

Audited Financial Statements

CMU Medical Education Partners

*Years Ended June 30, 2021 and 2020
with Report of Independent Auditors*



CMU Medical Education Partners
Audited Financial Statements
Years Ended June 30, 2021 and 2020

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Report of Independent Auditors

To the Board of Trustees of
CMU Medical Education Partners

Report on the Financial Statements

We have audited the accompanying financial statements of Saginaw Cooperative Hospitals Inc. d/b/a CMU Medical Education Partners, which comprise the balance sheets as of June 30, 2021 and 2020, and the related statements of operations, changes in net assets, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of CMU Medical Education Partners as of June 30, 2021 and 2020, and the statements of its operations, changes in its net assets, and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1 to the financial statements, CMU Medical Education Partners implemented FASB Accounting Standards Update (ASU) 2014 – 09, *Revenue from Contracts with Customers* and all subsequent amendments. This standard creates a single framework for recognizing and disclosing information about revenue from contracts with customers. Our opinion is not modified with respect to this matter.

Andrews Hooper Pavlik PLC

Saginaw, Michigan
August 18, 2021

CMU Medical Education Partners

Balance Sheets

	June 30	
	2021	2020
Assets		
Current assets:		
Cash and cash equivalents	\$ 4,762,648	\$ 8,985,707
Cash - designated funds	609,615	121,075
Investments	4,052,905	-
Accounts receivable patient services	1,074,502	488,451
Receivables - member hospitals	1,279,051	599,031
Receivables - funding support	773,528	490,049
Prepaid expenses	908,234	742,620
Total current assets	13,460,483	11,426,933
Investments whose use is limited:		
Investments held for designated purposes	1,020,857	815,760
Investments held for 457(b) plan participants	3,708,775	3,051,168
Total assets whose use is limited	4,729,632	3,866,928
Other assets		
Leasehold improvements, furniture, and equipment, net	13,540	13,540
Total assets	1,318,748	1,574,060
	\$ 19,522,403	\$ 16,881,461
Liabilities and net assets		
Current liabilities:		
Accounts payable	\$ 541,724	\$ 242,985
Payroll and related liabilities	3,355,411	2,908,172
Other payables	-	34,026
Note payable	-	5,049,500
Deferred revenue	300,921	519,354
Total current liabilities	4,198,056	8,754,037
Long-term liabilities		
Deferred obligations - MIDOCs program	262,771	-
Malpractice liability	200,000	200,000
Amounts due 457(b) plan participants	3,708,775	3,051,168
Total liabilities	8,369,602	12,005,205
Net assets:		
Without donor restrictions	11,152,801	4,876,256
Total net assets	11,152,801	4,876,256
Total liabilities and net assets	\$ 19,522,403	\$ 16,881,461

See accompanying notes.

CMU Medical Education Partners

Statements of Operations

	Year Ended June 30	
	2021	2020
Revenue and other support:		
Net patient service revenue	\$ 12,848,205	\$ 10,950,539
Quality incentive programs:		
PPAP/SNAF	1,895,219	1,917,203
Other incentive programs	299,729	357,886
Contract revenue	13,275,923	11,924,144
Member hospital contributions	21,243,404	19,404,048
Other revenue	1,547,235	1,405,982
Investment income	57,749	-
Paycheck Protection Loan forgiveness	5,049,500	-
Total unrestricted revenues and other support	<u>56,216,964</u>	<u>45,959,802</u>
Operating expenses:		
Salaries, wages, and payroll taxes	34,780,182	32,368,682
Employee benefits	6,470,197	5,637,796
Other employee benefits	92,299	80,706
Recruiting	347,647	366,141
Clinical supplies	799,422	704,715
Office supplies	65,845	67,073
Educational supplies and services	425,486	418,791
Consulting and contractual services	1,830,630	1,503,196
Communications	329,800	264,786
Continuing medical education	293,496	377,825
Education, conferences and travel	438,467	478,860
Insurance	1,067,099	912,078
Facility and equipment	2,093,516	2,056,492
Other expenses	233,167	110,223
Depreciation	376,446	381,753
Patient bad debt expense	492,319	224,655
Total operating expenses	<u>50,136,018</u>	<u>45,953,772</u>
Revenue and other support over operating expenses	6,080,946	6,030
Other nonoperating revenue (expense)		
Net investment income and interest	214,327	22,802
Adjustment for medical funding receivable	-	(1,505,596)
Nonoperating grant revenue	500,469	404,219
Nonoperating grant expense	(500,644)	(367,440)
Professional liability expense	(18,553)	(45,717)
Increase (decrease) in net assets without donor restrictions	<u>\$ 6,276,545</u>	<u>\$ (1,485,702)</u>

See accompanying notes.

