

Audited Financial Statements

CMU Medical Education Partners

*Years Ended June 30, 2024 and 2023
with Report of Independent Auditors*

CMU Medical Education Partners
Audited Financial Statements
Years Ended June 30, 2024 and 2023

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Report of Independent Auditors

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

Report on the Financial Statements

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, 2024 and 2023, 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, 2024 and 2023, 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) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 and *Government Auditing Standards* 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 and *Government Auditing Standards*, 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated August 8, 2024, on our consideration of CMU Medical Education Partners' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the CMU Medical Education Partners' internal control over financial reporting and compliance.

Andrews Hooper Pavlik PLC

Saginaw, Michigan
August 8, 2024

CMU Medical Education Partners

Balance Sheets

	June 30	
	2024	2023
Assets		
Current assets:		
Cash and cash equivalents	\$ 1,225,099	\$ 3,533,305
Cash - designated funds	142,183	369,594
Investments	4,525,515	3,880,615
Accounts receivable - patient services	1,136,445	1,163,814
Receivables - member hospitals	959,811	1,157,943
Receivables - funding support	963,018	807,707
Prepaid expenses	1,120,844	1,329,011
Total current assets	10,072,915	12,241,989
Investments whose use is limited:		
Investments held for designated purposes	1,091,829	973,239
Investments held for 457(b) plan participants	5,185,181	4,280,930
Investments held for MiDocs Program	975,000	750,000
Total investments whose use is limited	7,252,010	6,004,169
Other assets		
Intangible right-of-use asset - operating leases	13,540	13,540
Intangible right-of-use asset - financing lease	4,863,079	5,546,757
Leasehold improvements, furniture, and equipment, net	462,744	41,108
Total assets	\$ 25,554,026	\$ 26,885,300
Liabilities and net assets		
Current liabilities:		
Accounts payable	\$ 1,075,076	\$ 1,315,254
Payroll and related liabilities	3,709,138	3,528,052
Other payables	1,794	7,794
Deferred revenue	434,859	1,730,100
Current portion of operating lease liability	816,396	696,659
Current portion of financing lease liability	115,848	8,514
Total current liabilities	6,153,111	7,286,373
Long-term liabilities:		
Deferred obligations - MIDOCs program	1,066,506	810,418
Amounts due 457(b) plan participants	5,185,181	4,280,930
Malpractice liability	200,000	200,000
Operating lease liability - net of current portion	4,046,683	4,850,098
Financing lease liability - net of current portion	346,896	32,594
Total liabilities	16,998,377	17,460,413
Net assets:		
Without donor restrictions	8,555,649	9,424,887
Total net assets	8,555,649	9,424,887
Total liabilities and net assets	\$ 25,554,026	\$ 26,885,300

See accompanying notes.

CMU Medical Education Partners

Statements of Operations

	Year Ended June 30	
	2024	2023
Revenue and other support:		
Net patient service revenue	\$ 16,953,776	\$ 15,985,555
Quality incentive programs:		
PPAP/SNAF	2,186,379	2,238,721
Other incentive programs	368,339	519,106
Contract revenue	15,202,925	14,863,888
Member hospitals contribution	21,112,553	23,573,333
Donations and grants:		
Contributed office space	714,568	714,568
Other donations and grant	1,393,889	1,156,118
Other revenue	348,925	235,954
Investment income	671,811	415,749
Total unrestricted revenues and other support	58,953,165	59,702,992
Operating expenses:		
Salaries, wages, and payroll taxes	41,960,239	41,758,677
Employee benefits	6,800,574	6,482,467
Other employee benefits	231,291	260,325
Recruiting	259,209	172,992
Consumable supplies	1,235,784	1,256,414
Educational supplies and services	462,854	491,309
Consulting and contractual services	2,048,435	1,536,353
Communications	290,276	266,008
Continuing medical education	308,886	435,213
Education, conferences, and travel	685,447	660,392
Insurance	1,618,654	1,713,092
Facility and equipment	2,377,508	2,342,995
Other expenses	455,159	338,280
Depreciation	583,336	462,522
Patient bad debt expense	623,944	484,901
Total operating expenses	59,941,596	58,661,940
Revenue and other support over (under) operating expenses	(988,431)	1,041,052
Other nonoperating revenue (expense):		
Net investment income and interest	126,123	84,241
Nonoperating grant revenue	-	23,765
Professional liability expense	(6,930)	(13,296)
Change in net assets without donor restrictions	\$ (869,238)	\$ 1,135,762

See accompanying notes.

