

**CUMBERLAND HEIGHTS FOUNDATION, INC.
AND AFFILIATE**

Consolidated Financial Statements and Supplementary Information

December 31, 2022 and 2021

(With Independent Auditors' Report Thereon)

The logo for LBMC, consisting of the letters "LBMC" in white, sans-serif font, centered within a solid blue square.

CUMBERLAND HEIGHTS FOUNDATION, INC. AND AFFILIATE

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INDEPENDENT AUDITORS' REPORT

The Board of Directors of
Cumberland Heights Foundation, Inc.:

Opinion

We have audited the accompanying consolidated financial statements of Cumberland Heights Foundation, Inc. and Affiliate (the "Foundation"), which comprise the consolidated statements of financial position as of December 31, 2022 and 2021, and the related consolidated statements of activities and changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Foundation as of December 31, 2022 and 2021, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are required to be independent of the Foundation 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 Consolidated Financial Statements

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' 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 generally accepted 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 consolidated financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated 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 consolidated 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 the Foundation's 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 consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Foundation's 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 matters that we identified during the audit.

Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating supplementary information is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

LBMC, PC

Brentwood, Tennessee

May 26, 2023

CUMBERLAND HEIGHTS FOUNDATION, INC. AND AFFILIATE

Consolidated Statements of Financial Position

December 31, 2022 and 2021

Assets

	<u>2022</u>	<u>2021</u>
Current assets:		
Cash and cash equivalents	\$ 11,406,777	\$ 12,502,722
Patient accounts receivable	5,510,648	3,772,793
Contributions receivable	146,726	365,789
Other current assets	<u>500,096</u>	<u>773,371</u>
Total current assets	17,564,247	17,414,675
 Property and equipment, net	 31,055,003	 31,782,373
Contributions receivable, excluding current portion	6,667	127,918
Investments	9,279,687	9,274,065
Operating lease right-of-use assets	<u>1,259,085</u>	<u>-</u>
	\$ 59,164,689	\$ 58,599,031

Liabilities and Net Assets

Current liabilities:		
Current installments of long-term debt	\$ 1,000,000	\$ 1,000,000
Accounts payable	310,247	499,286
Accrued expenses	1,390,019	1,369,513
Current portion of operating lease liabilities	<u>510,823</u>	<u>-</u>
Total current liabilities	3,211,089	2,868,799
 Long-term debt, excluding current installments	 2,583,333	 3,583,333
Operating lease liabilities, excluding current portion	<u>759,890</u>	<u>-</u>
Total liabilities	6,554,312	6,452,132
 Net assets:		
Without donor restrictions	47,611,293	46,863,826
With donor restrictions	<u>4,999,084</u>	<u>5,283,073</u>
Total net assets	52,610,377	52,146,899
	\$ 59,164,689	\$ 58,599,031

See accompanying notes to the consolidated financial statements.

CUMBERLAND HEIGHTS FOUNDATION, INC. AND AFFILIATE

Consolidated Statements of Activities and Changes in Net Assets

Years ended December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Changes in net assets without donor restrictions:		
Revenue:		
Patient service revenue, net	\$ 34,032,465	\$ 33,573,747
Contributions	259,395	250,132
Investment return	(414,527)	122,185
Other	<u>1,085,188</u>	<u>766,889</u>
Total revenue	34,962,521	34,712,953
Satisfaction of restrictions	<u>1,291,969</u>	<u>1,841,967</u>
Total revenue without donor restrictions	<u>36,254,490</u>	<u>36,554,920</u>
Expenses:		
Program services:		
Clinical services	20,358,056	18,775,866
Ancillary services	<u>5,397,237</u>	<u>5,351,995</u>
Total program services	25,755,293	24,127,861
Supporting services:		
Administrative and fiscal	7,527,404	6,510,453
Marketing and public relations	<u>2,224,326</u>	<u>2,580,289</u>
Total supporting services	<u>9,751,730</u>	<u>9,090,742</u>
Total expenses	<u>35,507,023</u>	<u>33,218,603</u>
Increase in net assets without donor restrictions	<u>747,467</u>	<u>3,336,317</u>
Changes in net assets with donor restrictions:		
Contributions	1,667,123	2,118,780
Investment return	(659,143)	563,393
Net assets released from restrictions	<u>(1,291,969)</u>	<u>(1,841,967)</u>
(Decrease) increase in net assets with donor restrictions	<u>(283,989)</u>	<u>840,206</u>
Increase in net assets	463,478	4,176,523
Net assets at beginning of year	<u>52,146,899</u>	<u>47,970,376</u>
Net assets at end of year	<u>\$ 52,610,377</u>	<u>\$ 52,146,899</u>

See accompanying notes to the consolidated financial statements.

CUMBERLAND HEIGHTS FOUNDATION, INC. AND AFFILIATE

Consolidated Statements of Cash Flows

Years ended December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Cash flows from operating activities:		
Increase in net assets	\$ 463,478	\$ 4,176,523
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation and amortization	2,161,762	2,041,452
Provision for uncollectible contributions receivable	760	(35,105)
Loss on sale of property and equipment	3,706	25,303
Noncash lease expense	11,628	-
Net loss (gain) on investments	1,269,099	(635,579)
(Increase) decrease in operating assets:		
Accounts receivable	(1,737,855)	824,498
Contributions receivable	339,554	353,847
Other current assets	273,275	(59,605)
Decrease (Increase) in operating liabilities:		
Accounts payable	(189,039)	(4,877)
Accrued expenses	<u>20,506</u>	<u>(82,032)</u>
Total adjustments	<u>2,153,396</u>	<u>2,427,902</u>
Net cash provided by operating activities	<u>2,616,874</u>	<u>6,604,425</u>
Cash flows from investing activities:		
Purchases of property and equipment	(1,438,098)	(4,408,545)
Proceeds from sale of investments	244,620	195,198
Purchases of investments	<u>(1,519,341)</u>	<u>(3,348,677)</u>
Net cash used by investing activities	<u>(2,712,819)</u>	<u>(7,562,024)</u>
Cash flows from financing activities:		
Repayments on long-term debt	(1,000,000)	(2,805,563)
Proceeds from long-term debt	<u>-</u>	<u>5,000,000</u>
Net cash provided (used) by financing activities	<u>(1,000,000)</u>	<u>2,194,437</u>
Increase (decrease) in cash and cash equivalents	(1,095,945)	1,236,838
Cash and cash equivalents at beginning of year	<u>12,502,722</u>	<u>11,265,884</u>
Cash and cash equivalents at end of year	\$ <u><u>11,406,777</u></u>	\$ <u><u>12,502,722</u></u>
Supplemental disclosure of cash flow information:		
Cash paid during the year for:		
Interest	\$ <u><u>78,813</u></u>	\$ <u><u>83,214</u></u>

See accompanying notes to the consolidated financial statements.

