

Audited Financial Statements

CMU Medical Education Partners

*Years Ended June 30, 2023 and 2022
with Report of Independent Auditors*



CMU Medical Education Partners
Audited Financial Statements
Years Ended June 30, 2023 and 2022

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Report of Independent Auditors

To the Board of Trustees of
CMU Medical Education Partners
Saginaw, Michigan

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, 2023 and 2022, 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, 2023 and 2022, 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 (U.S. GAAP).

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 U.S. GAAP, 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, 2023

CMU Medical Education Partners

Balance Sheets

	June 30	
	2023	2022
Assets		
Current assets:		
Cash and cash equivalents	\$ 3,533,305	\$ 3,723,972
Cash - designated funds	369,594	743,199
Investments	3,880,615	3,488,434
Accounts receivable patient services	1,163,814	1,167,298
Receivables - member hospitals	1,157,943	1,108,105
Receivables - funding support	807,707	775,419
Prepaid expenses	1,329,011	1,050,863
Total current assets	12,241,989	12,057,290
Investments whose use is limited:		
Investments held for designated purposes	973,239	895,663
Investments held for 457(b) plan participants	4,280,930	3,443,337
Investments held for MiDocs Program	750,000	-
Total assets whose use is limited	6,004,169	4,339,000
Other assets		
Intangible right-of-use asset - operating leases	13,540	13,540
Intangible right-of-use asset - financing lease	5,546,757	-
Leasehold improvements, furniture, and equipment, net	41,108	-
Total assets	\$ 26,885,300	\$ 18,190,737
Liabilities and net assets		
Current liabilities:		
Accounts payable	\$ 1,315,254	\$ 1,623,310
Payroll and related liabilities	3,528,052	4,031,531
Other payables	7,794	7,794
Deferred revenue	1,730,100	30,847
Current portion of operating lease liability	824,040	-
Current portion of financing lease liability	10,444	-
Total current liabilities	7,415,684	5,693,482
Long-term liabilities:		
Deferred obligations - MIDOCs program	810,418	564,793
Amounts due 457(b) plan participants	4,280,930	3,443,337
Malpractice liability	200,000	200,000
Operating lease liability - net of current portion	4,722,717	-
Financing lease liability - net of current portion	30,664	-
Total liabilities	17,460,413	9,901,612
Net assets:		
Without donor restrictions	9,424,887	8,289,125
Total net assets	9,424,887	8,289,125
Total liabilities and net assets	\$ 26,885,300	\$ 18,190,737

See accompanying notes.

CMU Medical Education Partners

Statements of Operations

	Year Ended June 30	
	2023	2022
Revenue and other support:		
Net patient service revenue	\$ 15,985,555	\$ 15,068,000
Quality incentive programs:		
PPAP/SNAF	2,238,721	2,323,471
Other incentive programs	519,106	439,237
Contract revenue	14,863,888	14,431,974
Member hospital contributions	23,573,333	21,712,133
Donations and grants:		
Contributed office space	714,568	714,568
Other donations and grant	1,156,118	179,050
Other revenue	235,954	152,406
Investment income (loss)	415,749	(538,189)
Total unrestricted revenues and other support	<u>59,702,992</u>	<u>54,482,650</u>
Operating expenses:		
Salaries, wages, and payroll taxes	41,758,677	40,235,464
Employee benefits	6,482,467	7,560,723
Other employee benefits	260,325	201,882
Recruiting	172,992	195,069
Clinical supplies	1,161,716	926,970
Office supplies	94,698	93,509
Educational supplies and services	491,309	445,187
Consulting and contractual services	1,536,353	1,425,336
Communications	266,008	357,256
Continuing medical education	435,213	396,858
Education, conferences and travel	660,392	599,869
Insurance	1,713,092	1,361,768
Facility and equipment	2,342,995	2,327,303
Other expenses	338,280	226,006
Depreciation	462,522	400,804
Patient bad debt expense	484,901	478,462
Total operating expenses	<u>58,661,940</u>	<u>57,232,466</u>
Revenue and other support over (under) operating expenses	1,041,052	(2,749,816)
Other nonoperating revenue (expense):		
Net investment income and interest	84,241	(115,231)
Nonoperating grant revenue	23,765	504,790
Nonoperating grant expense	-	(488,133)
Professional liability expense	(13,296)	(15,286)
Increase (decrease) in net assets without donor restrictions	<u>\$ 1,135,762</u>	<u>\$ (2,863,676)</u>

See accompanying notes.

