

CHAPTERS HEALTH SYSTEM, INC. AND AFFILIATES
Temple Terrace, Florida

CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2022 and 2021

CHAPTERS HEALTH SYSTEM, INC. AND AFFILIATES
Temple Terrace, Florida

CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2022 and 2021

CONTENTS

INDEPENDENT AUDITOR'S REPORT	1
CONSOLIDATED FINANCIAL STATEMENTS	
CONSOLIDATED BALANCE SHEETS	3
CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS	5
CONSOLIDATED STATEMENTS OF CASH FLOWS	7
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS	8
SUPPLEMENTARY INFORMATION	
2022 CONSOLIDATING BALANCE SHEET	32
2022 CONSOLIDATING STATEMENT OF OPERATIONS AND CHANGE IN NET ASSETS	34
NOTE TO CONSOLIDATING FINANCIAL STATEMENTS	36

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Chapters Health System, Inc. and Affiliates
Temple Terrace, Florida

Opinion

We have audited the consolidated financial statements of Chapters Health System, Inc. and Affiliates, which comprise the consolidated balance sheets as of December 31, 2022 and 2021, and the related consolidated statements of operations 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 accompanying consolidated financial statements present fairly, in all material respects, the financial position of Chapters Health System, Inc. and Affiliates as of December 31, 2022 and 2021, and the changes in their net assets and their 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 (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Chapters Health System, Inc. and Affiliates 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.

Emphasis of Matter

As discussed in Note 9 to the consolidated financial statements, on January 1, 2022, Chapters Health System, Inc. and Affiliates adopted new accounting guidance, ASU 2016-02 - *Leases* (Topic 842). Our opinion is not modified with respect to this matter.

Responsibilities of Management for the 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 Chapters Health System, Inc. and Affiliates' ability to continue as a going concern for one year from the date the consolidated financial statements are available to be issued.

(Continued)

Auditor's Responsibilities for the Audit of the 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 auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the 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 Chapters Health System, Inc. and Affiliates' 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 Chapters Health System, Inc. and Affiliates' ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Other Matters

Our audit was conducted for the purpose of forming an opinion on the 2022 consolidated financial statements as a whole. The 2022 consolidating balance sheet and consolidating statement of operations and changes in net assets are presented for purposes of additional analysis of the 2022 consolidated financial statements rather than to present the financial position and operations and changes in net assets of the individual affiliates and are not a required part of the 2022 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 2022 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the 2022 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 2022 consolidated financial statements or to the 2022 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 2022 consolidated financial statements as a whole.


Crowe LLP

Tampa, Florida
April 28, 2023

CHAPTERS HEALTH SYSTEM, INC. AND AFFILIATES
CONSOLIDATED BALANCE SHEETS
December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
ASSETS		
Current assets		
Cash and cash equivalents	\$ 13,957,074	\$ 21,065,404
Short-term investments	9,291,149	3,161,323
Assets limited as to use, current portion	3,452,644	4,475,694
Patient accounts receivable, net	19,119,599	16,791,852
Capitated accounts receivable	7,099,173	2,703,736
Due from related party	5,729,953	-
Note receivable	5,000,000	-
Pledges receivable, current portion	480,305	489,098
Interest rate swap agreements	678,387	-
Other current assets	<u>10,073,620</u>	<u>9,445,059</u>
Total current assets	74,881,904	58,132,166
Assets limited as to use, net	1,788,383	2,173,992
Pledges receivable, net	1,116,880	978,279
Long-term investments	92,165,502	114,075,109
Property and equipment, net	93,968,878	56,194,007
Right-of-use assets	28,233,549	-
Beneficial interest in net assets of Cornerstone Foundation	6,993,965	-
Goodwill and intangible assets, net	19,828,480	19,522,031
Other assets	<u>2,133,276</u>	<u>1,796,319</u>
Total assets	<u>\$ 321,110,817</u>	<u>\$ 252,871,903</u>

(Continued)

CHAPTERS HEALTH SYSTEM, INC. AND AFFILIATES
CONSOLIDATED BALANCE SHEETS
December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable and accrued expenses	\$ 7,358,511	\$ 6,603,414
Accrued employee compensation and related benefits	12,425,829	8,204,266
Estimated patient care expenses payable	6,093,588	4,388,624
Third-party medical claims	1,612,982	2,441,504
Right-of-use liabilities, current	4,149,085	-
Current portion of long-term debt	1,552,300	1,956,004
Annuity obligations, current portion	159,457	270,202
Third-party settlements	1,814,804	2,287,086
Interest rate swap agreements	-	638,217
Deferred revenue	29,807	37,750
Total current liabilities	35,196,363	26,827,067
Long-term debt, net of current portion	22,542,808	24,947,140
Right-of-use liabilities, net	25,624,707	-
Annuity obligations, net	258,825	415,313
Other long-term liabilities	2,765,560	2,625,129
Total liabilities	86,388,263	54,814,649
Net assets		
Without donor restrictions	219,251,000	189,523,422
Noncontrolling interest in subsidiaries	1,042,752	90,000
Total net assets without donor restrictions	220,293,752	189,613,422
With donor restrictions	14,428,801	8,443,832
Total net assets	234,722,554	198,057,254
	\$ 321,110,817	\$ 252,871,903

See accompanying notes to consolidated financial statements

CHAPTERS HEALTH SYSTEM, INC. AND AFFILIATES
CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS
Years ended December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Net assets without donor restrictions		
Revenues and other support		
Net patient service revenue	\$ 215,191,792	\$ 155,727,539
Capitated non-risk revenue	31,212,715	20,607,599
Contributions	5,725,236	92,071
Net assets released from restrictions used for operations	5,490,085	2,964,861
Other operating revenue	<u>6,317,296</u>	<u>7,103,379</u>
	263,937,124	186,495,449
 Expenses		
Salaries and benefits	164,746,108	118,569,905
Purchased services	23,114,833	14,569,957
Insurance and other	40,908,730	27,352,162
Durable medical equipment, medical supplies, and drugs	15,885,746	6,493,967
Medical claims expense	24,912,802	19,349,666
Depreciation and amortization	9,183,759	6,978,491
Interest	<u>1,063,889</u>	<u>1,059,760</u>
Total expenses	<u>279,815,867</u>	<u>194,373,908</u>
 Loss from operations	 (15,878,743)	 (7,878,459)
 Nonoperating revenues and expenses		
Gain on sale of property and equipment	112,817	6,281
Loss on sale of a business	(344,993)	-
Investment (loss) income	(18,009,439)	15,322,459
Change in fair value of interest rate swap agreements	<u>1,316,604</u>	<u>771,355</u>
Total nonoperating (loss) income	<u>\$ (16,925,011)</u>	<u>\$ 16,100,095</u>

(Continued)

CHAPTERS HEALTH SYSTEM, INC. AND AFFILIATES
CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS
Years ended December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Other changes in net assets without donor restrictions		
Change in non-controlling interest	\$ (178,503)	\$ 90,000
Excess of fair value of assets acquired over liabilities assumed in acquisition of Cornerstone Hospice and Palliative Care, Inc. (Cornerstone) (See Note 2)	<u>63,662,588</u>	<u>-</u>
Change in net assets without donor restrictions	<u>30,680,331</u>	<u>8,311,636</u>
Change in net assets with donor restrictions		
Contributions	4,789,698	6,341,018
Investment loss	(308,609)	(5,425)
Excess of fair value of assets acquired over liabilities assumed in acquisition of Cornerstone (See Note 2)	12,119,093	-
Change in beneficial interest in net assets of Cornerstone Foundation	(5,125,128)	-
Net assets released from restriction	<u>(5,490,085)</u>	<u>(2,964,861)</u>
Change in net assets with donor restrictions	5,984,969	3,370,732
Change in net assets	36,665,300	11,682,368
Net assets at beginning of year	<u>198,057,254</u>	<u>186,374,886</u>
Net assets at end of year	<u>\$ 234,722,554</u>	<u>\$ 198,057,254</u>

See accompanying notes to consolidated financial statements

CHAPTERS HEALTH SYSTEM, INC. AND AFFILIATES
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years ended December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Cash flow from operating activities		
Change in net assets	\$ 36,665,300	\$ 11,682,368
Adjustments to reconcile change in net assets to net cash from operating activities		
Excess of fair value of assets over liabilities assumed		
acquired less cash acquired	(49,951,291)	-
Depreciation and amortization	9,183,759	6,978,491
Change in beneficial interest in net assets of Cornerstone Foundation	5,125,128	-
Net realized and unrealized losses (gains) on investments	21,541,502	(11,117,269)
Change in fair value of interest rate swap agreements	(1,316,604)	(771,355)
Loss on sale of a business	344,993	
Gain on sale of property and equipment	(112,817)	(6,281)
Change in assets and liabilities		
Patient accounts receivable	2,798,137	(543,256)
Capitation receivable	(4,395,437)	(2,703,736)
Due from related party	(4,237,650)	-
Pledges receivable	(129,808)	(533,142)
Other current assets	1,961,584	(259,583)
Other assets	349,174	(336,427)
Reduction in carrying amount of right-of-use assets	4,560,494	-
Change in operating lease liabilities	(3,825,208)	-
Accounts payable and accrued expenses	(1,337,900)	1,666,490
Estimated patient care expenses payable	1,704,964	651,576
Third party medical claims	(828,522)	2,441,504
Accrued employee compensation and related benefits	(2,841,081)	990,796
Third-party settlements	(472,282)	(861,877)
Deferred revenue	(7,943)	(206,184)
Other liabilities	(126,402)	176,839
Net cash from operating activities	<u>14,652,090</u>	<u>7,248,954</u>
Cash flow from investing activities		
Proceeds from sale of property and equipment	710,388	1,470,899
Purchase of property and equipment	(9,399,671)	(2,933,735)
Proceeds from sales of investments	41,471,483	48,913,043
Purchases of investments	(45,824,545)	(39,178,673)
Proceeds from sale of a business	1,600,000	-
Note receivable advances (see Note 7)	(5,000,000)	-
Net cash from investing activities	<u>(16,442,345)</u>	<u>8,271,534</u>
Cash flow from financing activities		
Repayment of long-term debt	(5,318,075)	(1,845,006)
Net cash from financing activities	<u>(5,318,075)</u>	<u>(1,845,006)</u>
Net change in cash and cash equivalents	(7,108,330)	13,675,482
Cash and cash equivalents at beginning of year	<u>21,065,404</u>	<u>7,389,922</u>
Cash and cash equivalents at end of year	<u>\$ 13,957,074</u>	<u>\$ 21,065,404</u>
Supplemental disclosure of cash flow information		
Cash paid for interest	\$ 1,063,889	\$ 1,059,760
Leased assets obtained in exchange for new operating lease liabilities	\$ 27,135,558	\$ -

See accompanying notes to consolidated financial statements

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Mission: Chapters Health System, Inc. and Affiliates (collectively CHS), is a Florida nonprofit corporation that provides support and care for people in our community with or affected by advanced illnesses by offering a wide variety of compassionate healthcare choices. CHS's service areas include Florida and Georgia.