CUMBERLAND HEIGHTS FOUNDATION, INC. AND AFFILIATE

Notes to the Consolidated Financial Statements

December 31, 2022 and 2021

(1) Nature of operations

Cumberland Heights Foundation, Inc. (the "Foundation") is a charitable organization that maintains and operates treatment centers for the rehabilitation of persons addicted to the use of alcohol and/or drugs. Cumberland Heights Professional Associates, Inc. (the "Affiliate") is a separate organization that was formed to provide medical and outpatient services to the patients of the Foundation. Due to the Foundation's economic interest in Cumberland Heights Professional Associates, Inc. and since the Foundation and the Affiliate share a common Board of Directors, the Affiliate has been included in the consolidated financial statements of the Foundation.

(2) Summary of significant accounting policies

The consolidated financial statements of the Foundation and Affiliate are presented on the accrual basis. The significant accounting policies followed are described below.

(a) Recently adopted accounting pronouncement

On January 1, 2022, the Foundation adopted the cumulative accounting standard updates initially issued by the Financial Accounting Standards Board ("FASB") in February 2016 that amend the accounting for leases and are codified as Accounting Standards Codification ("ASC") Topic 842 ("ASC 842"). These changes to the lease accounting model require operating leases to be recorded on the statement of financial position through recognition of a liability for the discounted present value of future fixed lease payments and a corresponding right-of-use ("ROU") asset. The Foundation's accounting for finance leases remained substantially unchanged from its prior accounting for capital leases. The ROU asset recorded at commencement of the lease represents the right to use the underlying asset over the lease term in exchange for the lease payments. Leases with an initial term of 12 months or less that do not have an option to purchase the underlying asset that is deemed reasonably certain to be exercised are not recorded on the statement of financial position; rather, rent expense for these leases is recognized on a straight-line basis over the lease term, or when incurred if a month-to-month lease. When readily determinable, the Foundation uses the interest rate implicit in a lease to determine the present value of future lease payments. For leases where the implicit rate is not readily determinable, the Foundation has elected the private company alternative and adopted an accounting policy to use the risk-free discount rate. The risk-free rate is determined using a period comparable with that of the lease term. The Foundation's lease agreements do not contain any material residual value guarantees or material restrictive covenants.

CUMBERLAND HEIGHTS FOUNDATION, INC. AND AFFILIATE

Notes to the Consolidated Financial Statements

December 31, 2022 and 2021

The Foundation elected the amended transition requirements allowed for by the FASB in Accounting Standards Update ("ASU") 2018-11, which provide entities relief by allowing them not to recast prior comparative periods from the adoption of ASC 842. As a result, the prior year comparative consolidated financial statements have not been restated to reflect the adoption of ASC 842. Additionally, the Foundation elected the package of practical expedients available in ASC 842 upon adoption whereby an entity need not reassess expired contracts for lease identification or classification as a finance or operating lease, or for the reassessment of initial direct costs. The Foundation has not elected the practical expedient to use hindsight to determine the lease term for its leases at transition. Certain of the Foundation's lease agreements have lease and non-lease components, which for the majority of leases the Foundation accounts for separately when the actual lease and non-lease components are determinable.

The adoption of ASC 842 resulted in recognition of an operating lease ROU asset and lease liability of approximately \$1,790,000 as of January 1, 2022, with no cumulative adjustment to net assets. The adoption did not have a material impact on the Foundation's consolidated statement of activities or consolidated statement of cash flows for the year ended December 31, 2022. The consolidated financial statements for the year ended December 31, 2021 are presented in accordance with ASC 840.

(b) Principles of consolidation

These consolidated financial statements include the accounts of the Foundation and its Affiliate (collectively, the "Organizations"). All significant intercompany accounts and transactions have been eliminated.

(c) Basis of presentation

Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Foundation and Affiliate and changes therein are classified and reported as follows:

Without donor restrictions - Net assets without donor restrictions are free of donor-imposed restrictions. All revenues, gains, and losses that are not restricted by donors are included in this classification. All expenditures are reported in the without donor restrictions class of net assets, including expenditures funded by restricted contributions. Expenditures funded by restricted contributions are reported in the without donor restrictions net asset class because the use of restricted contributions in accordance with donor's stipulations results in the release of such restrictions.

CUMBERLAND HEIGHTS FOUNDATION, INC. AND AFFILIATE

Notes to the Consolidated Financial Statements

December 31, 2022 and 2021

With donor restrictions - Net assets subject to donor-imposed stipulations that may or will be met either by actions of the Foundation and Affiliate and/or the passage of time. Net assets with donor restrictions are designated by donors for specific purposes, and include unconditional contributions receivable, interests in trusts held by others, and accumulated appreciation on donor-restricted endowments. Some net assets with donor restrictions are required by donors to be held in perpetuity. The donors of substantially all net assets to be held in perpetuity permit the Foundation to use distributions from the related investments as needed in the year of receipt.

All contributions are considered to be available for use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as donor restricted support.

(d) Cash and cash equivalents

Cash and cash equivalents include cash and all highly liquid investments with a maturity of three months or less when purchased.

(e) Receivables and credit policies

The Foundation and Affiliate report accounts receivable for services rendered at net realizable amounts. The Foundation and Affiliate manage receivables by regularly reviewing its accounts and contracts and by providing appropriate implicit price concessions. These implicit price concessions are determined using patient trends and historical collections data.