CMU Medical Education Partners

Statements of Changes in Net Assets

Years Ended June 30, 2023 and 2022

	Net Assets Without Donor Restrictions		Total
	Undesignated		Net Assets
Net assets at July 1, 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
Revenues over expenses	1,135,762		1,135,762
Net assets at June 30, 2023	\$ 9,424,887	\$	9,424,887

CMU Medical Education Partners

Statements of Cash Flows

	Year Ended June 30	
	2023	2022
Operating activities		
Net change in net assets without donor restrictions	\$ 1,135,762	\$ (2,863,676)
Adjustments to reconcile net change in net assets without donor restrictions to net cash from operating activities:		
Depreciation	462,522	400,804
Net unrealized loss (gain) on investments	(84,241)	115,231
Change in assets and liabilities:		
Patient accounts receivable	3,484	(92,796)
Other receivables	(82,126)	169,055
Prepaid expenses	(278,148)	(142,629)
Accounts payable	(308,056)	1,081,586
Other accrued liabilities and payroll and related liabilities	(503,479)	683,914
Deferred revenue and other obligations	1,944,878	31,948
Net cash from operating activities	<u>2,290,596</u>	<u>(616,563)</u>
Investing activities		
Purchases of leasehold improvements, furniture, and equipment	(1,719,352)	(862,963)
Net reductions (additions) to investments	(1,135,516)	574,434
Net cash from investing activities	<u>(2,854,868)</u>	<u>(288,529)</u>
Net change in cash	(564,272)	(905,092)
Cash, cash equivalents, and designated funds at beginning of year	4,467,171	5,372,263
Cash, cash equivalents, and designated funds at end of year	<u>\$ 3,902,899</u>	<u>\$ 4,467,171</u>

CMU Medical Education Partners

Notes to Financial Statements

June 30, 2023

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, 2023

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, 2023 or 2022.

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Notes to Financial Statements

June 30, 2023

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, 2023 and 2022, 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.

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Notes to Financial Statements

June 30, 2023

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, 2023 and 2022.

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, 2023

1. Summary of Accounting Policies (continued)

Revenue from Contracts with Customers

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

- Patient service revenue. Patient service revenue and an accounts receivable are recorded when patient services are performed. 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.

Net Patient Service Revenue and Patient Accounts Receivable

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 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.

CMU Medical Education Partners

Notes to Financial Statements

June 30, 2023

1. Summary of Accounting Policies (continued)

Net Patient Service Revenue and Patient Accounts Receivable (continued)

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, 2023 include Medicare (28.8%), Blue Cross (13.3%), Medicaid (27.2%), and other commercial insurers (17.5%), and self-pay (13.2%). 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%).

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.

Contributed Nonfinancial Assets (In-Kind Contributions)

Contributed nonfinancial assets are recorded at their estimated fair value determined on the date of contribution and are reported as in-kind contributions on the accompanying statements of operations.

Advertising

The Corporation expenses advertising costs as incurred. Advertising costs were \$136,562 for the year ended June 30, 2023 and \$43,882 for the year ended June 30, 2022.

Reclassifications

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

CMU Medical Education Partners

Notes to Financial Statements

June 30, 2023

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, 2023. This is also the date the financial statements were available to be issued.

Adoption of New Accounting Standards

On July 1, 2022, the Corporation adopted FASB Accounting Standards Codification section 642, *Leases* (ASC 642), which requires the Corporation to recognize most leases on the balance sheet. The standard was adopted under a modified retrospective approach as of the date of adoption and the Corporation elected to apply several of the available practical expedients, including:

- Carryover of historical lease determination and lease classification conclusions.
- Not apply the recognition and measurement requirements to short-term leases, which are leases with a term of 12 months or less without an option to purchase.
- Accounting for lease and non-lease components in contracts in which the Corporation is a lessee as a single lease component.
- Use of hindsight for determining lease term.