CMU Medical Education Partners

Statements of Changes in Net Assets

Year Ended June 30, 2021 and 2020

	Net Assets Without Donor Restrictions		Total
	Undesignated		Net Assets
Net assets at July 1, 2019	\$ 6,361,958	\$	6,361,958
Revenues under expenses	(1,485,702)		(1,485,702)
Net assets at June 30, 2020	4,876,256		4,876,256
Revenues over expenses	6,276,545		6,276,545
Net assets at June 30, 2021	\$ 11,152,801	\$	11,152,801

CMU Medical Education Partners

Statements of Cash Flows

	Year Ended June 30	
	2021	2020
Operating activities		
Net change in net assets without donor restrictions	\$ 6,276,545	\$ (1,485,702)
Adjustments to reconcile net change in net assets without donor restrictions to net cash from operating activities:		
Depreciation	376,446	381,753
Noncash donation of equipment	-	(250,000)
Forgiveness of PPP loan	(5,049,500)	-
Adjustment to medical funding receivable	-	1,505,596
Net unrealized gain on investments	(214,327)	(8,860)
Change in assets and liabilities:		
Patient accounts receivable	(586,051)	595,521
Other receivables	(963,499)	681,498
Prepaid expenses	(165,614)	419,524
Other assets	-	92,694
Accounts payable	298,739	(67,281)
Other accrued liabilities and payroll and related liabilities	413,213	154,393
Deferred revenue and other obligations	44,338	(228,599)
Net cash from operating activities	<u>430,290</u>	<u>1,790,537</u>
Investing activities		
Purchases of leasehold improvements, furniture, and equipment	(121,134)	(71,483)
Net additions to investments	(4,043,675)	(9,377)
Net cash from investing activities	<u>(4,164,809)</u>	<u>(80,860)</u>
Financing activities		
PPP loan proceeds	-	5,049,500
Net cash from financing activities	<u>-</u>	<u>5,049,500</u>
Net change in cash	(3,734,519)	6,759,177
Cash, cash equivalents, and designated funds at beginning of period	9,106,782	2,347,605
Cash, cash equivalents, and designated funds at end of period	<u>\$ 5,372,263</u>	<u>\$ 9,106,782</u>

CMU Medical Education Partners

Notes to Financial Statements

June 30, 2021

1. Summary of Accounting Policies

Organization and Nature of Operations

Saginaw Cooperative Hospitals, Inc. (Corporation), d/b/a CMU Medical Education Partners is a Michigan nonprofit corporation located in Saginaw, Michigan. The Corporation was incorporated in Michigan in 1968 and is a tax-exempt organization pursuant to §501(c)(3) of the Internal Revenue Code. The Corporation is organized on a non-stock membership basis. The Corporation is subject to a Master Affiliation Agreement, which supersedes the original Member Agreement, and provides Central Health Advancement Solutions (CHAS) with a 90% membership interest in CMU Medical Education Partners (CMU Partners); Ascension St. Mary's Hospital, Inc. (St. Mary's) with a 5% membership interest; and Covenant Medical Center, Inc. (Covenant) with a 5% membership interest. CHAS is a Michigan nonprofit corporation organized on a non-stock membership basis. The sole member of CHAS is the Board of Trustees of Central Michigan University.

The purpose of the Corporation is to integrate medical education, research, and service primarily for the training of medical residents and other medical related personnel. The two member hospitals, Covenant and St. Mary's, both of Saginaw, have provided greater than 50 percent of the total support of the Corporation. The Corporation operates under a Master Affiliation Agreement (Agreement) between the Corporation, the Central Michigan University Board of Trustees, Central Health Advancement Solutions, St. Mary's, and Covenant. The Agreement, and its amendments, cover the operation and funding of the Corporation's medical residency program as it relates to training the hospitals' medical residents. The new Agreement became effective July 1, 2020.

Cash and Cash Equivalents

For purposes of the statements of cash flows, cash and cash equivalents consists of savings and checking account balances and cash accounts classified as designated accounts.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

CMU Medical Education Partners

Notes to Financial Statements

June 30, 2021

1. Summary of Accounting Policies (continued)

Basis of Accounting and Presentation

The financial statements of the Corporation have been prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP), which require the Corporation to report information regarding its financial position and activities according to the following mutually exclusive net asset classifications:

Net assets without donor restrictions: Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the organization. These net assets may be used at the discretion of the Corporation's management and the Board of Directors.

Net assets with donor restrictions: Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Corporation or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the statements of operations.

Measure of operations – The statements of operations reports all changes in net assets, including changes in net assets from operating and nonoperating activities. Operating activities consist of those items attributable to the Corporation's ongoing medical services and interest and dividends earned on investments. Nonoperating activities are limited to resources that generate return from investments and other activities considered to be of a more unusual or nonrecurring nature.

Donor-Restricted Gifts

Unconditional promises to give cash and other assets to the Corporation are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the gift is received. Gifts are reported as net assets with donor restrictions support if they are received with donor stipulations that limit the use of the contributions. When a donor restriction expires, net assets with donor restrictions are reclassified as net assets without donor restrictions and reported in the statement of operations as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reported as unrestricted contributions in the accompanying financial statements. There were no net assets with donor restrictions at June 30, 2021 or 2020.

