

Audited Financial Statements

CMU Medical Education Partners

*Years Ended June 30, 2022 and 2021
with Report of Independent Auditors*



CMU Medical Education Partners
Audited Financial Statements
Years Ended June 30, 2022 and 2021

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Report of Independent Auditors

To the Board of Trustees of
CMU Medical Education Partners

Opinion

We have audited the accompanying financial statements of Saginaw Cooperative Hospitals Inc. d/b/a CMU Medical Education Partners (a not-for-profit organization), which comprise the balance sheets as of June 30, 2022 and 2021, 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.

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, 2022 and 2021, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of CMU Medical Education Partners and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about CMU Medical Education Partners' ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 CMU Medical Education Partners' internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about CMU Medical Education Partners' ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Andrews Hooper Paulik PLC

Saginaw, Michigan
August 8, 2022

CMU Medical Education Partners

Balance Sheets

	June 30	
	2022	2021
Assets		
Current assets:		
Cash and cash equivalents	\$ 3,723,972	\$ 4,762,648
Cash - designated funds	743,199	609,615
Investments	3,488,434	4,052,905
Accounts receivable patient services	1,167,298	1,074,502
Receivables - member hospitals	1,108,105	1,279,051
Receivables - funding support	775,419	773,528
Prepaid expenses	1,050,863	908,234
Total current assets	12,057,290	13,460,483
Investments whose use is limited:		
Investments held for designated purposes	895,663	1,020,857
Investments held for 457(b) plan participants	3,443,337	3,708,775
Total assets whose use is limited	4,339,000	4,729,632
Other assets	13,540	13,540
Leasehold improvements, furniture, and equipment, net	1,780,907	1,318,748
Total assets	\$ 18,190,737	\$ 19,522,403
Liabilities and net assets		
Current liabilities:		
Accounts payable	\$ 1,623,310	\$ 541,724
Payroll and related liabilities	4,031,531	3,355,411
Other payables	7,794	-
Deferred revenue	30,847	300,921
Total current liabilities	5,693,482	4,198,056
Long-term liabilities:		
Deferred obligations - MIDOCs program	564,793	262,771
Malpractice liability	200,000	200,000
Amounts due 457(b) plan participants	3,443,337	3,708,775
Total liabilities	9,901,612	8,369,602
Net assets:		
Without donor restrictions	8,289,125	11,152,801
Total net assets	8,289,125	11,152,801
Total liabilities and net assets	\$ 18,190,737	\$ 19,522,403

See accompanying notes.

CMU Medical Education Partners

Statements of Operations

	Year Ended June 30	
	2022	2021
Revenue and other support:		
Net patient service revenue	\$ 15,068,000	\$ 12,848,205
Quality incentive programs:		
PPAP/SNAF	2,323,471	1,895,219
Other incentive programs	439,237	299,729
Contract revenue	14,431,974	13,275,923
Member hospital contributions	21,712,133	21,243,404
Other revenue	1,046,024	1,547,235
Investment income	(538,189)	57,749
Paycheck Protection Loan forgiveness	-	5,049,500
Total unrestricted revenues and other support	<u>54,482,650</u>	<u>56,216,964</u>
Operating expenses:		
Salaries, wages, and payroll taxes	40,235,464	34,780,182
Employee benefits	7,560,723	6,470,197
Other employee benefits	201,882	92,299
Recruiting	195,069	347,647
Clinical supplies	926,970	799,422
Office supplies	93,509	65,845
Educational supplies and services	445,187	425,486
Consulting and contractual services	1,425,336	1,830,630
Communications	357,256	329,800
Continuing medical education	396,858	293,496
Education, conferences and travel	599,869	438,467
Insurance	1,361,768	1,067,099
Facility and equipment	2,327,303	2,093,516
Other expenses	226,006	233,167
Depreciation	400,804	376,446
Patient bad debt expense	478,462	492,319
Total operating expenses	<u>57,232,466</u>	<u>50,136,018</u>
Revenue and other support over (under) operating expenses	(2,749,816)	6,080,946
Other nonoperating revenue (expense)		
Net investment income and interest	(115,231)	214,327
Nonoperating grant revenue	504,790	500,469
Nonoperating grant expense	(488,133)	(500,644)
Professional liability expense	(15,286)	(18,553)
(Decrease) increase in net assets without donor restrictions	<u>\$ (2,863,676)</u>	<u>\$ 6,276,545</u>

See accompanying notes.