CMU Medical Education Partners

Statements of Changes in Net Assets

Years Ended June 30, 2024 and 2023

	Net Assets Without Donor Restrictions		Total
	Undesignated		Net Assets
Net assets as of July 1, 2022	\$ 8,289,125	\$	8,289,125
Revenues under expenses	1,135,762		1,135,762
Net assets as of June 30, 2023	9,424,887		9,424,887
Revenues over expenses	(869,238)		(869,238)
Net assets as of June 30, 2024	<u>\$ 8,555,649</u>	<u>\$</u>	<u>8,555,649</u>

CMU Medical Education Partners

Statements of Cash Flows

	Year Ended June 30	
	2024	2023
Operating activities		
Net change in net assets without donor restrictions	\$ (869,238)	\$ 1,135,762
Adjustments to reconcile net change in net assets without donor restrictions to net cash from operating activities:		
Depreciation	583,336	462,522
Net unrealized gain on investments	(126,123)	(84,241)
Change in assets and liabilities:		
Patient accounts receivable	27,369	3,484
Other receivables	42,821	(82,126)
Prepaid expenses	208,167	(278,148)
Accounts payable	(240,178)	(308,056)
Other accrued liabilities and payroll and related liabilities	175,086	(503,479)
Deferred revenue and other obligations	(1,039,153)	1,944,878
Net cash from operating activities	<u>(1,237,913)</u>	<u>2,290,596</u>
Investing activities		
Purchases of leasehold improvements, furniture, and equipment	(435,337)	(1,719,352)
Net additions to investments	(862,367)	(1,135,516)
Net cash from investing activities	<u>(1,297,704)</u>	<u>(2,854,868)</u>
Net change in cash and cash equivalents	(2,535,617)	(564,272)
Cash, cash equivalents, and designated funds at beginning of year	3,902,899	4,467,171
Cash, cash equivalents, and designated funds at end of year	<u>\$ 1,367,282</u>	<u>\$ 3,902,899</u>

CMU Medical Education Partners

Notes to Financial Statements

June 30, 2024

1. Summary of Significant 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 Corporation operates under a Master Affiliation Agreement (Agreement) between the Corporation, the Central Michigan University Board of Trustees, CHAS, 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, 2024

1. Summary of Significant 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, 2024 or 2023.

CMU Medical Education Partners

Notes to Financial Statements

June 30, 2024

1. Summary of Significant 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 years ended June 30, 2024 and 2023, 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, 2024

1. Summary of Significant 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, 2024 and 2023.

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.

Leases and Right-of-Use Assets

The Corporation contracts for the use of certain assets. At contract inception, the Corporation determines if an arrangement is or contains a lease and only reassesses its determination if the terms and conditions of the arrangement are changed. A lease conveys the right to control the use of an identified asset for a period of time in exchange for consideration. If the arrangement is determined to be or contain a lease, the lease is assessed for classification as either an operating or finance lease at the lease commencement date, defined as the date on which the leased asset is made available for use by the Corporation. When the Corporation is the lessee, for each lease with a term greater than twelve months, it records a right-of-use asset and a lease liability.

CMU Medical Education Partners

Notes to Financial Statements

June 30, 2024

1. Summary of Significant Accounting Policies (continued)

Leases and Right-of-Use Assets (continued)

A right-of-use asset represents the economic benefit conveyed to the Corporation by the right to use the underlying asset over the lease term. A lease liability represents the obligation to make lease payments arising from the use of the asset over the lease term. Lease liabilities are measured at lease commencement and calculated as the present value of the future lease payments in the contract using the rate implicit in the contract, when available. If an implicit rate is not readily determinable, the Corporation uses an incremental borrowing rate measured as the rate at which the Corporation could borrow, on a fully collateralized basis, a commensurate loan in the same currency over a period consistent with the lease term at the commencement date. The Corporation may also elect to use a risk-free rate.

Right-of-use assets are measured as the amount of the initial lease liability plus initial direct costs and prepaid lease payments, less lease incentives granted by the lessor. The lease term is measured as the noncancelable period in the contract, adjusted for any options to extend or terminate when it is reasonably certain the Corporation will extend the lease term via such options based on an assessment of economic factors present as of the lease commencement date. Purchase options are also evaluated against the “reasonably certain” criteria. The Corporation has elected the practical expedient to not recognize leases with a lease term of twelve months or less.

Components of a lease are split into three categories: lease components, non-lease components, and non-components. The fixed and in-substance fixed contract consideration (including any consideration related to non-components) are allocated, based on the respective relative fair values, to the lease components and non-lease components. The Corporation has elected the practical expedient to account for lease and non-lease components together as a single lease component for all underlying assets and allocate all of the contract consideration to the lease component only.