CMU Medical Education Partners

Notes to Financial Statements

June 30, 2021

1. Summary of Accounting Policies (continued)

Fair Value Measurements

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly exchange between market participants. Authoritative guidance requires that fair value measurements incorporate all assumptions that market participants would use in pricing an asset or liability, including assumptions about risk. Authoritative guidance establishes a fair value hierarchy that prioritizes inputs used to measure fair value according to their observability in the market.

Level 1 – Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2 – Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in inactive markets; or other inputs that are observable or can be corroborated by observable market data.

Level 3 – Significant unobservable inputs that reflect a company's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

In determining the appropriate levels, the Corporation performs a detailed analysis of the assets and liabilities that are subject to fair value measurement. At each reporting period, all assets and liabilities for which the fair value measurement is based on significant unobservable inputs are classified as Level 3.

For the fiscal year ended June 30, 2021 and 2020, the application of valuation techniques applied to similar assets and liabilities has been consistent.

Investments

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value based on quoted market prices as of the balance sheet date. Investment income or loss (including realized gains and losses on investments, interest, and dividends) is included in revenues and other support over (under) operating expenses unless the income or loss is restricted by donor or law. Unrealized gains and losses on investments are included as part of revenues and other support over (under) operating expenses.

CMU Medical Education Partners

Notes to Financial Statements

June 30, 2021

1. Summary of Accounting Policies (continued)

Revenues and Other Support Over (Under) Operating Expenses

The statements of operations include revenues and other support over (under) operating expenses. Changes in net assets without donor restrictions, which are excluded from revenues and other support over (under) operating expenses, include unrealized gains and losses on investments whose use is limited.

Deposits with Financial Institutions

The Corporation maintains interest-bearing deposits, with a bank located in Saginaw, Michigan, which are recorded in the financial statements as cash and funds held by the trustee. At year end and at times during the year, the Corporation had balances in these accounts that exceeded federal deposit insurance limits.

Significant Concentrations of Credit Risk

Financial instruments which potentially subject the Corporation to concentrations of credit risk consist principally of cash and investments included in assets whose use is limited. The Corporation invests temporary cash in money market securities in various banks, commercial paper of industrial and other companies with high credit ratings, and securities backed by the United States Government. The Corporation holds the majority of its investments in equity and fixed income mutual funds. Included in investments are eight equity mutual funds and six fixed income mutual funds that represent substantially all of total investments at June 30, 2021 and 2020.

Leasehold Improvements, Furniture, and Equipment

Leasehold improvements, furniture, and equipment are stated at cost. Leasehold improvements, furniture, and equipment purchases in excess of \$500 are depreciated over their estimated useful lives using the straight-line method. Assets under capital lease obligations are amortized on the straight-line method over the estimated useful lives of the related assets. Such amortization is included in depreciation in the financial statements.

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Notes to Financial Statements

June 30, 2021

1. Summary of Accounting Policies (continued)

Net Patient Service Revenue and Patient Accounts Receivable

Patient service revenue is recorded when patient services are performed. The Corporation has agreements with third-party payors that provide for reimbursements to the Corporation at amounts different from its established rates. Contractual adjustments under third-party reimbursement programs represent the difference between the Corporation's established rates for services and amounts reimbursed by third-party payors.

Patient accounts receivable are recorded when patient services are performed. Patient accounts receivable are recorded at the Corporation's established rates with contractual adjustments, charity allowances, policy discounts, and the provision for uncollectible accounts deducted to arrive at net patient accounts receivable. The Corporation pursues collection of all past due accounts. Accounts are written off when they are deemed uncollectible.

The Corporation grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. Significant concentrations of accounts receivable at June 30, 2021 include Medicare (18.0%), Blue Cross (9.9%), Medicaid (34.1%), and other commercial insurers and self-pay (38.0%). Significant concentrations of accounts receivable at June 30, 2020 include Medicare (4.6%), Blue Cross (9.4%), Medicaid (31.0%), and other commercial insurers and self-pay (55.0%).

The allowance is calculated as a percentage of outstanding receivable balances for patient pay receivables and commercial insurance receivables. Percentages have been developed based on historical collection information. The allowance is increased by the provision charged to operations and reduced by charge-offs.

Estimated Professional Liability

The provision for estimated self-insured medical malpractice claims is management's estimates of the costs for both reported claims and claims incurred but not reported.

Advertising

The Corporation expenses advertising costs as incurred. Advertising costs were \$26,996 for the year ended June 30, 2021 and \$22,544 for the year ended June 30, 2020.