CHS is the sole member of each of the following entities:

LifePath Hospice, Inc. (LPH): LPH is a Florida nonprofit corporation whose mission is to provide hospice and other end of life services for residents living in Hillsborough County, Florida.

Good Shepherd Hospice, Inc. (GSH): GSH is a Florida nonprofit corporation whose mission is to provide hospice and other end of life services for residents living in Polk, Highlands, Hardee, and Monroe counties, Florida.

Chapters Health Pharmacy, LLC (Pharmacy): Pharmacy is a Florida single member limited liability company that provides pharmacy services to the Affiliates.

Chapters Health Palliative Care, LLC (Palliative Care): Palliative Care is a Florida single member limited liability company that provides palliative care services in the counties served by our Affiliates.

Chapters Health Staffing, LLC (Staffing): Staffing is a Florida single member limited liability company that primarily provides physician, nursing, and therapy services to the Affiliates.

Chapters Health Home Connect, Inc. (CHC): CHC is a Florida not-for profit corporation whose mission is to help Hillsborough, Pasco, Pinellas, and Polk residents heal and thrive at home with quality, compassionate home care services.

Hernando-Pasco Hospice, Inc. (HPH): HPH is a Florida nonprofit corporation whose mission is to provide hospice and other end-of-life services for residents living in Hernando, Pasco and Citrus counties. HPH also provides home health services in Pasco, Pinellas, Hardee, Highlands, Hillsborough, and Polk counties.

Cornerstone Hospice & Palliative Care, Inc. (Cornerstone): On April 1, 2022, CHS and Cornerstone closed their affiliation agreement, making CHS Cornerstone's sole member. See Note 2 for additional details. Cornerstone is a Florida nonprofit corporation whose missions is to provide hospice and other end of life services for residents living in Marion, Sumter, Lake, Orange, Polk Osceola, Hardee and Highlands counties in Central Florida and Cherokee, Cobb, Gwinnett, and Fulton counties in Northwestern Georgia.

Cornerstone Health Services, LLC (Health Services): Cornerstone Health Services, LLC is a Florida single member limited liability company that provides palliative care services in the counties served by CHS' affiliates.

Care Partners, LLC (Care Partners): Care Partners is a company registered in Delaware whose purpose is to develop and provide consolidated financial and purchasing services to the venture partners as well as other not-for-profit hospice companies. Services may include general financial consulting, specialized financial consulting, IT consulting, operations consulting, bookkeeping, analytics for management, and discounted group purchasing opportunities for clients.

Chapters Health Foundation (Foundation): Foundation is a nonprofit organization that is an affiliate of CHS (as sole member of the Foundation) and will support all current and future CHS affiliates.

(Continued)

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Hospice of Okeechobee, Inc. (HOK): HOK is a Florida nonprofit corporation whose mission is to provide hospice and other end-of-life services for residents living in Okeechobee, Martin, and St. Lucie counties.

Achieve Home Care, LLC (ACH): ACH is a Florida single member limited liability company that provide home health services in Hillsborough, Pasco, Pinellas and Polk counties. Chapters acquired ACH in 2019. In January 2022, patients are no longer admitted under Achieve license and transitioned to HPH.

Allcare Medical of Florida (Allcare): Allcare provides a full range of medical equipment to hospice patients and those with life limiting conditions. At December 31, 2021, CHS owned 90% of Allcare. CHS acquired the remaining 10% of Allcare in 2022 and subsequently sold the entity to an unrelated party for \$1,600,000. CHS recorded a loss of approximately \$345,000.

CareNU, Inc. (CareNU): CareNU is a Florida limited liability company and was established to provide patients with a collaborative team based approach to chronic illness care. On January 1, 2022, CareNU changed its articles of incorporation to be come a taxable entity. CareNU is authorized to issue 100,000 shares of common stock. As of December 31, 2022, there are 22,000 common stock shares issued and outstanding.

Assurity Direct Contracting Entity (ADCE): ADCE, a Florida limited liability company, provides and arranges for medical care to beneficiaries through managed care capitation agreements in the state of Florida who have enrolled with various health plans. ADCE's capitation agreements with the various health plans are on a non-risk basis. ADCE commenced operations April 1, 2021. CareNU owns 60% of ADCE and has been consolidated with CareNU for financial reporting purposes.

Basis of Presentation: The consolidated financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

Basis of Consolidation: The accompanying consolidated financial statements include the accounts of CHS. All inter-organization accounts and transactions have been eliminated in consolidation.

Financial Statement Presentation: The consolidated financial statements report the changes in and totals of each net asset class based on the existence of donor restrictions, as applicable. Net assets are classified as net assets without donor restrictions or net assets with donor restrictions and are detailed as follows:

Net assets without donor restrictions are net assets that are not subject to donor-restrictions and may be expended for any purpose in performing the primary objectives of CHS.

Net assets with donor restrictions are net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature and will be met by actions of CHS or by passage of time. Other donor restrictions are perpetual in nature, where the donor has stipulated the funds be maintained in perpetuity.

Use of Estimates: The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and 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.

(Continued)

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and Cash Equivalents: Cash and cash equivalents consist of bank deposits in accounts that are federally insured up to \$250,000. At times these amounts may exceed federally insured limits. Additionally, for purposes of the consolidated statements of cash flows, CHS considers all highly liquid investments of operating cash purchased with an original maturity of three months or less to be cash equivalents.

Patient Accounts Receivable, Net: The patient accounts receivable balance represents the unpaid amounts billed to patients and third-party payors, which include Medicare, Medicaid, and commercial insurers. Contractual adjustments, discounts, and implicit price concessions are recorded to report receivables at net realizable value. Past due receivables are determined based on contractual terms. CHS does not accrue interest on any of its accounts receivable.

Capitated Accounts Receivable: Capitated accounts receivables consist of amounts due from managed care capitated contracts. The capitated receivables are carried at contracted amounts and capitated payments are received in accordance with the risk adjustment model and timeline used by the Centers for Medicare and Medicaid Services.

Note Receivable: Note receivable represents advances under a line of credit agreement to Capital Hospice d/b/a Capital Caring (Capital Caring). See Note 7 for additional information.

Investments: All investments are stated at their fair values in the consolidated balance sheets. Unrealized gains and losses are included in the change in net assets. See Note 6 for additional information on the nature of CHS's investments. Investment income or loss (including realized and unrealized gains and losses on investments, interest, and dividends) is included within nonoperating revenues and expenses, unless the income or loss is related to assets with donor restrictions.

Assets Limited as to Use: Certain amounts of CHS's cash and investments are limited as to use by provisions of donor restrictions. These cash and investments are classified as assets limited to use in the accompanying consolidated balance sheets. Amounts required to meet current liabilities have been classified as current assets in the consolidated balance sheets at December 31, 2022 and 2021. The investment income or loss on investments that are restricted by donor or law is recorded as increases or decreases to net assets with donor restrictions.

Interest Rate Swap Agreements: CHS entered into interest rate swap agreements as part of their interest rate risk management strategy, not for speculation. CHS has elected to report the instruments as freestanding derivatives with gains and losses included within change in net assets without donor restrictions from operations.

The derivatives are separated into current and non-current assets or liabilities based on their expected cash flows. Cash inflows expected within one year, including derivative assets that CHS intends to settle, are reported as current assets. Cash inflows expected beyond one year are reported as non-current assets.

Cash outflows expected within one year, including derivative liabilities in which the counterparty has the contractual right to settle, are reported as current liabilities. Cash outflows expected beyond one year are reported as non-current liabilities.

Other Current Assets: Other current assets are comprised of primarily of prepaid expenses, deposits, other accounts receivable, and other miscellaneous current assets. Prepaid expenses at December 31, 2022 and 2021 were \$5,982,422 and \$3,840,807, respectively.

(Continued)

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property and Equipment: Property and equipment are stated at cost or, if donated to CHS, at fair value on the date of acquisition. Property and equipment acquired through a business combination is also stated at fair value. Additions and improvements over \$2,500 are capitalized. Expenditures for routine maintenance are charged to operations. Depreciation is provided over the estimated useful lives of the various classes of assets which range from three to thirty years and is computed on the straight-line method. The assets under capital lease obligations and related improvements are amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of the asset. Such amortization is included in depreciation and amortization expense in the consolidated financial statements.

Gifts of long-lived assets such as land, buildings or equipment are reported as unrestricted support unless explicit donor stipulations specify how the donated assets are to be used. Gifts of long-lived assets with explicit donor stipulations that specify how the assets are to be used and gifts of cash and other assets that must be used to acquire long-lived assets are reported as support with donor restrictions. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

The cost of property and equipment sold or otherwise disposed of and the accumulated depreciation applicable thereto are eliminated from the accounts, and any resulting gain or loss is reflected in the consolidated financial statements in the year of disposition.

Impairment of Long-Lived Assets: On an ongoing basis, CHS reviews long-lived assets for impairment whenever events or circumstances indicate that the carrying amounts may be overstated. CHS considers potential impairment losses to exist if the undiscounted cash flow expected to be generated by the assets are less than carrying value. The impairment loss adjusts the assets to fair value. As of December 31, 2022 and 2021, management believes that no impairments exist.

Goodwill: Goodwill of approximately \$16,397,000 and \$17,479,000 at December 31, 2022 and 2021, respectively, represents the excess of the purchase price over the assigned fair value of the identifiable net assets acquired in association with CHS's purchase of Good Shepherd Hospice, Inc. (GSH), Achieve Home Care, (ACH), and Allcare Medical of Florida (Allcare). During the year ended December 31, 2022, CHS sold Allcare, which resulted in the decrease of goodwill of \$1,082,538. Goodwill is tested for impairment annually unless events warrant more frequent testing. CHS has evaluated its existing goodwill for impairment as of December 31, 2022 and 2021 and has determined that goodwill is not impaired.