(f) Investments

Investments in marketable equity securities with readily determinable fair values and all investments in debt securities are shown at their fair values in the consolidated statements of financial position. Investment return shown in the consolidated statements of activities and changes in net assets includes interest, dividends, and realized and unrealized gains and losses, net of investment expenses. Investment return is reported in the period earned as an increase in net assets without donor restrictions unless the use of the assets received is limited by donor-imposed restrictions. Investment return that is restricted by the donor is reported as an increase in net assets without donor restrictions if the restrictions are met or expire in the year in which the income is recognized. Other donor-restricted investment return is reported as an increase in donor restricted net assets, depending on the nature of the restrictions. Unrealized gains and losses on net assets with donor restrictions held in perpetuity are reported as increases or decreases in donor-restricted net assets, based on the donor's explicit instructions.

CUMBERLAND HEIGHTS FOUNDATION, INC. AND AFFILIATE

Notes to the Consolidated Financial Statements

December 31, 2022 and 2021

(g) Leases

The Foundation determines if an arrangement is a lease at inception of the contract. ROU assets and lease liabilities are recognized at the commencement date of the lease based on the present value of lease payments over the lease term. The Foundation has adopted an accounting policy election to use a risk-free discount rate, determined using a period comparable with that of the lease term at the lease commencement date, in determining the present value of lease payments. The Foundation has elected not to recognize a ROU asset and lease liability for leases with an estimated term of 12 months or less but includes the expense associated with the short-term leases in program services expense in the consolidated statement of activities.

The Foundation may enter into leasing arrangements with one or more options to renew. The exercise of lease renewal options is at the Foundation's sole discretion. The Foundation considers whether or not renewal options are reasonably likely to be exercised, therefore, certain renewal options may be recognized as part of the determination of the lease terms. The lease agreements do not contain any material residual value guarantees, restrictions or covenants.

(h) Property and equipment

Property and equipment are stated at cost. Donated property and equipment are recorded at their estimated fair value at the date of the gift. Depreciation and amortization are provided over the assets' estimated useful lives using the straight-line method as follows:

	<u>Years</u>
Transportation equipment	5
Furniture and fixtures	5 - 10
Machinery and equipment	3 - 10
Buildings and improvements	3 - 30

Expenditures for maintenance and repairs are expensed when incurred. Expenditures for renewals or betterments are capitalized. When property is retired or sold, the cost and the related accumulated depreciation or amortization are removed from the accounts, and the resulting gain or loss is recorded as a change in net assets.

(i) Income taxes

The Foundation and Affiliate are exempt from federal and state income taxes under the provisions of Internal Revenue Code (the "Code") Section 501(c)(3), and, accordingly, no provision for income taxes is included in the consolidated financial statements.

CUMBERLAND HEIGHTS FOUNDATION, INC. AND AFFILIATE

Notes to the Consolidated Financial Statements

December 31, 2022 and 2021

Under generally accepted accounting principles ("GAAP"), a tax position is recognized as a benefit only if it is "more likely than not" that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the "more likely than not" test, no tax benefit is recorded. The Foundation and Affiliate had no material uncertain tax positions that qualify for recognition or disclosure in the consolidated financial statements.

As of December 31, 2022 and 2021, the Organizations have no accrued interest or penalties related to uncertain tax positions. It is their policy to recognize interest and/or penalties related to income tax matters in income tax expense.

The Foundation and Affiliate file separate U.S. Federal information tax returns.

(j) Revenue recognition

A contract with a customer (or patient) is an agreement which both parties have approved (whether explicitly or implicitly), that creates enforceable rights and obligations, has commercial substance, where payment terms are identified and collectibility is probable. Once the Organization has entered into a contract, it is evaluated to identify performance obligations. The Organization recognizes revenue in the period in which it satisfies the performance obligations under the contract by transferring the promised services to patients in an amount that reflects the consideration the Organization expects to receive in exchange for providing patient care.

Net patient service revenue is recognized at the estimated net realizable amounts from patients, third-party payers, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payers. Retroactive adjustments are made on an estimated basis in the period the related services are rendered and adjusted in future periods, as final settlements are determined.

The Foundation has a Patient Assistance Fund that provides treatment scholarships for persons who have not had a previous treatment experience, who demonstrate a high level of motivation, and who have no financial resources. The Foundation also provides for indigent patients under certain circumstances. Revenue is not recognized in the consolidated financial statements for charity care. Direct and indirect costs of charity care which are based on the ratio of total costs to total gross charges were approximately \$464,000 and \$569,000 in 2022 and 2021, respectively.

CUMBERLAND HEIGHTS FOUNDATION, INC. AND AFFILIATE

Notes to the Consolidated Financial Statements

December 31, 2022 and 2021

(k) Contributions and contributions receivable

Contributions receivable represent unconditional promises to give and are recognized as revenue when an unconditional promise to give is received from a donor. Contributions receivable that are expected to be collected in future years are recorded at the present value of estimated future cash flows. The discounts on those amounts are computed and recorded, if material, using a risk-free interest rate applicable to the year in which the promise is received. Amortization of the discount is included in contributions receivable.

Conditional promises to give are not included as support until such time as the conditions are substantially met. Conditional donations received from donors are shown as contribution advances in the accompanying consolidated statements of financial position until the donor condition is met.

An allowance for uncollectible contributions is recorded when the Foundation determines, based on historical experience and collection efforts, that a contribution receivable is uncollectible.

(l) Advertising and promotion costs

Advertising and promotion costs are expensed as incurred and amounted to \$374,227 and \$532,753 during 2022 and 2021, respectively.

(m) Functional allocation of expenses

The consolidated statements of activities report certain categories of expenses that are attributable to both the program and supporting functions of the Organizations. Therefore, expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include certain salaries and temporary labor, contract services, utilities, supplies, rent, interest, depreciation and amortization, and other expenses. Other than depreciation, these costs are allocated based on management's estimates of time and effort involved for each program or supporting function. Depreciation expense is allocated based on management's assessment of administrative square footage used as a percent of the total facility's square footage.