CMU Medical Education Partners

Notes to Financial Statements

June 30, 2021

1. Summary of Accounting Policies (continued)

Functional Expenses

The financial statements report certain expense categories that are attributable to more than one healthcare service or support function. Therefore, these expenses require an allocation on a reasonable basis that is consistently applied. Costs not directly attributable to a function are allocated as shown below:

Expense	Method of Allocation
Salaries, payroll taxes, and benefits	Time and effort
Facility and equipment	Relative program activity
Consumable supplies	Relative program activity
Consulting and contractual services	Relative program activity
Insurance	Relative program activity
Depreciation	Relative program activity
Other expenses	Relative program activity

Reclassifications

Certain prior year amounts have been reclassified to conform to the current year presentation.

Adoption of New Accounting Principle

The Financial Accounting Standards Board (FASB) issued new guidance that created Topic 606, *Revenue from Contracts with Customers*, in the Accounting Standards Codification (ASC). Topic 606 supersedes the revenue recognition requirements in FASB ASC 605, Revenue Recognition, and requires the recognition of revenue when promised goods or services are transferred to customers in an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods or services. The new guidance also added Subtopic 340-40, Other Assets and Deferred Costs—Contracts with Customers, to the ASC to require the deferral of incremental costs of obtaining a contract with a customer. Collectively, we refer to the new Topic 606 and Subtopic 340-40 as the “new guidance.”

The Corporation adopted the requirements of the new guidance as of July 1, 2020, utilizing the modified retrospective method of transition. There was no impact adopting the new guidance; a cumulative adjustment to net assets as of July 1, 2020 was not required to reflect the effect of the new guidance.

CMU Medical Education Partners

Notes to Financial Statements

June 30, 2021

1. Summary of Accounting Policies (continued)

Adoption of New Accounting Principle (continued)

The Corporation applied the new guidance using the practical expedient provided in Topic 606 that allows the guidance to be applied only to contracts that were not complete as of July 1, 2020. Adoption of the new guidance did not result in changes to the Corporation's accounting policies for revenue recognition and patient receivables.

Subsequent Events

Subsequent events have been evaluated through August 18, 2021. This is also the date the financial statements were available to be issued.

2. Liquidity and Availability

The Corporation has financial assets available within one year of the balance sheet date to meet cash needs for general expenditures as shown in the table below. None of the financial assets are subject to donor or other contractual restrictions that make them unavailable for general expenditure within one year of the balance sheet date. The Corporation has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. Financial assets as of June 30 include the following:

	<u>2021</u>	<u>2020</u>
Cash	\$5,372,263	\$9,106,782
Patient accounts receivable	1,074,502	488,451
Other receivables	773,528	490,049
Related party receivables	1,279,051	599,031
Investments	8,782,537	3,866,928
Total financial assets	17,281,881	14,551,241
Less amounts not available to be used within one year:		
Assets whose use is limited	8,782,537	3,866,928
Expected repayment of note payable	-	5,049,500
Financial assets available to meet general expenditures over the next twelve months	<u>\$8,499,344</u>	<u>\$5,634,813</u>

CMU Medical Education Partners

Notes to Financial Statements

June 30, 2021

3. Patient Accounts Receivable

The detail of patient accounts receivable is as follows:

Department	June 30, 2021		
	Patient	Insurance	Total
Family Practice	\$30,043	\$201,161	\$231,204
OB/GYN	83,823	587,721	671,544
Internal Medicine	19,958	103,205	123,163
Pediatrics	52,757	186,052	238,809
Colony	16,764	80,803	97,567
Surgery	229,362	952,691	1,182,053
Hospitalist	33,610	222,900	256,510
Psychiatry	3,160	39,813	42,973
Child/Adolescent Psychiatry	-	5,373	5,373
Subtotal	469,477	2,379,719	2,849,196
Unapplied payments	-	(120,117)	(120,117)
Subtotal	469,477	2,259,602	2,729,079
Less:			
Contractual allowances	-	1,384,289	1,384,289
Allowance for doubtful accounts	270,288	-	270,288
Net patient accounts receivable	\$199,189	\$875,313	\$1,074,502

As of June 30, 2021, unapplied payments of \$120,117 had been collected from third-party payors for which specific patient accounts were not yet identified.

CMU Medical Education Partners

Notes to Financial Statements

June 30, 2021

3. Patient Accounts Receivable (continued)

Department	June 30, 2020		
	Patient	Insurance	Total
Family Practice	\$ 75,889	\$ 158,701	\$ 234,590
OB/GYN	134,250	387,712	521,962
Internal Medicine	54,040	200,339	254,379
Pediatrics	76,274	134,020	210,294
Colony	13,156	58,195	71,351
Surgery	301,602	850,053	1,151,655
Psychiatry	7,367	23,100	30,467
Child/Adolescent Psychiatry	-	649	649
Subtotal	662,578	1,812,769	2,475,347
Unapplied payments		(489,840)	(489,840)
Subtotal	662,578	1,322,929	1,985,507
Less:			
Contractual allowances	-	1,066,113	1,066,113
Allowance for doubtful accounts	430,943	-	430,943
Net patient accounts receivable	\$231,635	\$ 256,816	\$ 488,451

As of June 30, 2020, unapplied payments of \$489,840 had been collected from third-party payors for which specific patient accounts were not yet identified.