Patient Care Expenses and Estimated Patient Care Expenses Payable: When a patient receives hospice benefits under the Medicare or Medicaid programs, the hospice provider becomes the payor for all medical services related to the patient's terminal diagnosis. CHS has contracts with various providers of physician, inpatient, and outpatient services which generally state that the provider has approximately 12 months from the date of service to invoice CHS for the hospice related charges. CHS estimates and records a liability for patient care expenses which are incurred but not reported (IBNR). This IBNR estimate is based upon an analysis of invoices paid and estimated current utilization and other statistics. The difference between CHS's estimates of IBNR patient care expense and actual expenses is included in or deducted from patient care expenses in subsequent periods in which such differences are identified. Patient care expenses were approximately \$23,115,000 and \$14,570,000 for the years ended December 31, 2022 and 2021, respectively, and are included in purchased services in the consolidated statements of operations and changes in net assets.

(Continued)

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Third-Party Medical Claim Expense: Medical claim expenses are costs for providing medical care. The estimated reserve for incurred but not reported claims is included in the liability for third-party medical claims expense. Actual claims expense will differ from the estimated liability due to factors in estimated and actual member utilization of healthcare services, the amount of charges, and other factors. Adjustments to these estimates are recognized in the periods in which more precise data becomes available.

Net Patient Service Revenues: Patient service revenues are reported at the amount that reflects the ultimate consideration CHS expects to receive in exchange for providing patient care. These amounts are due from third-party payors, primarily commercial health insurers and government programs (Medicare and Medicaid), and includes variable consideration for revenue adjustments due to settlements of audits and reviews, as well as certain hospice-specific revenue capitations. Approximately 92% and 96% of the CHS' net patient service revenue was derived from the Medicare and Medicaid programs for the years ended December 31, 2022 and 2021, respectively. Amounts are generally billed monthly or subsequent to patient discharge. Subsequent changes in the transaction price initially recognized are not significant.

Hospice services are provided on a daily basis and the type of service provided is determined based on a physician's determination of each patient's specific needs on that given day. Reimbursement rates for hospice services are on a *per diem* basis regardless of the type of service provided or the payor. Reimbursement rates from government programs are established by the appropriate governmental agency and are standard across all hospice providers. Reimbursement rates from health insurers are negotiated with each payor and generally structured to closely mirror the Medicare reimbursement model.

The types of hospice services provided and associated reimbursement model for each are as follows:

Routine Home Care occurs when a patient receives hospice care in their home, including a nursing home setting. The routine home care rate is paid for each day that a patient is in a hospice program and is not receiving one of the other categories of hospice care. For Medicare patients, the routine home care rate reflects a two-tiered rate, with a higher rate for the first 60 days of a hospice patient's care and a lower rate for days 61 and after. In addition, there is a Service Intensity Add-on payment which covers direct home care visits conducted by a registered nurse or social worker in the last seven days of a hospice patient's life, reimbursed up to four hours per day in fifteen-minute increments at the continuous home care rate.

General Inpatient Care occurs when a patient requires services in a controlled setting for a short period of time for pain control or symptom management which cannot be managed in other settings. General inpatient care services must be provided in a Medicare or Medicaid certified hospital or long-term care facility or at a freestanding inpatient hospice facility with the required registered nurse staffing.

Continuous Home Care is provided to patients while at home, including a nursing home setting, during periods of crisis when intensive monitoring and care, primarily nursing care, is required in order to achieve palliation or management of acute medical symptoms. Continuous home care requires a minimum of 8 hours of care within a 24-hour day, which begins at midnight. The care must be predominantly nursing care provided by either a registered nurse or licensed nurse practitioner. While the published Medicare and Medicaid continuous home care rates are daily rates, Medicare and Medicaid pay for continuous home care in fifteen-minute increments. This fifteen-minute rate is calculated by dividing the daily rate by 96.

Respite Care permits a hospice patient to receive services on an inpatient basis for a short period of time in order to provide relief for the patient's family or other caregivers from the demands of caring for the patient. A hospice can receive payment for respite care for a given patient for up to five consecutive days at a time, after which respite care is reimbursed at the routine home care rate.

(Continued)

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Each level of care represents a separate promise under the contract of care and is provided independently for each patient, contingent upon the patient's specific medical needs as determined by a physician. However, the clinical criteria used to determine a patient's level of care is consistent across all patients, given that, each patient is subject to the same payor rules and regulations. As a result, CHS has concluded that each level of care is capable of being distinct and is distinct in the context of the contract. Furthermore, CHS has determined that each level of care represents a stand ready service provided as a series of either days or hours of patient care. CHS believes that the performance obligations for each level of care meet criteria to be satisfied over time. CHS recognizes revenue based on the service output. CHS believes this to be the most faithful depiction of the transfer of control of services as the patient simultaneously receives and consumes the benefits provided by our performance. Revenue is recognized on a daily or hourly basis for each patient in accordance with the reimbursement model for each type of service. CHS' performance obligations relate to contracts with an expected duration of less than one year. Therefore, CHS has elected to apply the optional exception provided in FASB accounting standard "Revenue from Contracts with Customers" ("ASC 606") and is not required to disclose the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied or partially unsatisfied at the end of the reporting period. The unsatisfied or partially satisfied performance obligations referred to above relate to bereavement services provided to patients' families for up to 12 months after discharge.

Generally, patients who are covered by third-party payors are responsible for related deductibles and coinsurance which vary in amount. CHS also provides service to patients without a reimbursement source and may offer those patients discounts from standard charges. CHS estimates the transaction price for patients with deductibles and coinsurance, along with those uninsured patients, based on historical experience and current conditions. The estimate of any contractual adjustments, discounts or implicit price concessions reduces the amount of revenue initially recognized. Subsequent changes to the estimate of the transaction price are recorded as adjustments to patient service revenue in the period of change. Subsequent changes that are determined to be the result of an adverse change in the patients' ability to pay (i.e., change in credit risk) are recorded as provision for uncollectible accounts. CHS has no material adjustments related to subsequent changes in the estimate of the transaction price or subsequent changes as the result of an adverse change in the patient's ability to pay for any period reported.

For the CHS' patients in the nursing home setting in which Medicaid pays the nursing home room and board, CHS serves as a pass-through between Medicaid and the nursing home. CHS is responsible for paying the nursing home for that patient's room and board. Medicaid reimburses CHS for 95% of the amount paid to the nursing home. CHS has concluded that the 5% difference between the amount paid to the nursing home and the amount received from Medicaid is an adjustment to transaction price and, as a result, the 5% is recognized as a reduction to revenue recognized in the accompanying consolidated financial statements. Nursing home room and board expenses over revenues for the years ended December 31, 2022 and 2021, were approximately \$1,483,000 and \$1,281,000, respectively.

Laws and regulations concerning government programs, including Medicare and Medicaid, are complex and subject to varying interpretation. Compliance with such laws and regulations may be subject to future government review and interpretation. Additionally, the contracts CHS has with commercial health insurance payors provide for retroactive audit and review of claims. Settlement with third party payors for retroactive adjustments due to audits, reviews or investigations are considered variable consideration and are included in the determination of the estimated transaction price for providing patient care. The variable consideration is estimated based on the terms of the payment agreement, existing correspondence from the payor and our historical settlement activity. These estimates are adjusted in future periods, as new information becomes available. Management intends to fully cooperate with any governmental agencies in requests for information. Noncompliance with laws and regulations can make the CHS subject to regulatory action, including fines, penalties, and exclusion from the Medicare and Medicaid programs.

(Continued)

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Hospice organizations are subject to two specific payment limit caps under the Medicare program. One limit relates to inpatient care days that exceed 20% of the total days of hospice care provided for the year. CHS did not exceed the 20% cap related to inpatient days in 2022 and 2021. The second limit relates to an aggregate Medicare reimbursement cap calculated by the CHS. CHS did not exceed the Medicare reimbursement cap for the years ended December 31, 2022 and 2021.

During 2020, CHS affiliates had select Medicare claims under review. The amount of the settlement accrued as of December 31, 2022 and 2021 was approximately \$1,004,000 and \$1,048,000, respectively, and is included in third-party settlements in the accompanying consolidated balance sheets. The remaining balance is for miscellaneous third-party overpayments.

During 2022, CHS affiliates had select Medicare claims under review under a Targeted Probe and Educate regulatory claims review. During such review, management determined there was an error in the coding of certain claims. CHS self-reported and paid approximately \$4,144,000 back to Medicare. Management recorded this as a reduction to net patient service revenue during the year ended December 31, 2022.

Additionally, during 2022, the Office of Inspector General (“OIG”) is performing an audit Medical Part A services claimed by LifePath. The objective of the audit is to determine whether services provided by the Hospice during the period January 1, 2020 to December 31, 2021 complied with Medicare requirements. The OIG audit is in process and LifePath has not received any findings from the OIG as December 31, 2022 and through the date of the Independent Auditor’s report and therefore has not recorded a liability as of December 31, 2022.

Capitated Revenue: Capitated contract revenue is recorded as revenue in the month that members are entitled to healthcare services. As of December 31, 2022 and 2021, CHS had capitation agreements in place with one healthcare payer (non-risk).

Charity Care: CHS determines each patient’s ability to pay during the admission process. When a patient meets certain criteria, part or all of the patient’s charges are deemed charity care and are not billed for collection. Because CHS does not pursue collection of amounts determined to qualify as charity care, those amounts are excluded from net patient service revenue. The cost of charity care provided was approximately \$6,743,000 and \$3,365,000 for the years ended December 31, 2022 and 2021, respectively. This cost estimate was based on the organization-wide cost to charge ratio.

In addition to providing charity care in its continuing effort to further its mission, CHS also provides a variety of programs and services that receive little or no funding. These include medical research, medical education programs, caregiver programs, extensive community bereavement programs, and children’s grief centers, including twice-yearly camps.

Contributions: Contributions received and unconditional promises to give are recorded as revenue without donor restrictions or revenue with donor restrictions depending on the existence of donor restrictions and the nature of such restrictions if they exist. Conditional promises to give are recognized in the consolidated statements of operations and changes in net assets only when the conditions on which they depend are substantially met and the promises become unconditional.

When a donor restriction expires, that is, when a stipulated time restriction ends, or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statements of operations and changes in net assets as net assets released from restrictions.

Donor restricted gifts that are received for which their restricted purpose is met during the same year are initially recorded as net assets with donor restrictions and then reported as net assets released from restrictions and reclassified as net assets without donor restrictions.

(Continued)

CHAPTERS HEALTH SYSTEM, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2022 and 2021

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Donated Services: Donated services are reflected in the consolidated financial statements at the fair value of services received. The contributions of services are recognized if the services received (a) create or enhance non-financial assets or (b) require specialized skills that are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation. There were no donated services recognized.