The Corporation’s operating leases are presented in the balance sheet as operating lease right-of-use assets, classified as noncurrent assets, and operating lease liabilities, classified as current and noncurrent liabilities. Operating lease expense is recognized on a straight-line basis over the lease term. Variable costs associated with a lease, such as maintenance and utilities, are not included in the measurement of the lease liabilities and right-of-use assets but rather are expensed when the events determining the amount of variable consideration to be paid have occurred.

Disclosures about the Corporation’s leasing activities are presented in Note 14.

CMU Medical Education Partners

Notes to Financial Statements

June 30, 2024

1. Summary of Significant 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 U.S. GAAP.
- **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, 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, 2024

1. Summary of Significant 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, 2024 include Medicare (27.4%), Blue Cross (13.1%), Medicaid (23.1%), and other commercial insurers (15.1%), and self-pay (21.3%). 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%).

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 \$7,198 for the year ended June 30, 2024 and \$136,562 for the year ended June 30, 2023.

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, 2024

1. Summary of Significant 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 employee benefits	Time and effort
Facility and equipment	Relative program activity
Consumable supplies	Relative program activity
Consulting and contractual services	Relative program activity
Insurance	Relative program activity
Depreciation	Relative program activity
Other expenses	Relative program activity

Subsequent Events

Subsequent events have been evaluated through August 8, 2024. This is also the date the financial statements were available to be issued.

Adoption of New Accounting Standards

On July 1, 2023, the Corporation adopted FASB Accounting Standards Update 2016-13 *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments, as amended* (ASC 326), which replaces the incurred loss methodology with an expected loss methodology that is referred to as the current expected credit loss (CECL) methodology. The measurement of expected credit losses under the CECL methodology is applicable to financial assets measured at amortized cost, including accounts receivable. Such assets are presented at the net amount expected to be collected over their remaining contractual lives. Estimated credit losses are based on relevant information about historical experience, current conditions, and reasonable and supportable forecasts that affect the collectability of the reported amounts.

The Corporation adopted ASC 326 using the modified retrospective method. Results for reporting periods beginning after July 1, 2023, are presented under ASC 326 while prior period amounts continue to be reported in accordance with previously applicable GAAP. The adoption of this new standard did not have a significant impact on the Corporation.

CMU Medical Education Partners

Notes to Financial Statements

June 30, 2024

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>2024</u>	<u>2023</u>
Cash and cash equivalents	\$ 1,367,282	\$ 3,902,899
Accounts receivable – patient services	1,136,445	1,163,814
Receivables – member hospitals	959,811	1,157,943
Receivables – funding support	963,018	807,707
Investments	11,777,525	9,884,784
Total financial assets	16,204,081	16,917,147
Less amounts not available to be used within one year:		
Investments whose use is limited	11,777,525	9,884,784
Financial assets available to meet general expenditures over the next twelve months	\$ 4,426,556	\$ 7,032,363

CMU Medical Education Partners

Notes to Financial Statements

June 30, 2024

3. Patient Accounts Receivable

The detail of patient accounts receivable is as follows:

Department	June 30, 2024		
	Patient	Insurance	Total
Family Practice	\$ 28,015	\$ 119,477	\$ 147,492
OB/GYN	169,808	546,180	715,988
Internal Medicine	46,107	208,398	254,505
Hospitalists	44,047	126,179	170,226
Pediatrics	92,474	162,289	254,763
Colony	13,393	99,117	112,510
Surgery	119,022	899,002	1,018,024
Psychiatry	27,412	58,518	85,930
Child/Adolescent Psychiatry	1,986	11,186	13,172
Hallmark	40,628	122,331	162,959
Subtotal	582,892	2,352,677	2,935,569
Unapplied payments	-	(204,168)	(204,168)
Subtotal	582,892	2,148,509	2,731,401
Less:			
Contractual allowances	-	1,241,746	1,241,746
Allowance for doubtful accounts	353,210	-	353,210
Net patient accounts receivable	\$ 229,682	\$ 906,763	\$1,136,445

As of June 30, 2024, unapplied payments of \$204,168 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, 2024

3. Patient Accounts Receivable (continued)

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	\$ 122,665	\$ 1,041,149	\$ 1,163,814

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.