4. Property and Equipment

Property and equipment includes leasehold improvements, furniture, and equipment.

	June 30	
	2021	2020
Total property and equipment	\$ 6,135,771	\$ 6,515,602
Less: accumulated depreciation	4,817,023	4,941,542
	\$ 1,318,748	\$ 1,574,060

CMU Medical Education Partners

Notes to Financial Statements

June 30, 2021

5. Investments

Fair values of assets measured on a recurring basis at June 30, 2021 and 2020 are as follows:

	Fair Value Measurements at Reporting Date Using			
	Fair Value	Quoted Prices in Active Markets for Identical Assets/Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
June 30, 2021				
Current investments:				
Cash	\$ 51	\$ 51	\$ -	-
Money market funds	2,304,101	2,304,101	-	-
Equity investments	1,120,233	1,120,233	-	-
Mutual funds	628,520	628,520	-	-
	4,052,905	4,052,905	-	-
Limited-use investments:				
Cash and money market funds	24,188	24,188	-	-
Mutual funds	996,669	996,669	-	-
	1,020,857	1,020,857	-	-
457(b) Plan investments:				
Mutual funds	3,708,775	3,708,775	-	-
	\$ 8,782,537	\$ 8,782,537	\$ -	\$ -
June 30, 2020				
Limited-use investments:				
Cash and money market funds	\$ 19,012	\$ 19,012	-	-
Mutual funds	796,748	796,748	-	-
	815,760	815,760	-	-
457(b) Plan investments:				
Mutual funds	3,051,168	3,051,168	-	-
	\$ 3,866,928	\$ 3,866,928	\$ -	\$ -

CMU Medical Education Partners

Notes to Financial Statements

June 30, 2021

6. Medical Educational Funding Receivable

The master affiliation agreement between St. Mary's and Covenant (the Hospitals) that was in effect through June 30, 2021 and similar previous master affiliations provided for 100% of the direct graduate medical education (DGME), indirect medical education (IME), and other graduate medical education (GME) funding received by the Hospitals to pass through to the Corporation. An independent firm (The Rybar Group) had been hired to review hospital cost report information and provide a report on filed cost report amounts.

Under the terms of the master affiliation agreement that ended June 30, 2020, the Hospitals had agreed to pay the Corporation their proportionate share of funding shortfall within 30 days of receipt of the final cost report. Similarly, the Corporation had agreed to pay the Hospitals any excess funding within 30 days of receipt of the final cost report.

Under the provisions of the Master Affiliation Agreement that became effective July 1, 2020, 95% of the direct graduate medical education (DGME), indirect medical education (IME), and other graduate medical education (GME) funding received by the Hospitals will pass through to the Corporation, and the Corporate members decided to waive payment of the outstanding medical education funding receivable.

7. Related Party Receivables and Payables

Related party receivables include the following amounts at June 30:

	<u>2021</u>	<u>2020</u>
St. Mary's	\$ 928,733	\$ 336,283
Covenant	350,318	262,748
CMU	274,093	-
Total	<u>\$ 1,553,144</u>	<u>\$ 599,031</u>

Accounts payable includes the following related party payable at June 30:

	<u>2021</u>	<u>2020</u>
CMU	\$ 198,948	\$ -

8. Net Assets

There were no net assets with donor restrictions as of June 30, 2021 or June 30, 2020.

CMU Medical Education Partners

Notes to Financial Statements

June 30, 2021

9. Saginaw Community Foundation Endowment

The Saginaw Community Foundation (Foundation) holds the endowment funds for the V. K. Volk Fund, which was established through a contribution from Dr. V. K. Volk. The purpose of the fund is to provide a source of revenue to assist with charity care for patients served by the Corporation. The Foundation holds variance power over the fund and distribution from the fund. The balance of the fund was \$172,579 at September 30, 2020 and \$167,217 at December 30, 2019, which are the balances as of the most recent fund statements available. The Corporation received \$46,101 in grants from the endowment fund in 2021. No grants were received in 2020.

10. Revenue from Contracts with Customers

Each revenue transaction contains a single delivery element and revenue is recognized at the time services are provided. There are no significant contracts in process at June 30, 2021.

