

Audited Financial Statements

CMU Medical Education Partners

*Years Ended June 30, 2020 and 2019
with Report of Independent Auditors*



CMU Medical Education Partners
Audited Financial Statements
Years Ended June 30, 2020 and 2019

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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, 2020 and 2019, 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, 2020 and 2019, 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.

Andrews Hooper Paulik PLC

Saginaw, Michigan
August 19, 2020

CMU Medical Education Partners

Balance Sheets

	June 30	
	2020	2019
Assets		
Current assets:		
Cash and cash equivalents	\$ 8,985,707	\$ 2,296,565
Cash - designated funds	121,075	51,040
Accounts receivable patient services	488,451	1,083,972
Receivables - member hospitals	599,031	665,146
Receivables - funding support	490,049	1,105,432
Prepaid expenses	742,620	1,162,144
Total current assets	11,426,933	6,364,299
Investments	815,760	797,523
Total assets whose use is limited	815,760	797,523
Other assets	13,540	1,611,830
Leasehold improvements, furniture, and equipment, net	1,574,060	1,634,330
Total assets	\$ 13,830,293	\$ 10,407,982
Liabilities and net assets		
Current liabilities:		
Accounts payable	\$ 242,985	\$ 310,266
Payroll and related liabilities	2,908,172	2,488,101
Other payables	34,026	299,704
Note payable	5,049,500	-
Deferred revenue	519,354	747,953
Total current liabilities	8,754,037	3,846,024
Malpractice liability	200,000	200,000
Total liabilities	8,954,037	4,046,024
Net assets:		
Without donor restrictions	4,876,256	6,361,958
Total net assets	4,876,256	6,361,958
Total liabilities and net assets	\$ 13,830,293	\$ 10,407,982

CMU Medical Education Partners

Statements of Operations

	Year Ended June 30	
	2020	2019
Revenue and other support:		
Net patient service revenue	\$ 10,950,539	\$ 11,188,626
Quality incentive programs	2,275,089	1,545,446
Contract revenue	11,924,144	11,948,964
Member hospital contributions	19,404,048	17,364,738
Other revenue	1,833,003	1,976,910
Total unrestricted revenues and other support	<u>46,386,823</u>	<u>44,024,684</u>
Operating expenses:		
Salaries, wages, and payroll taxes	32,357,959	29,802,101
Employee benefits	5,648,530	4,566,362
Other employee benefits	80,706	103,340
Recruiting	366,141	352,843
Clinical supplies	704,715	689,993
Office supplies	67,073	104,313
Educational supplies and services	418,791	428,596
Consulting and contractual services	1,545,632	1,973,844
Communications	264,786	276,494
Continuing medical education	377,825	411,803
Education, conferences and travel	478,860	446,961
Grant expenses	367,429	688,690
Insurance	912,078	864,819
Facility and equipment	2,056,492	2,098,654
Other expenses	113,504	165,856
Depreciation	381,753	376,169
Patient bad debt expense	224,655	481,013
Total operating expenses	<u>46,366,929</u>	<u>43,831,851</u>
Revenue and other support over (under) operating expenses	19,894	192,833
Other revenue (expense)		
Adjustment for medical funding receivable	(1,505,596)	-
Professional liability expense	-	(315,639)
Decrease in net assets without donor restrictions	<u>\$ (1,485,702)</u>	<u>\$ (122,806)</u>

See accompanying notes.

CMU Medical Education Partners

Statements of Changes in Net Assets

Year Ended June 30, 2020 and 2019

	Net Assets Without Donor Restrictions	
	Undesignated	Total Net Assets
Net assets at July 1, 2018	\$ 6,484,764	\$ 6,484,764
Revenues under expenses	(122,806)	(122,806)
Net assets at June 30, 2019	6,361,958	6,361,958
Revenues under expenses	(1,485,702)	(1,485,702)
Net assets at June 30, 2020	\$ 4,876,256	\$ 4,876,256

See accompanying notes.

