

Audited Financial Statements

CMU Medical Education Partners

*Years Ended June 30, 2019 and 2018  
with Report of Independent Auditors*

CMU Medical Education Partners  
Audited Financial Statements  
Years Ended June 30, 2019 and 2018

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## Report of Independent Auditors

To the Board of Trustees of  
CMU Medical Education Partners

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Saginaw Cooperative Hospitals Inc. d/b/a CMU Medical Education Partners, which comprise the balance sheets as of June 30, 2019 and 2018, and the related statements of operations, changes in net assets, and cash flows for the years then ended, and the related notes to the financial statements.

### **Management's Responsibility for the Financial Statements**

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

### **Auditors' Responsibility**

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

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

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

### **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of CMU Medical Education Partners as of June 30, 2019 and 2018, and the statements of its operations, changes in its net assets, and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### **Emphasis of Matter**

As discussed in Note 1 to the financial statements, CMU Medical Education Partners implemented FASB Accounting Standards Update (ASU) 2016-14, Not-for-Profit Entities (Topic 958) – *Presentation of Financial Statements of Not-for-Profit Entities*. The update changes terminology used for net asset classifications and requires additional disclosures related to liquidity, availability of resources, and expenses. The ASU has been applied retrospectively to all periods presented. Our opinion is not modified with respect to this matter.

A handwritten signature in black ink that reads "Andrew Hooper Paulik PLC". The signature is written in a cursive, flowing style.

Saginaw, Michigan  
August 19, 2019

CMU Medical Education Partners

Balance Sheets

	June 30	
	2019	2018
<b>Assets</b>		
Current assets:		
Cash	\$ 2,296,565	\$ 2,315,384
Patient accounts receivable, net	1,083,972	858,988
Other receivables	678,847	660,328
Related party receivables	1,091,731	864,304
Prepaid expenses	1,189,512	793,229
Total current assets	<u>6,340,627</u>	<u>5,492,233</u>
Assets whose use is limited:		
By the Board of Trustees	60,145	184,585
Under professional liability funding arrangement – held by the trustee	788,418	753,455
Total assets whose use is limited	<u>848,563</u>	<u>938,040</u>
Medical education funding receivable, net of allowance	1,584,462	920,648
Leasehold improvements, furniture, and equipment, net	1,634,330	1,691,632
Total assets	<u>\$ 10,407,982</u>	<u>\$ 9,042,553</u>
<b>Liabilities and net assets</b>		
Current liabilities:		
Accounts payable	\$ 310,266	\$ 456,325
Other accrued liabilities	299,704	279,310
Payroll and related liabilities	2,488,101	1,707,082
Deferred revenue	747,953	39,172
Total current liabilities	<u>3,846,024</u>	<u>2,481,889</u>
Estimated professional liability under self-insurance	200,000	75,900
Total liabilities	<u>4,046,024</u>	<u>2,557,789</u>
Net assets:		
Without donor restrictions	6,361,958	6,484,764
Total net assets	<u>6,361,958</u>	<u>6,484,764</u>
Total liabilities and net assets	<u>\$ 10,407,982</u>	<u>\$ 9,042,553</u>

See accompanying notes.