Performance Indicator: The consolidated statements of operations and changes in net assets include change in net assets without donor restrictions which is designated as CHS' performance indicator.

Income Taxes: Chapters and the affiliate organizations, except for CareNU, are exempt from income taxes on income from related activities under Section 501(c)(3) of the U.S. Internal Revenue Code and corresponding state tax law. Accordingly, no provision has been made for federal or state income taxes.

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 to be realized on examination. For tax positions not meeting the "more likely than not" test, no tax benefit is recorded.

The applicable Forms 990 have not been subject to examination by the Internal Revenue Service or the state of Florida for the last three years. CHS does not expect the total amount of unrecognized tax benefits to significantly change in the next 12 months. CHS recognizes interest and/or penalties related to income tax matters in income tax expense. CHS did not have any amounts accrued for interest and penalties at December 31, 2022 and 2021.

CareNU is a C-corporation and is subject to income taxes. The provision for income taxes is determined using the asset and liability approach of accounting for income taxes. Under this approach, the provision for income taxes represents income taxes paid or payable (or received or receivable) for the current year plus the change in deferred taxes during the year. Deferred taxes represent the future tax consequences expected to occur when the reported amounts of assets and liabilities are recovered or paid, and result from differences between the financial and tax basis of the Company's assets and liabilities and are adjusted for changes in tax rates and tax laws when enacted. Tax benefits related to uncertain tax positions taken or expected to be taken on a tax return are recorded when such benefits meet a more likely than not threshold. Otherwise, these tax benefits are recorded when a tax position has been effectively settled, which means that the statute of limitation has expired or the appropriate taxing authority has completed their examination even though the statute of limitations remains open. As of December 31, 2022, CareNU believes none of its income tax positions are uncertain and, accordingly, has no amount provided for uncertain tax positions. The Company does not expect the total amount of unrecognized tax benefits to significantly change in the next twelve months. Interest and penalties related to uncertain tax positions are recognized as part of the provision for income taxes and are accrued beginning in the period that such interest and penalties would be applicable under relevant tax law until such time that the related tax benefits are recognized.

Subsequent Events: Management has performed an analysis of the activities and transactions subsequent to December 31, 2022 to determine the need for any adjustments to and/or disclosures within the consolidated financial statements for the year ended December 31, 2022. Management has performed their analysis through April 28, 2023, which is the date the consolidated financial statements were available to be issued.

On December 2, 2022, CHS signed an affiliation agreement with Hope Hospice to expand CHS' market in Florida. The affiliation agreement was finalized on March 1, 2023, making CHS the sole member of Hope Hospice.

Hope Hospice is a not-for-profit that provides hospice and supportive care services to assist terminally and chronically ill patients, their families, and loved ones in Southwest Florida.

(Continued)

CHAPTERS HEALTH SYSTEM, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2022 and 2021

NOTE 2 – AFFILIATION AGREEMENT

On December 2, 2021, CHS signed an affiliation agreement with Cornerstone to expand CHS’ market in Central Florida and four counties in Northwest Georgia. On April 1, 2022, CHS and Cornerstone (collectively, the “Parties”) closed their affiliation agreement making CHS the sole member of Cornerstone. Beginning on April 1, 2022, the balance sheet, results of activities and cash flows of all Cornerstone entities were consolidated with CHS. This transaction was accounted for under the acquisition accounting method of business combination. As a result, CHS recorded an inherent contribution of \$75,781,681 in 2022. No consideration was exchanged, and no financial commitments were made. CHS incurred approximately \$375,000 in acquisition costs.

The following table summarizes the estimated fair value of Cornerstone’s assets and liabilities at April 1, 2022:

Cash	\$	25,830,390
Patient accounts receivable		5,205,884
Prepays		2,590,145
Interest in net assets of Cornerstone Foundation		12,119,093
Intangibles and Tradenames		1,600,000
Right-of-use assets		6,464,209
Property and equipment		37,583,339
Other assets		1,026,207
Due from related party		1,492,303
Total assets		93,911,570
Accounts payable		2,092,997
Accrued expenses and payroll liabilities		6,555,139
Right-of-use liabilities		6,464,209
Note payable		2,510,039
Other liabilities		507,505
Total liabilities		18,129,889
Excess of fair value of assets acquired over liabilities assumed	\$	75,781,681
Included within net assets without donor restrictions	\$	63,662,588
Included within net assets with donor restrictions	\$	12,119,093

The following methods were used to determine fair value:

Property and equipment - fair value was determined using the cost and sales comparison approach.

Trademarks - fair value was determined using the royalty relief method, a form of the income approach.

Contractual accounts receivable approximates the fair value of accounts receivable.

(Continued)

CHAPTERS HEALTH SYSTEM, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2022 and 2021

NOTE 3 - LIQUIDITY AND AVAILABILITY

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the balance sheet date, comprise the following:

	<u>2022</u>	<u>2021</u>
Cash and cash equivalents	\$ 13,957,074	\$ 21,065,404
Short-term investments	9,291,149	3,161,323
Patient accounts receivable, net	19,119,599	16,791,852
Capitation receivable	7,099,173	2,703,736
Due from related party	5,729,953	-
Pledges receivable, current portion	480,305	489,098
Other current assets	<u>1,717,744</u>	<u>3,545,467</u>
	<u>\$ 57,394,997</u>	<u>\$ 47,756,880</u>

As part of CHS' liquidity management plan, management invests cash in excess of daily requirements in short-term investments and money market funds. CHS has a goal to maintain financial assets, which consist of cash and short-term investments, on hand to meet sixty days of normal operating expenses. CHS has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. The CHS treasury management function is consolidated at the parent level and pays expenses on behalf of its affiliates. CHS typically collects patient accounts receivable within sixty days of the date of service and its hospice affiliates participate in the Medicare Periodic Interim Payment program (PIP) which provides bi-weekly cash payments based on management's estimate of census. CHS reconciles PIP with actual billings three times per year and the net PIP position is recorded in patient accounts receivable. In the event of an unanticipated liquidity need, CHS could utilize the long-term investments that are not donor restricted. CHS could utilize the Cornerstone lines of credit as described in Note 10 should liquidity needs arise.

NOTE 4 - PATIENT ACCOUNTS RECEIVABLE

At December 31, patient accounts receivable by payor category consists of the following:

	<u>2022</u>	<u>2021</u>
Medicare	\$ 35,704,938	\$ 17,748,504
Medicaid	8,200,953	3,361,450
Other third-party payors	7,683,526	6,526,714
Less Medicare Periodic Interim Payments (PIP)	(14,045,031)	(4,541,973)
Less implicit price concessions	<u>(18,424,787)</u>	<u>(6,302,843)</u>
	<u>\$ 19,119,599</u>	<u>\$ 16,791,852</u>

(Continued)

CHAPTERS HEALTH SYSTEM, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2022 and 2021

NOTE 5 - ASSETS LIMITED AS TO USE

The composition of assets limited as to use at December 31 is as follows:

	<u>2022</u>	<u>2021</u>
Cash and cash equivalents	\$ 3,452,644	\$ 4,475,694
Money market funds	60,097	94,429
Mutual funds	1,728,286	1,280,497
Equity securities	-	799,066
	<u>5,241,027</u>	<u>6,649,686</u>
Less current portion	<u>(3,452,644)</u>	<u>(4,475,694)</u>
	<u>\$ 1,788,383</u>	<u>\$ 2,173,992</u>

NOTE 6 - INVESTMENTS

Investments, stated at fair value, at December 31 include:

	<u>2022</u>	<u>2021</u>
Cash and cash equivalents	\$ 1,780,247	\$ 1,144,820
Money market funds	7,420,132	967,642
U.S. government agencies	673,813	745,879
Corporate bonds	258,390	1,305,836
Equity mutual funds	71,095,887	53,971,626
Bond mutual funds	8,818,080	9,751,654
Commodities mutual funds	1,509,974	1,371,725
Real estate fund	943,147	1,116,852
Equity securities	8,956,981	46,860,398
	<u>101,456,651</u>	<u>117,236,432</u>
Less current portion	<u>(9,291,149)</u>	<u>(3,161,323)</u>
	<u>\$ 92,165,502</u>	<u>\$ 114,075,109</u>

Investment income from assets limited as to use and investments is comprised of the following for the years ended December 31:

	<u>2022</u>	<u>2021</u>
Interest and dividends, net of fees	\$ 3,223,454	\$ 4,199,765
Net realized gains on sales of securities	119,521	7,148,805
Net unrealized gains (losses)	<u>(21,661,023)</u>	<u>3,968,464</u>
	<u>\$ (18,318,048)</u>	<u>\$ 15,317,034</u>

(Continued)

CHAPTERS HEALTH SYSTEM, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2022 and 2021

NOTE 7 - NOTE RECEIVABLE

In December 2022, CHS and Capital Caring, a not for profit provider of hospice services, signed an affiliation agreement to expand CHS' market footprint in Washington D.C, Maryland and Virginia. The affiliation agreement is expected to close in 2023. As part of the affiliation agreement, CHS entered into a line of credit agreement with Capital Caring. The note is a revolving line of credit (i) for the period prior to the occurrence of the Affiliation Event, an amount of up to \$5,000,000 and (ii) after the occurrence of the Affiliation Event, an amount of up to \$10,000,000; provided, however, the occurrence of an Affiliation Termination Event, the revolving line of credit shall be reduce to \$0 and no further advances may be requested or made with the written consent of CHS. Capital Caring may borrow, repay, and reborrow hereunder and CHS may advance and readvance under this note from time to time until the expiration date. The affiliation event is defined as the consummation of the affiliation agreement whereby CHS becomes the sole member of Capital Caring. The affiliation termination event is defined as the time that Capital Caring notifies CHS that they will no longer execute or consummate the affiliation agreement. The note bears an interest rate at the sum of the Wall Street Journal Prime rate plus 2%.

CHS has assessed the collectability of this note receivable and determined an allowance for collectability was not required. Capital Caring has signed an affiliation agreement with CHS, however, the affiliation has not closed as of December 31, 2022.

Subsequent to December 31, 2022, CHS advanced an additional \$2,000,000 to Capital Caring under the revolving line of credit.

NOTE 8 - PROPERTY AND EQUIPMENT

Property and equipment as of December 31 is as follows:

	<u>2022</u>	<u>2021</u>
Land and land improvements	\$ 15,888,782	\$ 8,460,779
Building and leasehold improvements	99,819,814	72,341,401
Furniture, fixtures, and equipment	50,147,656	40,745,909
Vehicles	281,948	934,326
Projects in process	12,459,483	644,241
	178,597,683	123,126,656
Less accumulated depreciation	(84,628,805)	(66,932,649)
	\$ 93,968,878	\$ 56,194,007

Projects in progress as of December 31, 2022, consist primarily of costs associated with construction of a Hospice House Facility and software implementation. The construction on the facility is projected to cost \$13,600,000 and placed into service in May 2023.