CMU Medical Education Partners

Statements of Cash Flows

	Year Ended June 30	
	2020	2019
Operating activities		
Net change in net assets without donor restrictions	\$ (1,485,702)	\$ (122,806)
Adjustments to reconcile net change in net assets without donor restrictions to net cash from operating activities:		
Depreciation	381,753	376,169
Noncash donation of equipment	(250,000)	-
Adjustment to medical funding receivable	1,505,596	-
Net unrealized gain on investments	(8,860)	(13,925)
Change in assets and liabilities:		
Patient accounts receivable	595,521	(224,984)
Other receivables	681,498	(245,946)
Prepaid expenses	419,524	(396,283)
Other assets	92,694	(663,814)
Accounts payable	(67,281)	(146,059)
Other accrued liabilities and payroll and related liabilities	154,393	801,143
Estimated professional liability under self-insurance	-	124,100
Deferred revenue	(228,599)	600,940
Net cash from operating activities	<u>1,790,537</u>	<u>88,535</u>
Investing activities		
Purchases of leasehold improvements, furniture, and equipment	(71,483)	(318,867)
Net change in Board designated funds		131,143
Net additions to investments	(9,377)	(21,038)
Net cash from investing activities	<u>(80,860)</u>	<u>(208,762)</u>
Financing activities		
PPP loan proceeds	5,049,500	-
Net cash from financing activities	<u>5,049,500</u>	<u>-</u>
Net change in cash	6,759,177	(120,227)
Cash and cash equivalents at beginning of period	2,347,605	2,467,832
Cash and cash equivalents at end of period	<u>\$ 9,106,782</u>	<u>\$ 2,347,605</u>

CMU Medical Education Partners

Notes to Financial Statements

June 30, 2020

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); 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. 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, which were effective through June 30, 2020, has covered the operation and funding of the Corporation's medical residency program as it relates to training the hospitals' medical residents. A 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, 2020

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, 2020 or 2019.

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Notes to Financial Statements

June 30, 2020

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, 2020 and 2019, 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, 2020

1. Summary of Accounting Policies (continued)

Revenues and Other Support Over (Under) Operating Expenses

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

Deposits with Financial Institutions

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

Significant Concentrations of Credit Risk

Financial instruments which potentially subject the Corporation to concentrations of credit risk consist principally of cash and investments included in assets whose use is limited. The Corporation invests temporary cash in money market securities in various banks, commercial paper of industrial and other companies with high credit ratings, and securities backed by the United States Government. The Corporation holds the majority of its investments in equity and fixed income mutual funds. Included in investments are eight equity mutual funds and six fixed income mutual funds that represent substantially all of total investments at June 30, 2020 and 2019.

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, 2020

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, 2020 include Medicare (4.6%), Blue Cross (9.4%), Medicaid (31.0%), and other commercial insurers and self-pay (55.0%). 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%).

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

Estimated Professional Liability

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

Advertising

The Corporation expenses advertising costs as incurred. Advertising costs were approximately \$22,544 for the year ended June 30, 2020 and \$44,500 for the year ended June 30, 2019.

CMU Medical Education Partners

Notes to Financial Statements

June 30, 2020

1. Summary of Accounting Policies (continued)

Functional Expenses

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

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

Reclassifications

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

New Accounting Pronouncement

In November 2016, FASB issued Accounting Standards Update (ASU) 2016-18, *Statement of Cash Flows (Topic 230) – Restricted Cash*. The update requires that amounts generally described as restricted cash and restricted cash equivalents be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The Corporation has adjusted the presentation of the statement of cash flows accordingly. The ASU has been applied retrospectively to all periods presented.

Subsequent Events

Subsequent events have been evaluated through August 19, 2020 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.

The current Coronavirus pandemic has had an economic impact on the United States and the international community and has disrupted the Corporation's operations. The long-term effect of this event cannot be determined.