Adoption of the leasing standard resulted in the recognition of operating right-to-use assets and lease liabilities of \$6,237,028 as of July 1, 2022. This amount was determined based on the present value of remaining lease payments at July 1, 2022, discounted using a risk-free rate of return applicable to each lease term and which ranged from 1.57% to 3.66%. There was no material impact to the timing of expense recognition in the Corporation's statements of activity. Disclosures about the Corporation's leasing activities are presented in Note 14.

CMU Medical Education Partners

Notes to Financial Statements

June 30, 2023

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>2023</u>	<u>2022</u>
Cash	\$ 3,902,899	\$ 4,467,171
Accounts receivable – patient services	1,163,814	1,167,298
Receivables – funding support	807,707	775,419
Related party receivables	1,157,943	1,108,105
Investments	9,884,784	7,827,434
Total financial assets	16,917,147	15,345,427
Less amounts not available to be used within one year:		
Assets whose use is limited	9,884,784	7,827,434
Financial assets available to meet general expenditures over the next twelve months	\$ 7,032,363	\$ 7,517,993

CMU Medical Education Partners

Notes to Financial Statements

June 30, 2023

3. Patient Accounts Receivable

The detail of patient accounts receivable is as follows:

Department	June 30, 2023		
	Patient	Insurance	Total
Family Practice	\$ 20,420	\$ 155,743	\$ 176,163
OB/GYN	91,882	554,695	646,577
Internal Medicine	29,506	297,358	326,864
Hospitalists	40,372	162,694	203,066
Pediatrics	38,074	209,684	247,758
Colony	4,545	122,309	126,854
Surgery	107,612	963,432	1,071,044
Psychiatry	17,792	108,712	126,504
Child/Adolescent Psychiatry	-	(1,176)	(1,176)
Hallmark	19,832	234,713	254,545
Subtotal	370,035	2,808,164	3,178,199
Unapplied payments	-	(153,463)	(153,463)
Subtotal	370,035	2,654,701	3,024,736
Less:			
Contractual allowances	-	1,613,552	1,613,552
Allowance for doubtful accounts	247,370	-	247,370
Net patient accounts receivable	<u>\$ 122,665</u>	<u>\$ 1,041,149</u>	<u>\$ 1,163,814</u>

As of June 30, 2023, unapplied payments of \$153,463 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, 2023

3. Patient Accounts Receivable (continued)

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.

4. Property and Equipment

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

	June 30	
	2023	2022
Total property and equipment	\$ 8,718,083	\$ 6,998,731
Less: accumulated depreciation	5,680,346	5,217,824
	\$ 3,037,737	\$ 1,780,907

Included in property and equipment for the year ended June 30, 2023 are approximately \$1.4M in renovation costs associated with the Houghton Avenue location. That project is still in process as of June 30, 2023.

CMU Medical Education Partners

Notes to Financial Statements

June 30, 2023

5. Investments

Fair values of assets measured on a recurring basis at June 30, 2023 and 2022 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, 2023				
Current investments:				
Fixed income	\$ 1,505,117	\$ 1,505,117	\$ -	\$ -
Money market funds	71,812	71,812	-	-
Equity investments	1,732,715	1,731,715	-	-
Mutual funds	570,971	570,971	-	-
	3,880,615	3,880,615	-	-
Limited-use investments:				
Cash and money market funds	86,286	86,286	-	-
Equity funds	581,178	581,178	-	-
Fixed income funds	305,775	305,775	-	-
	973,239	973,239	-	-
457(b) plan investments:				
Mutual funds	4,280,930	4,280,930	-	-
MIDocs investments:				
Cash	750,000	750,000	-	-
	\$ 9,884,784	\$ 9,884,784	\$ -	\$ -
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	\$ -	\$ -

CMU Medical Education Partners

Notes to Financial Statements

June 30, 2023

6. Medical Educational Funding

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 passes through to the Corporation.