4. Property and Equipment

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

	June 30	
	2024	2023
Total property and equipment	\$ 8,688,870	\$ 8,718,083
Less: accumulated depreciation	5,799,132	5,680,346
	\$ 2,889,738	\$ 3,037,737

CMU Medical Education Partners

Notes to Financial Statements

June 30, 2024

5. Investments

Fair values of assets measured on a recurring basis at June 30, 2024 and 2023 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, 2024					
Current investments:					
Fixed income	\$ 1,653,637	\$ 1,653,637	\$ -	\$ -	
Money market funds	112,496	112,496	-	-	
Equity investments	2,184,892	2,184,892	-	-	
Mutual funds	574,490	574,490	-	-	
	4,525,515	4,525,515	-	-	
Limited-use investments:					
Cash and money market funds	41,582	41,582	-	-	
Equity funds	674,574	674,574	-	-	
Fixed income funds	375,673	375,673	-	-	
	1,091,829	1,091,829	-	-	
457(b) plan investments:					
Mutual funds	5,185,181	5,185,181	-	-	
MIDocs investments:					
Cash	975,000	975,000	-	-	
	\$ 11,777,525	\$ 11,777,525	\$ -	\$ -	
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	1,732,715	-	-	
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	\$ -	\$ -	

CMU Medical Education Partners

Notes to Financial Statements

June 30, 2024

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>2024</u>	<u>2023</u>
Receivables - member hospitals		
St. Mary's	\$ 622,283	\$ 883,110
Covenant	337,528	274,833
	<u>959,811</u>	<u>1,157,943</u>
Included in receivables – funding support		
CMU	\$ 225,913	\$ 202,110

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

	<u>2024</u>	<u>2023</u>
CMU	\$ 233,460	\$ 323,338

8. Net Assets

There were no net assets with donor restrictions as of June 30, 2024 or June 30, 2023.

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, 2024, the balance of the fund was \$141,064 and \$131,915 as of June 30, 2023. The funds available to spend as of June 30, 2024 were \$6,815 and \$7,431 as of June 30, 2023. The Corporation received \$7,430 in grants from the endowment fund in 2024 and \$7,717 in 2023.

CMU Medical Education Partners

Notes to Financial Statements

June 30, 2024

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 as of June 30, 2024 or June 30, 2023.

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

Revenue Stream	2024	2023
Patient service revenue, gross	\$ 30,866,182	\$ 29,951,671
Less: contractual adjustments	(13,912,406)	(13,966,116)
Net patient service revenue	16,953,776	15,985,555
Contractual services with hospitals and other healthcare providers included within overall contract revenue	11,235,902	11,188,495
Quality incentive programs	2,554,718	2,757,827
Total revenue from contracts with customers	\$ 30,744,396	\$ 29,931,877

As of June 30, 2024 and 2023, the Corporation had significant receivables related to contracts with customers. These balances are detailed in Notes 3 and 7. During the years ended June 30, 2024 and 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 statements of operations, 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 healthcare workers 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: Revenue is affected by changes in medical regulations, rising costs, and availability of medical personnel.

CMU Medical Education Partners

Notes to Financial Statements

June 30, 2024

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 \$2,847,023 was recorded for 2024 and \$3,195,393 was recorded for 2023. Deferred revenue was \$1,066,506 as of June 30, 2024 and \$810,418 as of June 30, 2023.

Healthcare Preparedness Grants – Through the year ended June 30, 2023, 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, 2023, grant revenue and related expenses are recorded as nonoperating revenue and expense. Effective July 1, 2023, 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 2023 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 revenue per resident position. Revenue of \$1,120,000 was recorded in 2024 and \$480,000 was recorded in 2023.

CMU Medical Education Partners

Notes to Financial Statements

June 30, 2024

11. Grant Programs (continued)

CMU Health Women and Children's Center – The Corporation 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 the Corporation when received from the granting organizations. The Corporation received and recorded \$1,134,000 for the year ended June 30, 2024 and \$1,000,000 for the year ended June 30, 2023.

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 1000 Houghton Avenue location was \$600,600 for the years ended June 30, 2024 and 2023 and \$113,968 for the Corporation's 1015 S. Washington Avenue location for the years ended June 30, 2024 and 2023. 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, 2024 and 2023. The cost to the Corporation was \$1,096,444 for the year ended June 30, 2024 and \$534,944 for the year ended June 30, 2023.

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 \$5,185,181 as of June 30, 2024 and \$4,280,930 as of June 30, 2023.