CMU Medical Education Partners

Statements of Operations

	<b>Year Ended June 30</b>	
	<b>2019</b>	<b>2018</b>
Revenue and other support:		
Member hospitals	<b>\$ 17,364,738</b>	\$16,486,327
Net patient service revenue	<b>12,734,072</b>	11,555,475
Professional liability fund	<b>24,421</b>	21,497
Contracts and other revenue	<b>13,887,528</b>	11,565,948
Total unrestricted revenues and other support	<b>44,010,759</b>	39,629,247
Operating expenses:		
Salaries, wages, and payroll taxes	<b>29,802,101</b>	26,543,957
Employee benefits	<b>4,566,362</b>	4,506,819
Other employee benefits	<b>103,340</b>	86,574
Recruiting	<b>352,843</b>	448,861
Facility and equipment	<b>2,098,654</b>	1,991,437
Consumable supplies	<b>794,306</b>	643,255
Educational supplies and services	<b>428,596</b>	484,720
Consulting and contractual services	<b>1,973,844</b>	1,937,930
Communications	<b>276,494</b>	257,918
Educational conferences and travel	<b>858,764</b>	826,090
Grant expenses	<b>688,690</b>	518,778
Other expenses	<b>165,856</b>	184,428
Insurance	<b>864,819</b>	794,442
Depreciation	<b>376,169</b>	349,423
Provision for bad debts	<b>481,013</b>	439,882
Total operating expenses	<b>43,831,851</b>	40,014,514
Revenue and other support over (under) operating expenses	<b>178,908</b>	(385,267)
Less: Professional liability expense	<b>315,639</b>	153,812
Total revenues under expenses	<b>(136,731)</b>	(539,079)
Net unrealized gain on investments whose use is limited	<b>13,925</b>	34,681
Decrease in net assets without donor restrictions	<b>\$ (122,806)</b>	<b>\$ (504,398)</b>

See accompanying notes.

CMU Medical Education Partners

Statements of Changes in Net Assets

Year Ended June 30, 2019 and 2018

	<b>Net Assets Without Donor Restrictions</b>			<b>Total Net Assets</b>	
	<u>Undesignated</u>			<u>Net Assets</u>	
Net assets at July 1, 2017	\$	6,989,162	\$	6,989,162	
Revenues under expenses		(539,079)		(539,079)	
Net unrealized gain		34,681		34,681	
Net assets at June 30, 2018		<u>6,484,764</u>		<u>6,484,764</u>	
Revenues under expenses		<b>(136,731)</b>		<b>(136,731)</b>	
Net unrealized gain		<b>13,925</b>		<b>13,925</b>	
Net assets at June 30, 2019	<b>\$</b>	<b><u>6,361,958</u></b>	<b>\$</b>	<b><u>6,361,958</u></b>	

*See accompanying notes.*

CMU Medical Education Partners

Statements of Cash Flows

	<b>Year Ended June 30</b>	
	<b>2019</b>	<b>2018</b>
<b>Operating activities</b>		
Net change in net assets without donor restrictions	\$ (122,806)	\$ (504,398)
Adjustments to reconcile net change in net assets without donor restrictions to net cash from operating activities:		
Depreciation	376,169	349,423
Net unrealized gain on investments whose use is limited	(13,925)	(34,681)
Change in assets and liabilities:		
Patient accounts receivable	(224,984)	229,028
Other receivables and related party receivables	(245,946)	(589,207)
Prepaid expenses	(396,283)	(149,647)
Medical education funding receivable	(663,814)	(401,953)
Accounts payable	(146,059)	3,400
Other accrued liabilities and payroll and related liabilities	801,413	210,219
Estimated professional liability under self-insurance	124,100	-
Deferred revenue	708,781	39,172
Net cash from operating activities	<u>196,646</u>	<u>(848,644)</u>
<b>Investing activities</b>		
Purchases of leasehold improvements, furniture, and equipment	(318,867)	(269,526)
Change in Board restricted funds	124,440	(62,850)
Change in funds held by the trustee	(21,038)	(18,438)
Net cash from investing activities	<u>(215,465)</u>	<u>(350,814)</u>
<b>Financing activities</b>		
Change in payable to CMU	-	(25,272)
Net cash from financing activities	<u>-</u>	<u>(25,272)</u>
Net change in cash	(18,819)	(1,224,730)
Cash at beginning of period	2,315,384	3,540,114
Cash at end of period	<u><u>\$ 2,296,565</u></u>	<u><u>\$ 2,315,384</u></u>

See accompanying notes.