7. Related Party Receivables and Payables

Related party receivables include the following amounts at June 30:

	<u>2023</u>	<u>2022</u>
Receivables - member hospitals		
St. Mary's	\$ 883,110	\$ 881,317
Covenant	274,833	226,788
	<u>1,157,943</u>	<u>1,108,105</u>
Included in receivables – funding support		
CMU	202,110	285,029

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

	<u>2023</u>	<u>2022</u>
CMU	\$ 323,338	\$ 212,175

8. Net Assets

There were no net assets with donor restrictions as of June 30, 2023 or 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, 2023, the balance of the fund was \$131,915. The funds available to spend as of June 30, 2023 were \$7,431. The Corporation received \$ -0- in grants from the endowment fund in 2023 and \$7,794 in 2022.

CMU Medical Education Partners

Notes to Financial Statements

June 30, 2023

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, 2023.

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

Revenue Stream	2023	2022
Patient service revenue, gross	\$ 29,951,671	\$ 28,191,592
Less: contractual adjustments	(13,966,116)	(13,123,592)
Patient revenue, net	15,985,555	15,068,000
Contractual services with hospitals and other healthcare providers that included within overall contractual revenue	11,188,495	12,471,974
Other services	2,757,827	2,762,708
Total revenue from contracts with customers	<u>\$ 29,931,877</u>	<u>\$ 30,302,682</u>

As of June 30, 2023, the Corporation had significant receivables related to contracts with customers. These balances are detailed in Notes 3 and 7. During the year ended June 30, 2023, 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.

CMU Medical Education Partners

Notes to Financial Statements

June 30, 2023

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 \$3,195,393 was recorded for 2023 and \$1,960,000 was recorded for 2022. Deferred revenue was \$810,418 at June 30, 2023 and \$564,793 at June 30, 2022.

Healthcare Preparedness Grants – Through the year ended June 30, 2022, the Corporation was a subrecipient of federal grants passed through the Michigan Department of Community Health for healthcare preparedness. The program focused on the continued development and implementation of regional plans to improve the capacity and capability of the healthcare system, including hospitals, emergency medical services, outpatient facilities and other health facilities. The grants were administered by a third-party. For the year ended June 30, 2022, grant revenue and related expenses are recorded as nonoperating revenue and expense. Effective July 1, 2022, this program was transferred to the Saginaw-Tuscola Medical Control Authority.

Teaching Health Center Graduate Medical Education (THCGME) Program – Central Michigan University College of Medicine – CMU Medical Education Partners was a 2022 THCGME grant winner for both the Internal Medicine and Psychiatry residency program, and an eligible entity due to its status as a community-based ambulatory patient care center that has been part of a GME consortium for more than 50 years that operates an accredited primary care residency program. Central Michigan University College of Medicine/CMU Medical Education Partners is part of a GME consortium which includes two community hospitals, a university medical school and CMU Medical Education partners, an educational institution. This grant is new to CMU Partners and was effective July 1, 2022, and provides \$160,000 in funding per resident position. This funding allowed for an increase of 2 resident positions in Internal Medicine and 1 in Psychiatry. Funding for the Internal Medicine and Psychiatry programs was \$320,000 and \$160,000, respectively.

CMU Medical Education Partners

Notes to Financial Statements

June 30, 2023

11. Grant Programs (continued)

CMU Health Women's and Children's Center – CMEP is the beneficiary of two grants awarded to Central Michigan University for the establishment of a CMU Health Women's and Children's Center. Each of the two grants to CMU is \$1,500,000 (\$3,000,000 in total) and payable in three equal annual installments. Under the grant funding agreement, CMU distributes payments to CMEP when received from the granting organizations. For the year ended June 30, 2023, CMEP received and recorded \$1,000,000 under these grants.

12. Contributed Nonfinancial Assets (In-Kind Contributions)

As further described in Note 14, building space locations in Saginaw, Michigan, are contributed on an annual basis by two related parties. Each contributed building space is valued at its estimated fair value on the basis of recent comparable lease prices in the Saginaw, Michigan real estate market. Revenue recognized for the contributed nonfinancial asset for Corporation's Houghton Avenue location was \$600,600 for the years ended June 30, 2023 and 2022 and \$131,968 for the Corporation's 1015 S. Washington Avenue location for the years June 30, 2023 and 2022. These amounts are included in revenue and program expenses in the statements of operations. There are no associated donor restrictions on the contributions.