(n) Long-lived assets

The carrying values of long-lived assets are reviewed whenever events or circumstances indicate that the carrying amount of an asset may not be recoverable. If this review indicates that the asset will not be recoverable, as determined based on the undiscounted cash flows of the operating entity or asset over the remaining amortization period, the carrying value of the asset will be reduced to its fair value.

CUMBERLAND HEIGHTS FOUNDATION, INC. AND AFFILIATE

Notes to the Consolidated Financial Statements

December 31, 2022 and 2021

(o) Fundraising costs

For the years ended December 31, 2022 and 2021, expenses totaling \$626,414 and \$443,487, respectively, were associated with fundraising and are classified in the consolidated statements of activities and changes in net assets under marketing and public relations.

(p) Use of estimates

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(q) Events occurring after reporting date

The Organizations have evaluated events and transactions that occurred between December 31, 2022 and May 26, 2023 which is the date that the consolidated financial statements were available to be issued, for possible recognition or disclosure in the consolidated financial statements.

(3) Credit risk and other concentrations

The Foundation generally maintains cash and cash equivalents on deposit at banks in excess of federally insured amounts. All cash and cash equivalents balances in excess of FDIC insurance are secured under repurchase agreements or other deposit arrangements. The Foundation has not experienced any losses in such accounts and management believes the Foundation is not exposed to any significant credit risk related to cash and cash equivalents.

The Foundation utilizes various investment instruments. Investment securities, in general, are exposed to various risks, such as interest rate, credit, and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the consolidated statements of financial position.

CUMBERLAND HEIGHTS FOUNDATION, INC. AND AFFILIATE

Notes to the Consolidated Financial Statements

December 31, 2022 and 2021

The Foundation provides rehabilitation treatment for individuals with alcohol and other chemical dependencies under various payer programs. Accordingly, the concentration of accounts receivable and revenue as of and for the years ended December 31, 2022 and 2021, is summarized as follows:

	<u>2022</u>		<u>2021</u>	
	<u>Accounts Receivable</u>	<u>Revenue</u>	<u>Accounts Receivable</u>	<u>Revenue</u>
Blue Cross/Magellan	26 %	41 %	30 %	40 %
Other private insurance	45	46	43	46
Individuals	<u>29</u>	<u>13</u>	<u>27</u>	<u>14</u>
	<u>100 %</u>	<u>100 %</u>	<u>100 %</u>	<u>100 %</u>

(4) Assets and liabilities measured at fair value

ASC 820, *Fair Value Measurements and Disclosures*, provides the framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below:

Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Foundation's management has the ability to access.

Level 2 - Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

CUMBERLAND HEIGHTS FOUNDATION, INC. AND AFFILIATE

Notes to the Consolidated Financial Statements

December 31, 2022 and 2021

The following is a description of the valuation methodologies used for asset measurement at fair value. There have been no changes in the methodologies used at December 31, 2022 and 2021.

- (i) *Mutual funds*: Valued at the net asset value of shares held by the Foundation at year end based on quoted prices in an active market.
- (ii) *Equity securities*: Valued at the closing price reported on the active market on which the individual securities are traded.
- (iii) *Beneficial interest*: Given the inability to compute the present value of the perpetual income stream from the trust, the beneficial interest in perpetual trust has been recorded on the consolidated statements of financial position at the fair value of the underlying assets of the trust using information obtained from third party sources, including detail listings of holdings from the trust. The trust consists primarily of marketable equity securities and mutual funds. The value of the trust is not based on a publicly-quoted price in an active market (Level 2)

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Foundation's management believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following table sets forth by level, within the fair value hierarchy, the Foundation's assets at fair value as of December 31, 2022 and 2021:

2022				
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Cash held in interest program	\$ 125,252	\$ -	\$ -	\$ 125,252
Mutual funds	5,277,950	-	-	5,277,950
Equity securities	3,388,847	-	-	3,388,847
Beneficial interest in perpetual trust	<u>-</u>	<u>487,638</u>	<u>-</u>	<u>487,638</u>
Total	<u>\$ 8,792,049</u>	<u>\$ 487,638</u>	<u>\$ -</u>	<u>\$ 9,279,687</u>
2021				
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Cash held in interest program	\$ 254,330	\$ -	\$ -	\$ 254,330
Mutual funds	4,577,631	-	-	4,577,631
Equity securities	3,851,677	-	-	3,851,677
Beneficial interest in perpetual trust	<u>-</u>	<u>590,427</u>	<u>-</u>	<u>590,427</u>
Total	<u>\$ 8,683,638</u>	<u>\$ 590,427</u>	<u>\$ -</u>	<u>\$ 9,274,065</u>

CUMBERLAND HEIGHTS FOUNDATION, INC. AND AFFILIATE

Notes to the Consolidated Financial Statements

December 31, 2022 and 2021

(5) Contributions receivable

The Foundation solicits contributions of support from board members and others for contributions to be used for specific purposes. The contributions are discounted when recorded to reflect the present value of expected future collections due after one year. Contributions receivable are reported as net assets with donor restrictions in the accompanying consolidated financial statements and are scheduled to be received as follows:

	<u>2022</u>	<u>2021</u>
Receivable in less than one year	\$ 183,166	\$ 393,054
Receivable in one to three years	<u>6,667</u>	<u>136,333</u>
	189,833	529,387
Less: allowance for uncollectible pledges	(29,500)	(15,500)
Less: discount	<u>(6,940)</u>	<u>(20,180)</u>
	\$ <u>153,393</u>	\$ <u>493,707</u>

(6) Beneficial interest in perpetual trust

The Foundation is the beneficiary of a trust created by a donor, the assets of which are not in the possession of the Foundation. The Foundation has legally enforceable rights and claims to such income therefrom and receives annual cash distributions from the trust. Net realized and unrealized gains or losses related to the beneficial interest are reported as changes in net assets with donor restrictions based on the explicit donor stipulation. The fair value of the beneficial interest was \$487,638 and \$590,427 at December 31, 2022 and 2021, respectively, and is included in donor restricted net assets in the accompanying consolidated financial statements.