# CMU Medical Education Partners

## Notes to Financial Statements

June 30, 2019

### **1. Summary of Accounting Policies**

#### **Organization and Nature of Operations**

Saginaw Cooperative Hospitals, Inc. (Corporation), d/b/a CMU Medical Education Partners is a Michigan nonprofit corporation located in Saginaw, Michigan. The Corporation was incorporated in Michigan in 1968 and is a tax-exempt organization pursuant to §501(c)(3) of the Internal Revenue Code. The Corporation is organized on a non-stock membership basis. Effective January 1, 2011 the Corporation is subject to a Members' Agreement that provides Central Health Advancement Solutions (CHAS) with a 90% membership interest in CMU Medical Education Partners (CMU Partners); St. Mary's of Michigan (St. Mary's) with a 5% membership interest; and Covenant Medical Center, Inc. (Covenant) with a 5% membership interest. All members are entitled to vote on any matter reserved to them in accordance with their membership interests. 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, St. Mary's, and Covenant. The current Agreement and its amendments are effective through June 30, 2020 and cover the operation and funding of the Corporation's medical residency program as it relates to training the hospitals' medical residents.

#### **Cash and Cash Equivalents**

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

#### **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, 2019

### 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, 2019 or 2018.

# CMU Medical Education Partners

## Notes to Financial Statements

June 30, 2019

### **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, 2019 and 2018, 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 excluded from revenues and other support over (under) operating expenses unless the investments are trading securities.

# CMU Medical Education Partners

## Notes to Financial Statements

June 30, 2019

### **1. Summary of Accounting Policies (continued)**

#### **Assets Whose Use is Limited**

Assets whose use is limited primarily include investments held by trustees under indenture agreements and designated assets set aside by the Board of Trustees for specific purposes, over which the Board retains control and may at its discretion subsequently use for other purposes.

#### **Revenues and Other Support Over (Under) Operating Expenses**

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

#### **Deposits with Financial Institutions**

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

#### **Significant Concentrations of Credit Risk**

Financial instruments which potentially subject the Corporation to concentrations of credit risk consist principally of cash and investments included in assets whose use is limited. The Corporation invests temporary cash in money market securities in various banks, commercial paper of industrial and other companies with high credit ratings, and securities backed by the United States Government. The Corporation holds the majority of its investments in equity and fixed income mutual funds. Included in investments are nine equity mutual funds and six fixed income mutual funds that represent 80% of total investments at June 30, 2019 and nine equity mutual funds and six fixed income mutual funds that represent 79% of total investments at June 30, 2018.

#### **Leasehold Improvements, Furniture, and Equipment**

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

# CMU Medical Education Partners

## Notes to Financial Statements

June 30, 2019

### **1. Summary of Accounting Policies (continued)**

#### **Net Patient Service Revenue and Patient Accounts Receivable**

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

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

The Corporation grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. Significant concentrations of accounts receivable at June 30, 2019 include Medicare (21.8%), Blue Cross (13.1%), Medicaid (20.1%), and other commercial insurers and self-pay (45.0%). Significant concentrations of accounts receivable at June 30, 2018 include Medicare (19.6%), Blue Cross (9.2%), Medicaid (26.9%), and other commercial insurers and self-pay (44.3%).

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 actuarially determined and includes estimates of the costs for both reported claims and claims incurred but not reported.

#### **Advertising**

The Corporation expenses advertising costs as incurred. Advertising costs were approximately \$44,500 for the year ended June 30, 2019 and \$83,000 for the year ended June 30, 2018.

# CMU Medical Education Partners

## Notes to Financial Statements

June 30, 2019

### 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:

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

#### Reclassifications

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

#### New Accounting Pronouncement

On August 18, 2016, FASB issued ASU 2016-14, Not-for-Profit Entities (Topic 958) – *Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The Corporation has adjusted the presentation of these statements accordingly. The accounting standard has been applied retrospectively to all periods presented.

# CMU Medical Education Partners

## Notes to Financial Statements

June 30, 2019

### 1. Summary of Accounting Policies (continued)

#### Subsequent Events

Subsequent events have been evaluated through August 19, 2019 as part of the annual audit of the Corporation's financial statements. This is also the date the financial statements were available to be issued.