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, 2023 and 2022. The cost to the Corporation was \$534,944 for the year ended June 30, 2023 and \$935,598 for the year ended June 30, 2022.

457(b) Plan

During 2021, 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 \$4,280,930 as of June 30, 2023 and \$3,443,337 as of June 30, 2022.

CMU Medical Education Partners

Notes to Financial Statements

June 30, 2023

14. Leases

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, 2023 and 2022, \$600,600 is recorded as contribution revenue (included in donations and grant revenue) with an equal amount recorded as facility expense.

During 2021, the Corporation entered into a 10-year lease agreement with St. Mary's for the occupancy of 1015 S. Washington Avenue, Saginaw. In 2022, the Corporation signed an amendment to the original agreement to lease additional space. 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 years ended June 30, 2023 and 2022, \$113,968 was recorded as contribution revenue (included in donations and grant revenue) with an equal amount recorded as facility expense.

Operating Leases

In 2018, the Corporation entered into a 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 years ended June 30, 2023 and 2022. The estimates of the Corporation's intangible right-of-use asset and related lease liability is based on an assumption that the five additional 5-year lease option is reasonably likely to be exercised.

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 years ended June 30, 2023 and 2022. The estimates of the Corporation's intangible right-of-use asset and related lease liability is based on an assumption that the two additional 5-year lease options are reasonably likely to be exercised.

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 years ended June 30, 2023 and 2022. The estimates of the Corporation's intangible right-of-use asset and related lease liability is based on an assumption that the 10-year lease option is reasonably likely to be exercised.

The Corporation has two operating leases for equipment that expire during the year ending June 30, 2025. Neither lease is expected to be renewed. Termination of the leases is generally prohibited unless there is a violation under the lease agreement.

CMU Medical Education Partners

Notes to Financial Statements

June 30, 2023

14. Leases (continued)

Finance Leases

The Corporation has one lease for equipment that meets the criteria for a finance lease. Termination of the lease generally is prohibited unless there is a violation under the lease agreement.

Short-Term Leases

The Corporation leases certain equipment on a demand basis. The Corporation has elected the practical expedient for these short-term leases as the lease terms are less than 12 months. Total short-term lease expense included in operating expenses was \$82,977 for the year ending June 30, 2023 and \$74,665 for the year ended June 30, 2022.

All Leases

The Corporation's lease agreements do not contain any material residual value guarantees or material restrictive covenants.

Quantitative Disclosures

The lease cost and other required information, excluding in-kind rent, for the year ended June 30, 2023 are:

	<u>2023</u>
Lease costs	
Finance lease cost:	
Amortization of right-of-use asset	\$ 7,497
Interest on lease liabilities	1,353
Operating lease cost	833,640
Short-term lease cost	<u>82,977</u>
Total lease costs	<u>\$ 925,467</u>

CMU Medical Education Partners

Notes to Financial Statements

June 30, 2023

14. Leases (continued)

Quantitative Disclosures (continued)

Other information

Cash paid for amounts included in the measurement of lease liabilities:

Operating cash flows from finance leases	\$ 120
Finance cash flows from finance leases	\$ 8,730
Operating cash flows from operating leases	\$ 834,644

Weighted-average remaining lease term:

Finance leases	4.17 years
Operating leases	10.16 years

Weighted-average discount rate:

Finance lease	3.66%
Operating leases	2.68%

Maturity Analysis of Lease Liability

Future minimum lease payments and reconciliation to the consolidated balance sheet at June 30, 2023.