CMU Medical Education Partners

Notes to Financial Statements

June 30, 2024

14. Leases and Right-of-Use Assets

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, 2024 and 2023, \$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 2023, 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, 2024 and 2023, \$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, 2024 and 2023. 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, 2024 and 2023. 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, 2024 and 2023. 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 one operating lease for equipment that expires during the year ending June 30, 2025. The 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, 2024

14. Leases and Right-of-Use Assets (continued)

Finance Leases

The Corporation has three leases 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 \$109,992 for the year ended June 30, 2024 and \$82,977 for the year ended June 30, 2023.

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, 2024 are:

	<u>2024</u>	<u>2023</u>
Lease costs		
Finance lease cost:		
Amortization of right-of-use asset	\$ 68,676	\$ 7,497
Interest on lease liabilities	2,982	1,353
Operating lease cost	836,652	833,640
Short-term lease cost	109,992	82,977
Total lease costs	<u>\$ 1,018,302</u>	<u>\$ 925,467</u>

CMU Medical Education Partners

Notes to Financial Statements

June 30, 2024

14. Leases and Right-to-Use Assets (continued)

Quantitative Disclosures (continued)

	<u>2024</u>	<u>2023</u>
Other information		
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from finance leases	\$ 2,982	\$ 120
Finance cash flows from finance leases	\$ 68,676	\$ 8,730
Operating cash flows from operating leases	\$ 836,652	\$ 834,644
Weighted-average remaining lease term:		
Finance leases	4.32 years	4.17 years
Operating leases	9.62 years	10.16 years
Weighted-average discount rate:		
Finance lease	3.40%	3.66%
Operating leases	2.73%	2.68%

Maturity Analysis of Lease Liability

Future minimum lease payments and reconciliation to the balance sheet at June 30, 2024.

	<u>Operating Leases</u>		<u>Financing Lease</u>	
	<u>Related Party</u>	<u>Non-Related Party</u>	<u>Non-Related Party</u>	<u>Total</u>
2025	\$ 811,200	\$ 5,196	\$ 115,848	\$ 932,244
2026	811,200	-	115,848	927,048
2027	811,200	-	115,848	927,048
2028	357,052	-	107,008	464,060
2029	366,012	-	42,204	408,216
Thereafter	2,395,329	-	-	2,395,329
Total	5,551,993	5,196	496,756	6,053,945
Less interest	(694,093)	(17)	(34,012)	(728,122)
Lease liabilities	<u>\$ 4,857,900</u>	<u>\$ 5,179</u>	<u>\$ 462,744</u>	<u>\$ 5,325,823</u>

CMU Medical Education Partners

Notes to Financial Statements

June 30, 2024

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>2024</u>	<u>2023</u>
Investments designated for professional liability funding	\$ 1,091,829	\$ 973,239
Less: Estimated professional liability under self-insurance	200,000	200,000
Estimated over funding of liability	<u>\$ 891,829</u>	<u>\$ 773,239</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, 2024

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, 2024, 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 balance sheets.

CMU Medical Education Partners

Notes to Financial Statements

June 30, 2024

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, 2024 are as follows:

	Program Services				Support Services	Total
	Clinical Services	Education	MiDOCS	THC	Admini- stration	
Operating expenses						
Salaries, wages, and payroll taxes	\$20,322,366	\$16,754,291	\$1,760,865	\$582,136	\$2,540,581	\$41,960,239
Fringe benefits	2,957,325	2,836,814	538,114	98,610	369,711	6,800,574
Other employee benefits	11,080	35,361	1,442	770	182,638	231,291
Recruiting	138,578	58,881	1,811	-	59,939	259,209
Consumable supplies	1,197,150	17,422	-	-	21,212	1,235,784
Educational supplies and services	33,474	367,628	6,961	2,079	52,712	462,854
Consulting and contractual services	1,335,129	307,844	206,085	-	199,377	2,048,435
Communications	189,849	43,428	1,125	450	55,424	290,276
Continuing medical education	61,440	217,345	22,018	7,983	100	308,886
Education, conferences, and travel	141,472	492,921	15,873	5,479	29,702	685,447
Insurance	680,821	774,526	61,071	16,965	85,271	1,618,654
Facility and equipment	1,017,401	1,244,760	-	-	115,347	2,377,508
Other expenses	40,725	(64,273)	232,141	101,473	145,093	455,159
Depreciation	84,832	61,025	-	-	437,479	583,336
Patient bad debt expense	623,944	-	-	-	-	623,944
Total operating expenses	\$28,835,586	\$23,147,973	\$2,847,506	\$815,945	\$4,294,586	\$59,941,596

CMU Medical Education Partners

Notes to Financial Statements

June 30, 2024

18. Functional Expenses (continued)

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
Consumable supplies	1,209,412	23,399	-	-	23,603	1,256,414
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