#### 2. Liquidity and Availability

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

	<u>2019</u>	<u>2018</u>
Cash	<b>\$2,296,565</b>	\$2,315,384
Patient accounts receivable	<b>1,083,972</b>	858,988
Other receivables	<b>678,847</b>	660,328
Related party receivables	<b>1,091,731</b>	864,304
Assets whose use is limited	<b>848,563</b>	938,040
Medical education funding receivable	<b>1,584,462</b>	920,648
Total financial assets	<b>7,584,140</b>	6,557,692
Less amounts not available to be used within one year:		
Assets whose use is limited	<b>848,563</b>	938,040
Medical education funding receivable	<b>1,584,462</b>	920,648
Financial assets available to meet general expenditures over the next twelve months	<b><u>\$5,151,115</u></b>	<b><u>\$4,699,004</u></b>

CMU Medical Education Partners

Notes to Financial Statements

June 30, 2019

**3. Patient Accounts Receivable**

The detail of patient accounts receivable is as follows:

	<b>June 30, 2019</b>		
	<b>Patient</b>	<b>Insurance</b>	<b>Total</b>
Family Practice Department	\$ 66,722	\$ 106,861	\$ 173,583
OB/GYN Department	137,141	389,692	526,833
Internal Medicine Department	33,383	200,576	233,959
Pediatrics Department	67,851	243,716	311,567
Colony Department	10,224	86,633	96,857
Surgery Department	214,549	998,805	1,213,354
Psychiatry Department	9,453	33,824	43,277
Geriatrics Home Care	-	(579)	(579)
	<u>539,323</u>	<u>2,059,528</u>	<u>2,598,851</u>
Less:			
Contractual allowances	-	1,195,450	1,195,450
Allowance for doubtful accounts	<u>319,429</u>	-	<u>319,429</u>
Net patient accounts receivable	<u>\$219,894</u>	<u>\$ 864,078</u>	<u>\$1,083,972</u>
	<b>June 30, 2018</b>		
	<b>Patient</b>	<b>Insurance</b>	<b>Total</b>
Family Practice Department	\$ 61,434	\$ 86,185	\$ 147,619
OB/GYN Department	109,083	465,829	574,912
Internal Medicine Department	28,444	138,787	167,231
Pediatrics Department	61,068	160,549	221,617
Surgery Department	179,294	874,053	1,053,347
Psychiatry Department	3,750	24,471	28,221
Geriatrics Home Care	(16)	(1,445)	(1,461)
	<u>443,057</u>	<u>1,748,429</u>	<u>2,191,486</u>
Less:			
Contractual allowances	-	1,073,699	1,073,699
Allowance for doubtful accounts	<u>258,799</u>	-	<u>258,799</u>
Net patient accounts receivable	<u>\$184,258</u>	<u>\$ 674,730</u>	<u>\$ 858,988</u>



CMU Medical Education Partners

Notes to Financial Statements

June 30, 2019

**4. Leasehold Improvements, Furniture, and Equipment**

The detail of leasehold improvements, furniture, and equipment by department is as follows:

	<b>June 30</b>	
	<b>2019</b>	<b>2018</b>
Clinical Trials	\$ 1,108	\$ 1,108
North Building	189,444	189,444
Student Programs	11,085	11,085
Administration	222,671	222,671
Family Practice Department	200,144	200,144
OB/GYN Department	173,426	164,327
Internal Medicine Department	142,899	141,349
Pediatrics Department	34,898	34,898
Surgery Department	161,482	157,687
Library Department	51,234	51,234
Graduate Medical Education	25,477	25,477
Emergency Medicine	32,582	32,582
Information Systems	677,978	603,118
Leasehold Improvements	2,643,564	2,643,564
Business Office	447,239	447,239
Geriatrics Home Care	10,418	10,418
Research Department	18,764	18,764
Psychiatry Department	22,964	22,964
Saginaw Medical Control	235,797	235,797
Sexual Assault Response Team	–	28,261
Human Resources	25,938	25,938
Simulation Lab	837,298	619,829
Continuing Medical Education	15,621	15,621
Podiatry	2,399	–
PC Colony	9,691	–
	<b>6,194,121</b>	<b>5,903,519</b>
Less: accumulated depreciation	<b>4,559,791</b>	<b>4,211,887</b>
Total	<b>\$1,634,330</b>	<b>\$1,691,632</b>