The Corporation's contracts with customers and method of revenue recognition include the following:

- Patient service revenue. Services are arranged in accordance with a patient's explicit or implied consent to receive services. Payment for services is collected from a combination of sources, including self-pay by the patient or responsible party, commercial insurance, and governmental programs. Revenue from services covered by third-party payors is subject to adjustments based on contractual allowances with the third-party payors. Revenue and estimated contractual adjustments are recorded at the time services are provided. Estimated contractual adjustments are applied to accounts receivable using a portfolio approach based on the Corporation's departments and payor experience. Charity care is not considered an element of patient service revenue under ASC 606.
- Contractual medical services with hospitals and other healthcare organizations. Revenue from these services is based on agreements to provide medical residents and professional personnel to Central Michigan University, Covenant Healthcare, Ascension St. Mary's, and other healthcare providers. Revenue is recorded based on pre-determined rates and is recognized at the time services are provided.
- Other Services. These services include contracts under quality incentive programs and other contracts with outside organizations. Incentive revenue is based on contractual arrangements with various providers and is not subject to reasonable estimation prior to the performance of services. Accordingly, this revenue is recorded when received. Other contract revenue is recorded based on the performance obligations and transaction prices within the contract.

CMU Medical Education Partners

Notes to Financial Statements

June 30, 2021

10. Revenue from Contracts with Customers (continued)

Revenue from contracts with customers consisted of the following:

Revenue Stream	2021	2020
Patient service revenue, gross	\$ 24,333,402	\$ 21,659,485
Less: contractual adjustments	(11,485,197)	(10,708,946)
Patient revenue, net	12,848,205	10,950,539
Contractual services with hospitals and other healthcare providers that included within overall contractual revenue	12,075,923	11,648,492
Other services	2,194,948	2,275,089
Total revenue from contracts with customers	\$27,119,076	\$24,874,120

As of June 30, 2021, the Corporation had significant receivables related to contracts with customers. These balances are detailed in Footnotes 3 and 7. During the year ended June 30, 2021, the Corporation had no significant bad debt expense on revenue from its contractual services with hospitals or from its other non-patient services. Bad debt expense, as reported in the statement of activities, relates to patient service revenue.

The following economic factors affect the nature, amount, timing, and uncertainty of the Corporation's revenue and cash flows as indicated:

- Economic trends: Rising costs, the demand for health services, and potential shortages of health care worker affect conditions related to revenue. Economic pressures faced by patients can affect revenue collectability.
- Geographical location of customers: Revenue from customers is derived from patients and healthcare providers located primarily in the Great Lakes Bay Region of Michigan and the surrounding area; therefore, revenue correlates to the medical needs of communities within this region.
- Healthcare industry: The COVID-19 pandemic has continued to affect the industry which is also affected by in changes medical regulations, rising costs, and availability of medical personnel.

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Notes to Financial Statements

June 30, 2021

11. Grant Programs

The Corporation receives grants from different sources. Among those received are the ones described below.

MIDOCs - The Corporation, through Central Michigan University, participates in the State of Michigan's MIDOCs program, which is a state-funded program set up to expand graduate medical education residency positions in select specialties to recruit and retain physicians in underserved areas in the state of Michigan. MIDOCs residencies may feature a variety of enhanced curricular elements in areas such as ambulatory care, quality improvement, population health, interprofessional collaboration, and care of diverse and underserved populations. The Corporation receives support under this program. Additionally, residents may also receive up to \$75,000 for loan repayment of qualifying educational loans. Residents must also agree to forego any sub-specialty training for at least two years post-residency. The Corporation records deferred obligations for amounts held for the satisfaction of student education loan repayment. Revenue of \$1,200,000 was recorded for 2021. Revenue of \$275,000 was recorded for 2020.

Healthcare Preparedness and Related Grants - The Corporation is a subrecipient of federal grants passed through the Michigan Department of Community Health for healthcare preparedness. The focus of the program is to provide for the continued development and implementation of regional plans to improve the capacity/capability of the healthcare system, including hospitals, emergency medical services, outpatient facilities and other health facilities. Additional grants have been made available under the grant program to support the capacity and capability of healthcare systems in response to the COVID-19 pandemic. The grants are administered by a third-party. Revenue and the related expenses for the grants are recorded as nonoperating revenue and expense.

U.S. Health and Human Services - In the fiscal year ended June 30, 2021, the Corporation received approximately \$417,000 in COVID-19 related stimulus assistance from the U.S. Department of Human Services.

12. Paycheck Protection Program Funds

The Corporation received Paycheck Protection Program (PPP) loan proceeds in the amount of \$5,049,500 in April 2020. The PPP, established as part of the Coronavirus Aid, Relief, and Economic Security Act (CARES Act), provides for loans to qualifying businesses for an amount up to 2.5 times of their average monthly payroll expenses. The loans and accrued interest are forgivable by the Small Business Administration (SBA) after either an eight or twenty-four week covered period as long as the borrower uses the loan proceeds for eligible purposes, including payroll, benefits, rent, and utilities, and maintains its payroll levels.