Depreciation expense for the years ended December 31, 2022 and 2021, was approximately \$9,033,000 and \$6,827,000, respectively. No interest expense was capitalized during 2022 or 2021.

The table above included cost of assets held under capital leases of approximately \$2,383,000 and the related accumulated depreciation of \$1,173,000 as of December 31, 2021. As part of the implementation of ASC 842, those leases and leased assets were reassessed.

(Continued)

NOTE 9 - LEASES

ASU 2016-02 – Leases Topic 842 (the “ASC 842”) requires lessees to recognize a lease liability and a right-of-use (ROU) asset on the balance sheet for most operating leases, except for those leases with an original term of 12 months or less. Accounting for finance leases is substantially unchanged. The ASC 842 is effective for fiscal years beginning after December 15, 2021, and interim periods within fiscal years beginning after December 15, 2022. CHS adopted the ASC 842 as of January 1, 2022 using a modified retrospective transition, with the cumulative-effect adjustment recorded to the opening balance of net assets as of the effective date. Financial results reported in periods prior to 2022 are unchanged. CHS also elected the package of transition practical expedients, which among other things, does not require reassessment of lease classification. The adoption of the ASC 842 resulted in the recognition of \$27,135,000 of lease liabilities with corresponding right-of-use assets of approximately \$27,135,000 for operating leases as of January 1, 2022. At the inception of an arrangement, CHS determines if an arrangement is a lease based on all relevant facts and circumstances. Leases are classified as operating or finance leases at the lease commencement date. Operating leases are included in operating lease ROU assets, current operating lease liabilities and long-term operating lease liabilities on the balance sheets. Finance leases are included in property and equipment, current maturities of long-term debt and finance leases and long-term debt and finance leases, net of current maturities, on the balance sheets. Leases are classified between current and long-term liabilities based on their payment terms. Lease expense for operating leases is recognized on a straight-line basis over the lease term. Leases with a term of 12 months or less (short-term leases) are not recorded on the balance sheets. ROU assets represent CHS’s right to use an underlying asset for the lease term and lease liabilities represent the obligation to make lease payments arising from the lease. ROU assets and lease liabilities are recognized at the lease commencement date based on the estimated present value of lease payments over the lease term. ROU assets also include prepaid rent and are adjusted by the unamortized balance of lease incentives.

As the implicit rate is generally not readily determinable for all of CHS’s leases, CHS utilized the risk free rate, which is derived from information available at the lease commencement date, in determining the present value of lease payments. Some leases include one or more options to extend the lease, with extension terms that can extend the lease term by one to five years. The exercise of lease extension options is at CHS’s sole discretion. The lease term includes options to extend or terminate the lease when it is reasonably certain that CHS will exercise that option. CHS generally concluded options to extend the lease are reasonably certain to be exercised when it is cost prohibitive to relocate operations or pursue alternative leased assets. Certain leases contain early termination penalties; however, as of December 31, 2022, it is not reasonably certain that CHS will exercise or become subject to such early termination penalties. Nonperformance-related default covenants, cross-default provisions, subjective default provisions and material adverse change clauses contained in material lease agreements, if any, are also evaluated to determine whether those clauses affect lease classification. Real estate and vehicle leases comprise the majority of CHS’s leasing activities.

CHS accounts for lease agreements with lease and non-lease components separately. Operating expenses and property taxes due for leased facilities are accounted for as non-lease components. Leases with a term greater than one year are recognized on the balance sheet as ROU assets and lease liabilities. CHS has elected not to recognize on the consolidated balance sheet leases with terms of one year or less.

(Continued)

CHAPTERS HEALTH SYSTEM, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2022 and 2021

NOTE 9 - LEASES (Continued)

At December 31, 2022, the right-of-use asset related to operating leases was approximately \$28,234,000 and is recorded in the accompanying consolidated balance sheets.

Lease expense is recognized on a straight-line basis over the term of the lease and presented as a single charge in the consolidated statements of operations. During the year ended December 31, 2022, CHS recorded approximately \$4,560,000 in lease expense. The weighted-average remaining operating lease life was 8.39 years at December 31, 2022. The weighted average discount rate is 1.65%.

A summary of future operating lease payments at December 31, 2022 is as follows:

2023	\$ 4,149,085
2024	4,591,421
2025	4,089,966
2026	3,349,133
2027	3,243,416
Thereafter	<u>12,642,341</u>
Total lease payments	32,065,362
Less: Amount representing interest	<u>(2,291,570)</u>
Present value of lease liabilities	<u>\$ 29,773,792</u>

NOTE 10 – LINES OF CREDIT

Cornerstone has obtained two lines of credit, a revolving line of credit and a non-revolving line of credit, from a financial institution. The revolving line of credit has availability of \$7,500,000, however, of that balance, \$330,000 is restricted as a letter of credit for the workers compensation insurance policy. There is no outstanding balance on this line of credit at December 31, 2022. Cornerstone's non-revolving line of credit has an available borrowing limit of \$11,250,000. There is no outstanding balance on this line of credit at December 31, 2022. Both lines of credit accrue interest at a variable rate of Bloomberg Short-Term Bank Yield Index rate plus 1.75%. The lines of credit are secured by a Negative Pledge agreement which will expire on April 30, 2023. Management is not extending the lines of credit after April 30, 2023.

(Continued)

CHAPTERS HEALTH SYSTEM, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2022 and 2021

NOTE 11 - LONG-TERM DEBT

A summary of long-term debt and capital lease obligations as of December 31 is as follows:

	<u>2022</u>	<u>2021</u>
City of Temple Terrace, Florida Revenue Refunding Bond, (Chapters Health System Project), Series 2017, with Regions Bank as bondholder, commencing April 2017, maturing April 2031, secured by certain assets of CHS, principal maturing in varying amounts, interest payable monthly at 0.67% of one-month LIBOR plus 1.12% (3.88% at December 31, 2021) (Series 2017 Bond).	\$ 10,749,600	\$ 11,823,000
Conventional taxable loan, with Regions Bank as bondholder, commencing April 2017, maturing December 2035, secured by certain assets of CHS, principal maturing in varying amounts, interest payable monthly at 0.67% of one-month LIBOR plus 1.75% (5.51% at December 31, 2021) due through 2035 (Taxable Loan).	13,679,000	14,112,000
Capital lease obligations	<u>-</u>	<u>1,335,980</u>
	24,428,600	27,270,980
Less current portion of long-term debt	(1,552,300)	(1,956,004)
Less unamortized debt issuance costs	<u>(333,492)</u>	<u>(367,836)</u>
	<u>\$ 22,542,808</u>	<u>\$ 24,947,140</u>

The agreements underlying the bond issues and the 2017 Taxable Loan described above contain covenants that provided for, among other things, the maintenance of certain ratios, conditions for issuance of additional indebtedness and the transferability of funds. At December 31, 2022, CHS was out of compliance with certain financial covenants. CHS obtained a waiver from the financial institution subsequent to year end. The Series 2017 Bond and 2017 Taxable Loan are secured under a Master Trust Indenture and Supplemental Indentures and are collateralized by pledged revenues, all rights, titles, interests and estates in and to all real property and the revenue fund as outlined in the agreements.

Debt Issuance Costs: Debt issuance costs are netted against the related obligation and amortized over the term of the related obligation. In conjunction with the issuance of the Series 2017 Bond and the 2017 Taxable Loan, CHS recorded debt issuance costs of approximately \$530,000.

Unamortized debt issuance costs as of December 31, 2022 and 2021, was approximately \$333,000 and \$368,000, respectively, and is included in the non-current portion of long-term debt in the accompanying consolidated balances sheets. Amortization expense was approximately \$34,000 for the years ended December 31, 2022 and 2021 and is included in interest in the accompanying consolidated statements of operations and changes in net assets.

(Continued)

CHAPTERS HEALTH SYSTEM, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2022 and 2021

NOTE 11 - LONG-TERM DEBT (Continued)

Debt Maturities: Maturities of long-term debt and capital lease obligations are as follows:

	<u>Series 2017 Bonds & Loan</u>
2023	\$ 1,552,300
2024	1,598,400
2025	1,645,500
2026	1,695,000
2027	1,744,200
Thereafter	16,193,200
	<u>\$ 24,428,600</u>

Interest Rate Swap Agreements: CHS utilizes interest rate swap agreements to modify CHS's exposure to interest rate risk by converting a portion of its variable rate borrowings to a fixed-rate basis, thus reducing the impact of interest-rate changes on future interest expense. These agreements involve the receipt of variable-rate payments amounts in exchange for fixed-rate interest payments over the life of the agreements without an exchange of the underlying principle amount. In conjunction with the Series 2017 Bond and 2017 Taxable Loan, in March 2017, CHS entered into two interest rate swap agreements with Regions Bank to convert a portion of its variable-rate borrowings to a fixed-rate basis. These swap agreements mature on April 1, 2024.

CHS pays a fixed rate of 1.45% and receives a variable-rate payment based on 67% of LIBOR for one swap and pays a fixed rate of 2.182% and receives a variable-rate payment based on LIBOR for the other swap. At December 31, 2022 and 2021, the notional amount of these swap agreements totaled approximately \$24,429,000 and \$25,935,000, respectively.

NOTE 12 - EMPLOYEE BENEFIT PLAN

CHS sponsors noncontributory supplemental executive retirement plans (SERP) for a select group of management or highly compensated employees. The plans call for benefits to be paid in a lump sum amount on the 45th day following separation from service as long as the participant has attained the vesting dates for employer-contributed amounts. Employee-contributed amounts may be distributed based on a list of options provided in the plans.

Distributions equal to 100% of the amount credited to the participant's account will be made to the participant or beneficiary if the event of total and permanent disability, death, termination due to change in the control of the employer or termination without cause prior to the vesting date. Total assets held to fund the liability and total accrued liabilities to the plans were approximately \$1,851,000 and \$1,788,000 at December 31, 2022 and 2021, respectively, and are included in other assets and other long-term liabilities in the accompanying consolidated balance sheets.

CHS, in its sole discretion, may at any time make additional deposits of cash or other property in trust with the plans' trustee to augment the principle to be held, administered, and disposed of by the plans' trustee as provided in the trust agreement. Expenses related to these plans were approximately \$697,000 and \$477,000 for the years ended December 31, 2022 and 2021, respectively.