CMU Medical Education Partners

Notes to Financial Statements

June 30, 2020

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>2020</u>	<u>2019</u>
Cash	\$9,106,795	\$2,296,565
Patient accounts receivable	488,451	1,083,972
Other receivables	490,049	678,847
Related party receivables	599,031	1,091,731
Investments	815,760	848,563
Medical education funding receivable	-	1,584,462
Total financial assets	11,500,086	7,584,140
Less amounts not available to be used within one year:		
Assets whose use is limited	121,088	848,563
Expected repayment of note payable	5,049,500	-
Medical education funding receivable	-	1,584,462
Financial assets available to meet general expenditures over the next twelve months	<u>\$6,329,498</u>	<u>\$5,151,115</u>

CMU Medical Education Partners

Notes to Financial Statements

June 30, 2020

3. Patient Accounts Receivable

The detail of patient accounts receivable is as follows:

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

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

CMU Medical Education Partners

Notes to Financial Statements

June 30, 2020

3. Patient Accounts Receivable (continued)

Department	June 30, 2019		
	Patient	Insurance	Total
Family Practice	\$ 66,722	\$ 191,905	\$ 258,627
OB/GYN	137,141	389,692	526,833
Internal Medicine	33,383	199,997	233,380
Pediatrics	67,851	243,716	311,567
Colony	10,224	86,633	96,857
Surgery	214,549	998,805	1,213,354
Psychiatry	9,453	33,824	43,277
Subtotal	539,323	2,144,572	2,683,895
Unapplied payments		(85,044)	(85,044)
Subtotal	539,323	2,059,528	2,598,851
Less:			
Contractual allowances	–	1,195,450	1,195,450
Allowance for doubtful accounts	319,429	–	319,429
Net patient accounts receivable	\$219,894	\$ 864,078	\$1,083,972

As of June 30, 2019, unapplied payments of \$85,044 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	
	2020	2019
Total property and equipment	\$ 6,515,602	\$ 6,194,121
Less: accumulated depreciation	4,941,542	4,559,791
	\$ 1,574,060	\$ 1,634,330

CMU Medical Education Partners

Notes to Financial Statements

June 30, 2020

5. Investments

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

	2020		2019	
	Cost	Fair Value	Cost	Fair Value
Cash and short-term investments	19,012	19,012	28,935	28,935
Mutual funds:				
Equities	239,962	460,035	242,775	472,021
Fixed income	308,826	336,713	286,707	296,567
	567,800	815,760	558,417	797,523

Fair values of assets and liabilities measured on a recurring basis at June 30, 2020 and 2019 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, 2020				
Cash and short-term investments	\$ 19,012	\$ 19,012		
Mutual funds	796,748	796,748		
	\$ 815,760	\$ 815,760	\$ -	\$ -
June 30, 2019				
Cash and short-term investments	\$ 28,935	28,935		
Mutual funds	768,588	768,588		
	\$ 797,523	\$ 797,523	\$ -	\$ -

CMU Medical Education Partners

Notes to Financial Statements

June 30, 2020

6. Medical Educational Funding Receivable

The master affiliation agreement between St. Mary's and Covenant (the Hospitals) that was in effect through June 30, 2020 and similar previous master affiliations provided for 100% of the direct graduate medical education (DGME), indirect medical education (IME), and other graduate medical education (GME) funding received by the Hospitals to pass through to the Corporation. An independent firm (The Rybar Group) had been hired to review hospital cost report information and provide a report on filed cost report amounts.

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

In anticipation of the provisions under that new Master Affiliation Agreement that is effective July 1, 2020, the Corporate Members decided to waive payment of the outstanding medical education funding receivable. The adjustment to record the waiver of the receivable is included as an expense for the year ended June 30, 2020.

For the previous year ended June 30, 2019, the allocation of the receivable was as follows:

Fiscal year ending June 30	St. Mary's	Covenant	Total
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)
	346,337	2,488,226	2,834,563
Allowance	(222,811)	(1,027,290)	(1,250,101)
Net receivable	\$ 123,526	\$ 1,460,936	\$ 1,584,462

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

CMU Medical Education Partners

Notes to Financial Statements

June 30, 2020

7. Related Party Receivables and Payables

Related party receivables include the following amounts at June 30:

	<u>2020</u>	<u>2019</u>
St. Mary's	\$ 336,283	\$ 373,017
Covenant	262,748	292,129
CMU	-	426,585
Total	<u>\$ 599,031</u>	<u>\$1,091,731</u>

Related party payables include the following amounts at June 30:

	<u>2020</u>	<u>2019</u>
CMU	<u>\$ -</u>	<u>\$ 265,678</u>

8. Note Payable

On April 21, 2020, the Corporation secured borrowings in the amount of \$5,049,500 through the Paycheck Protection Program (PPP), obtained through the federal Coronavirus Aid, Relief, and Economic Security Act (CARES Act). The loan is payable in 18 monthly installments of \$282,754 beginning November 21, 2020 and is subject to a 1% interest on the unpaid balance. There are certain provisions with the PPP which permit an organization to have its loan fully or partially forgiven based on specific stipulations within the agreement. The Corporation expects to qualify for those stipulations and have the loan fully forgiven. Any remaining loan balance would be repaid within one year.