CMU Medical Education Partners

Notes to Financial Statements

June 30, 2019

**5. Assets Whose Use is Limited**

The composition of assets whose use is limited at June 30 is as follows:

	2019		2018	
	Cost	Fair Value	Cost	Fair Value
Board designated:				
Cash	\$ 51,040	\$ 51,040	\$175,704	\$175,704
Mutual funds: fixed income	8,994	9,105	8,770	8,881
	<u>60,034</u>	<u>60,145</u>	184,474	184,585
Professional liability funding – held by trustee:				
Cash and short-term investments	19,830	19,830	18,992	18,992
Mutual funds:				
Equities	242,775	472,021	248,575	475,065
Fixed income	286,707	296,567	260,707	259,398
	<u>549,312</u>	<u>788,418</u>	<u>528,274</u>	<u>753,455</u>
	<u>\$609,346</u>	<u>\$848,563</u>	<u>\$712,748</u>	<u>\$938,040</u>

Fair values of assets and liabilities measured on a recurring basis at June 30, 2019 and 2018 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)
<b>June 30, 2019</b>				
Assets whose use is limited	<u>\$848,563</u>	<u>\$848,563</u>	<u>\$ –</u>	<u>\$ –</u>
<b>June 30, 2018</b>				
Assets whose use is limited	<u>\$938,040</u>	<u>\$938,040</u>	<u>\$ –</u>	<u>\$ –</u>

# CMU Medical Education Partners

## Notes to Financial Statements

June 30, 2019

### 6. Medical Educational Funding Receivable

A master affiliation agreement between St. Mary's and Covenant (the Hospitals) provides for 100% of the direct graduate medical education (DGME), indirect medical education (IME), and other graduate medical education (GME) funding received by the Hospitals to pass through to the Corporation. An independent firm (The Rybar Group) was hired to review hospital cost report information and provide a report on filed cost report amounts. The initial affiliation agreement covered the 3 years ending June 30, 2009 and, through an amendment, was extended one year through June 30, 2010. The Hospitals are operated under the master affiliation agreement that was effective July 1, 2010 through June 30, 2013 and continued on a month-to-month basis until a new agreement was reached. Under the agreement, the Hospitals agreed to pay the Corporation for amounts not previously paid under the 2006 agreement subject to adjustment based on the Hospitals' receipt of their final cost reports. The 2010 agreement was terminated June 30, 2015.

Effective July 1, 2015, a new master affiliation agreement was signed. This agreement covers a 5-year period, ending June 30, 2020. Under this agreement, the Hospitals agree to pay the Corporation their proportionate share of funding shortfall within 30 days of receipt of the final cost report. Similarly, the Corporation has agreed to pay the Hospitals any excess funding within 30 days of receipt of the final cost report.

As of June 30, 2019, the Rybar Group has updated its report with the allocation of the receivable as follows:

	<u>St. Mary's</u>	<u>Covenant</u>	<u>Total</u>
<b>Fiscal year ending June 30</b>			
2011	\$ 631,404	\$ 577,344	\$ 1,208,748
2012	(145,857)	648,600	502,743
2013	(297,406)	147,974	(149,432)
2014	45,475	(392,822)	(347,347)
2015	294,880	(613,318)	(318,438)
2016	204,511	44,398	248,909
2017	(290,692)	1,167,835	877,143
2018	(168,162)	821,907	653,745
2019	303,028	166,308	469,336
Rural hospital consulting cost	(230,844)	(80,000)	(310,844)
	<u>346,337</u>	<u>2,488,226</u>	<u>2,834,563</u>
Allowance	(222,811)	(1,027,290)	(1,250,101)
Net receivable	<u>\$ 123,526</u>	<u>\$ 1,460,936</u>	<u>\$ 1,584,462</u>

The Corporation recognized a total allowance of approximately \$1,250,000 in 2019 and \$1,039,000 in 2018, in anticipation of a variance between filed and final audited cost reports.

## CMU Medical Education Partners

### Notes to Financial Statements

June 30, 2019

#### 6. Medical Educational Funding Receivable (continued)

As of June 30, 2019, the cost reports for St. Mary's and Covenant have been finalized through the fiscal years shown below.