(Continued)

NOTE 12 - EMPLOYEE BENEFIT PLAN (Continued)

CHS has established a retirement plan under Section 403(b) of the Internal Revenue Code whereby eligible employees may elect to defer a portion of their salary. The plan allows employees to make deposits to self-directed savings accounts through payroll deductions. CHS has the option to make discretionary nonelective contributions for eligible participating employees, as well as matching contributions based upon the amount of eligible compensation contributed by the employee up to certain specified limitations. Employees vest in the employer discretionary nonelective contributions and matching contribution over a six-year period. Participants' forfeitures are used to offset CHS's future plan contributions. Employer contributions to the plan were approximately \$1,829,000 and \$1,279,000 for the years ended December 31, 2022 and 2021, respectively.

Cornerstone has established a retirement plan under Section 403(b) of the Internal Revenue Code whereby eligible employees may elect to defer a portion of their salary. The plan allows employees to make deposits to self-directed savings accounts through payroll deductions. CHS has the option to make discretionary nonelective contributions for eligible participating employees, as well as matching contributions based upon the amount of eligible compensation contributed by the employee up to certain specified limitations. Employees must normally work in excess of twenty hours a week to participate in the plan and over 1,000 hours a year to vest in the employer's contribution. Employer contributions to the plan were approximately \$234,000 for the period of April 1, 2022 through December 31, 2022. Cornerstone migrated to the CHS plan on October 1, 2022.

NOTE 13 - RELATED PARTY TRANSACTIONS

Cornerstone Foundation was established to exclusively foster, promote, support, develop, and encourage the functions of Cornerstone. U.S. GAAP requires Cornerstone to recognize as an asset its interest in the net assets of Cornerstone Foundation, and to reflect in its changes in net assets the changes in the net assets of Cornerstone Foundation. Total net assets held by the Foundation as of April 1, 2022 and December 31, 2022 amounted to \$12,119,093 and \$6,993,965, respectively, and are classified as interest in net assets of Cornerstone Foundation on the consolidated balance sheets and with donor restrictions by Cornerstone because Cornerstone does not control the timing or amount of the contributions made by Cornerstone Foundation. The change in beneficial interest in the net assets of Cornerstone Foundation is recorded within the consolidated statements of operations and changes in net assets within the changes in net assets with donor restrictions.

During the period ended December 31, 2022, Cornerstone Foundation made grants to Cornerstone totaling approximately \$5,619,000, to provide funding for certain programs of Cornerstone. Cornerstone Foundation owed Cornerstone \$1,492,303 and \$5,729,953 at April 1, 2022 and December 31, 2022, respectively, for operating expenses paid on Cornerstone Foundation's behalf and unpaid grants to Cornerstone. Such amounts are recorded as due from related party in the consolidated balance sheets at December 31, 2022.

(Continued)

NOTE 14 - COMMITMENTS AND CONTINGENCIES

Litigation: During the normal course of business, CHS may be subject to various threatened or asserted claims related to professional liability, employment or other matters. CHS maintains commercial insurance on a claims-made basis for medical malpractice, as well as other commercial insurance to cover general liabilities. Management is not aware of any threatened claims that are not covered by its risk management programs or that, in the event of an adverse outcome, would have a significant impact on the financial position of CHS.

Workers' Compensation: CHS maintains workers' compensation insurance through a captive insurance company. Accruals for workers' compensation claims have been estimated by management based upon loss runs and claims data provided by the insurance company. Estimated accruals for workers' compensation claims totaled approximately \$632,000 and \$634,000 at December 31, 2022 and 2021, respectively, and are included in accrued employee compensation and related benefits in the accompanying consolidated balance sheets.

NOTE 15 - SELF-FUNDED INSURANCE

Employee Health Insurance: CHS is self-insured for employee health care to provide medical and other health care benefits to eligible employees and covered dependents. Reinsurance, covering costs above \$200,000, for years ended December 31, 2022 and 2021, per individual is maintained through a commercial excess coverage policy. Estimated accruals for claims incurred but not yet reported totaled approximately \$1,420,000 and \$1,664,000 at December 31, 2022 and 2021, respectively, and are included in accrued employee compensation and related benefits in the accompanying consolidated balance sheets. The estimate of the liability for unasserted claims arising from incurred but not reported claims is based on an analysis of historical claims data. CHS incurred approximately \$10,512,000 and \$13,710,000 in expense related to self-insured employee health benefits in the accompanying consolidated statements of operations and changes in net assets during the years ended December 31, 2022 and 2021, respectively.

Cornerstone is self-insured for a portion of employee health benefits (\$120,000 in 2022 annually per employee with an annual aggregate of \$1,000,000 in 2022). Estimated accruals for claims incurred but not yet reported totaled approximately \$589,000 at December 31, 2022, and are included in accrued employee compensation and related benefits in the accompanying consolidated balance sheets. The estimate of the liability for unasserted claims arising from incurred but not reported claims is based on an analysis of historical claims data. Cornerstone incurred approximately \$3,370,000 in expense related to self-insured employee health benefits in the accompanying consolidated statements of operations and changes in net assets during the period of April 1 through December 31, 2022.

NOTE 16 - LIABILITY FOR UNPAID CLAIMS

Medical claims expense and the liability for unpaid claims include estimates of CHS' obligations for medical care services that have been rendered by third parties on behalf of insured consumers for which the CHS is contractually obligated to pay (through the CHS' capitation arrangements), but for which claims have either not yet been received, processed, or paid. CHS develops estimates for medical care services incurred but not reported ("IBNR"), which includes estimates for claims that have not been received or fully processed, utilizing actuarial models. CHS recorded a liability for accrued third-party medical expense claims of approximately \$1,613,000 and \$2,442,000 at December 31, 2022 and 2021, respectively.

(Continued)

CHAPTERS HEALTH SYSTEM, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2022 and 2021

NOTE 16 - LIABILITY FOR UNPAID CLAIMS (Continued)

CHS purchases provider excess insurance to protect against significant, catastrophic claims expenses incurred on behalf of its patients. The total amount of provider excess insurance premiums was \$440,509 and \$8,619 for the years ended December 31, 2022 and 2021, respectively. The provider excess insurance premiums less reimbursements are reported in medical claims expense in the consolidated statements of operations. Recoveries due are included in capitated accounts receivable in the consolidated balance sheets. CHS' provider excess insurance deductible for the plan was \$17.70 and \$18.50 per member per month for the years ended December 31, 2022 and 2021, respectively.

NOTE 17 - NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are available for the following purposes at December 31:

	<u>2022</u>	<u>2021</u>
Beneficial interest in the net assets of Cornerstone Foundation	\$ 6,993,965	\$ -
For the operations of LifePath Hospice	3,125,461	3,216,995
For the operations of Good Shepherd Hospice	2,157,307	1,853,588
For the operations of Hernando-Pasco Hospice	732,700	2,005,657
Endowment – LifePath Hospice	844,605	843,162
Endowment – Good Shepherd Hospice	166,994	154,252
For the operations of Chapters Health Foundation	<u>407,769</u>	<u>370,178</u>
	<u>\$ 14,428,801</u>	<u>\$ 8,443,832</u>

NOTE 18 - FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

U.S. GAAP defines fair value as the price that would be received for an asset or paid to transfer a liability (an exit price) in the CHS's principle or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The fair value hierarchy requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. There are three levels of inputs that may be used to measure fair value as follows:

Level 1: Quoted prices for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date. The fair values of cash and cash equivalents, money market funds, mutual funds, equity securities, and real estate funds are determined by obtaining quoted prices on nationally recognized securities exchanges.

(Continued)

NOTE 18 - FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS (Continued)

Level 2: Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data. The fair values of CHS's government debt securities and corporate bonds are determined by matrix pricing, a market method, which is a mathematical technique widely used in the industry to value debt securities without relying exclusively on quoted prices for the specific securities but rather by relying on the securities' relationship to other benchmark quoted securities. CHS's derivative, which is comprised of two interest rate swap agreements, is also reported at fair value using Level 2 inputs. CHS obtained the fair value from a financial institution which utilizes internal models with observable market data inputs to estimate the value of this instrument (market approach valuation technique).

Level 3: Significant unobservable inputs that reflect a reporting entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability. The interest in net assets of Cornerstone Foundation is based on the underlying assets of Cornerstone Foundation, which are not redeemable upon request by Cornerstone or CHS. The interest in net assets of Cornerstone Foundation is largely composed of underlying investments that have observable inputs and market activity allowing for pricing based on the market prices of the items in the investments (market approach valuation technique).

In many cases, a valuation technique used to measure fair value includes inputs from multiple levels of the fair value hierarchy. The lowest level of significant input determines the placement of the entire fair value measurement in the hierarchy.

The following tables present the financial instruments carried at fair value on a recurring basis as of December 31, 2022 and 2021, by valuation hierarchy, all of which were based on the market approach, which uses prices and other relevant information generated by market transactions involving identical or comparable assets.