9. 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, 2020 and 2019. The cost to the Corporation was approximately \$585,831 for the year ended June 30, 2020 and \$555,000 for the year ended June 30, 2019.

CMU Medical Education Partners

Notes to Financial Statements

June 30, 2020

10. 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, 2020 and 2019, \$600,600 is recorded as contribution revenue (included in other revenue) with an equal amount recorded as facility expense.

During September 2018, the Corporation entered into a 5-year lease agreement with the Dr. Samuel Shaheen Family Foundation (Foundation) for the occupancy of the premises located at 5421 Colony Dr. N., Saginaw, Michigan. Under the terms of the lease, the fair market rental for this premises is \$4,241 monthly, however, the terms state that the Corporation will pay the Foundation \$1 annually for the entire initial term of the lease. For the years ended June 30, 2020 and 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 \$889,000 for the year ended June 30, 2020 and \$742,000 for the year ended June 30, 2019.

The future lease commitments as of June 30, 2020 for all leases are as follows:

2020-21	889,000
2021-22	852,000
2022-23	840,000
2023-24	832,000
2024-25	828,000
Thereafter	<u>2,541,000</u>
	<u>\$6,782,000</u>

CMU Medical Education Partners

Notes to Financial Statements

June 30, 2020

11. 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 proper administration and control.

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

	<u>2020</u>	<u>2019</u>
Estimated professional liability under self-insurance	\$ 200,000	\$ 200,000
Less: investments set aside for professional liability funding	815,760	788,418
Estimated over funding of liability	<u><u>\$(615,760)</u></u>	<u><u>\$(588,418)</u></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.

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.

12. 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, 2020, the disposition or ultimate resolution of such claims and lawsuits will not have an adverse material effect on the financial position of the Corporation.

CMU Medical Education Partners

Notes to Financial Statements

June 30, 2020

13. Net Assets

There were no net assets with donor restrictions as of June 30, 2020 or June 30, 2019.

14. 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, 2020 are as follows:

	<u>Program Services</u>		<u>Support Services</u>	
	<u>Clinical Services</u>	<u>Education</u>	<u>Administration</u>	<u>Total</u>
Operating expenses				
Salaries, wages, and payroll taxes	\$17,225,314	\$13,658,761	\$1,473,884	\$32,357,959
Fringe benefits	2,579,099	2,866,855	202,576	5,648,530
Other employee benefits	6,129	18,314	56,263	80,706
Recruiting	211,235	119,377	35,529	366,141
Clinical supplies	685,973	18,199	543	704,715
Office supplies	48,954	11,573	6,546	67,073
Educational supplies and services	14,577	378,119	26,095	418,791
Consulting and contractual services	934,678	396,069	214,885	1,545,632
Communications	36,052	1,060	227,674	264,786
Continuing medical education	85,100	292,725	-	377,825
Education, conferences and travel	98,098	357,203	23,559	478,860
Grant expenses	367,429	-	-	367,429
Insurance	457,606	366,910	87,562	912,078
Facility and equipment	546,643	1,419,686	90,163	2,056,492
Other expenses	30,896	28,583	54,026	113,504
Depreciation	36,956	61,373	283,424	381,753
Patient bad debt expense	224,655	-	-	224,655
Total operating expenses	<u>\$23,589,394</u>	<u>\$19,994,807</u>	<u>\$2,782,729</u>	<u>\$46,366,929</u>

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Notes to Financial Statements

June 30, 2020

14. Functional Expenses (continued)

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>
Operating expenses				
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
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
Education, conferences and travel	217,958	628,512	12,294	858,764
Grant expenses	688,690	–	–	688,690
Insurance	732,410	664	131,745	864,819
Facility and equipment	618,702	1,441,082	38,870	2,098,654
Other expenses	47,469	32,838	85,549	165,856
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>