	<u>St. Mary's</u>	<u>Covenant</u>
Medicare	2016	2016
Blue Cross Traditional, Blue Cross Trust, and Blue Care Network	2018	2018
Medicaid	2015	2015

#### 7. Related Party Receivables

Related party receivables include the following amounts at June 30:

	<u>2019</u>	<u>2018</u>
St. Mary's	\$ 373,017	\$308,283
Covenant	292,129	93,863
CMU	426,585	462,158
Total	<u>\$1,091,731</u>	<u>\$864,304</u>

#### 8. Related Party Payables

Under the Master Affiliation Agreement, as of the end of each fiscal year, the Corporation should have a cash balance equal to 1) the sum of 45 days cash on hand plus 2) an amount equal to the budgeted capital expenditures, less budgeted depreciation (Annual Funding Reserve), for the following fiscal year. Under the agreement, two-thirds of the excess funding is payable to Covenant and one-third of the excess funding is payable to St. Mary's within 30 days of the calculation of the Annual Funding Reserve. The Corporation has not recorded a payable for the years ended June 30, 2019 or 2018. The Corporation has recorded a payable to CMU of \$265,678 for the year ended June 30, 2019 and \$245,284 for the year ended June 30, 2018.

#### 9. Notes Payable to Hospitals

Under the Members' Agreement described in Note 1, the Hospitals were to receive their allocable share of net assets as of December 31, 2010. On February 7, 2012 an amendment to the Members' Agreement was made to maintain the Hospitals' allocable shares of net assets in the possession of the Corporation and the notes payable to hospitals were reclassified as additional members' equity. There were no notes payable to St. Mary's and Covenant at June 30, 2019 or 2018.

# CMU Medical Education Partners

## Notes to Financial Statements

June 30, 2019

### **10. 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, 2019 and 2018. The cost to the Corporation was approximately \$555,000 for the year ended June 30, 2019 and \$573,000 for the year ended June 30, 2018.

### **11. Lease Commitments**

During 2013, the Corporation entered into a 30-year lease agreement with Covenant for the occupancy of a portion of the Clinical Arts and Education Center, that has been occupied by the Corporation since 1978. Under the terms of the lease, the Corporation pays Covenant \$1 annually. Management of the Corporation has estimated that the fair value of the lease is approximately \$600,600 per year. For each of the years ended June 30, 2019 and 2018, \$600,600 is recorded as contribution revenue (included in other revenue) with an equal amount recorded as facility expense.

During September 2018, the Corporation entered into a 5-year lease agreement with the Dr. Samuel Shaheen Family Foundation (Foundation) for the occupancy of the premises located at 5421 Colony Dr. N., Saginaw, Michigan. Under the terms of the lease, the fair market rental for this premises is \$4,241 monthly, however, the terms state that the Corporation will pay the Foundation \$1 annually for the entire initial term of the lease. For the year ended June 30, 2019, \$42,000 is recorded as contribution revenue (included in other revenue) with an equal amount recorded as facility expense.

In 2003, the Corporation began a 10-year lease agreement with SSP Associates upon the completion of construction for the occupancy of an office complex in Saginaw, Michigan. The Corporation exercised renewal options for an additional 15 years and covers the period through January 2028. In 2013, the Corporation entered into a 15-year lease with MSA Ventures II LLC for commercial office space in Saginaw, Michigan. In 2017, the Corporation began a 10-year lease agreement with Central Michigan University upon the completion of construction for the occupancy of a School of Medicine Building in Saginaw, Michigan. Total lease expense for multi-year non-cancelable and cancelable leases, not including the related party leases noted above, was approximately \$742,000 for the year ended June 30, 2019 and \$897,000 for the year ended June 30, 2018.

CMU Medical Education Partners

Notes to Financial Statements

June 30, 2019

**11. Lease Commitments (continued)**

The future lease commitments as of June 30, 2019 for all leases are as follows:

2019-20	\$ 844,000
2020-21	875,000
2021-22	836,000
2022-23	820,000
2023-24	819,000
Thereafter	<u>2,779,000</u>
	<u>\$6,973,000</u>

**12. 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 has:

- 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 in the hands of an independent fiduciary who has legal title to it and is responsible for its proper administration and control.