(Continued)

CHAPTERS HEALTH SYSTEM, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2022 and 2021

NOTE 18 - FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS (Continued)

Assets and Liabilities Measured on a Recurring Basis:

Assets and liabilities measured on a recurring basis are as follows:

	Fair Value Measurement at December 31, 2022			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Assets				
Assets limited as to use:				
Cash and cash equivalents	\$ 3,452,644	\$ -	\$ -	\$ 3,452,644
Money market funds	60,097	-	-	60,097
Mutual funds	<u>1,728,286</u>	<u>-</u>	<u>-</u>	<u>1,728,286</u>
Total assets limited as to use	<u>5,241,027</u>	<u>-</u>	<u>-</u>	<u>5,241,027</u>
Investments				
Cash and cash equivalents	1,780,247	-	-	1,780,247
Money market funds	7,420,132	-	-	7,420,132
U.S. government agencies	-	673,813	-	673,813
Corporate bonds	-	258,390	-	258,390
Equity mutual funds	71,095,887	-	-	71,095,887
Bond mutual funds	8,818,080	-	-	8,818,080
Commodities mutual funds	1,509,974	-	-	1,509,974
Real estate fund	943,147	-	-	943,147
Equity securities	<u>8,956,981</u>	<u>-</u>	<u>-</u>	<u>8,956,981</u>
Total investments	<u>100,524,447</u>	<u>932,203</u>	<u>-</u>	<u>101,456,651</u>
Interest rate swap agreements	<u>-</u>	<u>678,387</u>	<u>-</u>	<u>678,387</u>
Interest in net assets of				
Cornerstone Foundation	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,993,965</u>	<u>\$ 6,993,965</u>
Total assets	<u>\$ 105,765,475</u>	<u>\$ 1,610,590</u>	<u>\$ -</u>	<u>\$ 107,376,065</u>

(Continued)

CHAPTERS HEALTH SYSTEM, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2022 and 2021

NOTE 18 - FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS (Continued)

	Fair Value Measurement at December 31, 2021			
	Level 1	Level 2	Level 3	Total
Assets				
Assets limited as to use:				
Cash and cash equivalents	\$ 4,475,694	\$ -	\$ -	\$ 4,475,694
Money market funds	94,429	-	-	94,429
Mutual funds	1,280,497	-	-	1,280,497
Equity mutual funds	799,066	-	-	799,066
Total assets limited as to use	6,649,686	-	-	6,649,686
Investments				
Cash and cash equivalents	1,144,820	-	-	1,144,820
Money market funds	967,642	-	-	967,642
U.S. government agencies	-	745,879	-	745,879
Corporate bonds	-	1,305,836	-	1,305,836
Equity mutual funds	53,971,626	-	-	53,971,626
Bond mutual funds	9,751,654	-	-	9,751,654
Commodities mutual funds	1,371,725	-	-	1,371,725
Real estate fund	1,116,852	-	-	1,116,852
Equity securities	46,860,398	-	-	46,860,398
Total investments	115,184,717	2,051,715	-	117,236,432
Total assets	\$ 121,834,403	\$ 2,051,715	\$ -	\$ 123,886,118
Liabilities				
Interest rate swap agreements	\$ -	\$ 638,217	\$ -	\$ 638,217

A reconciliation of beginning and ending balances for Organization's fair value measurements using Level 3 inputs is as follows:

	Interest in net assets of Cornerstone Foundation
Assets at April 1, 2022	\$ 12,119,093
Change in interest in net assets of Cornerstone Foundation	(5,125,128)
Assets at December 31, 2022	\$ 6,993,965

(Continued)

CHAPTERS HEALTH SYSTEM, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2022 and 2021

NOTE 19 - FUNCTIONAL EXPENSES

The consolidated financial statements report certain categories of expenses that are attributable to more than one program or supporting function. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include depreciation, interest, and occupancy, which are allocated on a square-footage basis, as well as salaries and benefits, which are allocated on the basis of estimates of time and effort.

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total Expenses 2022</u>
Salaries and benefits	\$ 135,224,058	\$ 26,684,925	\$ 2,837,125	\$ 164,746,108
Purchased services	22,384,465	463,010	267,358	23,114,833
Durable medical equipment, supplies and drugs	15,885,746	-	-	15,885,746
Medical claims expense	24,912,802	-	-	24,912,802
Insurance and other	35,655,789	3,048,320	2,204,621	40,908,730
Depreciation and amortization	-	9,183,759	-	9,183,759
Interest	-	1,063,889	-	1,063,889
	<u>\$ 234,062,860</u>	<u>\$ 40,443,903</u>	<u>\$ 5,309,104</u>	<u>\$ 279,815,867</u>

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total Expenses 2021</u>
Salaries and benefits	\$ 93,551,970	\$ 22,292,062	\$ 2,725,873	\$ 118,569,905
Purchased services	13,922,633	500,515	146,809	14,569,957
Durable medical equipment, supplies and drugs	6,493,967	-	-	6,493,967
Medical claims expense	19,349,666	-	-	19,349,666
Insurance and other	8,717,992	16,671,429	1,962,741	27,352,162
Depreciation and amortization	-	6,978,491	-	6,978,491
Interest	-	1,059,760	-	1,059,760
	<u>\$ 142,036,228</u>	<u>\$ 47,502,257</u>	<u>\$ 4,835,423</u>	<u>\$ 194,373,908</u>

(Continued)

NOTE 20 – CARES ACT FUNDING

In December 2019, a novel strain of coronavirus surfaced and has spread around the world, with resulting business and social disruption. The coronavirus was declared a Public Health Emergency of International Concern by the World Health Organization on January 30, 2020.

The Coronavirus Aid, Relief, and Economic Security (CARES) Act became law on March 27, 2020. It was a response to the market volatility and instability resulting from the coronavirus pandemic and includes provisions to support individuals and businesses in the form of loans, grants, and tax changes, among other types of relief. The CARES Act adds \$175 billion to the “Public Health and Social Services Emergency Fund” to reimburse eligible health care providers for health care related expenses or lost revenues attributable to coronavirus that are outside of routine payments they will receive for direct patient care. During the year ended December 31, 2021 CHS received approximately \$4,328,000, of Provider Relief Funds. During the same period, Cornerstone received approximately \$2,141,000. Those funds were received and expended prior to the closing of the affiliation agreement with CHS but are included within the same Schedule of Expenditures of Federal Awards. CHS did not receive any funds during the year ended December 31, 2022. CHS’s assessment of whether the terms and conditions for amounts received have been substantially met considers, among other things, the terms of the CARES Act and the Consolidation Appropriation Act of 2021 (CAA), and all other interpretive guidance issued by the U.S. Department of Health and Human Services. Such guidance sets forth the allowable methods for quantifying eligible healthcare related expenses and lost revenues. Only healthcare related expenses attributable to coronavirus, which another source has not reimbursed and is not obligated to reimburse, are eligible to be claimed.

CHS has elected to account for the PRF proceeds received as a conditional contribution in accordance with Subtopic 958-605. Under Subtopic 958-605, the PRF proceeds are initially recorded as a deferred grant liability and subsequently recognized as other operating revenue when CHS has substantially met all terms and conditions of the grant. CHS’ assessment of whether the terms and conditions for amounts received have been substantially met considers, among other things, the terms of the CARES Act and the Consolidation Appropriation Act of 2021 (CAA), and all other interpretive guidance issued by the U.S. Department of Human and Health Services. Such guidance sets forth the allowable methods for quantifying eligible healthcare related expenses and lost revenues. Only healthcare related expenses attributable to coronavirus that another source has not reimbursed and is not obligated to reimburse are eligible to be claimed. Based on CHS’ assessment, CHS has recognized \$4,328,000 during the year ended December 31, 2021, which is included in other operating revenue in the consolidated statements of operations and changes in net assets. There are no remaining funds at December 31, 2022 or 2021.

SUPPLEMENTARY INFORMATION

CHAPTERS HEALTH SYSTEM, INC. AND AFFILIATES
CONSOLIDATING BALANCE SHEET
December 31, 2022

	Chapters Health System	LifePath Hospice	Good Shepard Hospice	Hernando- Pasco Hospice	Cornerstone	Foundation	CareNu	Other	Total Before Eliminations	Eliminations Total	Consolidated Total
ASSETS											
Current assets											
Cash and cash equivalents	\$ 6,606,203	\$ -	\$ -	\$ 1,000	\$ 5,294,743	\$ 436,577	\$ 1,304,789	\$ 313,762	\$ 13,957,074	\$ -	\$ 13,957,074
Short-term investments	6,793,368	-	-	-	2,083,877	413,904	-	-	9,291,149	-	9,291,149
Assets limited to use, current portion	-	-	-	-	-	3,452,644	-	-	3,452,644	-	3,452,644
Patient accounts receivable, net	-	6,606,097	3,423,918	3,425,720	3,367,189	-	-	2,296,675	19,119,599	-	19,119,599
Capitation receivable	-	-	-	-	-	-	7,099,173	-	7,099,173	-	7,099,173
Due from related party	509,658	-	-	-	5,729,704	-	-	249	6,239,611	(509,658)	5,729,953
Note receivable	5,300,000	-	-	-	-	-	(300,000)	-	5,000,000	-	5,000,000
Pledges receivable, current portion	-	-	-	-	-	480,305	-	-	480,305	-	480,305
Interest rate swap agreements	678,387	-	-	-	-	-	-	-	678,387	-	678,387
Other current assets	6,453,127	517,585	303,828	-	2,156,889	156,102	219,622	266,467	10,073,620	-	10,073,620
Total current assets	26,340,743	7,123,682	3,727,746	3,426,720	18,632,402	4,939,532	8,323,584	2,877,153	75,391,562	(509,658)	74,881,904
Assets limited as to use, net	-	-	-	-	-	1,788,383	-	-	1,788,383	-	1,788,383
Pledges receivable, net	-	-	-	-	-	1,116,880	-	-	1,116,880	-	1,116,880
Long-term investments	88,110,585	-	-	-	-	4,054,917	-	-	92,165,502	-	92,165,502
Property and equipment, net	52,067,824	-	-	-	41,458,980	438,440	-	3,634	93,968,878	-	93,968,878
Right-of-use assets	15,383,532	2,670,547	47,800	452,087	5,923,164	1,988,888	-	1,767,531	28,233,549	-	28,233,549
Interest in net assets of affiliates	-	19,128,975	14,077,427	2,905,062	-	-	-	-	36,111,464	(36,111,464)	-
Interest in net assets of related party	-	-	-	-	6,993,965	-	-	-	6,993,965	-	6,993,965
Goodwill and intangibles, net	18,288,480	-	-	-	1,540,000	-	-	-	19,828,480	-	19,828,480
Other assets	2,133,276	-	-	-	-	-	-	-	2,133,276	-	2,133,276
Total assets	\$ 202,324,440	\$ 28,923,204	\$ 17,852,973	\$ 6,783,869	\$ 74,548,511	\$ 14,327,040	\$ 8,323,584	\$ 4,648,318	\$ 357,731,939	\$ (36,621,122)	\$ 321,110,817

(Continued)

