                                                            | (38,698)                 | (678,965)            | (1,240,669)          |
| Administrative expense                                                               | (79,190)                 | (93,060)             | (93,106)             |
| <b>Net change in plan fiduciary net position</b>                                     | <b>4,287,080</b>         | <b>(2,494,060)</b>   | <b>2,179,116</b>     |
| <b>Plan fiduciary net position, beginning of year</b>                                | <b>81,849,000</b>        | <b>84,343,060</b>    | <b>82,163,944</b>    |
| <b>Plan fiduciary net position, end of year</b>                                      | <b>86,136,080</b>        | <b>81,849,000</b>    | <b>84,343,060</b>    |
| <b>Authority's net pension liability</b>                                             | <b>\$ 46,857,334</b>     | <b>\$ 58,925,616</b> | <b>\$ 32,833,792</b> |
| <b>Plan fiduciary net position as a percentage of total pension liability</b>        | <b>64.8%</b>             | <b>58.1%</b>         | <b>72.0%</b>         |
| <b>Covered-employee payroll</b>                                                      | <b>\$ 9,419,585</b>      | <b>\$ 10,265,612</b> | <b>\$ 10,782,351</b> |
| <b>Authority's net pension liability as a percentage of covered-employee payroll</b> | <b>497.45%</b>           | <b>574.01%</b>       | <b>304.51%</b>       |

The amounts presented for each fiscal year were determined as of December 31 of the preceding year.

Note: GASB 68 was implemented in fiscal year 2015. This schedule is being built prospectively. Ultimately, 10 years of data will be presented.

Change of assumptions: In fiscal year 2017, the discount rate used to measure the total pension liability increased from 5.56% to 6.07%. In fiscal year 2016 the retirement commission adopted the RP 2000 Mortality Table projected to 2014 and reduced the assumed rate of return to 7.85% from 8% with future annual reductions of 0.15% until a 7.0% rate of return is reached.

# GENESEE HEALTH SYSTEM

## Employees' Retirement System

### Schedule of the Net Pension Liability

| Year Ended September 30, | Total Pension Liability | Plan Net Position | Net Pension Liability | Plan Net Position as Percentage of Total Pension Liability | Covered-Employee Payroll | Net Pension Liability as Percentage of Covered Payroll |
|--------------------------|-------------------------|-------------------|-----------------------|------------------------------------------------------------|--------------------------|--------------------------------------------------------|
| 2015                     | \$ 117,176,852          | \$ 84,343,060     | \$ 32,833,792         | 72.0%                                                      | \$ 10,782,351            | 304.51%                                                |
| 2016                     | 140,774,616             | 81,849,000        | 58,925,616            | 58.1%                                                      | 10,265,612               | 574.01%                                                |
| 2017                     | 132,993,414             | 86,136,080        | 46,857,334            | 64.8%                                                      | 9,419,585                | 497.45%                                                |

The amounts presented for each fiscal year were determined as of December 31 of the preceding year.

Note: GASB 68 was implemented in fiscal year 2015. This schedule is being built prospectively. Ultimately, 10 years of data will be presented.

# GENESEE HEALTH SYSTEM

## Employees' Retirement System

### Schedule of Contributions

| Year Ended<br>September<br>30, | Actuarially<br>Determined<br>Contribution | Contributions<br>in Relation to<br>the<br>Actuarially<br>Determined<br>Contribution | Contribution<br>Deficiency<br>(Excess) | Covered-<br>Employee<br>Payroll | Contributions<br>as Percentage<br>of Covered-<br>Employee<br>Payroll |
|--------------------------------|-------------------------------------------|-------------------------------------------------------------------------------------|----------------------------------------|---------------------------------|----------------------------------------------------------------------|
| 2015                           | \$ 4,038,382                              | \$ 4,038,382                                                                        | \$ -                                   | \$ 10,452,506                   | 38.6%                                                                |
| 2016                           | 2,442,981                                 | 2,442,981                                                                           | -                                      | 9,764,471                       | 25.0%                                                                |
| 2017                           | 3,067,099                                 | 3,067,099                                                                           | -                                      | 9,505,578                       | 32.3%                                                                |

Note: GASB 68 was implemented in fiscal year 2015. This schedule is being built prospectively. Ultimately, 10 years of data will be presented.

#### Notes to Schedule of Contributions

Valuation Date December 31, 2016  
 Notes Actuarially determined contribution rates are calculated as of December 31, which is 9 months prior to the beginning of the year in which contributions are reported.

#### Methods and assumptions used to determine contribution rates:

|                               |                                                                                  |
|-------------------------------|----------------------------------------------------------------------------------|
| Actuarial cost method         | Individual Entry Age                                                             |
| Amortization method           | Level percentage of payroll                                                      |
| Remaining amortization period | 25                                                                               |
| Asset valuation method        | Open; 4-year smooth market                                                       |
| Inflation                     | 3.00%                                                                            |
| Salary increases              | 3.00% - 7.03% plus service based increases                                       |
| Investment rate of return     | 8.00%, net of pension plan investment expense, including inflation               |
| Retirement age                | Age-based table of rates that are specific to the type of eligibility condition. |
| Mortality                     | Mortality rates were based on the RP-2000 Combined Healthy Mortality Table.      |