CMU Medical Education Partners

Statements of Changes in Net Assets

Year Ended June 30, 2022 and 2021

	Net Assets Without Donor Restrictions		Total
	Undesignated		Net Assets
Net assets at July 1, 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
Revenues under expenses	(2,863,676)		(2,863,676)
Net assets at June 30, 2022	\$ 8,289,125	\$	8,289,125

CMU Medical Education Partners

Statements of Cash Flows

	Year Ended June 30	
	2022	2021
Operating activities		
Net change in net assets without donor restrictions	\$ (2,863,676)	\$ 6,276,545
Adjustments to reconcile net change in net assets without donor restrictions to net cash from operating activities:		
Depreciation	400,804	376,446
Forgiveness of PPP loan	-	(5,049,500)
Net unrealized loss (gain) on investments	115,231	(214,327)
Change in assets and liabilities:		
Patient accounts receivable	(92,796)	(586,051)
Other receivables	169,055	(963,499)
Prepaid expenses	(142,629)	(165,614)
Accounts payable	1,081,586	298,739
Other accrued liabilities and payroll and related liabilities	683,914	413,213
Deferred revenue and other obligations	31,948	44,338
Net cash from operating activities	<u>(616,563)</u>	430,290
Investing activities		
Purchases of leasehold improvements, furniture, and equipment	(862,963)	(121,134)
Net reductions (additions) to investments	574,434	(4,043,675)
Net cash from investing activities	<u>(288,529)</u>	(4,164,809)
Net change in cash	(905,092)	(3,734,519)
Cash, cash equivalents, and designated funds at beginning of year	5,372,263	9,106,782
Cash, cash equivalents, and designated funds at end of year	<u>\$ 4,467,171</u>	<u>\$ 5,372,263</u>

CMU Medical Education Partners

Notes to Financial Statements

June 30, 2022

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 and is exempt from similar state and local taxes. 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, 2022

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, 2022 or 2021.

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Notes to Financial Statements

June 30, 2022

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, 2022 and 2021, 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, 2022

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, these represent substantially all the total investment at June 30, 2022 and 2021.

Leasehold Improvements, Furniture, and Equipment

Leasehold improvements, furniture, and equipment are stated at cost. Leasehold improvements, furniture, and equipment purchases in excess of \$1,000 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.

CMU Medical Education Partners

Notes to Financial Statements

June 30, 2022

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, 2022 include Medicare (24.2%), Blue Cross (8.8%), Medicaid (30.1%), and other commercial insurers (18.4%), and self-pay (18.5%). Significant concentrations of accounts receivable at June 30, 2021 include Medicare (18.0%), Blue Cross (9.9%), Medicaid (34.1%), and other commercial insurers (18.9%) and self-pay (19.1%).

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 \$43,882 for the year ended June 30, 2022 and \$26,996 for the year ended June 30, 2021.

CMU Medical Education Partners

Notes to Financial Statements

June 30, 2022

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, wages, payroll taxes, and fringe benefits	Time and effort
Facility and equipment	Relative program activity
Clinical and office supplies	Relative program activity
Consulting and contractual services	Relative program activity
Insurance	Relative program activity
Depreciation	Relative program activity
Other expenses	Relative program activity

Subsequent Events

Subsequent events have been evaluated through August 8, 2022. This is also the date the financial statements were available to be issued.