(7) Investment return

The following schedule summarizes the investment return in the consolidated statements of activities for 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Interest and dividend income	\$ 276,121	\$ 121,739
Net (loss) gain on investments	(1,269,099)	635,579
Fees paid	<u>(80,692)</u>	<u>(71,740)</u>
	\$ <u>(1,073,670)</u>	\$ <u>685,578</u>

CUMBERLAND HEIGHTS FOUNDATION, INC. AND AFFILIATE

Notes to the Consolidated Financial Statements

December 31, 2022 and 2021

(8) Property and equipment

A summary of property and equipment as of December 31, 2022 and 2021 is as follows:

	<u>2022</u>	<u>2021</u>
Land	\$ 2,304,339	\$ 2,313,157
Buildings and improvements	45,252,980	44,393,340
Machinery and equipment	2,242,713	2,008,821
Transportation equipment	376,235	376,235
Furniture and fixtures	2,276,602	2,039,201
Construction in progress	<u>397,310</u>	<u>355,449</u>
	52,850,179	51,486,203
Accumulated depreciation and amortization	<u>(21,795,176)</u>	<u>(19,703,830)</u>
	<u>\$ 31,055,003</u>	<u>\$ 31,782,373</u>

Depreciation and amortization expense amounted to approximately \$2,100,000 and \$2,000,000 for the years ended December 31, 2022 and 2021, respectively.

Construction in progress as of December 31, 2022 primarily consists of amounts incurred relating to new residential cottages. At December 31, 2022, the estimated cost to complete all projects was approximately \$36,000,000. The project is expected to be completed in two stages and placed into service in 2024 and 2025. Construction in progress as of December 31, 2021 primarily consists of amounts incurred relating to a warehouse buildout for information technology. During 2022, the warehouse buildout was completed and the balance was released from construction in progress.

(9) Liquidity and availability

The Foundation regularly monitors liquidity required to meet its operating needs and other commitments, while also striving to maximize the investment of its available funds. As part of the Foundation's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities and other obligations come due. Additionally, the Foundation maintains a line of credit with a bank (Note 10) which is available for operating purposes.

CUMBERLAND HEIGHTS FOUNDATION, INC. AND AFFILIATE

Notes to the Consolidated Financial Statements

December 31, 2022 and 2021

Financial assets available for general expenditures within one year of the statement of financial position as of December 31, 2022 and 2021 are as follows:

	<u>2022</u>	<u>2021</u>
Cash and cash equivalents	\$ 11,406,777	\$ 12,502,722
Patient accounts receivable	5,510,648	3,772,793
Contributions receivable	<u>146,726</u>	<u>365,789</u>
	<u>\$ 16,917,425</u>	<u>16,641,304</u>

None of the above assets are subject to donor or other restrictions.

(10) Line of credit

At December 31, 2022 and 2021, the Foundation had a \$2,500,000 revolving line of credit. The line of credit is payable on demand and matures on April 5, 2023. There were no borrowings on the line at December 31, 2022 and 2021. Borrowings under the line bear interest, payable monthly, at an annual interest rate equal to the one-month LIBOR plus 1.50 percentage points over the index. The line of credit is secured by patient accounts receivable. Effective April 5, 2023 the line of credit was renewed and matures on April 5, 2024. Borrowings under the line that was renewed bear interest, payable monthly, at an annual interest rate equal to one-month Bloomberg Short-Term Bank Yield Index.

The line of credit agreement is cross-collateralized with the related long-term debt (see Note 11). The security agreements with the bank contain certain financial covenants, including requirements for the maintenance of specified current ratios, minimum levels of debt service coverage and minimum earnings before interest, depreciation and amortization.

(11) Long-term debt

A summary of long-term debt as of December 31, 2022 and 2021 is as follows:

	<u>2022</u>	<u>2021</u>
Note payable to bank due in monthly installments of \$83,333 plus interest at a fixed rate of 1.95% per year through July 21, 2026	\$ 3,583,333	\$ 4,583,333
Less current installments	<u>1,000,000</u>	<u>1,000,000</u>
Long-term debt, excluding current installments	<u>\$ 2,583,333</u>	<u>\$ 3,583,333</u>

CUMBERLAND HEIGHTS FOUNDATION, INC. AND AFFILIATE

Notes to the Consolidated Financial Statements

December 31, 2022 and 2021

A summary of future maturities of long-term debt as of December 31, 2022 is as follows:

<u>Year</u>	<u>Amount</u>
2023	\$ 1,000,000
2024	1,000,000
2025	1,000,000
2026	<u>583,333</u>
	<u>\$ 3,583,333</u>

In March 2018, the Foundation entered into a note payable to a bank in connection with \$6,000,000 Series 2018 Revenue Bonds issued by the Industrial Development Board of Cheatham County for the purpose of constructing a recovery treatment and rehabilitation center in Pegram, Tennessee. In August 2021, subsequent to the Pegram location being constructed, the Foundation refinanced the note payable with the bank, repaying the outstanding balance of the Revenue bond note payable, while receiving \$5,000,000 in cash for the purpose of purchasing two properties. The loan agreement requires maintenance of certain covenants (see Note 10).

(12) Net assets

As of December 31, 2022 and 2021, the Board of Directors had designated \$5,013,126 and \$4,449,023, respectively, of net assets without donor restrictions as a general endowment fund to support the mission of the Organizations. Since that amount resulted from an internal designation and is not donor-restricted, it is classified and reported as net assets without donor restrictions.

Net assets with donor restrictions as of December 31, 2022 and 2021 are available for the following purposes:

	<u>2022</u>	<u>2021</u>
Subject to expenditure for specified purpose:		
Patient assistance	\$ 773,525	\$ 458,031
Endowment		
Subject to appropriation and expenditure for specified purposes:		
Patient assistance	3,737,921	4,234,615
Held in perpetuity:		
Olcott Foundation	<u>487,638</u>	<u>590,427</u>
Total endowment	<u>4,225,559</u>	<u>4,825,042</u>
	<u>\$ 4,999,084</u>	<u>\$ 5,283,073</u>

CUMBERLAND HEIGHTS FOUNDATION, INC. AND AFFILIATE

Notes to the Consolidated Financial Statements

December 31, 2022 and 2021

Some net assets with donor restrictions are held in perpetuity with the unrealized gain (loss) reflected as net assets with donor restrictions and the income from assets expendable to support certain programs.