# GENESEE HEALTH SYSTEM

## Retiree Healthcare Plan

### Schedule of Funding Progress

| Actuarial Valuation Date | Actuarial Value of Assets (A) | Actuarial Accrued Liability (B) | Unfunded AAL (UAAL) (B-A) | Funded Ratio (A/B) | Covered Payroll (C) | UAAL as a % of Covered Payroll ((B-A)/C) |
|--------------------------|-------------------------------|---------------------------------|---------------------------|--------------------|---------------------|------------------------------------------|
| 12/31/2011               | \$ 14,599,442                 | \$ 56,477,931                   | \$ 41,878,489             | 25.8%              | \$ 13,986,796       | 299.4%                                   |
| 12/31/2013               | 28,516,956                    | 50,724,981                      | 22,208,025                | 56.2%              | 12,563,949          | 176.8%                                   |
| 12/31/2015               | 46,884,584                    | 55,899,583                      | 9,014,999                 | 83.9%              | 14,230,421          | 63.4%                                    |

### Schedule of Employer Contributions

| Year Ended September 30, | Annual Required Contribution | Percentage Contributed |
|--------------------------|------------------------------|------------------------|
| 2015                     | \$ 7,204,668                 | 113.4%                 |
| 2016                     | 7,885,191                    | 100.0%                 |
| 2017                     | 3,221,643                    | 100.0%                 |

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## SUPPLEMENTARY INFORMATION

# GENESEE HEALTH SYSTEM

## Combining Statement of Fund Net Position

Internal Service Funds

September 30, 2017

|                                  | Healthcare        | Retiree Health   | Total             |
|----------------------------------|-------------------|------------------|-------------------|
| <b>Current assets</b>            |                   |                  |                   |
| Cash and cash equivalents        | \$ 970,852        | \$ -             | \$ 970,852        |
| Accounts receivable              | 115,427           | 2,426,061        | 2,541,488         |
| Prepays                          | 471,765           | 111,233          | 582,998           |
| <b>Total current assets</b>      | <u>1,558,044</u>  | <u>2,537,294</u> | <u>4,095,338</u>  |
| <b>Current liabilities</b>       |                   |                  |                   |
| Accounts payable                 | 242,937           | 47,505           | 290,442           |
| Due to other funds               | 445,582           | 2,489,789        | 2,935,371         |
| <b>Total current liabilities</b> | <u>688,519</u>    | <u>2,537,294</u> | <u>3,225,813</u>  |
| <b>Net position</b>              |                   |                  |                   |
| Unrestricted                     | <u>\$ 869,525</u> | <u>\$ -</u>      | <u>\$ 869,525</u> |

## GENESEE HEALTH SYSTEM

### Combining Statement of Revenues, Expenses, and Changes in Fund Net Position

Internal Service Funds

For the Year Ended September 30, 2017

|                                 | Healthcare        | Retiree Health   | Total             |
|---------------------------------|-------------------|------------------|-------------------|
| Operating revenues              |                   |                  |                   |
| Charges for services            | \$ 3,000,614      | \$ 2,480,549     | \$ 5,481,163      |
| Expenses                        |                   |                  |                   |
| Employee benefits               | <u>2,848,577</u>  | <u>2,480,549</u> | <u>5,329,126</u>  |
| Total expenses                  | <u>2,848,577</u>  | <u>2,480,549</u> | <u>5,329,126</u>  |
| Change in net position          | 152,037           | -                | 152,037           |
| Net position, beginning of year | <u>717,488</u>    | <u>-</u>         | <u>717,488</u>    |
| Net position, end of year       | <u>\$ 869,525</u> | <u>\$ -</u>      | <u>\$ 869,525</u> |

## GENESEE HEALTH SYSTEM

### Combining Statement of Cash Flows

Internal Service Funds

For the Year Ended September 30, 2017

|                                                                                         | Healthcare   | Retiree Health | Total        |
|-----------------------------------------------------------------------------------------|--------------|----------------|--------------|
| Cash flows from operating activities                                                    |              |                |              |
| Cash received for interfund services                                                    | \$ 3,505,792 | \$ 2,506,750   | \$ 6,012,542 |
| Payments to suppliers                                                                   | (3,209,002)  | (2,506,750)    | (5,715,752)  |
| Change in cash and cash equivalents                                                     | 296,790      | -              | 296,790      |
| Cash and cash equivalents, beginning of year                                            | 674,062      | -              | 674,062      |
| Cash and cash equivalents, end of year                                                  | \$ 970,852   | \$ -           | \$ 970,852   |
| Reconciliation of operating income to net cash provided by operating activities         |              |                |              |
| Operating income                                                                        | \$ 152,037   | \$ -           | \$ 152,037   |
| Adjustments to reconcile operating income to net cash provided by operating activities: |              |                |              |
| Changes in assets and liabilities:                                                      |              |                |              |
| Accounts receivable                                                                     | (115,427)    | (1,345,208)    | (1,460,635)  |
| Due from other funds                                                                    | 175,023      | -              | 175,023      |
| Prepays                                                                                 | (421,813)    | (9,884)        | (431,697)    |
| Accounts payable                                                                        | 61,388       | (16,317)       | 45,071       |
| Due to other funds                                                                      | 445,582      | 1,371,409      | 1,816,991    |
| Net cash provided by operating activities                                               | \$ 296,790   | \$ -           | \$ 296,790   |

# GENESEE HEALTH SYSTEM

## Statement of Changes in Assets and Liabilities

Agency Fund

For the Year Ended September 30, 2017

|                           | Beginning<br>Balance | Additions   | Deletions   | Ending<br>Balance |
|---------------------------|----------------------|-------------|-------------|-------------------|
| <b>Assets</b>             |                      |             |             |                   |
| Cash and cash equivalents | <u>\$ 43,636</u>     | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 43,636</u>  |
| <b>Liabilities</b>        |                      |             |             |                   |
| Accounts payable          | <u>\$ 43,636</u>     | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 43,636</u>  |

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