	Operating Leases		Financing Lease	
	Related Party	Non-Related Party	Non-Related Party	Total
2024	\$ 811,200	\$ 22,440	\$ 10,620	\$ 844,260
2025	811,200	8,208	10,620	830,028
2026	811,200	-	10,620	821,820
2027	811,200	-	10,620	821,820
2028	357,052	-	1,770	358,822
Thereafter	2,761,341	-	-	2,761,341
Total	6,363,193	30,648	44,250	6,438,091
Less interest	(846,775)	(309)	(3,142)	(850,226)
Lease liabilities	\$ 5,516,418	\$ 30,339	\$ 41,108	\$ 5,587,865

CMU Medical Education Partners

Notes to Financial Statements

June 30, 2023

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>2023</u>	<u>2022</u>
Investments designated for professional liability funding	\$ 973,239	\$ 895,663
Less: Estimated professional liability under self-insurance	200,000	200,000
Estimated over funding of liability	<u>\$ 773,239</u>	<u>\$ 695,663</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.

CMU Medical Education Partners

Notes to Financial Statements

June 30, 2023

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, 2023, 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 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.

CMU Medical Education Partners

Notes to Financial Statements

June 30, 2023

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, 2023 are as follows:

	Program Services				Support Services	Total
	Clinical Services	Education	MiDOCS	THC	Admini- stration	
Operating expenses						
Salaries, wages, and payroll taxes	\$21,358,292	\$16,088,941	\$1,936,346	\$302,684	\$2,072,414	\$41,758,677
Fringe benefits	2,727,592	2,701,526	611,265	88,373	353,711	6,482,467
Other employee benefits	9,172	37,970	2,389	357	210,437	260,325
Recruiting	82,555	48,810	567	-	41,060	172,992
Clinical supplies	1,147,843	13,623	-	-	250	1,161,716
Office supplies	61,569	9,776	-	-	23,353	94,698
Educational supplies and services	18,524	366,736	9,136	1,127	95,786	491,309
Consulting and contractual services	1,069,415	295,281	63,906	-	107,751	1,536,353
Communications	176,726	38,026	1,368	283	49,605	266,008
Continuing medical education	128,604	282,755	22,477	1,275	102	435,213
Education, conferences and travel	126,853	494,857	18,108	4,628	15,946	660,392
Insurance	699,503	859,974	78,751	9,121	65,743	1,713,092
Facility and equipment	908,098	1,265,860	-	-	169,037	2,342,995
Other expenses	66,815	(240,708)	276,240	43,617	192,316	338,280
Depreciation	65,712	66,053	-	-	330,757	462,522
Patient bad debt expense	484,901	-	-	-	-	484,901
Total operating expenses	\$29,132,174	\$22,329,480	\$3,020,553	\$451,465	\$3,728,268	\$58,661,940

CMU Medical Education Partners

Notes to Financial Statements

June 30, 2023

18. Functional Expenses (continued)

Operating expenses related to providing these program and support services for the year ended June 30, 2022 are as follows:

	Program Services				Support Services	Total
	Clinical Services	Education	MiDOCS	THC	Admini- stration	
Operating expenses						
Salaries, wages, and payroll taxes	\$21,032,645	\$15,652,566	\$1,340,295	\$ -	\$2,209,958	\$40,235,464
Fringe benefits	3,107,657	3,317,676	363,791	-	771,599	7,560,723
Other employee benefits	9,700	25,173	623	-	166,386	201,882
Recruiting	136,646	25,557	435	-	32,431	195,069
Clinical supplies	905,144	21,590	-	-	236	926,970
Office supplies	54,367	7,077	-	-	32,065	93,509
Educational supplies and services	18,619	382,329	5,628	-	38,611	445,187
Consulting and contractual services	925,470	292,473	56,275	-	151,118	1,425,336
Communications	257,352	40,295	936	-	58,673	357,256
Continuing medical education	119,594	261,235	16,029	-	-	396,858
Education, conferences and travel	133,532	434,520	11,178	-	20,639	599,869
Insurance	468,756	744,580	48,921	-	99,511	1,361,768
Facility and equipment	1,026,496	1,196,960	-	-	103,847	2,327,303
Other expenses	67,920	(155,159)	184,641	513	128,091	226,006
Depreciation	77,761	66,471	-	-	256,572	400,804
Patient bad debt expense	478,462	-	-	-	-	478,462
Total operating expenses	\$28,820,121	\$22,313,343	\$2,028,752	\$513	\$4,069,737	\$57,232,466