(13) Natural classification of expenses

A summary of the natural classification of expenses for the years ended December 31, 2022 and 2021 is as follows:

	<u>2022</u>				
	<u>Clinical Services</u>	<u>Ancillary Services</u>	<u>Administrative and fiscal</u>	<u>Marketing and public relations</u>	<u>Total</u>
Salaries and temporary labor	\$ 15,272,507	\$ 2,687,649	\$ 3,624,430	\$ 1,083,909	\$ 22,668,495
Contract services	636,337	775,449	483,677	125,838	2,021,301
Depreciation and amortization	1,225,348	324,382	478,347	133,685	2,161,762
Interest	43,675	11,562	18,811	4,765	78,813
General insurance	14,463	-	782,534	-	796,997
Utilities	268,090	14,319	634,779	11,057	928,245
Food service	-	854,173	-	-	854,173
Supplies	925,030	243,899	9,065	2,325	1,180,319
Rent	619,049	1,669	2,716	-	623,434
Other	<u>1,353,557</u>	<u>484,135</u>	<u>1,493,045</u>	<u>862,747</u>	<u>4,193,484</u>
	\$ <u>20,358,056</u>	\$ <u>5,397,237</u>	\$ <u>7,527,404</u>	\$ <u>2,224,326</u>	\$ <u>35,507,023</u>
	<u>2021</u>				
	<u>Clinical Services</u>	<u>Ancillary Services</u>	<u>Administrative and fiscal</u>	<u>Marketing and public relations</u>	<u>Total</u>
Salaries and temporary labor	\$ 13,972,619	\$ 2,756,799	\$ 3,005,263	\$ 1,413,285	\$ 21,147,966
Contract services	691,817	702,746	184,523	66,125	1,645,211
Depreciation and amortization	1,141,800	326,926	415,109	157,617	2,041,452
Interest	46,542	13,326	16,920	6,425	83,213
General insurance	9,488	-	666,578	-	676,066
Utilities	253,343	15,604	580,867	14,277	864,091
Food service	-	754,878	-	-	754,878
Supplies	614,959	244,940	10,587	586	871,072
Rent	714,380	1,456	2,619	-	718,455
Other	<u>1,330,918</u>	<u>535,320</u>	<u>1,627,987</u>	<u>921,974</u>	<u>4,416,199</u>
	\$ <u>18,775,866</u>	\$ <u>5,351,995</u>	\$ <u>6,510,453</u>	\$ <u>2,580,289</u>	\$ <u>33,218,603</u>

CUMBERLAND HEIGHTS FOUNDATION, INC. AND AFFILIATE

Notes to the Consolidated Financial Statements

December 31, 2022 and 2021

(14) Profit-sharing and deferred compensation plans

Eligible employees of the Foundation may participate in the Cumberland Heights 401(k) Retirement Plan (the "Plan"). Employees are generally eligible after they reach age 20 1/2 and are employed for three months. The Foundation matched salary deferral contributions equal to 100% of salary contributions up to 5% of compensation. The Foundation made contributions of \$477,044 and \$274,149 to the Plan in 2022 and 2021, respectively.

The Foundation has a deferred compensation arrangement with its CEO and Chief Medical Officer. The arrangement consists of an eligible plan under Section 457(b) of the Code. Eligible plan contributions shall have a fully vested and nonforfeitable interest in the contributions. The cash in the deferred compensation plan is held by the Foundation, subject to the claims of its general creditors. As of December 31, 2022, cash of \$41,002 is included in investments on the consolidated statement of financial position. Related and offsetting liabilities are included in accrued expenses on the consolidated statement of financial position. The Foundation contributed \$41,002 to the deferred compensation plan for the year ended December 31, 2022.

(15) Leases

The Foundation utilizes office space and various office equipment under operating leases. Operating and variable lease costs are included in program services expense in the consolidated statements of activities and changes in net assets. Variable lease costs are the portion of lease payments that are not fixed over the lease term. Variable lease costs include real estate payments that are adjusted periodically for inflation or other variables as well as payments for taxes, insurance, maintenance and other expenses. Variable lease costs are expensed as incurred. Rent expense under the operating leases for 2022 is summarized below. Rent expense in 2021 under ASC 840 was approximately \$718,000.

Additional supplemental information regarding assumptions for operating leases as of December 31, 2022 is as follows:

Weighted-average remaining lease terms (in years)	2.21
Weighted-average discount rate	1.95%

The components of rent expense for the year ended December 31, 2022 are as follows:

<u>Rent expense</u>	<u>Statement of activities classification</u>	<u>Year ended December 31, 2022</u>
Operating lease cost (straight line rent)	Program services expense	\$ 559,020
Variable and short-term lease expense	Program services expense	<u>64,414</u>
Total rent expense		<u>\$ 623,434</u>

CUMBERLAND HEIGHTS FOUNDATION, INC. AND AFFILIATE

Notes to the Consolidated Financial Statements

December 31, 2022 and 2021

The maturities of the operating lease liabilities as of December 31, 2022 is as follows:

<u>Maturities</u>	<u>Amount</u>
2023	\$ 510,823
2024	418,010
2025	179,340
2026	150,946
Thereafter	<u>11,594</u>
Total lease payments	1,270,713
Less: current portion	<u>(510,823)</u>
Operating lease labile, excluding current portion	\$ <u><u>759,890</u></u>

(16) Endowment

Overview: The Foundation's endowment funds consist of funds that hold investments in securities traded on the public market. The endowments include certain net assets with donor restrictions. As required by GAAP, net assets associated with these endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The primary objective of the Foundation's endowment funds is the preservation of capital. Secondly, the endowment funds should provide reasonable growth of principal within the unfolding market environment, as well as an adequate level of income to supplement the financial needs of the Foundation. The monies of the endowment funds are to be invested in a portfolio that is comprised of equity securities (38-60%), fixed income securities (33-56%) and cash reserves (0-10%).