CMU Medical Education Partners

Notes to Financial Statements

June 30, 2022

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>2022</u>	<u>2021</u>
Cash	\$ 4,467,171	\$ 5,372,263
Accounts receivable – patient services	1,167,298	1,074,502
Receivables – funding support	775,419	773,528
Related party receivables	1,108,105	1,279,051
Investments	7,827,434	8,782,537
Total financial assets	<u>15,345,427</u>	<u>17,281,881</u>
Less amounts not available to be used within one year:		
Assets whose use is limited	<u>7,827,434</u>	<u>8,782,537</u>
Financial assets available to meet general expenditures over the next twelve months	<u>\$ 7,517,993</u>	<u>\$ 8,499,344</u>

CMU Medical Education Partners

Notes to Financial Statements

June 30, 2022

3. Patient Accounts Receivable

The detail of patient accounts receivable is as follows:

Department	June 30, 2022		
	Patient	Insurance	Total
Family Practice	\$ 32,808	\$ 152,936	\$ 185,744
OB/GYN	100,361	435,417	535,778
Internal Medicine	26,588	198,042	224,630
Hospitalists	62,062	177,197	239,259
Pediatrics	51,009	238,248	289,257
Colony	7,430	90,787	98,217
Surgery	167,145	1,097,203	1,264,348
Psychiatry	22,294	67,221	89,515
Child/Adolescent Psychiatry	-	7,197	7,197
Hallmark	19,783	286,123	305,906
Subtotal	489,480	2,750,371	3,239,851
Unapplied payments	-	(142,889)	(142,889)
Subtotal	489,480	2,607,482	3,096,962
Less:			
Contractual allowances	-	1,607,919	1,607,919
Allowance for doubtful accounts	321,745	-	321,745
Net patient accounts receivable	\$ 167,735	\$ 999,563	\$1,167,298

As of June 30, 2022, unapplied payments of \$142,889 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, 2022

3. Patient Accounts Receivable (continued)

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
Hospitalists	33,610	222,900	256,510
Pediatrics	52,757	186,052	238,809
Colony	16,764	80,803	97,567
Surgery	229,362	952,691	1,182,053
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.

4. Property and Equipment

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

	June 30	
	2022	2021
Total property and equipment	\$ 6,998,731	\$ 6,135,771
Less: accumulated depreciation	5,217,824	4,817,023
	\$ 1,780,907	\$ 1,318,748

Included in property and equipment are purchases of the following three buildings in Saginaw, Michigan during the year ended June 30, 2022:

5421 North Colony Drive	\$ 172,216
3201 Hallmark Drive	210,000
3215 Hallmark Drive	160,000

CMU Medical Education Partners

Notes to Financial Statements

June 30, 2022

5. Investments

Fair values of assets measured on a recurring basis at June 30, 2022 and 2021 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, 2022				
Current investments:				
Fixed income	\$ 1,478,045	\$ 1,478,045	\$ -	\$ -
Money market funds	80,811	80,811	-	-
Equity investments	1,340,724	1,340,724	-	-
Mutual funds	588,854	588,854	-	-
	3,488,434	3,488,434	-	-
Limited-use investments:				
Cash and money market funds	59,084	59,084	-	-
Mutual funds	836,579	836,579	-	-
	895,663	895,663	-	-
457(b) Plan investments:				
Mutual funds	3,443,337	3,443,337	-	-
	\$ 7,827,434	\$ 7,827,434	\$ -	\$ -
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	\$ -	\$ -

CMU Medical Education Partners

Notes to Financial Statements

June 30, 2022

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 provisions of the Master Affiliation Agreement that became effective July 1, 2021, 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>2022</u>	<u>2021</u>
Receivables - member hospitals		
St. Mary's	\$ 881,317	\$ 928,733
Covenant	<u>226,788</u>	<u>350,318</u>
	<u>1,108,105</u>	1,279,051
Included in receivables – funding support		
CMU	<u>285,029</u>	274,093

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

	<u>2022</u>	<u>2021</u>
CMU	<u>\$ 212,175</u>	<u>\$ 198,948</u>

8. Net Assets

There were no net assets with donor restrictions as of June 30, 2022 or June 30, 2021.

CMU Medical Education Partners

Notes to Financial Statements

June 30, 2022

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 and, therefore, this is not recorded on the balance sheet. As of June 30, 2022, the most recent statement available for the fund was for the period ended March 31, 2022 which showed the balance of the fund was \$146,685. The funds available to spend as of March 31, 2022 were \$7,717. The Corporation received \$7,794 in grants from the endowment fund in 2022 and \$46,101 in 2021.

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 were no significant services in process at June 30, 2022.

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.