CHAPTERS HEALTH SYSTEM, INC. AND AFFILIATES
CONSOLIDATING BALANCE SHEET
December 31, 2022

	Chapters Health System	LifePath Hospice	Good Shepard Hospice	Hernando- Pasco Hospice	Cornerstone	Foundation	CareNu	Other	Total Before Eliminations	Eliminations Total	Consolidated Total
LIABILITIES AND NET ASSETS											
Current liabilities											
Accounts payable and accrued expenses	\$ 2,946,514	\$ 570,161	\$ 250,305	\$ 432,508	\$ 1,305,687	\$ 608,065	\$ 1,135,412	\$ 109,859	\$ 7,358,511	\$ -	\$ 7,358,511
Accrued employee compensation and related benefits	7,048,885	1,133,110	695,690	680,466	2,322,648	176,137	88,359	280,534	12,425,829	-	12,425,829
Estimate patient care expenses payable	-	1,929,075	1,235,823	1,109,184	1,627,266	-	-	192,240	6,093,588	-	6,093,588
Third-party medical claim expense	-	-	-	-	-	-	1,612,982	-	1,612,982	-	1,612,982
Due to related party	-	-	-	-	-	509,658	-	-	509,658	(509,658)	-
Right-of-use liabilities, current	2,022,208	402,815	31,878	138,790	665,617	788,685	-	99,092	4,149,085	-	4,149,085
Current portion of long-term debt	1,552,300	-	-	-	-	-	-	-	1,552,300	-	1,552,300
Current portion of annuity obligations	98,438	-	-	-	-	61,019	-	-	159,457	-	159,457
Third-party settlements	-	512,624	1,088,833	227,526	-	-	-	(14,179)	1,814,804	-	1,814,804
Deferred revenue	-	-	-	-	-	-	-	29,807	29,807	-	29,807
Total current liabilities	13,668,345	4,547,785	3,302,529	2,588,474	5,921,218	2,143,564	2,836,753	697,353	35,706,021	(509,658)	35,196,363
Long-term debt, net of current portion and debt issuance costs											
	22,542,808	-	-	-	-	-	-	-	22,542,808	-	22,542,808
Right-of-use liabilities, net											
	14,731,587	2,304,871	16,303	318,871	5,329,883	1,235,347	-	1,687,845	25,624,707	-	25,624,707
Annuity obligations, net											
	-	-	-	-	-	258,825	-	-	258,825	-	258,825
Other long-term liabilities											
	2,758,487	-	-	-	-	7,073	-	-	2,765,560	-	2,765,560
Total liabilities	53,701,227	6,852,656	3,318,832	2,907,345	11,251,101	3,644,809	2,836,753	2,385,198	86,897,921	(509,658)	86,388,263
Net assets											
Net assets without donor restriction											
	148,623,213	18,100,482	12,209,840	3,143,824	56,303,445	3,247,395	4,444,079	2,263,120	248,335,398	(29,084,398)	219,251,000
Noncontrolling interest											
	-	-	-	-	-	-	1,042,752	-	1,042,752	-	1,042,752
Total Net assets without donor restriction	148,623,213	18,100,482	12,209,840	3,143,825	56,303,445	3,247,395	5,486,831	2,263,120	249,378,151	(29,084,398)	220,293,753
Net assets with donor restrictions											
	-	3,970,066	2,324,301	732,699	6,993,965	7,434,836	-	-	21,455,867	(7,027,066)	14,428,801
Total net assets	148,623,213	22,070,548	14,534,141	3,876,524	63,297,410	10,682,231	5,486,831	2,263,120	270,834,018	(36,111,464)	234,722,554
	\$ 202,324,440	\$ 28,923,204	\$ 17,852,973	\$ 6,783,869	\$ 74,548,511	\$ 14,327,040	\$ 8,323,584	\$ 4,648,318	\$ 357,731,939	\$ (36,621,122)	\$ 321,110,817

See accompanying independent auditor's report.

CHAPTERS HEALTH SYSTEM, INC. AND AFFILIATES
CONSOLIDATING STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS
Year ended December 31, 2022

	Chapters Health System	LifePath Hospice	Good Shepard Hospice	Hernando- Pasco Hospice	Cornerstone	Foundation	CareNu	Other	Total Before Eliminations	Eliminations Total	Consolidated Total
Net assets without donor restrictions											
Revenue and other support											
Net patient service revenue	\$ -	\$ 72,832,599	\$ 36,040,769	\$ 41,579,594	\$ 58,259,576	\$ -	\$ -	\$ 6,479,254	\$ 215,191,792	\$ -	\$ 215,191,792
Capitated non risk revenue	-	-	-	-	-	-	31,212,7-15	-	31,212,715	-	31,212,715
Contributions	-	876,672	465,732	657,504	5,619,361	115,189	-	45,478	7,779,936	(2,054,700)	5,725,236
Net assets released from restrictions used for operations	-	-	-	-	-	5,490,085	-	-	5,490,085	-	5,490,085
Other operating revenue	830,441	-	-	-	-	2,720,380	2,196,981	28,076,712	33,824,514	(27,507,218)	6,317,296
Intercompany cost allocations	39,789,950	-	-	-	-	-	-	-	39,789,950	(39,789,950)	-
Total revenue, gains and support	40,620,391	73,709,271	36,506,501	42,237,098	63,878,937	8,325,654	33,409,696	34,601,444	333,288,992	(69,351,868)	263,937,124
Expenses											
Salaries and benefits	29,688,456	37,373,502	21,476,978	24,693,405	35,769,905	2,837,125	2,202,512	28,800,466	182,842,349	(18,096,241)	164,746,108
Purchased services	1,335,406	6,424,485	3,170,160	3,395,810	5,199,620	267,358	2,086,180	1,235,814	23,114,833	-	23,114,833
Insurance and other	786,852	12,350,553	5,872,547	8,596,570	6,790,137	2,344,377	51,236	4,116,458	40,908,730	-	40,908,730
Durable medical equipment, medical supplies, and drugs	-	6,853,742	3,778,513	4,385,762	6,354,236	-	-	3,924,470	25,296,723	(9,410,977)	15,885,746
Medical claims expense	-	-	-	-	-	-	24,912,8-02	-	24,912,802	-	24,912,802
Depreciation and amortization	6,352,784	-	-	-	2,625,294	-	-	205,681	9,183,759	-	9,183,759
Interest	975,875	-	-	-	84,417	-	-	3,597	1,063,889	-	1,063,889
Contributions to affiliates	-	-	-	-	-	2,054,700	-	-	2,054,700	(2,054,700)	-
Intercompany cost allocations	-	23,227,993	3,720,247	11,880,307	-	300,000	370,162	291,241	39,789,950	(39,789,950)	-
Total expenses	39,139,373	86,230,275	38,018,445	52,951,854	56,823,609	7,803,560	29,622,892	38,577,727	349,167,735	(69,351,868)	279,815,867
Income (loss) from operations	1,481,018	(12,521,004)	(1,511,944)	(10,714,756)	7,055,328	522,094	3,786,804	(3,976,283)	(15,878,743)	-	(15,878,743)
Nonoperating revenues and expenses											
Gain (loss) on sale of property and equipment	422,268	-	-	-	(309,451)	-	-	-	112,817	-	112,817
Loss on sale of a business	(344,993)	-	-	-	-	-	-	-	(344,993)	-	(344,993)
Investment income (loss)	(17,210,156)	-	-	-	(5,076)	(794,207)	-	-	(18,009,439)	-	(18,009,439)
Change in fair value of interest rate swap agreements	1,316,604	-	-	-	-	-	-	-	1,316,604	-	1,316,604
Total nonoperating income	(15,816,277)	-	-	-	(314,527)	(794,207)	-	-	(16,925,011)	-	(16,925,011)
Other changes in net assets without donor restrictions											
Change in non-controlling interest	-	-	-	-	-	-	(178,503)	-	(178,503)	-	(178,503)
Contributions	(1,052,195)	-	-	-	-	-	1,052,195	-	-	-	-
Excess of fair value of assets acquired over liabilities assumed in acquisition of Cornerstone Hospice and Palliative Care, Inc (Cornerstone) (See Note 2)											
Net asset transfer	(9,869,841)	12,073,804	435,967	8,578,571	(12,790,090)	-	-	1,309,854	63,662,588	-	63,662,588
Change in net assets without donor restrictions	\$ (25,257,295)	\$ (447,200)	\$ (1,075,977)	\$ (2,136,185)	\$ 56,303,445	\$ (272,113)	\$ 4,660,496	\$ (1,094,840)	\$ 30,680,331	\$ -	\$ 30,680,331

(Continued)

CHAPTERS HEALTH SYSTEM, INC. AND AFFILIATES
CONSOLIDATING STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS
Year ended December 31, 2022

	Chapters Health System	LifePath Hospice	Good Shepard Hospice	Hernando- Pasco Hospice	Cornerstone	Foundation	CareNu	Other	Total Before Eliminations	Eliminations Total	Consolidated Total
Net asset with donor restrictions											
Contributions	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 4,789,698	\$ -	\$ -	\$ -	\$ 89,698,74	\$ 4,789,698
Excess of fair value of assets acquired over liabilities assumed in acquisition of Cornerstone Hospice and Palliative Care, Inc (Cornerstone) (See Note 2)	-	-	-	-	-	(308,609)	-	-	(308,609)	-)90,680(3
Investment income	-	(90,091)	316,461	(1,272,958)	39,091,121	-	-	-	39,091,121	-	39,091,121
Change in beneficial interest	-	-	-	-	(5,125,128)	-	-	-)82,152,1(5	-	(5,125,128)
Net assets released from restriction	-	-	-	-	-	(5,490,085)	-	-	(5,490,085)	-	(5,490,085)
Change in net assets with donor restrictions	-	(90,091)	316,461	(1,272,958)	6,993,965	(1,008,996)	-	-	4,938,381	1,046,588	5,984,969
Change in net assets	(25,257,295)	(537,291)	(759,516)	(3,409,143)	63,297,410	(1,281,109)	4,660,496	(1,094,840)	35,618,712	1,046,588	36,665,300
Net assets at beginning of year	173,880,508	22,607,839	15,293,657	7,285,667	-	11,963,340	826,335	3,357,960	235,215,306	(37,158,052)	198,057,254
Net assets at end of year	<u>\$ 148,623,213</u>	<u>\$ 22,070,548</u>	<u>\$ 14,534,141</u>	<u>\$ 3,876,524</u>	<u>\$ 63,297,410</u>	<u>\$ 10,682,231</u>	<u>\$ 5,486,831</u>	<u>\$ 2,263,120</u>	<u>\$ 270,834,018</u>	<u>\$ (36,111,464)</u>	<u>\$ 234,722,554</u>

See accompanying independent auditor's report.

NOTE 1 - CONSOLIDATING DETAIL

The accompanying consolidating balance sheet and consolidating statement of operations and changes in net assets reflect the financial position and operations and changes in net assets of Chapters Health System, Inc. (CHS) and its major operating entities. The amounts included in CareNU are comprised of CareNU, Assurity Direct Contracting Entity, Inc., and eliminations between the two companies. The amounts included in other are comprised of Chapters Health Palliative Care, LLC, Chapters Health Pharmacy, LLC, Chapters Health Staffing, LLC, Chapters Health Home Connect, Inc., Hospice of Okeechobee, Allcare Medical of Florida, Cornerstone Health Services, LLC, Care Partners, LLC, and Achieve Home Care, LLC.

See accompanying independent auditor's report.