CUMBERLAND HEIGHTS FOUNDATION, INC. AND AFFILIATE

Notes to the Consolidated Financial Statements

December 31, 2022 and 2021

Composition of and changes in endowment net assets by type of fund as of December 31, 2022 is as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total Net Endowment Assets</u>
Donor-restricted endowment funds	\$ -	\$ 4,225,559	\$ 4,225,559
Board-designated endowment funds	<u>5,013,126</u>	<u>-</u>	<u>5,013,126</u>
Total funds	<u>\$ 5,013,126</u>	<u>\$ 4,225,559</u>	<u>\$ 9,238,685</u>
Endowment net assets, beginning of year	\$ 4,449,023	\$ 4,825,042	\$ 9,274,065
Contributions	1,046,229	236,684	1,282,913
Amounts appropriated for expenditure	(67,598)	(177,025)	(244,623)
Loss on investment, net	<u>(414,528)</u>	<u>(659,142)</u>	<u>(1,073,670)</u>
Endowment net assets, end of year	<u>\$ 5,013,126</u>	<u>\$ 4,225,559</u>	<u>\$ 9,238,685</u>

Composition of and changes in endowment net assets by type of fund as of December 31, 2021 is as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total Net Endowment Assets</u>
Donor-restricted endowment funds	\$ -	\$ 4,825,042	\$ 4,825,042
Board-designated endowment funds	<u>4,449,023</u>	<u>-</u>	<u>4,449,023</u>
Total funds	<u>\$ 4,449,023</u>	<u>\$ 4,825,042</u>	<u>\$ 9,274,065</u>
Endowment net assets, beginning of year	\$ 1,280,054	\$ 4,204,953	\$ 5,485,007
Contributions	3,077,211	194,851	3,272,062
Amounts appropriated for expenditure	(27,381)	(141,201)	(168,582)
Gain on investment, net	<u>119,139</u>	<u>566,439</u>	<u>685,578</u>
Endowment net assets, end of year	<u>\$ 4,449,023</u>	<u>\$ 4,825,042</u>	<u>\$ 9,274,065</u>

CUMBERLAND HEIGHTS FOUNDATION, INC. AND AFFILIATE

Notes to the Consolidated Financial Statements

December 31, 2022 and 2021

The endowment funds are primarily invested in equity and fixed income securities. As determined by the restrictions imposed by the donors and the guidelines established by the endowment committee, the donor restricted endowment funds are generally expended at a rate between 3% and 5% of the calendar year end principal balance.

Return Objectives and Risk Parameters: The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowments while seeking to maintain the purchasing power of the endowment assets. Endowment assets include assets of donor-restricted funds that the Foundation must hold in perpetuity. Under this policy, the endowment assets are invested in a manner that is intended to produce a moderate return while assuming a moderate level of investment risk.

Strategies Employed for Achieving Objectives: To satisfy its long-term rate-of-return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Foundation targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Funds with Deficiencies: From time to time, the fair value of assets associated with the individual donor-restricted endowment funds may fall below the level that the donor requires the Foundation to retain as a fund of perpetual duration. As of December 31, 2022 and 2021 there was no deficiency.

Spending Policy and How the Investment Objectives Relate to Spending Policy: The Foundation disburses funds as needed within the guidelines of the endowments. Disbursements to the Foundation are used to assist with its programs and services according to donor restrictions.

(17) Contingencies

Self-insurance

Effective January 1, 2018, the Foundation is self-insured for employee medical insurance. The risk of loss retained by the Foundation is limited to \$65,000 for each employee's medical claims and \$3,316,733 and \$3,057,586 for 2022 and 2021, respectively, in the aggregate annually. Claims expenditures and liabilities are reported under the self-insurance plan when it is probable that a loss has occurred and the amount of the loss is reasonably estimated. Reserves related to employee medical benefits amounted to approximately \$474,000 and \$492,000 as of December 31, 2022 and 2021, respectively. The liability is included within accrued expenses on the accompanying consolidated statements of financial position.

CUMBERLAND HEIGHTS FOUNDATION, INC. AND AFFILIATE

Notes to the Consolidated Financial Statements

December 31, 2022 and 2021

Health care industry

The delivery of personal and health care services entails an inherent risk of liability. Participants in the health care services industry have become subject to an increasing number of lawsuits alleging negligence or related legal theories, many of which involve large claims and result in the incurrence of significant exposure and defense costs. The Foundation is insured with respect to medical malpractice risk on an occurrence basis. The Foundation also maintains insurance for general liability, director and officer liability and property. Certain policies are subject to deductibles. In addition to the insurance coverage provided, the Foundation indemnifies certain officers and directors for actions taken on behalf of the Foundation. Management is not aware of any claims against the Foundation which would have a material financial impact.

The health care industry is subject to numerous laws and regulations of federal, state, and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government health care program participation requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Recently, government activity has increased with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by health care providers. Violations of these laws and regulations could result in expulsion from government health care programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. Management believes that the Foundation is in compliance with fraud and abuse statutes as well as other applicable government laws and regulations. Compliance with such laws and regulations can be subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time.

Health care reform

The health care industry is subject to changing political, regulatory, and other influences, along with various scientific and technological initiatives. In recent years, the U.S. Congress and certain state legislatures have passed a large number of laws and regulations intended to effect major change within the U.S. health care system, including the Affordable Care Act. The Affordable Care Act affects how health care services are covered, delivered and reimbursed through expanded health insurance coverage, reduced growth in Medicare program spending, and the establishment of programs that tie reimbursement to quality and integration. However, there is uncertainty regarding the future of the Affordable Care Act. The law has been subject to legislative and regulatory changes and court challenges.

CUMBERLAND HEIGHTS FOUNDATION, INC. AND AFFILIATE

Notes to the Consolidated Financial Statements

December 31, 2022 and 2021

There is uncertainty regarding the ongoing effect of the Affordable Care Act due to efforts to change, repeal or replace the Affordable Care Act, and the development of agency guidance, among other factors. There is also uncertainty regarding the potential impact of other reform efforts at the federal and state levels. For example, some members of Congress have proposed measures that would expand government-sponsored coverage, including proposals to expand coverage of federally-funded insurance programs as an alternative to private insurance or establish a single-payer system (such reforms often referred to as “Medicare for All”), and some states are considering similar measures. Other initiatives and proposals, including those aimed at price transparency and out-of-network charges, may impact prices and the relationships between health care providers and insurers.