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

	<u>2019</u>	<u>2018</u>
Estimated professional liability under self-insurance	\$ 200,000	\$ 75,900
Less: investments under professional liability funding arrangement – held by the trustee, at fair value	<u>788,418</u>	<u>753,455</u>
Estimated over funding of liability	<u>\$ (588,418)</u>	<u>\$ (677,555)</u>

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

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

## CMU Medical Education Partners

### Notes to Financial Statements

June 30, 2019

#### **12. Professional Liability Insurance (continued)**

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.

#### **13. 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, 2019, the disposition or ultimate resolution of such claims and lawsuits will not have an adverse material effect on the financial position of the Corporation.

#### **14. Net Assets**

There were no net assets with donor restrictions as of June 30, 2019 or June 30, 2018.

CMU Medical Education Partners

Notes to Financial Statements

June 30, 2019

**15. Functional Expenses**

The Corporation provides general health care services to residents within its geographic location. Operating expenses related to providing these services for the year ended June 30, 2019 are as follows:

	<u>Program Services</u>		<u>Support Services</u>	
	<u>Clinical Services</u>	<u>Education</u>	<u>Administration</u>	<u>Total</u>
<b>Operating expenses</b>				
Salaries, wages, and payroll taxes	\$15,135,831	\$13,268,841	\$1,397,429	\$29,802,101
Fringe benefits	1,961,069	2,317,309	287,984	4,566,362
Other employee benefits	12,282	24,386	66,672	103,340
Recruiting	163,440	138,714	50,689	352,843
Facility and equipment	618,702	38,870	1,441,082	2,098,654
Consumable supplies	759,401	26,370	8,535	794,306
Educational supplies and services	35,230	361,798	31,568	428,596
Consulting and contractual services	558,191	639,848	775,805	1,973,844
Communications	71,976	1,196	203,322	276,494
Educational conferences and travel	217,958	628,512	12,294	858,764
Grant expenses	688,690	—	—	688,690
Other expenses	47,469	32,838	85,549	165,856
Insurance	732,410	664	131,745	864,819
Depreciation	57,201	54,873	264,095	376,169
Patient bad debt expense	402,839	78,174	—	481,013
Total operating expenses	<u>\$21,462,689</u>	<u>\$17,612,393</u>	<u>\$4,756,769</u>	<u>\$43,831,851</u>



CMU Medical Education Partners

Notes to Financial Statements

June 30, 2019

**15. Functional Expenses (continued)**

The Corporation provides general health care services to residents within its geographic location. Operating expenses related to providing these services for the year ended June 30, 2018 are as follows:

	<u>Program Services</u>		<u>Support Services</u>	<u>Total</u>
	<u>Clinical Services</u>	<u>Education</u>	<u>Administration</u>	
<b>Operating expenses</b>				
Salaries, wages, and payroll taxes	\$12,807,402	\$12,692,804	\$1,043,751	\$26,543,957
Fringe benefits	1,803,398	2,472,572	230,849	4,506,819
Other employee benefits	8,396	25,565	52,613	86,574
Recruiting	302,779	120,114	25,968	448,861
Facility and equipment	484,384	22,027	1,485,026	1,991,437
Consumable supplies	607,475	16,576	19,204	643,255
Educational supplies and services	27,528	420,304	36,888	484,720
Consulting and contractual services	621,140	988,050	328,740	1,937,930
Communications	92,103	3,958	161,857	257,918
Educational conferences and travel	218,539	589,446	18,105	826,090
Grant expenses	518,778	–	–	518,778
Other expenses	47,430	26,828	110,170	184,428
Insurance	607,843	4,979	181,620	794,442
Depreciation	60,120	31,961	257,342	349,423
Patient bad debt expense	361,584	78,298	–	439,882
Total operating expenses	<u>\$18,568,899</u>	<u>\$17,493,482</u>	<u>\$3,952,133</u>	<u>\$40,014,514</u>