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Notes to Financial Statements

June 30, 2021

12. Paycheck Protection Program Funds (continued)

The unforgiven portion, if any, of the PPP loan is payable over 2 years at an interest rate of 1%, with a deferral of payments until either the date the SBA remits the borrower's loan forgiveness amount to the lender or, if the Corporation does not apply for loan forgiveness, 10 months after the end of the borrower's loan forgiveness covered period.

The Corporation has received notification from its lender that the U.S. Small Business Administration has agreed with the lenders prior determination that the Corporation should receive forgiveness of the full amount of the loan requested. The Corporation believes it used the proceeds for purposes consistent with the PPP. The Corporation currently believes that its use of the loan proceeds will meet the conditions for forgiveness of the loan, and therefore, the PPP proceeds were recorded as other income in 2021. The Corporation cannot assure that it did not take actions that could cause the Corporation to be ineligible for forgiveness of the loan, in whole or in part.

13. Retirement Plans

Money Accumulation Pension Plan

In 1974, the Corporation established a money accumulation pension plan for all eligible employees. Any employee who has completed more than 1,000 hours of service and has attained the age of 21 is eligible to participate.

The Corporation contributed 4 percent of the participants' pay into the program for each of the years ended June 30, 2021 and 2020. The cost to the Corporation was \$891,316 for the year ended June 30, 2021 and \$585,831 for the year ended June 30, 2020.

457(b) Plan

During 2018, the Corporation established a 457(b) plan for certain management employees which will be payable upon the employee's retirement or termination. The deferred compensation accounts are shown as both assets and liabilities on the Corporation's financial statements and are available to creditors in the event of liquidation of the Corporation. The balance of the plan was \$3,708,775 as of June 30, 2021 and \$3,051,168 as of June 30, 2020. Although these balances were not previously included in the financial statements, there was no effect on revenue, expenses, or net assets.

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Notes to Financial Statements

June 30, 2021

14. Lease Commitments

During 2013, the Corporation entered into a 30-year lease agreement with Covenant for the occupancy of a portion of the Clinical Arts and Education Center, that has been occupied by the Corporation since 1978. Under the terms of the lease, the Corporation pays Covenant \$1 annually. Management of the Corporation has estimated that the fair value of the lease is approximately \$600,600 per year. For each of the years ended June 30, 2021 and 2020, \$600,600 is recorded as contribution revenue (included in other revenue) with an equal amount recorded as facility expense.

During September 2018, the Corporation entered into a 5-year lease agreement with the Dr. Samuel Shaheen Family Foundation (Foundation) for the occupancy of the premises located at 5421 Colony Dr. N., Saginaw, Michigan. Under the terms of the lease, the fair market rental for this premises is \$4,241 monthly, however, the terms state that the Corporation will pay the Foundation \$1 annually for the entire initial term of the lease. For the years ended June 30, 2021 and 2020, \$50,892 is recorded as contribution revenue (included in other revenue) with an equal amount recorded as facility expense.

In 2003, the Corporation began a 10-year lease agreement with SSP Associates upon the completion of construction for the occupancy of an office complex in Saginaw, Michigan. In 2013, the Corporation exercised renewal options for an additional 5 years which covered the period through January 2018. In 2018, the Corporation entered into a new lease agreement with SSP Associates that covers the period through January 2028. In 2013, the Corporation entered into a 15-year lease with MSA Ventures II LLC for commercial office space in Saginaw, Michigan. In 2017, the Corporation began a 10-year lease agreement with Central Michigan University upon the completion of construction for the occupancy of a School of Medicine Building in Saginaw, Michigan.

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Notes to Financial Statements

June 30, 2021

14. Lease Commitments (continued)

Total lease expense for multi-year non-cancelable and cancelable leases, not including the related party leases discussed on the previous page, was approximately \$889,000 for the years ended June 30, 2021 and 2020. The future lease commitments as of June 30, 2021 for all leases are as follows:

2021-22	\$ 899,000
2022-23	847,000
2023-24	833,000
2024-25	825,000
2025-26	819,000
2026-27	819,000
Thereafter	123,000
	<u>\$5,165,000</u>

15. Professional Liability Insurance

The Corporation was self-insured for professional medical malpractice through December 31, 2010 for claims based on occurrences on or before December 31, 2010. Under that self-insurance program, the Corporation had:

- Determined aggregate limits of \$100,000/\$300,000 for residents and \$200,000/\$600,000 for doctors.
- Established a trust fund and placed the management of the fund with an independent fiduciary who has legal title to it and is responsible for its administration and control.

The estimated overfunding of the liability at June 30 is as follows:

	<u>2021</u>	<u>2020</u>
Investments designated for professional liability funding	\$1,020,857	\$ 815,760
Less: Estimated professional liability under self-insurance	200,000	200,000
Estimated over funding of liability	<u>\$ 820,857</u>	<u>\$ 615,760</u>

Claim losses based upon occurrences prior to July 1, 1986 remain insured under prior insurance policies subject to the policy limits.