General economic and demographic factors

The health care industry is impacted by the overall United States economy. The COVID-19 pandemic has led, and may continue to lead, to a general worsening of economic conditions. Budget deficits at federal, state and local government entities have had a negative impact on spending for many health and human service programs, including Medicare, Medicaid and similar programs, which represent significant payer sources for the Organization. It is anticipated that the federal deficit, the growing magnitude of Medicare and Medicaid expenditures and the aging of the United States population will continue to place pressure on government health care programs.

Litigation

At this time, management is not aware of any claims or legal action or any pending or threatened litigation that might have a material impact on the Organizations' financial position, results of operations or cash flows. While management believes that the Organizations have adequate general and professional liability coverage, subsequent claims could result in additional costs to the Organizations.

(18) Related party transactions

The Foundation sometimes purchases goods or services from companies or organizations that are affiliated with or owned, directly or indirectly, by members of the Board of Directors. Additionally, the Foundation receives pledges from companies or organizations that are affiliated with or owned, directly or indirectly, by members of the Board of Directors. Approximately \$15,000 and \$99,000 of related party pledges were included in contributions receivable in the accompanying consolidated statements of financial position at December 31, 2022 and 2021, respectively.

CUMBERLAND HEIGHTS FOUNDATION, INC. AND AFFILIATE

Consolidating Statement of Financial Position Information

December 31, 2022

<u>Assets</u>	Cumberland Heights Foundation, Inc.	Cumberland Heights Professional Associates, Inc.	<u>Eliminating Entries</u>		<u>Consolidated</u>
			<u>Debit</u>	<u>Credit</u>	
Current assets:					
Cash and cash equivalents	\$ 11,362,610	\$ 44,167	\$ -	\$ -	\$ 11,406,777
Patient accounts receivable	5,202,864	307,784	-	-	5,510,648
Receivable from related party	908,484	-	(a)	908,484	-
Contributions receivable	146,726	-	-	-	146,726
Other current assets	489,894	10,202	-	-	500,096
Total current assets	18,110,578	362,153	-	908,484	17,564,247
Property and equipment, net	31,055,003	-	-	-	31,055,003
Contributions receivable, excluding current portion	6,667	-	-	-	6,667
Investments	9,279,687	-	-	-	9,279,687
Operating lease right-of use asset	1,259,085	-	-	-	1,259,085
	<u>\$ 59,711,020</u>	<u>\$ 362,153</u>	<u>\$ -</u>	<u>\$ 908,484</u>	<u>\$ 59,164,689</u>
<u>Liabilities and Net Assets</u>					
Current liabilities:					
Current installments of long-term debt	\$ 1,000,000	\$ -	\$ -	\$ -	\$ 1,000,000
Accounts payable	301,563	917,168	(a) 908,484	-	310,247
Accrued expenses	1,343,873	46,146	-	-	1,390,019
Current portion of operating lease liabilities	510,823	-	-	-	510,823
Total current liabilities	3,156,259	963,314	908,484	-	3,211,089
Long-term debt, excluding current installments	2,583,333	-	-	-	2,583,333
Operating lease liabilities, excluding current portion	759,890	-	-	-	759,890
Total liabilities	6,499,482	963,314	908,484	-	6,554,312
Net assets:					
Without donor restrictions	48,212,454	(601,161)	-	-	47,611,293
With donor restrictions	4,999,084	-	-	-	4,999,084
Total net assets	53,211,538	(601,161)	-	-	52,610,377
	<u>\$ 59,711,020</u>	<u>\$ 362,153</u>	<u>\$ 908,484</u>	<u>\$ -</u>	<u>\$ 59,164,689</u>

(a) To eliminate intercompany receivables and payables.

See independent auditors' report

CUMBERLAND HEIGHTS FOUNDATION, INC. AND AFFILIATE

Consolidating Statement of Activities and Changes in Net Assets Information

Year ended December 31, 2022

	Cumberland Heights Foundation, Inc.	Cumberland Heights Professional Associates, Inc.	Eliminating Entries		Consolidated
			Debit	Credit	
Changes in net assets without donor restrictions:					
Revenue:					
Patient service revenue, net	\$ 33,278,247	\$ 754,218	\$ -	\$ -	\$ 34,032,465
Contributions	259,395	-	-	-	259,395
Investment return	(414,527)	-	-	-	(414,527)
Other	606,163	912,365	(a) 433,340	-	1,085,188
Total revenue	33,729,278	1,666,583	433,340	-	34,962,521
Satisfaction of restrictions	1,291,969	-	-	-	1,291,969
Total revenue without donor restrictions	35,021,247	1,666,583	433,340	-	36,254,490
Expenses:					
Program services:					
Clinical services	18,490,567	1,867,489	-	-	20,358,056
Ancillary services	5,384,934	12,303	-	-	5,397,237
Total program services	23,875,501	1,879,792	-	-	25,755,293
Supporting services:					
Administrative and fiscal	7,935,261	25,483	-	(a) 433,340	7,527,404
Marketing and public relations	2,224,326	-	-	-	2,224,326
Total supporting services	10,159,587	25,483	-	433,340	9,751,730
Total expenses	34,035,088	1,905,275	-	433,340	35,507,023
Increase (decrease) in net assets without donor restrictions	986,159	(238,692)	433,340	433,340	747,467
Changes in net assets with donor restrictions:					
Contributions	1,667,123	-	-	-	1,667,123
Investment return	(659,143)	-	-	-	(659,143)
Net assets released from restrictions	(1,291,969)	-	-	-	(1,291,969)
(Decrease) in net assets with donor restrictions	(283,989)	-	-	-	(283,989)
Increase (decrease) in net assets	702,170	(238,692)	433,340	433,340	463,478
Net assets at beginning of year	52,509,368	(362,469)	-	-	52,146,899
Net assets at end of year	\$ 53,211,538	\$ (601,161)	\$ 433,340	\$ 433,340	\$ 52,610,377

(a) To eliminate intercompany administrative fee income/expense.

See independent auditors' report