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10. Revenue from Contracts with Customers (continued)

Revenue from contracts with customers consisted of the following for the year ended June 30:

Revenue Stream	2022	2021
Patient service revenue, gross	\$ 28,191,592	\$ 24,333,402
Less: contractual adjustments	(13,123,592)	(11,485,197)
Patient revenue, net	15,068,000	12,848,205
Contractual services with hospitals and other healthcare providers that included within overall contractual revenue	12,471,974	12,075,923
Other services	2,762,708	2,194,948
Total revenue from contracts with customers	\$ 30,302,682	\$ 27,119,076

As of June 30, 2022, 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, 2022, 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 changes in medical regulations, rising costs, and availability of medical personnel.

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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 \$1,960,000 was recorded for 2022. Revenue of \$1,200,000 was recorded for 2021. Amounts recorded as deferred revenue was \$564,793 as of June 30, 2022 and \$262,771 as of June 30, 2021.

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 (none in the fiscal year ended June 30, 2022).

12. Paycheck Protection Program Funds

In April 2020, the Corporation secured borrowings in the amount of \$5,049,500 through the Paycheck Protection Program ("PPP"), obtained through the federal Coronavirus Aid, Relief, and Economic Security Act ("CARES Act"). There are certain provisions with the PPP which permit the Corporation to have this loan fully or partially forgiven based on specific stipulations within the agreement. 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. The Corporation received forgiveness of the loan, and therefore, the PPP proceeds were recorded as other income in 2021.

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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, 2022 and 2021. The cost to the Corporation was \$935,598 for the year ended June 30, 2022 and \$891,316 for the year ended June 30, 2021.

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 \$3,443,337 as of June 30, 2022 and \$3,708,775 as of 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, 2022 and 2021, \$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. Included in other revenue is contribution revenue of \$25,448 for the year ended June 30, 2022 and \$50,892 for the year ended June 30, 2021. An amount equal to contribution revenue was recorded as facility expense for each year. During the year ended June 30, 2022, the Corporation purchased the building which resulted in a decrease in rent expense as compared to the prior year.

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14. Lease Commitments (continued)

During 2022, the Corporation entered into a 10-year lease agreement with St. Mary's for the occupancy of 1015 S. Washington Avenue, Saginaw. Under the terms of the lease, the Corporation pays St. Mary's \$-0- annually. Management of the Corporation has estimated that the fair value of the lease is approximately \$113,968 per year. For the year ended June 30, 2022, \$113,968 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. Monthly lease payments are \$12,800 and lease expense was \$153,600 for the year ended June 30, 2022

In 2013, the Corporation entered into a 15-year lease with MSA Ventures II LLC for commercial office space in Saginaw, Michigan. Monthly lease payments are \$16,421 and lease expense was \$197,040 for the year ended June 30, 2022.

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. Monthly lease payments are \$38,879 and lease expense was \$466,551 for the year ended June 30, 2022.

Total lease expense, excluding in-kind rent, for multi-year non-cancelable and cancelable leases was approximately \$854,000 for the year ended June 30, 2022 and \$889,000 for the year ended June 30, 2021. The future lease commitments as of June 30, 2022 are as follows:

2022-23	\$ 842,000
2023-24	832,000
2024-25	823,000
2025-26	817,000
2026-27	817,000
Thereafter (2028 through 2029)	320,000
	<u>\$4,451,000</u>

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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>2022</u>	<u>2021</u>
Investments designated for professional liability funding	\$ 895,663	\$ 1,020,857
Less: Estimated professional liability under self-insurance	200,000	200,000
Estimated over funding of liability	<u>\$ 695,663</u>	<u>\$ 820,857</u>

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

The Corporation has 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, 2022, the disposition or ultimate resolution of such claims and lawsuits will not have an adverse material effect on the financial position of the Corporation.

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17. Risks and Uncertainties

The Corporation invests in various investment securities. These investments are exposed to various risks, such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in values of investment securities will occur in the near-term and long-term and that such changes could materially affect the amounts reported in the consolidated statements of financial position.

The coronavirus pandemic has had an economic impact on the United States and the international community which has placed significant demands on the Corporation for providing services to patients. While the pandemic has shown signs of easing, the ultimate financial consequences remain uncertain.