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Notes to Financial Statements

June 30, 2021

15. Professional Liability Insurance (continued)

Effective November 1, 2012, the Corporation purchased commercial insurance coverage for professional medical malpractice. Coverage consists of \$2,000,000 per occurrence with an annual aggregate to \$12,000,000.

Malpractice and other claims have been asserted against the Corporation by various claimants. Such claims are in various stages of processing and some may be litigated. Accordingly, management and counsel cannot determine the ultimate outcome of the actions commenced. In the opinion of management, all such matters are adequately covered by prior and existing insurance policies and the Self-Insurance Trust Fund.

16. Claims and Contingencies

The Corporation periodically is subject to claims and lawsuits that arise in the ordinary course of business. It is the opinion of management that, as of June 30, 2021, the disposition or ultimate resolution of such claims and lawsuits will not have an adverse material effect on the financial position of the Corporation.

17. Risks and Uncertainties

The outbreak of a novel coronavirus (COVID-19), which the World Health Organization declared in March 2020 to be a pandemic, continues to spread throughout the United States of America and the globe. Many State Governors issued temporary Executive Orders that, among other stipulations, effectively prohibited in-person work activities for most businesses and industries including nonprofit entities, having the effect of suspending or severely curtailing operations during parts of 2020. As a result, the COVID-19 outbreak has disrupted and affected the Corporation's normal activities. The extent of the ultimate impact of the pandemic on the Corporation's operational and financial performance will depend on certain developments, including the duration and spread of the outbreak and its impact on facility residents, employees, vendors, and others, all of which cannot be reasonably predicted at this time. In addition, the current environment may place additional demands on the Corporation for providing services to its facility residents. While management reasonably expects the COVID-19 outbreak could negatively impact the Corporation's operations and the timing and amounts of cash flows, the related financial consequences and duration are highly uncertain.

CMU Medical Education Partners

Notes to Financial Statements

June 30, 2021

18. Functional Expenses

The Corporation provides general health care services to communities within its geographic location. Operating expenses related to providing these program and support services for the year ended June 30, 2021 are as follows:

	Program Services			Support Services	
	Clinical Services	Education	Mi DOCS	Administration	Total
Operating expenses					
Salaries, wages, and payroll taxes	\$17,595,042	\$14,440,415	\$ 740,828	\$ 2,003,897	\$34,780,182
Fringe benefits	2,719,003	3,316,882	129,082	305,230	6,470,197
Other employee benefits	12,245	31,785	736	47,533	92,299
Recruiting	279,341	39,821	495	27,990	347,647
Clinical supplies	771,325	27,627	-	470	799,422
Office supplies	40,874	8,852	-	16,119	65,845
Educational supplies and services	11,947	363,979	2,463	47,097	425,486
Consulting and contractual services	1,176,145	397,428	151,826	105,231	1,830,630
Communications	210,504	63,444	576	55,276	329,800
Continuing medical education	64,724	219,172	9,600	-	293,496
Education, conferences and travel	104,301	303,553	6,586	24,027	438,467
Insurance	377,412	669,395	20,101	191	1,067,099
Facility and equipment	711,174	1,282,394	-	99,948	2,093,516
Other expenses	52,568	(125,160)	133,719	172,040	233,167
Depreciation	32,358	58,223	-	285,865	376,446
Patient bad debt expense	492,319	-	-	-	492,319
Total operating expenses	<u>\$24,651,282</u>	<u>21,097,810</u>	<u>\$ 1,196,012</u>	<u>\$ 3,190,914</u>	<u>\$50,136,018</u>

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Notes to Financial Statements

June 30, 2021

18. Functional Expenses (continued)

Operating expenses related to providing these program and support services for the year ended June 30, 2020 are as follows:

	Program Services		Support Services	
	Clinical Services	Education	Administration	Total
Operating expenses				
Salaries, wages, and payroll taxes	\$17,225,314	\$13,669,484	\$ 1,473,884	\$32,368,682
Fringe benefits	2,579,099	2,856,121	202,576	5,637,796
Other employee benefits	6,129	18,314	56,263	80,706
Recruiting	211,235	119,377	35,529	366,141
Clinical supplies	685,973	18,199	543	704,715
Office supplies	48,954	11,573	6,546	67,073
Educational supplies and services	14,577	378,119	26,095	418,791
Consulting and contractual services	934,678	353,633	214,885	1,503,196
Communications	36,052	1,060	227,674	264,786
Continuing medical education	85,100	292,725	-	377,825
Education, conferences and travel	98,098	357,203	23,559	478,860
Insurance	457,606	366,910	87,562	912,078
Facility and equipment	546,643	1,419,686	90,163	2,056,492
Other expenses	30,896	25,301	54,026	110,223
Depreciation	36,956	61,373	283,424	381,753
Patient bad debt expense	224,655	-	-	224,655
Total operating expenses	\$23,221,965	\$19,949,078	\$ 2,782,729	\$45,953,772